Lloyds Bank Plc

2020 Year-End Pillar 3 Disclosures 31 December 2020

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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', 'achieves', 'anticipates', 'estimates', 'expects', 'targets', 'should', 'intends', 'aims', 'projects', 'plans', 'potential', 'will', 'would', 'could', 'considered', 'likely', 'may', 'seek', '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, statements or guidance relating 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; the Lloyds Bank Group's ESG targets and/or commitments; changing customer behaviour including consumer spending, saving and borrowing habits; changes to borrower or counterparty credit quality impacting the recoverability and value of balance sheet assets; concentration of financial exposure; management and monitoring of conduct risk; exposure to counterparty risk (including but not limited to third parties conducting illegal activities without the Lloyds Bank Group's knowledge); 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), the EU-UK Trade and Cooperation Agreement, 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 and any further possible referendum on Scottish independence; technological changes and risks to the security of IT and operational infrastructure, systems, data and information resulting from increased threat of cyber and other attacks; natural, pandemic (including but not limited to the COVID-19 pandemic) and other disasters, 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, or other such events; geopolitical unpredictability; risks relating to climate change; changes in laws, regulations, practices and accounting standards or taxation, including as a result of the UK's exit from the EU; changes to regulatory capital or liquidity requirements (including regulatory measures to restrict distributions to address potential capital and liquidity stress) 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 laws, legislation and regulation together with any resulting impact on the future structure of the Lloyds Bank Group; the ability to attract and retain senior management and other employees and meet its diversity objectives; actions or omissions by the Lloyds Bank Group's directors, management or employees including industrial action; changes to the Lloyds Bank Group's post-retirement defined benefit scheme obligations; the extent of any future impairment charges or write-downs caused by, but not limited to, depressed asset valuations, market disruptions and illiquid markets; the value and effectiveness of any credit protection purchased by the Lloyds Bank Group; the inability to hedge certain risks economically; the adequacy of loss reserves; the actions of competitors, including non-bank financial services, lending companies and digital innovators and disruptive technologies; and exposure to regulatory or competition scrutiny, legal, regulatory or competition proceedings, investigations or complaints. Please refer to the latest Annual Report on Form 20-F filed by Lloyds Bank plc with the US Securities and Exchange Commission for a discussion of certain factors and risks.

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 increased to 15.5 per cent from 14.3 per cent after accruing for ordinary dividends, largely reflecting profits for the year, with the impact of the impairment charge partially mitigated through the increase in IFRS 9 transitional relief for capital. The introduction of the revised capital treatment of intangible software assets also resulted in a significant reduction in intangible assets deducted from capital. In addition, risk-weighted assets reduced and excess expected losses reduced to nil. The resultant increases in capital were offset in part by additional pension contributions and higher deferred tax assets deducted from capital.

TOTAL CAPITAL RATIO

TOTAL CAPITAL RATIO

The Group's total capital ratio increased to 23.5 per cent from 22.1 per cent, largely reflecting the increase in common equity tier 1 capital and new AT1 issuances.

UK LEVERAGE RATIO

UK LEVERAGE RATIO

The Group's UK leverage ratio increased to 5.5 per cent from 5.1 per cent, largely reflecting the increase in the fully loaded tier 1 capital position, partially offset by the increase in the leverage exposure measure reflecting movements in securities financing transactions and off-balance sheet items.

RISK-WEIGHTED ASSETS

RISK-WEIGHTED ASSETS

Risk-weighted assets (RWAs) reduced from £171.9 billion to £170.9 billion during the year. Ongoing portfolio optimisation, reductions in unsecured lending balances and non-government related commercial lending and reductions in operational risk RWAs have more than offset the impact of credit migrations, model calibrations and updates and regulatory changes (including the revised capital treatment of intangible software assets).

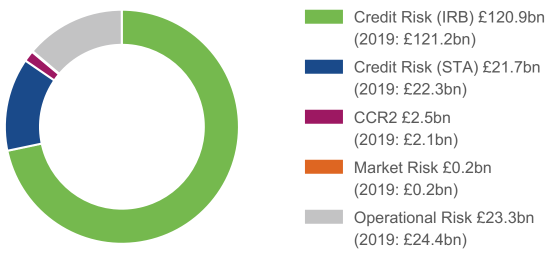
AVERAGE LIQUIDITY COVERAGE RATIO (WEIGHTED)

AVERAGE LIQUIDITY COVERAGE RATIO

The Group's liquidity position is strong with an average LCR of 126 per cent as at 31 December 2020.

SPLIT OF RISK WEIGHTED ASSETS

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



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 (IFRS9-FL)[1,4]

		T	T-1	T-2	T-3	T-4
		Q4	Q3	Q2	Q1	Q4
		2020	2020	2020	2020	2019
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1) (£m)	**26,567**	25,851	25,253	24,807	24,637
2	CET1 capital as if IFRS 9 transitional arrangements were not applied (£m)	**24,591**	23,813	23,333	24,316	24,185
3	Tier 1 (£m)	**33,862**	33,146	32,543	31,415	31,542
4	Tier 1 capital as if IFRS 9 transitional arrangements were not applied (£m)	**31,886**	31,108	30,623	30,924	31,090
5	Total capital (£m)	**40,163**	39,220	38,976	38,125	37,976
6	Total capital as if IFRS 9 transitional arrangements were not applied (£m)	**39,422**	38,256	38,059	38,142	38,004
	Risk-weighted assets (amounts)					
7	Total risk-weighted assets (£m)	**170,862**	171,954	173,311	175,612	171,940
8	Total risk-weighted assets as if IFRS 9 transitional arrangements were not applied (£m)	**171,015**	171,949	173,362	176,104	172,324
	Risk-based capital ratios as a percentage of RWA					
9	Common Equity Tier 1 ratio (%)	**15.5%**	15.0%	14.6%	14.1%	14.3%
10	CET1 ratio as if IFRS 9 transitional arrangements were not applied (%)	**14.4%**	13.8%	13.5%	13.8%	14.0%
11	Tier 1 ratio (%)	**19.8%**	19.3%	18.8%	17.9%	18.3%
12	Tier 1 ratio as if IFRS 9 transitional arrangements were not applied (%)	**18.6%**	18.1%	17.7%	17.6%	18.0%
13	Total capital ratio (%)	**23.5%**	22.8%	22.5%	21.7%	22.1%
14	Total capital ratio as if IFRS 9 transitional arrangements were not applied (%)	**23.1%**	22.2%	22.0%	21.7%	22.1%
	Additional CET1 buffer requirements as a percentage of RWA					
	Capital conservation buffer requirement	**2.5%**	2.5%	2.5%	2.5%	2.5%
	Countercyclical buffer requirement	**0.0%**	0.0%	0.0%	0.0%	0.9%
	Bank G-SIB and/or D-SIB additional requirements[2]	**2.0%**	2.0%	2.0%	2.0%	2.0%
	Total of bank CET1 specific buffer requirements	**4.5%**	4.5%	4.5%	4.5%	5.4%
	CET1 available after meeting the bank's minimum capital requirements	**11.0%**	10.5%	10.1%	9.6%	9.8%
	UK leverage ratio[3]					
15	UK leverage ratio exposure measure (£m)	**593,546**	592,528	589,861	589,261	582,921
16	UK leverage ratio	**5.5%**	5.4%	5.3%	5.1%	5.1%
17	UK leverage ratio as if IFRS 9 transitional arrangements were not applied	**5.2%**	5.0%	5.0%	5.0%	5.0%
	Average Liquidity Coverage Ratio (weighted) (LCR)					
	Total High Quality Liquid Assets (HQLA) (£m)	**113,434**	112,506	113,983	111,487	112,203
	Total net cash outflow (£m)	**89,844**	87,697	87,501	87,313	88,490
	LCR ratio (%)	**126%**	128%	130%	128%	127%

1 The Group applies the full extent of the IFRS 9 transitional arrangements for capital as set out under CRR Article 473a (as amended via the CRR 'Quick Fix' revisions published in June 2020). Specifically, the Group has opted to apply both paragraphs 2 and 4 of CRR Article 473a (static and dynamic relief) and in addition to apply a 100% risk weight to the consequential Standardised credit risk exposure add-back as permitted under paragraph 7a of the revisions. As at 31 December 2020, static relief under the transitional arrangements amounted to £370 million (31 December 2019: £452 million) and dynamic relief under the transitional arrangements amounted to £1,606 million (31 December 2019: nil) through CET1 capital.

2 The Group is subject to an Other Systemically Important Institution (OSII) Buffer (previously referred to as a Systemic Risk Buffer) of 2.0 per cent of risk-weighted assets which 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 2020 is 5.1 per cent (31 December 2019: 4.8 per cent).

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

Introduction

This document presents the consolidated Pillar 3 disclosures of Lloyds Bank plc ('the Group') as at 31 December 2020.

Pillar 3 requirements are predominantly 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 2020.

Under UK law, EU capital rules that existed on 31 December 2020 (including applicable Pillar 3 requirements) continue to apply to the Group following the end of the transition period for the UK's withdrawal from the European Union, subject to the temporary transitional powers (TTP) granted to the Prudential Regulation Authority (PRA) which extend until 31 March 2022.

Where references are made to the provisions of the revised Capital Requirements Regulation (CRR) that came into force in June 2019 and December 2020 these are referred to as 'CRR II' requirements.

In satisfaction of certain disclosure requirements, reference has been made to the 2020 Lloyds Bank plc Annual Report and Accounts (ARA) and the 2020 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.

INTERNAL CONTROL

The effectiveness of the risk management and internal control systems is reviewed regularly by the Board and the Audit Committee, which also receives reports of reviews undertaken by the Risk Division and Group Internal Audit. A statement from the Board is included within the Lloyds Bank plc 20-F (page 82) 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 2020 Pillar 3 disclosures have been prepared in accordance with the internal control processes agreed upon at the management body level.

PILLAR 3 REQUIREMENTS NOT INCLUDED IN EITHER THE ANNUAL REPORT AND ACCOUNTS OR THE LLOYDS BANK PLC PILLAR 3 REPORT

LARGE SUBSIDIARY DISCLOSURES (CRRII ARTICLE 13)

Additional disclosures surrounding the capital resources, leverage exposures and capital requirements of Bank of Scotland plc 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-downloads. 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. Template TLAC 2 is included within the Pillar 3 disclosures for Lloyds Banking Group plc and details the creditor hierarchy and nominal values of instruments issued by Lloyds Bank plc and Bank of Scotland plc. The Lloyds Banking Group plc 2020 Year-end Pillar 3 Disclosures can be found on the Lloyds Banking Group plc website.

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 plc as at 31 December 2020, prepared in accordance with the requirements of CRR Part Eight (Disclosure by Institutions) and associated EBA guidelines and technical standards in force at 31 December 2020. 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 on excluded tables is included in Appendix 6.

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

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

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

BASIS OF CREDIT RISK EXPOSURES

To ensure compliance with both CRR requirements and subsequent EBA guidelines, credit risk exposures are presented on different bases throughout the document. Information on the exposure basis is given either in column headings or supporting narrative within the Pillar 3 Credit risk section (pages 19 to 74).

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-downloads).

The EBA guidelines on Pillar 3 disclosure frequency that were formally adopted by the Group from October 2015 define key information that institutions 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 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 and Pillar 3 disclosures) comprehensively portray its risk profile.

In this respect, the 2020 Lloyds Bank plc Annual report and Accounts provides an in depth analysis of the principal risks to which the Group is exposed.

The Group's Pillar 3 disclosures focus primarily on capital risk and the key risk categories behind the Group's Pillar 1 capital requirements (credit, counterparty credit and operational risks), providing granular information and analysis in addition to that presented within the 2020 Lloyds Bank plc Annual Report and Accounts.

The relevant analysis is presented in the following sections of the 2020 Lloyds Bank plc Annual Report and Accounts:

– Risk overview, pages 8 to 10;
– Risk categories, page 23.

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 prudential consolidation provisions applicable to banks under the CRR (Part One, Title II, Chapter 2) as amended by CRR II revisions on prudential consolidation that came into force in December 2020.

REGULATORY CONSOLIDATION

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

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

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.

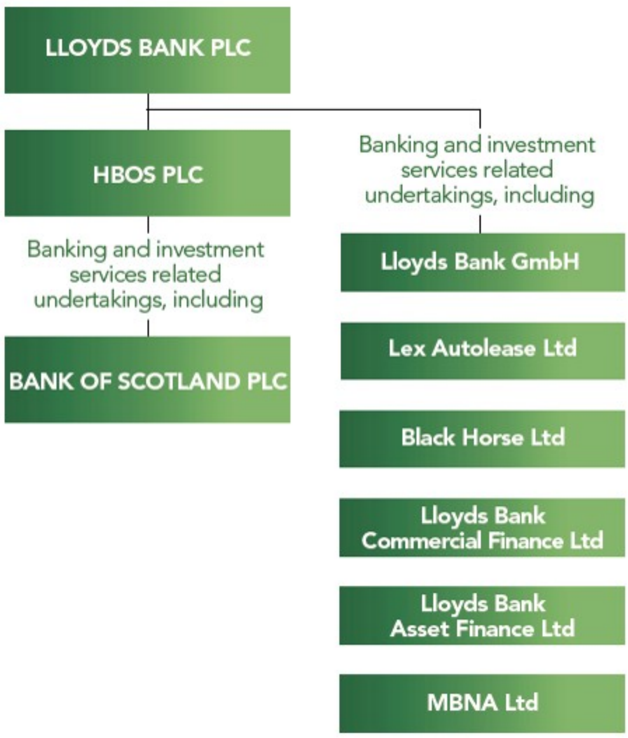
The full list of capital-efficient securitisation and conduit vehicles where the regulatory treatment differs from the accounting treatment is provided in Appendix 5, Table 82.

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 no material practical or legal impediments to such transfers or repayments.

REGULATORY CONSOLIDATION GROUP

A summarised diagrammatical representation (as at 31 December 2020) 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 2020 on an accounting consolidation basis (as presented on pages 82 and 83 of the 2020 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]

	2020					
			Carrying values of items:			
	Carrying values as reported in published financial statements	Carrying values under regulatory scope of consolidation	subject to credit risk framework	subject to counterparty credit risk framework	subject to securitisation framework	not subject to capital requirements or subject to deduction from capital
	£m	£m	£m	£m	£m	£m
	a	b	c	d	e	g
Assets						
Cash and balances at central banks	49,888	48,960	48,960	—	—	—
Items in the course of collection from banks	300	—	—	—	—	—
Financial assets at fair value through profit or loss	1,674	1,157	761	47	—	—
Derivative financial instruments	8,341	8,355	—	8,267	—	—
Financial assets at amortised cost	491,966	493,284	414,208	59,318	19,758	—
Loans and advances to banks	5,950	7,118	4,412	2,706	—	—
Loans and advances to customers	480,141	478,206	403,070	56,612	18,524	—
Debt securities	5,137	5,575	4,341	—	1,233	—
Due from fellow Lloyds Banking Group undertakings	738	2,385	2,385		—	—
Financial assets at fair value through other comprehensive income	27,260	27,260	27,260	—	—	—
Goodwill	470	470	—	—	—	470
Other intangible assets	4,112	4,112	1,291	—	—	2,821
Property, plant and equipment	8,317	8,317	8,317	—	—	—
Current tax recoverable	537	537	537	—	—	—
Deferred tax assets	3,468	3,468	913	—	—	2,556
Retirement benefit assets	1,714	1,714	—	—	—	1,714
Other assets	1,892	2,181	2,182	—	—	—
Total Assets	599,939	599,815	504,428	67,632	19,758	7,561

Scope of consolidation continued

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

	2020					
			Carrying values of items:			
	Carrying values as reported in published financial statements	Carrying values under regulatory scope of consolidation	subject to credit risk framework	subject to counterparty credit risk framework	subject to securitisation framework	not subject to capital requirements or subject to deduction from capital
	£m	£m	£m	£m	£m	£m
	a	b	c	d	e	g
Liabilities						
Deposits from banks	24,997	—	—	—	—	—
Customer deposits	434,569	461,141	—	30,517	—	430,624
Due to fellow Lloyds Banking Group undertakings	6,875	6,875	—	—	—	6,875
Items in course of transmission to banks	302	—	—	—	—	—
Financial liabilities at fair value through profit or loss	6,831	6,831	—	—	—	6,831
Derivative financial instruments	8,228	8,226	—	6,345	—	1,881
Notes in circulation	1,305	—	—	—	—	—
Debt securities in issue	59,293	57,590	—		—	57,590
Other liabilities	5,181	6,759	—	—	—	6,759
Retirement benefit obligations	245	244	—	—	—	244
Current tax liabilities	31	31	—	—	—	31
Other provisions	1,722	1,722	—	—	—	1,722
Subordinated liabilities	9,242	9,242	—	—	—	9,242
Total Liabilities	558,821	558,661	—	36,862	—	521,799

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 75 to 82. 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 67: 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	CCR framework	Securitisation framework
	£m	£m	£m
	b	c	d
Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	504,428	67,632	19,758
Off balance sheet amounts	83,506	63,510	5,878
Differences due to specific regulatory adjustments	10,250		(1,233)
Differences due to consideration of provisions	5,396		
Differences due to consideration of collateral, haircuts and netting		(115,642)	
Regulatory Potential Future Exposures		5,744	
Exposure amounts considered for regulatory purposes	603,580	21,244	24,403

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 the Group's risk appetite, and to drive and inform good risk reward decision-making.

To meet ring-fencing requirements, core UK retail financial services and ancillary retail activities are ring-fenced from other activities of Lloyds Banking Group. Lloyds Bank Group has adopted the enterprise risk management framework (ERMF) of the Parent Group. Lloyds Bank Group has supplemented the Parent Group enterprise risk management framework with additional risk management related to ring fencing requirements as required. The Parent Group's Governance framework, which is tailored to meet the entity specific needs of Lloyds Bank Group, is adopted by Lloyds Bank Group to ensure effective corporate governance within Lloyds Bank Group.

Risk culture

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

Risk appetite

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

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The Group's risk appetite statement details the risk parameters within which the Group operates. The statement forms part of the Group's control framework and is embedded into its policies, authorities and limits, to guide decision-making and risk management. 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 to individuals through the management hierarchy. Senior executives are supported where required by a committee based structure which is designed to ensure open challenge and support effective decision-making.

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

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

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

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

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

Risk decision making and reporting

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

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

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

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

The most significant risks the Group faces which could impact delivery of its strategy together with key mitigating actions, in line with the Risk Management framework, are outlined in the Risk Overview section of the 2020 Lloyds Bank Group plc Annual Report and Accounts, pages 8 to 10.

Details of the Group's application of stress testing, the methodologies applied, use of reverse stress testing and governance are presented in the Risk Management section of the 2020 Lloyds Bank Group plc Annual Report and Accounts, page 22.

Further details on the Group's risk governance are presented in the Risk Management section of the 2020 Lloyds Bank Group plc Annual Report and Accounts, pages 20 to 23.

Further details on the Group's risk management processes in relation to the key risk drivers that do not fall under the scope of the Group's Pillar 3 disclosures are presented in the Risk Management section of the 2020 Lloyds Bank Group plc Annual Report and Accounts, as follows:

Climate risk page 24; Funding and liquidity risk, page 44; Change / execution risk page 54; Conduct Risk page 55; Data Risk page 57; Governance Risk page 58; People risk, page 59; Operational resilience risk page 60; Regulatory & Legal risk page 65 and Strategic risk page 66.

CAPITAL MANAGEMENT

This section details Lloyds Bank 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.

THE GROUP'S APPROACH TO 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, or through a significant increase in risk-weighted assets as a result of rule changes or economic deterioration. Alternatively a shortage of capital could arise from an increase in the minimum requirements for capital, leverage or MREL either at Lloyds Bank Group level or regulated entity level. The Lloyds Bank Group capital management approach is focused on maintaining sufficient and appropriate capital resources across all regulated levels of its structure in order to prevent such exposures.

MEASUREMENT

In accordance with UK ring-fencing legislation, Lloyds Bank Group has been appointed as the Ring-Fenced Bank sub-group ('RFB sub-group') under Lloyds Banking Group plc. As a result Lloyds Bank Group is subject to separate supervision by the UK Prudential Regulation Authority (PRA) on a sub-consolidated basis (as the RFB sub-group) in addition to the existing supervision applied to Lloyds Bank plc on an individual basis.

Lloyds Bank Group maintains capital levels on a consolidated and individual basis commensurate with a prudent level of solvency to achieve financial resilience and market confidence. To support this, capital risk appetite is calibrated by taking into consideration both an internal view of the amount of capital to hold as well as external regulatory requirements.

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 revisions to the Capital Requirements Directive implemented in December 2020 (CRD V) and by those provisions of the revised Capital Requirements Regulation (CRR II) that came into force in June 2019 and December 2020. The requirements are implemented in the UK by the PRA and supplemented through additional regulation under the PRA Rulebook.

During 2020 regulators undertook a series of measures in response to the coronavirus pandemic. This included supportive revisions made to the IFRS 9 transitional arrangements for capital, which Lloyds Bank Group applies in full. Over the short to medium-term, these arrangements will provide some stability in capital requirements against the increased provisioning and subsequent volatility connected to the impact of IFRS 9. This is particularly evident from the current application of the arrangements which has seen the significant increase in Stage 1 and Stage 2 expected credit losses during the first half of 2020 partially offset for capital purposes.

The UK left the EU on 31 January 2020 but remained subject to changes to EU capital regulation until the end of the transition period on 31 December 2020. Under temporary transitional powers (TTP) granted to the PRA, EU capital rules that existed on 31 December 2020 will continue to generally apply until 31 March 2022. This is subject to revision following any significant changes introduced by UK regulators, including changes which implement the remaining parts of CRR II that are not yet in force.

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), and a number of regulatory buffers as described below.

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). During the year the Lloyds Bank Group Pillar 2A capital requirement reduced from c.4.9 per cent to c.4.0 per cent of risk-weighted assets at 31 December 2020, of which c.2.3 per cent must be met with CET1 capital.

A range of additional regulatory capital buffers apply under the capital rules, 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 which is currently around 0 per cent of risk-weighted assets following the decision by UK regulators to reduce the UK countercyclical buffer rate to nil during the first half of 2020 as part of the series of regulatory measures introduced in response to the coronavirus pandemic. In addition, Lloyds Bank Group in its capacity as the RFB sub-group is subject to an other systemically important institution (O-SII) buffer of 2.0 per cent of risk-weighted assets (formerly referred to as the systemic risk buffer) which 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 stress testing to determine the adequacy of Lloyds Bank Group's capital resources against minimum requirements, including the ICR. The PRA considers outputs from Lloyds Bank Group's stress tests, in conjunction with other information, 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

All buffers are required to be met by CET1 capital. 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 combined capital buffer (all other regulatory buffers, as referenced above) would give rise to mandatory restrictions upon any discretionary capital distributions. As part of the regulatory response to the coronavirus pandemic the PRA has communicated its expectation that banks' capital and liquidity buffers can be drawn down as necessary to support the real economy through the shock and that sufficient time will be made available to restore buffers in a gradual manner.

Capital management continued

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 (currently 0 per cent of the leverage exposure measure) and an additional leverage ratio buffer (0.7 per cent of the leverage exposure measure) which reflects the application of Lloyds Bank Group's O-SII 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 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 and capital planning and stress testing activities. 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.

Lloyds Bank Group monitors early warning indicators and maintains a Capital Contingency Framework as part of the Lloyds Banking Group Recovery Plan which are designed to identify emerging capital concerns at an early stage, so that mitigating actions can be taken, if needed. The Recovery Plan sets out a range of potential mitigating actions that Lloyds Bank Group could take in response to a stress, including as part of the wider Lloyds Banking Group response. 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 policies and procedures are well established and subject to independent oversight.

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. This has been a particular focus recently given the significant uncertainties caused by the coronavirus pandemic. Lloyds Bank Group's capital plan is tested for capital adequacy using relevant stress scenarios and sensitivities covering adverse economic conditions as well as other adverse factors that could impact Lloyds Bank Group.

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

The 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) 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 that, through organic capital generation and management actions, that Lloyds Bank Group continues to maintain a strong capital position that exceeds both minimum regulatory requirements and Lloyds Bank Group's risk appetite and is consistent with market expectations.

IFRS 9 TRANSITIONAL ARRANGEMENTS

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

As part of the response to the impact of the coronavirus pandemic, revised arrangements were published in June 2020 via the CRR 'Quick Fix' revisions which included the following:

- The initial net impact on CET1 capital continues to be phased in over 5 years from the original 1 January 2018 implementation date - this is referred to as 'static' relief. During 2020 the arrangements allowed 70 per cent of the initial net impact to be added back to CET1 capital. This will reduce down to 50 per cent in 2021 and 25 per cent in 2022, with full recognition of the initial net impact on CET1 capital from 2023.

- The start point for measuring subsequent increases in Stage 1 and Stage 2 ECLs (net of movements in regulatory expected losses) has been changed from 1 January 2018 to 1 January 2020. During 2020 and 2021 the revised arrangements allow 100 per cent of any resultant net increase to be added back to CET 1 capital - this is referred to as 'dynamic' relief. The factor reduces down to 75 per cent in 2022, 50 per cent in 2023 and 25 per cent in 2024, with no relief available thereafter. Increases in Stage 3 ECLs are not covered by the arrangements and therefore impact CET1 capital in full.

Capital management continued

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

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 first applied from 1 January 2019, is designed to enhance the resilience of the global financial system by ensuring that failing G-SIBs have sufficient capital to absorb losses and recapitalise under resolution, whilst continuing to provide critical banking services. The minimum requirements for own funds and eligible liabilities (MREL) framework reflects the European implementation of the global TLAC standard.

In the UK the Bank of England has implemented MREL through the Banking Act and a statement of policy on MREL (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 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 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.

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. 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. As at 31 December 2020, Lloyds Bank Group's internal MREL resources exceeded the interim minimum requirement.

The Bank of England has commenced a review of the current MREL framework and expects to consult on proposed changes during the year with a view to setting final end-state requirements for 1 January 2022.

ANALYSIS OF CAPITAL POSITION

Lloyds Bank Group's common equity tier 1 capital ratio increased to 15.5 per cent from 14.3 per cent at 31 December 2019 largely reflecting profits for the year, with the impact of the impairment charge partially mitigated through the increase in IFRS 9 transitional relief for capital. The introduction of the revised capital treatment of intangible software assets also resulted in a significant reduction in intangible assets deducted from capital. In addition, risk-weighted assets reduced and excess expected losses reduced to nil as they absorbed part of the increase in IFRS 9 expected credit losses. The resultant increases in capital were offset in part by pension contributions made during the year, an increase in deferred tax assets deducted from capital and the accrual for foreseeable dividends.

The tier 1 capital ratio increased to 19.8 per cent from 18.3 per cent at 31 December 2019, primarily reflecting the increase in common equity tier 1 capital and new AT1 issuances, offset in part by the annual reduction in the transitional limit applied to grandfathered AT1 capital.

The total capital ratio increased to 23.5 per cent from 22.1 per cent at 31 December 2019, which largely reflected the increase in tier 1 capital.

Risk-weighted assets reduced by £1,078 million, or 1 per cent, to £170,862 million at 31 December 2020, compared to £171,940 million at 31 December 2019. Increases reflecting the impact of credit migrations, model calibrations and updates, the full implementation of the new securitisation framework and the introduction of the revised capital treatment of intangible software assets were more than offset by reductions in lending balances outside Government-backed schemes, optimisation activity undertaken in Commercial Banking and the impact of the revised SME supporting factor. In addition operational risk-weighted assets have reduced.

The PRA is consulting on a proposal to reverse the revised capital treatment of intangible software assets (which currently follows EU capital regulations), thereby reinstating the original requirement to deduct in full. Excluding the impact of the revised capital treatment Lloyds Bank Group's common equity tier 1 capital ratio would be 15.0 per cent.

TOTAL CAPITAL REQUIREMENT

Lloyds Bank Group's total capital requirement (TCR) as at 31 December 2020, being the aggregate of its Pillar 1 and current Pillar 2A capital requirements, was £20,567 million (31 December 2019: £22,177 million).

CAPITAL RESOURCES

An analysis of Lloyds Bank Group's capital position as at 31 December 2020 is presented in the following section on both a transitional arrangements basis and a fully loaded basis in respect of legacy capital securities subject to current grandfathering provisions. In addition Lloyds Bank Group's capital position under both bases reflects the application of the separate transitional arrangements for IFRS 9.

Capital management continued

CAPITAL RESOURCES

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

Table 4: Capital resources

	Transitional		Fully loaded	
	2020	2019	2020	2019
	£m	£m	£m	£m
Common equity tier 1				
Shareholders' equity per balance sheet	**35,105**	33,973	**35,105**	33,973
Adjustment to retained earnings for foreseeable dividends	**(1,000)**	—	**(1,000)**	—
Adjustment for own credit	**81**	26	**81**	26
Cash flow hedging reserve	**(1,507)**	(1,556)	**(1,507)**	(1,556)
Other adjustments[1]	**1,894**	397	**1,894**	397
	34,573	32,840	**34,573**	32,840
Less: deductions from common equity tier 1				
Goodwill and other intangible assets	**(2,986)**	(4,050)	**(2,986)**	(4,050)
Prudent valuation adjustment	**(173)**	(220)	**(173)**	(220)
Excess of expected losses over impairment provisions and value adjustments	**–**	(195)	**–**	(195)
Removal of defined benefit pension surplus	**(1,322)**	(531)	**(1,322)**	(531)
Deferred tax assets	**(3,525)**	(3,207)	**(3,525)**	(3,207)
Common equity tier 1 capital	**26,567**	24,637	**26,567**	24,637
Additional tier 1				
Additional tier 1 instruments	**7,295**	6,905	**5,935**	4,865
Total tier 1 capital	**33,862**	31,542	**32,502**	29,502
Tier 2				
Tier 2 instruments	**6,825**	6,914	**5,454**	4,620
Other adjustments	**(524)**	(480)	**(524)**	(480)
Total tier 2 capital	**6,301**	6,434	**4,930**	4,140
Total capital resources	**40,163**	37,976	**37,432**	33,642
Risk-weighted assets	**170,862**	171,940	**170,862**	171,940
Common equity tier 1 capital ratio (%)	**15.5%**	14.3%	**15.5%**	14.3%
Tier 1 capital ratio (%)	**19.8%**	18.3%	**19.0%**	17.2%
Total capital ratio (%)	**23.5%**	22.1%	**21.9%**	19.6%

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

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	
	2020 £m	2019 £m
Total tier 1 capital for leverage ratio		
Common equity tier 1 capital	26,567	24,637
Additional tier 1 capital	5,935	4,865
Total tier 1 capital	32,502	29,502
Exposure measure		
Statutory balance sheet assets		
Derivative financial instruments	8,341	8,494
Securities financing transactions (SFTs)	56,073	52,032
Loans and advances and other assets	535,525	520,842
Total assets	599,939	581,368
Qualifying central bank claims	(43,973)	(33,408)
Deconsolidation adjustments		
Derivatives financial instruments	16	32
Securities financing transactions (SFTs)	—	—
Loans and advances and other assets	(139)	(1,326)
Total deconsolidation adjustments[1]	(123)	(1,294)
Derivatives adjustments		
Adjustment for regulatory netting	(2,225)	(2,430)
Adjustment for cash collateral	(5,601)	(6,869)
Net written credit protection	145	148
Regulatory potential future exposure	5,744	8,186
Total derivatives adjustments	(1,937)	(965)
SFT adjustments	1,060	689
Off-balance sheet items	53,350	44,172
Regulatory deductions and other adjustments[5]	(14,770)	(7,641)
Total exposure measure[2]	593,546	582,921
Average leverage exposure measure[4]	603,330	
UK leverage ratio[2]	5.5%	5.1%
Average UK leverage ratio[4]	5.4%	
CRD IV leverage exposure measure[3]	637,519	616,329
CRD IV leverage ratio[3]	5.1%	4.8%

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.

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

4 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 2020 to 31 December 2020). The average of 5.4 per cent compares to 5.4 per cent at the start and 5.5 per cent at the end of the quarter.

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

Analysis of leverage movements

Lloyds Bank Group's fully loaded UK leverage ratio increased to 5.5 per cent (31 December 2019: 5.1 per cent), primarily driven by the increase in tier 1 capital. The leverage exposure measure increased by £10.6 billion during the year, largely reflecting the increase in the SFT and off-balance sheet exposure measures. Following a direction received from the PRA, Lloyds Bank Group is permitted to exclude lending under the UK Government's Bounce Back Loan Scheme (BBLS) from the leverage exposure measure.

The average UK leverage ratio was 5.4 per cent over the quarter, with the actual ratio increasing slightly across the quarter to 5.5 per cent which largely reflected the growth in the tier 1 capital position.

PILLAR 1 CAPITAL REQUIREMENTS: OVERVIEW OF RISK-WEIGHTED ASSETS

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

Table 6: Risk-weighted assets movement by key driver - 3 months to 31 December 2020

	Credit risk IRB £m	Credit risk SA £m	Credit risk total[1] £m	Counterparty credit risk[2] £m	Market risk £m	Operational risk £m	Total £m
Total risk-weighted assets as at 30 September 2020							171,954
Less: total threshold risk-weighted assets[3]							(2,229)
Risk-weighted assets at 30 September 2020	121,712	21,014	142,726	2,666	247	24,086	169,725
Asset size	(2,253)	662	(1,591)	68	—	—	(1,523)
Asset quality	(1,499)	(138)	(1,636)	(262)	—	—	(1,898)
Model updates	1,807	—	1,807	—	(37)	—	1,770
Methodology and policy	1,314	188	1,501	—	11	—	1,512
Acquisitions and disposals	—	—	—	—	—	—	—
Movement in risk levels (Market risk only)	—	—	—	—	(10)	—	(10)
Foreign exchange movements	(177)	(53)	(230)	16	—	—	(214)
Other	—	—	—	—	—	(779)	(779)
Risk-weighted assets at 31 December 2020	**120,904**	**21,673**	**142,577**	**2,488**	**210**	**23,307**	**168,582**
Threshold risk-weighted assets[3]							2,280
Total risk-weighted assets at 31 December 2020							**170,862**

1 Credit risk includes securitisation risk-weighted assets.

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

3 Threshold risk-weighted assets reflect the element of 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 £1.6 billion includes lower levels of drawn retail unsecured lending and reductions in non-government related commercial lending together with and continued optimisation in Commercial Banking.
- **Asset quality** decreases of £1.6 billion with increases caused by credit migration more than offset by the benefit of House Price Index increases and retail model calibrations.
- **Model updates** increase of £1.8 billion relates to changes to the Retail mortgage models.
- **Methodology and policy** increase of £1.5 billion predominantly relates to the recognition of the revised capital treatment of intangible software assets.

Counterparty credit risk, risk weighted assets decreased by £0.2 billion due to movements in market rates during the quarter.

Operational risk, risk weighted assets decreased by £0.8 billion due to reductions in income.

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

Table 7: Risk-weighted assets movement by key driver - year to 31 December 2020

	Credit risk IRB	Credit risk SA	Credit risk total[1]	Counterparty credit risk[2]	Market risk	Operational risk	Total
	£m	£m	£m	£m	£m	£m	£m
Total risk-weighted assets as at 31 December 2019							171,940
Less: total threshold risk-weighted assets[3]							(1,767)
Risk-weighted assets at 31 December 2019	121,172	22,316	143,488	2,102	171	24,413	170,174
Asset size	(5,572)	(984)	(6,556)	377	—	—	(6,179)
Asset quality	2,084	51	2,135	(11)	—	—	2,124
Model updates	1,770	—	1,770	—	—	—	1,770
Methodology and policy	1,422	215	1,637	—	—	—	1,637
Acquisitions and disposals	—	—	—	—	—	—	—
Movement in risk levels (Market risk only)	—	—	—	—	39	—	39
Foreign exchange movements	28	75	103	20	—	—	123
Other	—	—	—	—	—	(1,106)	(1,106)
Risk-weighted assets at 31 December 2020	120,904	21,673	142,577	2,488	210	23,307	168,582
Threshold risk-weighted assets[3]							2,280
Total risk-weighted assets as at 31 December 2020							170,862

1. Credit risk includes securitisation risk-weighted assets.
2. Counterparty credit risk includes movements in contributions to the default funds of central counterparties and movements in credit valuation adjustment risk.
3. Threshold risk-weighted assets reflect the element of 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 £6.6 billion includes lower levels of retail unsecured lending and reductions in non-government related commercial lending, together with the continued optimisation in Commercial Banking.
- **Asset quality** increase of £2.1 billion includes the impact of credit migration and model calibrations, partially offset by the benefit from House Price Index increases during 2020.
- **Model updates** increase of £1.8 billion relates to changes to Retail mortgage models.
- **Methodology and policy** increase of £1.6 billion reflects the full implementation of the new securitisation framework on 1 January 2020 and the recognition of the revised capital treatment of intangible software assets, partially offset by the impact of revisions to the SME scalar.

Counterparty credit risk, risk weighted assets increased by £0.4 billion due to movement in market rates during the period.

Operational risk, risk weighted assets decreased by £1.1 billion due to reductions in income during the year.

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

Table 8: Overview of risk-weighted assets (OV1)

		December 2020 RWA £m	Dec 2019 RWA £m	December 2020 Minimum capital Requirements £m	Dec 2019 Minimum capital Requirements £m
		T	T-1	T	T-1
1	**Credit risk (excluding counterparty credit risk)**	**137,461**	138,990	**10,997**	11,119
2	of which: standardised approach	**20,684**	21,897	**1,655**	1,752
3	of which: the foundation rating-based (FIRB) approach	**34,676**	37,482	**2,774**	2,999
4	of which: the retail IRB (RIRB) approach	**65,207**	63,192	**5,217**	5,055
	of which: corporates – specialised lending	**9,105**	9,018	**728**	721
	of which: non-credit obligation assets	**7,788**	7,401	**623**	592
5	of which: equity IRB under the simple risk-weight or the internal models approach	**—**	—	**—**	—
6	**Counterparty credit risk**	**2,488**	2,102	**199**	168
7	of which: marked to market	**1,436**	1,370	**115**	110
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)	**305**	232	**24**	19
11	of which: exposures to central counterparties (including trades, default fund contributions and initial margin)	**393**	229	**31**	18
12	of which: credit valuation adjustment (CVA)	**355**	271	**28**	22
13	**Settlement risk**	**—**	—	**—**	—
14	**Securitisation exposures in banking book**	**5,116**	4,497	**409**	360
15	of which: IRB ratings-based approach (RBA)	**—**	1,525	**—**	122
16	of which: IRB supervisory formula approach (SFA)	**—**	—	**—**	—
17	of which: internal assessment approach (IAA)	**—**	234	**—**	19
18	of which: standardised approach	**—**	177	**—**	14
	of which: revised framework internal ratings based approach	**1,951**	1,214	**156**	97
	of which: revised framework standardised approach	**989**	242	**79**	19
	of which: revised framework external ratings based approach	**2,176**	1,107	**174**	89
19	**Market risk**	**210**	171	**17**	14
20	of which: standardised approach	**56**	45	**4**	4
21	of which: internal model approaches	**154**	125	**12**	10
22	**Large exposures**	**—**	—	**—**	—
23	**Operational risk**	**23,307**	24,413	**1,865**	1,953
24	of which: basic indicator approach	**—**	—	**—**	—
25	of which: standardised approach	**23,307**	24,413	**1,865**	1,953
26	of which: advanced measurement approach	**—**	—	**—**	—
27	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	**2,280**	1,767	**182**	141
28	**Floor adjustment**	**—**	—	**—**	—
29	**Total**	**170,862**	171,940	**13,669**	13,755
	Pillar 2A capital requirement			**6,898**	8,422
	Total capital requirement			**20,567**	22,177

A detailed analysis of the key movements in credit risk exposures and risk-weighted assets is provided in Table 21.

PILLAR 1 CAPITAL REQUIREMENTS: CREDIT RISK

OVERVIEW

Table 9: Risk-weighted assets flow statements of credit risk exposures (CR8)

	Credit Risk IRB RWA amount Total £m	Credit Risk IRB Capital requirement 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 2019[1]	121,172	9,694	22,316	1,785
2 Asset size	(5,572)	(446)	(984)	(79)
3 Asset quality	2,084	167	51	4
4 Model updates	1,770	142	—	—
5 Methodology and policy	1,422	114	215	17
6 Acquisitions and disposals	—	—	—	—
7 Foreign exchange movements	28	2	75	6
8 Other	—	—	—	—
9 Risk-weighted assets at 31 December 2020[1]	120,904	9,672	21,673	1,734

1 Credit risk, risk-weighted assets and capital requirements in Table 8 are inclusive of securitisations. At 31 December 2020 IRB securitisation risk-weighted assets were £4,080m and standardised securitisation risk-weighted assets were £418m.

DEFINITION

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

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 the Group arise from loans and advances, contingent liabilities, commitments, debt securities and derivatives to 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, the Group is also potentially exposed to an additional loss up to an amount equal to the total unutilised commitments. However, the likely amount of loss may be less than the total unutilised commitments, as most retail and certain commercial lending commitments may be cancelled based on regular assessment of the prevailing creditworthiness of customers. Most commercial term commitments are also contingent upon customers maintaining specific credit standards.

The credit risk exposures of 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, expected credit loss (ECL), risk-weighted assets, new business quality, concentration risk and portfolio performance, are reported monthly to Risk Committees and Forums.

Measures such as ECL, risk-weighted assets, observed credit performance, predicted credit quality (usually from predictive credit scoring models), collateral cover and quality, and other credit drivers (such as cash flow, affordability, leverage and indebtedness) have been incorporated into the Group's credit risk management practices to enable effective risk measurement across the Group.

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.

Pillar 1 Capital requirements: Credit risk continued

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 the Group, including reports on material credit exposures, concentrations, concerns and other management information, which is presented to the divisional risk committees and forums, Group Risk Committee and the Board Risk Committee.

The performance of all rating models is monitored on a regular basis, as outlined on pages 28.

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 29 to 31 of the 2020 Lloyds Bank plc Annual Report and Accounts.

Collateral

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

The additional mitigation for Retail and Commercial customers is explained in more detail on pages 30 to 31 of the 2020 Lloyds Bank Group plc Annual Report and Accounts.

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

Eligible financial collateral

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

Other eligible collaretal

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

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

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

Other credit risk transfers

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

- Credit derivatives are a method of transferring credit risk from one counterparty (the protection buyer) to another (the protection seller). Capital relief under regulatory requirements is restricted to the following types of credit derivative: credit default swaps (CDS); total return swaps; and credit linked notes (CLN) (to the extent of their cash funding).
- The Group makes limited use of credit derivatives as credit risk mitigation from a capital perspective.
- Further details on the application within the Group are included within the Counterparty credit risk section on page 83.

Pillar 1 Capital requirements: Credit risk continued

Guarantees

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

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.

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 10: CRM techniques – Overview (CR3)

	December 2020				
	Exposures unsecured – carrying amount	Exposures to be secured [1]	Exposures secured by collateral [2]	Exposures secured by financial guarantees	Exposures secured by credit derivatives
	£m	£m	£m	£m	£m
Exposures subject to the IRB approach					
Central governments or central banks	2,371	647	—	647	—
Institutions	3,837	2,943	2,943	—	—
Corporates	41,836	36,417	33,940	1,790	687
of which: Specialised lending	—	13,031	13,031	—	—
of which: SMEs	3,607	7,388	6,392	996	—
Retail	62,761	344,681	336,403	8,279	—
Secured by real estate property	93	325,026	324,835	190	—
SMEs	93	7,564	7,374	190	—
Non-SMEs	—	317,462	317,462	—	—
Qualifying revolving	52,941	—	—	—	—
Other retail	9,727	19,656	11,567	8,088	—
SMEs	1,783	8,097	9	8,088	—
Non-SMEs	7,944	11,558	11,558	—	—
Equity	—	—	—	—	—
Non-credit obligation assets	10,573	—	—	—	—
Total – IRB approach	121,378	384,689	373,286	10,716	687
Exposures subject to the standardised approach					
Central governments and central banks[4]	60,695	—	—	—	—
Regional governments or local authorities[4]	425	1	—	1	—
Public sector entities[4]	4,274	—	—	—	—
Multilateral development banks	7,158	—	—	—	—
International organisations	—	—	—	—	—
Institutions	957	—	—	—	—
Corporates	11,219	800	412	370	18
Retail	33,298	1,078	155	923	—
Secured by mortgages on immovable property	13	5,897	5,897	—	—
Exposures in default	767	355	353	2	—
Items associated with particularly high risk	—	—	—	—	—
Covered bonds	—	—	—	—	—
Claims on institutions and corp. with a ST credit assessment	—	—	—	—	—
Collective investment undertakings (CIUs)	—	—	—	—	—
Equity exposures	—	—	—	—	—
Other exposures	2,550	—	—	—	—
Total – standardised approach	121,357	8,130	6,817	1,296	18
Total exposures	242,735	392,819	380,103	12,011	705
of which: defaulted	2,288	3,841	3,840	2	—

Pillar 1 Capital requirements: Credit risk continued

Table 10: CRM techniques – Overview (CR3) continued

	December 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 £m
Exposures subject to the IRB approach					
Central governments or central banks	2,296	679	—	679	—
Institutions	3,955	2,512	2,472	—	40
Corporates	43,914	36,738	35,730	234	774
of which: Specialised Lending	—	13,104	13,104	—	—
of which: SME	4,086	6,697	6,697	—	—
Retail	64,368	322,513	322,459	—	—
Secured by real estate property	—	310,760	310,706	—	—
SME	—	8,263	8,209	—	—
Non-SME	—	302,497	302,497	—	—
Qualifying Revolving	53,717	—	—	—	—
Other Retail	10,651	11,753	11,753	—	—
SME	2,154	27	27	—	—
Non-SME	8,497	11,725	11,725	—	—
Equity	—	—	—	—	—
Non-credit obligation assets	11,001	—	—	—	—
Total – IRB approach	125,534	362,442	360,660	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 corp. with a ST credit assessment	—	—	—	—	—
Collective investment undertakings (CIUs)	—	—	—	—	—
Equity exposures	—	—	—	—	—
Other exposures	2,809	—	—	—	—
Total – standardised approach	104,691	8,105	7,710	344	51
Total exposures	230,225	370,548	368,371	1,257	865
of which: defaulted	2,362	3,385	3,385	—	—

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 2020 the value of exposures secured by eligible financial collateral is £3.0bn (2019: £3.6bn) and the value of exposures secured by other eligible collateral is £377.1bn (2019: £364.7bn).

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

Key movements

- The increase in unsecured exposure is driven by increased deposits with central banks.
- The increase in secured exposure is driven by mortgage growth and COVID-19 lending schemes.

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.

Table 11: 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 12: 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 13: 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 Standardised (not modelled) approaches across the different Basel asset classes. Securitisation exposure values are excluded. Exposures presented in the table below are in line with Table 21, and are on a post CRM and post CCF basis.

	RIRB £m	FIRB £m	Other IRB £m	Standardised £m
Central governments or central banks	—	2,293	–	72,027
Regional governments or local authorities	—			425
Public sector entities	—			4,274
Multilateral development banks	—			7,158
Institutions	—	6,100	–	1,294
Corporates[1]	—	53,192	12,415	8,558
Retail – Secured by property	339,547	–	–	5,893
Retail – Qualifying revolving	40,745	–	–	–
Retail – Other	23,145	–	–	10,646
Other[2]	–	–	10,973	3,608
Total	403,437	61,585	23,388	113,883
% coverage	67%	10%	4%	19%

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 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 this. Securitisation positions are risk-weighted under the Securitisation hierarchy, with some use made of the Internal Assessment Approach feeding the External Rating Based Approach (ERBA).

Exposures advanced through government loan schemes (BBLs, CBILs and CLBILs) are reported predominantly under the Standardised Approach.

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).

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	Unquoted[5]	£10bn – £15bn
FIRB	Corporate Main, Corporate SME	Publicly Quoted	£5bn – £10bn
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	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
- UK Motor Finance (Commercial) and BDCS 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 and Ring Fenced Banks 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.

Pillar 1 Capital requirements: Credit risk continued

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, individual accountability for models to be defined, and the collation of documentation relating to all models.

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 2020 Lloyds Bank plc Annual Report and Accounts (page 64).

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 is in two parts. The first section focusses on the backtesting of the Group's most material PD models. The second provides high level analysis of the performance of EAD and LGD models 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.

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 24.
- 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 2019. 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 volume 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).

Summary of Performance

PDs at the start of the one-year window were determined prior to COVID-19 and, therefore, we might expect observed default rates to exceed PDs. However, default rates are likely to be suppressed due to measures put in place to support customers and the wider economy, such as repayment holidays and government loan and furlough schemes. Monitoring has been established to ensure that there is no significant suppression of default rates.

PDs and default rates continue to follow trends from previous years, except in portfolios that are impacted by operational issues - see commentary below the relevant table.

Actual default rates will likely increase in 2021 in light of the expiry of COVID-19 customer support measures and weaknesses in the economic environment.

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

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

Where material changes to rating systems are necessary, pre-notification to the PRA is required and their approval obtained before the change can be implemented. During 2020, there have been no model changes (PD, LGD or EAD) requiring pre-notification to the PRA.

Pillar 1 Capital requirements: Credit risk continued

For all IRB asset classes except Corporate Main and Corporate SME, the Group exposures shown in the following tables are the same as the Lloyds Banking Group disclosures. 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 and Corporate SME, where there are minor differences between the number of obligors in Group versus Lloyds Banking Group, a different approach has been taken. For Corporate Main, the average historic default rates are based on Lloyds Banking Group exposures for the last two years, and UK Motor Finance (Commercial) only for the preceding three years. For Corporate SME, where differences between Group and Lloyds Banking Group are very small, the average historic default rate is based on Lloyds Banking Group exposures for the last two years, and Group exposures for the preceding three years.

Table 14: Back-testing of PD per portfolio – Retail – Mortgages (UK) (CR9) **RWA Coverage 95-99%**

			2020				
			Number of obligors				
PD Range	Weighted average PD	Arithmetic average PD by obligors	End of previous year	End 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%	0.27%	0.23%	1,700,923	1,683,355	743	N/a	0.04%
0.10 – 0.40%	0.76%	0.71%	613,394	601,594	1,146	N/a	0.20%
0.40 – 0.80%	1.54%	1.62%	109,857	104,182	617	N/a	0.59%
0.80 – 1.20%	2.66%	2.92%	27,675	28,713	262	N/a	1.01%
1.20 – 2.50%	5.32%	5.70%	27,411	24,052	459	N/a	1.59%
2.50 – 4.50%	9.66%	10.11%	25,482	24,882	669	N/a	3.28%
4.50 – 7.50%	14.29%	15.27%	17,660	15,914	1,127	N/a	5.98%
7.50 – 10.00%	22.34%	23.27%	5,990	4,192	576	N/a	9.09%
10.00 – 14.00%	26.45%	26.87%	8,339	7,068	1,026	N/a	10.35%
14.00 – 20.00%	35.78%	35.80%	5,408	4,079	1,019	N/a	17.85%
20.00 – 30.00%	47.17%	48.20%	4,563	4,916	1,350	N/a	27.16%
30.00 – 45.00%	57.25%	58.62%	4,671	4,002	1,911	N/a	38.24%
45.00 –99.99%	76.48%	77.88%	4,564	4,679	2,863	N/a	61.04%
In Default	100.00%	100.00%	22,433	24,009	N/a	N/a	N/a
New to Book	N/a	N/a	N/a	265,938	N/a	4	N/a

			2019				
			Number of obligors				
PD Range	Weighted average PD	Arithmetic average PD by obligors	End of previous year	End 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 %
4.40 - 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

- 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.
- The majority of obligors are rated on a TTC basis, which is conservative relative to the average historic default rates.
- The five-year default rate has increased slightly year-on-year, particularly in the higher PD bands. This is expected as a result of the impact of COVID-19 on customers already in arrears, although it is believed that government schemes such as payment holidays and furloughs have dampened the impact for the lower PD bands.

Pillar 1 Capital requirements: Credit risk continued

Table 15: Back-testing of PD per portfolio – Retail – Qualifying Revolving (CR9) RWA Coverage 100%

2020

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

2019

PD Range	Weighted average PD	Arithmetic average PD by obligors	Number of obligors: End of previous year	Number of obligors: End of the year	Defaulted obligors in the year	of which: new defaulted obligors in the year	Average historical annual default rate
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

- A revised approach to valuing Unsecured accounts in Recoveries has resulted in a number of long-term, non-performing Recoveries assets being de-recognised. As such, the volume of accounts in default has reduced significantly over the period, however due to the nature of these accounts the capital impact is notably smaller.
- In all but two of the risk grades (PD ranges 2.5%-7.5%), average PDs are in excess of average historical annual default rates due to the presence of a PD buffer (all PD models are PiT with a PD buffer).

Pillar 1 Capital requirements: Credit risk continued

Table 16: Back-testing of PD per portfolio – Retail – Other (non-SME) (CR9)

RWA Coverage 100%

2020							
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%**	**27,879**	**27,726**	**86**	**N/a**	**0.14%**
0.10 – 0.40%	**0.36%**	**0.36%**	**477,725**	**480,963**	**6,479**	**N/a**	**0.82%**
0.40 – 0.80%	**0.70%**	**0.67%**	**343,588**	**326,491**	**4,451**	**N/a**	**0.90%**
0.80 – 1.20%	**1.01%**	**1.01%**	**171,444**	**163,881**	**1,242**	**N/a**	**0.68%**
1.20 – 2.50%	**1.70%**	**1.72%**	**524,366**	**499,014**	**11,402**	**N/a**	**1.72%**
2.50 – 4.50%	**3.29%**	**3.32%**	**264,208**	**240,735**	**11,967**	**N/a**	**3.80%**
4.50 – 7.50%	**5.91%**	**5.87%**	**134,882**	**123,232**	**11,680**	**N/a**	**7.56%**
7.50 – 10.00%	**8.93%**	**8.69%**	**33,917**	**29,800**	**3,773**	**N/a**	**10.12%**
10.00 – 14.00%	**11.24%**	**11.38%**	**26,517**	**27,478**	**3,989**	**N/a**	**13.21%**
14.00 – 20.00%	**16.36%**	**16.43%**	**11,120**	**10,044**	**1,873**	**N/a**	**14.50%**
20.00 – 30.00%	**21.66%**	**22.11%**	**17,473**	**20,155**	**3,756**	**N/a**	**19.09%**
30.00 – 45.00%	**35.06%**	**35.28%**	**17,029**	**15,520**	**6,391**	**N/a**	**32.66%**
45.00 –99.99%	**71.69%**	**71.79%**	**19,921**	**16,908**	**12,517**	**N/a**	**64.47%**
In Default	**100.00%**	**100.00%**	**136,403**	**75,038**	**N/a**	**N/a**	**N/a**
New to Book	**N/a**	**N/a**	**N/a**	**498,495**	**N/a**	**2,906**	**N/a**

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 incorrectly includes an increasing number of non-credit termination events throughout 2020 and is allowed for in residual value capital assessments. The PD models are not optimised to predict these events, contributing to the under-prediction which would not exist if these cases were removed.
- Default rates have also risen in part due to payment holidays incorrectly continuing to accrue arrears on Motor Finance due to operational constraints. This has led to increases in the average historical default rate which has increased the level of under-prediction.
- Enhancements to data processing lead to differences in the number of obligors reported at the end of 2019 to the start of 2020.
- A revised approach to valuing Unsecured accounts in Recoveries has resulted in a number of long-term, non-performing Recoveries assets being de-recognised. As such, the volume of accounts in default has reduced significantly over the period, however due to the nature of these accounts the capital impact is notably smaller.

Pillar 1 Capital requirements: Credit risk continued

Table 17: Back-testing of PD per portfolio – Retail SME (CR9)[1] RWA Coverage 100%

2020

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%	59,435	60,330	151	N/a	0.27%
0.80 - 1.20%	1.12%	1.12%	16,866	18,044	117	N/a	0.78%
1.20 - 2.50%	1.67%	1.67%	14,045	15,414	184	N/a	1.48%
2.50 - 4.50%	2.76%	2.62%	12,041	13,022	267	N/a	2.40%
4.50 - 7.50%	5.67%	5.67%	15,274	15,354	587	N/a	4.61%
7.50 - 10.00%	8.04%	8.04%	348	430	8	N/a	2.45%
10.00 - 14.00%	10.61%	10.61%	6,512	6,525	477	N/a	6.40%
14.00 - 20.00%	18.12%	19.73%	22,097	16,159	667	N/a	9.33%
20.00 - 30.00%	—	—	—	—	—	N/a	—
30.00 - 45.00%	34.10%	34.10%	1,878	1,850	374	N/a	25.88%
45.00 -99.99%	78.18%	78.18%	2,997	3,427	750	N/a	30.61%
In Default	100.00%	100.00%	8,297	8,295	N/a	N/a	N/a
New to Book	N/a	N/a	N/a	N/a	N/a	N/a	N/a

2019

PD Range[1]	Weighted average PD	Arithmetic average PD by obligors	Number of obligors: End of previous year	Number of obligors: End of the year	Defaulted obligors in the year	of which: new defaulted obligors in the year	Average historical annual default rate
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, mapped to the Retail master scale which leads to some 'gaps' in the risk grades.

Key observations
- The overall population volume has remained broadly stable through 2020.
- There has been some movement in the rating distribution during 2020, with both an increased proportion in the highest PD band reflecting COVID-19 related stress, as well as a migration to the lower risk PD bands driven by additional liquidity provided through COVID-19 government loan schemes.
- Relatively low default volumes lead to year on year volatility in default rates within some PD bands.

Pillar 1 Capital requirements: Credit risk continued

Table 18: Back-testing of PD per portfolio – Corporate Main (CR9) [1] RWA Coverage 75-80%

2020

PD Range	External rating equivalent	Weighted average PD	Arithmetic average PD by obligors	Number of obligors: End of previous year	Number of obligors: End of the year	Defaulted obligors in the year	of which: new defaulted obligors in the year	Average historical annual default rate
b	c	d	e	f		g	h	i
0.00 - 0.035%	AAA to AA-	0.03%	0.03%	52	49	—	N/a	—
0.035 - 0.050%	A+	0.04%	0.04%	44	34	—	N/a	0.56%
0.050 - 0.080%	A	0.06%	0.06%	48	40	—	N/a	—
0.080 - 0.140%	A-	0.11%	0.11%	164	105	1	N/a	0.12%
0.140 - 0.220%	BBB+	0.18%	0.19%	821	570	3	N/a	0.16%
0.220 - 0.340%	BBB	0.28%	0.27%	723	525	3	N/a	0.38%
0.340 - 0.500%	BBB-	0.42%	0.43%	2,440	1,793	9	N/a	0.27%
0.500 - 0.760%	BB+	0.63%	0.66%	2,788	2,256	17	N/a	0.47%
0.760 - 1.240%	BB	1.00%	1.00%	2,286	2,045	14	N/a	0.75%
1.240 - 2.000%	BB-	1.63%	1.63%	1,837	1,568	39	N/a	1.29%
2.000 - 3.200%	B+	2.60%	2.60%	537	494	12	N/a	2.47%
3.200 - 5.200%	B+	4.05%	3.82%	1,109	2,447	44	N/a	2.93%
5.200 - 7.200%	B	6.20%	6.13%	227	221	23	N/a	9.85%
7.200 - 10.200%	B-	8.69%	8.65%	117	136	8	N/a	5.49%
10.200 - 13.800%	B-	12.00%	11.87%	63	64	11	N/a	11.94%
13.800 - 99.99%	CCC to C	30.02%	29.17%	141	116	20	N/a	13.67%
In Default	Default	100.00%	100.00%	357	460	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

2019

PD Range	External ratin equivalent	Weighted average PD	Arithmetic average PD by obligors	Number of obligors: End of previous year	Number of obligors: End of the year	Defaulted obligors in the year	of which: new defaulted obligors in the year	Average historical annual default rate
b	c	d	e	f		g	h	i
0.00 - 0.035%	AAA to AA-	0.03%	0.03%	57	52	—	N/a	0.00%
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	0.00%
0.080 - 0.140%	A-	0.11%	0.11%	256	164	—	N/a	0.06%
0.140 - 0.220%	BBB+	0.18%	0.19%	1006	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%	2503	2,440	11	N/a	0.42%
0.500 - 0.760%	BB+	0.63%	0.66%	2738	2,788	16	N/a	0.46%
0.760 - 1.240%	BB	1.00%	1.00%	2391	2,286	36	N/a	0.70%
1.240 - 2.000%	BB-	1.62%	1.64%	1989	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%	1116	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 decreased during 2020 as a result of reduced levels of new business in Motor Finance (Commercial).
– Relatively low default volumes lead to year on year volatility in default rates within a given PD band.
– A small decrease to the overall average default rate can be observed in 2020. This arises mainly due to an inflated 2019 default rate for UK Motor Finance (Commercial) (delayed recognition of 2018 defaults). An increase in the default rate within the higher risk bands is primarily driven by COVID-19 related stress to specific entities within the Unquoted portfolio.
– There is noticeable migration to the PD range 3.2% - 5.2% during 2020, driven by a policy processing issue in Motor Finance (Commercial). The automated policy process was not updated in time to reflect extensions granted to firms filing financials with Companies House in response to COVID-19.
– A reporting error has been identified in UK Motor Finance (Commercial), whereby certain 90 days-past-due defaults have been under-reported. This is mitigated through a post model adjustment pending full investigation and process/system remediation.

Pillar 1 Capital requirements: Credit risk continued

Table 19: Back-testing of PD per portfolio – Corporate SME (CR9)[1]

RWA Coverage 75-80%

2020

PD Range	External rating equivalent	Weighted average PD	Arithmetic average PD by obligors	Number of obligors: End of previous year	Number of obligors: End of the year	Defaulted obligors in the year	of which: new defaulted obligors in the year	Average historical annual default rate
b	c	d	e	f		g	h	i
0.00 – 0.035%	AAA to AA-	0.03%	0.03%	4	5	—	N/a	—
0.035 – 0.050%	A+	0.04%	0.04%	2	1	—	N/a	—
0.050 – 0.080%	A	0.06%	0.06%	6	5	—	N/a	—
0.080 – 0.140%	A-	0.11%	0.11%	24	17	—	N/a	—
0.140 – 0.220%	BBB+	0.18%	0.18%	40	43	—	N/a	0.15%
0.220 – 0.340%	BBB	0.28%	0.28%	180	167	—	N/a	0.26%
0.340 – 0.500%	BBB-	0.42%	0.42%	514	483	3	N/a	0.12%
0.500 – 0.760%	BB+	0.62%	0.61%	4,307	4,163	20	N/a	0.44%
0.760 – 1.240%	BB	1.06%	1.09%	2,040	2,094	17	N/a	0.71%
1.240 – 2.000%	BB-	1.65%	1.65%	1,474	1,781	14	N/a	1.01%
2.000 – 3.200%	B+	2.61%	2.61%	1,167	1,404	20	N/a	1.57%
3.200 – 5.200%	B+	4.20%	4.20%	203	240	1	N/a	1.52%
5.200 – 7.200%	B	5.82%	5.77%	917	1,083	52	N/a	5.25%
7.200 – 10.200%	B-	8.26%	8.30%	158	75	6	N/a	2.08%
10.200 – 13.800%	B-	11.10%	10.86%	252	243	23	N/a	7.18%
13.800 – 99.99%	CCC to C	30.59%	27.05%	283	276	22	N/a	12.60%
In Default	Default	N/a	N/a	203	260	N/a	N/a	N/a
New to Book	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a

2019

PD Range	External rating equivalent	Weighted average PD	Arithmetic average PD by obligors	Number of obligors: End of previous year	Number of obligors: End of the year	Defaulted obligors in the year	of which: new defaulted obligors in the year	Average historical annual default rate
b	c	d	e	f		g	h	i
0.00 – 0.035%	AAA to AA-	0.03%	0.03%	4	4	—	N/a	0.00%
0.035 – 0.050%	A+	0.04%	0.04%	3	2	—	N/a	0.00%
0.050 – 0.080%	A	0.06%	0.06%	22	6	—	N/a	0.00%
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%	4289	4,309	16	N/a	0.45%
0.760 – 1.240%	BB	1.07%	1.08%	2033	2,040	18	N/a	0.73%
1.240 – 2.000%	BB-	1.65%	1.65%	1488	1,474	14	N/a	0.95%
2.000 – 3.200%	B+	2.61%	2.61%	1088	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
– Overall population volume has increased slightly during 2020.
– An increase to the average default rate over the course of the year can be observed. The historical average default rate remains conservative relative to the PD bandings, albeit with some movement compared to 2019 due to low default volumes.

Pillar 1 Capital requirements: Credit risk continued

Performance summary of EAD and LGD models

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

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

Pillar 1 Capital requirements: Credit risk continued

For asset classes in these tables, the Group and Parent Group exposures are virtually identical; 0.3% of Retail - Other (non-SME) exposure is in the Parent Group but outside the Group. For this reason, the results shown are the same as those for the Parent Group.

Table 20: Model performance

	Loss given default of defaulted assets		EAD of defaulted assets
	Predicted Dec 19	Actual Dec 20	Ratio of predicted to actual
IRB Exposure Class (2020)	%	%	%
Retail – Mortgages[1]	**10.85%**	**4.34%**	**103%**
Retail – SME[1]	**80.89%**	**75.43%**	**103%**
Retail – Qualifying revolving	**79.92%**	**64.61%**	**111%**
Retail – Other (non-SME)[2]	**54.06%**	**41.39%**	**120%**

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

	Loss given default of defaulted assets		EAD of defaulted assets
	Predicted Dec 17	Actual Dec 18	Ratio of predicted to actual
IRB Exposure Class (2018)	%	%	%
Retail – Mortgages	12.02%	5.75%	103%
Retail – SME	81.83%	78.15%	105%
Retail – Qualifying revolving	78.09%	59.03%	113%
Retail – Other (non-SME)	59.72%	50.95%	116%

1. A minor enhancement to more accurately capture loss information on the BDCS model has been made which impacts the Retail - SME and Retail – Mortgages exposure classes and has also been applied to prior years for consistency. The impact of this change is insignificant.
2. A 2020 enhancement to data used in Motor Finance calculation of Actual LGD has been retrospectively applied to the 2019 submission to ensure consistency when comparing with the 2020 submission.

Retail Mortgages:
– Predicted LGD and EAD continue to exceed actual LGD and EAD.
– Predicted and Actual LGDs have decreased over the year. This is due in large part to sustained house price increases.

Retail SME:
– Predicted LGD and EAD continue to exceed actual LGD and EAD.

Retail – Qualifying revolving:
– Predicted LGD and EAD continue to exceed actual LGD and EAD.
– LGDs have increased over 2019 primarily due to the temporary impacts of COVID-19 related forbearance treatments for Personal Current Accounts. This results in only the most distressed of accounts flowing into default, leading to lower cure rates for the defaulting population.

Retail – Other (non-SME):
– Predicted LGD and EAD continue to exceed actual LGD and EAD.
– Operational constraints in Motor Finance (Retail), which lead customers to continue to accrue arrears and enter default despite a payment holiday being granted, have meant a larger volume of accounts cure over the disclosure period. This results in a lower actual LGD for Motor Finance.
– Reductions in actual LGD are also seen on the Loans portfolio as a result of Covid-19 treatments, such as payment holidays, reducing transfers to recoveries.
– In 2020, a higher proportion of defaults are within the Motor Finance (Retail) portfolio relative to 2019. As this portfolio has significantly lower average actual LGDs than Loans, this contributes to the reduction in actual LGD within Retail-Other (non-SME).

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

		2020 EAD pre CRM and post CCF £m	2020 EAD post CRM and post CCF £m	2020 Average credit risk exposure £m	2020 Risk-weighted assets £m	2020 Minimum capital requirements £m	2020 Average risk weight %
		a	a	b			
1	Central governments or central banks	2,821	2,293	2,937	313	25	14%
2	Institutions	6,083	6,100	6,675	731	58	12%
3	Corporates	67,702	65,607	69,497	42,738	3,419	65%
4	of which: Specialised lending	12,752	12,415	12,736	9,105	728	73%
5	of which: SMEs	10,620	9,626	10,294	5,929	474	62%
6	Retail	410,894	403,436	395,488	65,207	5,217	16%
7	Secured by real estate property	339,724	339,547	328,948	38,427	3,074	11%
8	*SMEs*	7,746	7,568	8,020	1,713	137	23%
9	*Non-SMEs*	331,978	331,978	320,928	36,714	2,937	11%
10	Qualifying revolving	40,745	40,745	40,550	10,631	850	26%
11	Other retail	30,426	23,145	25,989	16,149	1,292	70%
12	*SMEs*	9,998	2,716	5,232	1,734	139	64%
13	*Non-SMEs*	20,428	20,428	20,758	14,415	1,153	71%
14	Equity	—	—	—	—	—	—
	Non-credit obligation assets[1]	10,973	10,973	10,368	7,788	623	71%
15	**Total IRB approach**	498,473	488,409	484,965	116,777	9,342	24%
16	Central governments or central banks	60,695	72,027	61,870	—	—	—
17	Regional governments or local authorities	426	425	462	29	2	7%
18	Public sector entities	4,274	4,274	4,164	1	—	—
19	Multilateral development banks	7,158	7,158	6,874	—	—	—
20	International organisations	—	—	—	—	—	—
21	Institutions	598	1,294	406	296	24	23%
22	Corporates	9,973	8,558	8,506	7,418	593	87%
23	of which: SMEs	3,675	3,633	3,832	3,047	244	84%
24	Retail	11,568	10,646	11,707	7,606	608	71%
25	of which: SMEs	2,179	2,179	2,642	1,256	100	58%
26	Secured by mortgages on immovable property	5,893	5,893	6,342	2,063	165	35%
27	of which: SMEs	8	8	9	3	—	39%
28	Exposures in default	1,060	1,058	1,081	1,179	94	111%
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]	2,550	2,550	2,815	2,092	167	82%
35	**Total standardised approach**	104,195	113,883	104,228	20,684	1,655	18%
36	**Total**	602,667	602,292	589,192	137,461	10,997	23%

Pillar 1 Capital requirements: Credit risk continued

		2019	2019	2019	2019	2019	2019
		EAD pre CRM and post CCF	EAD post CRM and post CCF	Average credit risk exposure	Risk-weighted assets	Minimum capital requirements	Average risk weight
		£m	£m	£m	£m	£m	%
		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	46,658	47,343	55,039	—	—	—%
17	Regional governments or local authorities	476	476	96	28	2	6%
18	Public sector entities	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%

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

Pillar 1 Capital requirements: Credit risk continued

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

Exposures subject to the IRB approach – key movements

Corporates

– Corporate exposure, including Specialised Lending and Corporate SME, reduced by £3.1bn, with RWA reducing £2.6bn, as a result of targeted balance sheet optimisation activity and the impact of SME scalar revisions. The SME scalar revisions drive the reduction in Average Risk Weight in Corporate SME.

Retail – Secured by real estate property

– Exposures increased by £15.1bn and risk-weighted assets increased by £2.6bn due to an increase in mortgage volumes and changes to retail mortgage models offset by the benefit from House Price Index increases during 2020.

Retail – Qualifying revolving

– Exposures increased by £1.6bn as a result of model calibrations and risk-weighted assets reduced by £0.8bn due to lower utilisation rates.

Retail – Other SME

– The recognition of guarantees on COVID-19 government lending schemes drives the reduction of pre-CRM exposure to post-CRM exposure.

Exposures subject to the Standardised approach – key movements

Central governments and central banks

– Exposures increased by £24.7bn due to increased deposits placed with the Bank of England and the recognition of guarantees on COVID-19 government lending schemes.

Multilateral development banks

– Diversification of deposits resulted in an increase in exposures of £0.9bn.

Retail

– Exposures and risk-weighted assets decreased by £1.3bn and £0.9bn due to lower unsecured lending balances.

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 11 and 12, 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.

Pillar 1 Capital requirements: Credit risk continued

Table 22: IRB – Credit risk exposures by portfolio and PD range – Central governments or central banks (CR6)

PD Scale	Original on-balance sheet gross exposure £m	Off balance sheet exposures pre CCF £m	Average CCF %	EAD post CRM and post CCF £m	Average PD %	Number of Obligors	Average LGD %	Average Maturity (years)	RWA £m	RWA density %	EL £m	Value adjustments and provisions £m
December 2020												
	a	b	c	d	e	f	g	h	i	j	k	l
0.00 to <0.15	2,617	402	0.00%	2,293	0.01%	4	45.00%	4.3	312	13.61%	—	
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	—	—	—	1	6.20%	2	45.00%	—	1	201.66%	—	
10.00 to <100.00	—	—	—	—	—	—	—	—	—	—	—	
100.00 (Default)	—	—	—	—	—	—	—	—	—	—	—	
Sub-total	2,618	402	0.00%	2,293	0.01%	6	45.00%	4.3	313	13.66%	—	1

PD Scale	Original on-balance sheet gross exposure £m	Off balance sheet exposures pre CCF £m	Average CCF %	EAD post CRM and post CCF £m	Average PD %	Number of Obligors	Average LGD %	Average Maturity (years)	RWA £m	RWA density %	EL £m	Value adjustments and provisions £m
December 2019												
	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%	—	—

Pillar 1 Capital requirements: Credit risk continued

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

	December 2020											
PD Scale	Original on-balance sheet gross exposure £m	Off balance sheet exposures pre CCF £m	Average CCF %	EAD post CRM and post CCF £m	Average PD %	Number of Obligors	Average LGD %	Average Maturity (years)	RWA £m	RWA density %	EL £m	Value adjustments and provisions £m
	a	b	c	d	e	f	g	h	i	j	k	l
0.00 to <0.15	6,070	375	59.80%	5,846	0.06%	917	31.23%	1.4	561	9.60%	1	
0.15 to <0.25	134	21	46.52%	144	0.18%	31	43.12%	0.7	45	30.99%	—	
0.25 to <0.50	4	9	26.80%	6	0.39%	48	44.78%	1.1	4	61.08%	—	
0.50 to <0.75	2	9	71.44%	8	0.63%	30	44.94%	1.0	7	79.29%	—	
0.75 to <2.50	69	61	1.14%	70	1.55%	55	43.39%	0.7	80	113.69%	1	
2.50 to <10.00	24	—	99.67%	24	3.27%	32	44.91%	0.3	32	132.59%	—	
10.00 to <100.00	1	—	—	1	28.54%	7	45.00%	0.9	2	246.57%	—	
100.00 (Default)	—	—	0.00%	—	100.00%	2	45.00%	1.0	—	—	—	
Sub-total	6,305	475	50.63%	6,100	0.10%	1,121	31.74%	1.4	731	11.98%	2	1

	December 2019											
PD Scale	Original on-balance sheet gross exposure £m	Off balance sheet exposures pre CCF £m	Average CCF %	EAD post CRM and post CCF £m	Average PD %	Number of Obligors	Average LGD %	Average Maturity (years)	RWA £m	RWA density %	EL £m	Value adjustments and provisions £m
	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	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	—	—	1	12.73%	12	40.59%	1.1	2	224.10%	—	
100.00 (Default)	—	—	0.00%	—	100.00%	5	45.00%	1	—	—	—	
Sub-total	5,885	581	62.92%	6,107	0.09%	1,531	33.02%	1.6	827	13.55%	2	—

Key movements

– The reduction in obligor numbers is predominantly a result of a data refinement to remove duplicated customer names.

Pillar 1 Capital requirements: Credit risk continued

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

	December 2020											
PD Scale	Original on-balance sheet gross exposure £m	Off balance sheet exposures pre CCF £m	Average CCF %	EAD post CRM and post CCF £m	Average PD %	Number of Obligors	Average LGD %	Average Maturity (years)	RWA £m	RWA density %	EL £m	Value adjustments and provisions £m
	a	b	c	d	e	f	g	h	i	j	k	l
0.00 to <0.15	5,043	12,339	75.46%	14,173	0.07%	1,005	41.41%	2.9	3,905	27.55%	5	
0.15 to <0.25	1,948	4,318	72.38%	4,660	0.18%	2,285	44.40%	2.5	2,167	46.51%	5	
0.25 to <0.50	5,301	5,626	71.75%	7,924	0.35%	4,280	44.02%	2.3	4,767	60.15%	13	
0.50 to <0.75	2,479	1,776	67.84%	3,216	0.62%	6,187	43.32%	2.1	2,443	75.97%	9	
0.75 to <2.50	4,350	4,392	70.33%	7,127	1.29%	10,107	43.34%	2.0	6,931	97.26%	43	
2.50 to <10.00	3,476	1,850	72.00%	4,421	4.56%	6,581	43.49%	1.9	6,448	145.85%	94	
10.00 to <100.00	293	223	73.11%	439	23.81%	412	44.44%	1.8	1,041	237.06%	45	
100.00 (Default)	1,375	314	78.89%	1,605	100.00%	1,252	42.87%	1.5	—	—	688	
Sub-total	**24,264**	**30,837**	**73.02%**	**43,566**	**4.75%**	**32,108**	**42.96%**	**2.4**	**27,703**	**63.59%**	**904**	**875**

	December 2019											
PD Scale	Original on-balance sheet gross exposure £m	Off balance sheet exposures pre CCF £m	Average CCF %	EAD post CRM and post CCF £m	Average PD %	Number of Obligors	Average LGD %	Average Maturity (years)	RWA £m	RWA density %	EL £m	Value adjustments and provisions £m
	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

Key movements

- Exposure at default decreased £2.3bn and RWA decreased by £1.3bn, principally, as a result of optimisation activity.
- Average PD increased from 3.45% to 4.75% largely as a result credit migration and a rise in defaulted assets.

Pillar 1 Capital requirements: Credit risk continued

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

	December 2020											
PD Scale	Original on-balance sheet gross exposure £m	Off balance sheet exposures pre CCF £m	Average CCF %	EAD post CRM and post CCF £m	Average PD %	Number of Obligors	Average LGD %	Average Maturity (years)	RWA £m	RWA density %	EL £m	Value adjustments and provisions £m
	a	b	c	d	e	f	g	h	i	j	k	l
0.00 to <0.15	608	79	86.94%	606	0.08%	1,013	41.47%	3.4	122	20.21%	—	
0.15 to <0.25	195	80	74.20%	254	0.18%	475	44.53%	2.8	91	35.82%	—	
0.25 to <0.50	502	397	73.24%	710	0.36%	1,085	40.84%	2.2	288	40.49%	1	
0.50 to <0.75	1,655	437	69.26%	1,794	0.57%	4,344	38.81%	3.4	946	52.71%	4	
0.75 to <2.50	2,951	895	73.79%	3,201	1.26%	7,829	38.69%	3.1	2,094	65.44%	16	
2.50 to <10.00	2,232	489	78.26%	2,391	4.18%	4,663	38.84%	2.9	2,094	87.62%	39	
10.00 to <100.00	235	36	72.73%	238	20.47%	1,101	37.42%	2.4	294	123.16%	18	
100.00 (Default)	407	53	71.52%	432	100.00%	742	38.71%	2.3	—	—	167	
Sub-total	8,784	2,466	74.16%	9,626	6.60%	21,252	39.21%	3.0	5,929	61.60%	247	255

	December 2019											
PD Scale	Original on-balance sheet gross exposure £m	Off balance sheet exposures pre CCF £m	Average CCF %	EAD post CRM and post CCF £m	Average PD %	Number of Obligors	Average LGD %	Average Maturity (years)	RWA £m	RWA density %	EL £m	Value adjustments and provisions £m
	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	—	—	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

Key movements

- RWA density decreases from 70.86% to 61.60% due to the revision to the SME scalar.
- Average PD increased from 5.46% to 6.60% largely as a result credit migration and a rise in defaulted assets.

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 11 and 12, 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 26: IRB – Credit risk exposures by portfolio and PD range – Residential mortgages (SME) (CR6)

	December 2020												
PD Scale	Original on-balance sheet gross exposure £m	Off balance sheet exposures pre CCF £m	Average CCF %	EAD post CRM and post CCF £m	Average PD %	Number of Obligors	Average LGD %	RWA £m	RWA density %	EL £m	Value adjustments and provisions £m	Undrawn commitments (post CCF) £m
	a	b	c	d	e	f	g	i	j	k	l	m
0.00 to <0.15	—	—	—	—	—	—	—	—	—	—		—
0.15 to <0.25	—	—	—	—	—	—	—	—	—	—		—
0.25 to <0.50	—	—	—	—	—	—	—	—	—	—		—
0.50 to <0.75	2,690	307	97.41%	2,904	0.54%	23,388	18.57%	380	13.10%	3		299
0.75 to <2.50	2,933	301	97.94%	3,121	1.15%	19,771	17.20%	612	19.62%	6		295
2.50 to <10.00	1,106	74	97.46%	1,139	4.14%	7,174	17.79%	484	42.52%	8		72
10.00 to <100.00	240	10	97.20%	238	19.04%	2,126	19.09%	177	74.60%	8		10
100.00 (Default)	160	7	97.58%	167	100.00%	1,101	15.89%	59	35.13%	27		7
Sub-total	**7,130**	**700**	**97.64%**	**7,568**	**4.11%**	**53,560**	**17.85%**	**1,713**	**22.63%**	**53**	**173**	**683**

	December 2019												
PD Scale	Original on-balance sheet gross exposure £m	Off balance sheet exposures pre CCF £m	Average CCF %	EAD post CRM and post CCF £m	Average PD %	Number of Obligors	Average LGD %	RWA £m	RWA density %	EL £m	Value adjustments and provisions £m	Undrawn commitments (post CCF) £m
	a	b	c	d	e	f	g	i	j	k	l	m
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

Pillar 1 Capital requirements: Credit risk continued

Table 27: IRB – Credit risk exposures by portfolio and PD range – Residential mortgages (non-SME) (CR6)

	December 2020												
PD Scale	Original on-balance sheet gross exposure £m	Off balance sheet exposures pre CCF £m	Average CCF %	EAD post CRM and post CCF £m	Average PD[1] %	Number of Obligors	Average LGD %	RWA £m	RWA density %	EL £m	Value adjustments and provisions £m	Undrawn commitments (post CCF) £m
	a	b	c	d	e	f	g	i	j	k	l	m
0.00 to <0.15	234,022	19,122	101.50%	263,924	0.32%	2,025,421	10.80%	19,536	7.40%	119		19,409
0.15 to <0.25	24,706	225	62.59%	25,895	0.82%	209,916	9.82%	3,338	12.89%	27		141
0.25 to <0.50	19,741	200	69.84%	20,666	1.22%	159,961	10.30%	3,398	16.44%	30		140
0.50 to <0.75	4,773	580	74.32%	5,404	2.25%	45,330	10.15%	1,278	23.64%	14		431
0.75 to <2.50	5,082	30	83.37%	5,329	4.32%	44,638	10.36%	2,090	39.22%	28		25
2.50 to <10.00	4,437	9	64.45%	4,630	14.92%	37,082	9.52%	2,871	62.00%	81		6
10.00 to <100.00	2,895	—	41.76%	2,971	50.67%	23,622	9.44%	1,891	63.63%	185		—
100.00 (Default)	3,157	—	47.33%	3,158	100.00%	23,443	10.68%	2,312	73.23%	512		—
Sub-total	**298,814**	**20,166**	**99.93%**	**331,978**	**2.11%**	**2,569,413**	**10.65%**	**36,714**	**11.06%**	**997**	**1,519**	**20,152**

	December 2019												
PD Scale	Original on-balance sheet gross exposure £m	Off balance sheet exposures pre CCF £m	Average CCF %	EAD post CRM and post CCF £m	Average PD %	Number of Obligors	Average LGD %	RWA £m	RWA density %	EL £m	Value adjustments and provisions £m	Undrawn commitments (post CCF) £m
	a	b	c	d	e	f	g	i	j	k	l	m
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

Key movements

- EAD post CRM and post CCF increased by £15.9bn due to increased lending volumes including undrawn commitments.
- RWA increased by £3.0bn, due to increased lending volumes and changes to the mortgage model.

Pillar 1 Capital requirements: Credit risk continued

Table 28: Residential mortgage exposures by major portfolio

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

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

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 in 2019 and 2020.

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

Pillar 1 Capital requirements: Credit risk continued

Table 29: IRB – Credit risk exposures by portfolio and PD range – Qualifying revolving retail exposures (CR6)

	December 2020												
PD Scale	Original on-balance sheet gross exposure £m	Off balance sheet exposures pre CCF £m	Average CCF %	EAD post CRM and post CCF £m	Average PD %	Number of Obligors	Average LGD %	RWA £m	RWA density %	EL £m	Value adjustments and provisions £m	Undrawn commitments (post CCF) £m
	a	b	c	d	e	f	g	i	j	k	l	m
0.00 to <0.15	756	17,784	69.26%	13,073	0.09%	9,172,244	54.10%	450	3.44%	7		12,317
0.15 to <0.25	517	7,798	69.76%	5,957	0.20%	4,424,429	57.48%	420	7.04%	7		5,440
0.25 to <0.50	1,100	9,243	68.98%	7,476	0.36%	5,774,965	61.53%	901	12.06%	18		6,376
0.50 to <0.75	897	3,745	70.99%	3,556	0.62%	3,150,988	68.63%	736	20.70%	16		2,659
0.75 to <2.50	2,967	4,748	76.39%	6,595	1.35%	5,330,245	73.82%	2,681	40.66%	72		3,627
2.50 to <10.00	2,037	1,216	85.73%	3,081	5.38%	1,587,290	76.35%	3,033	98.42%	136		1,043
10.00 to <100.00	593	118	95.88%	721	30.51%	493,611	75.67%	1,662	230.64%	188		113
100.00 (Default)	286	—	—	286	100.00%	311,836	71.11%	748	261.30%	178		—
Sub-total	9,154	44,652	70.71%	40,745	2.04%	30,245,608	62.60%	10,631	26.09%	622	866	31,574

	December 2019												
PD Scale	Original on-balance sheet gross exposure £m	Off balance sheet exposures pre CCF £m	Average CCF %	EAD post CRM and post CCF £m	Average PD %	Number of Obligors	Average LGD %	RWA £m	RWA density %	EL £m	Value adjustments and provisions £m	Undrawn commitments (post CCF) £m
	a	b	c	d	e	f	g	h	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

Key movements

- EAD post CRM post CCF increase of £1.6bn due to a model calibration increasing CCFs.
- RWA decreases by £0.8bn due to lower PDs and LGDs as a result of higher undrawn balances and improved credit quality partly due to COVID-19 government support schemes.
- A revised approach to valuing Unsecured accounts in Recoveries has resulted in a number of long-term, non-performing Recoveries assets being de-recognised. As such, the volume of accounts in default has reduced significantly over the period (see Table 15). However due to the nature of these accounts there is no material impact on EAD or RWA.

Pillar 1 Capital requirements: Credit risk continued

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

December 2020

PD Scale	Original on-balance sheet gross exposure	Off balance sheet exposures pre CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of Obligors	Average LGD	RWA	RWA density	EL	Value adjustments and provisions	Undrawn commitments (post CCF)
	£m	£m	%	£m	%		%	£m	%	£m	£m	£m
	a	b	c	d	e	f	g	i	j	k	l	m
0.00 to <0.15	—	—	—	—	—	—	—	—	—	—		—
0.15 to <0.25	—	—	—	—	—	—	—	—	—	—		—
0.25 to <0.50	—	—	—	—	—	—	—	—	—	—		—
0.50 to <0.75	1,677	411	99.61%	806	0.54%	63,060	76.85%	380	47.13%	3		409
0.75 to <2.50	3,257	422	99.42%	1,060	1.15%	64,568	76.25%	690	65.15%	9		420
2.50 to <10.00	2,439	171	99.28%	518	4.20%	34,043	72.10%	429	82.80%	16		169
10.00 to <100.00	1,383	35	99.17%	157	23.19%	29,338	70.96%	172	109.55%	26		35
100.00 (Default)	203	5	99.84%	177	100.00%	9,633	7.95%	63	35.85%	14		5
Sub-total	**8,959**	**1,044**	**100.00%**	**2,716**	**9.24%**	**200,642**	**70.89%**	**1,734**	**63.82%**	**68**	**123**	**1,038**

December 2019

PD Scale	Original on-balance sheet gross exposure	Off balance sheet exposures pre CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of Obligors	Average LGD	RWA	RWA density	EL	Value adjustments and provisions	Undrawn commitments (post CCF)
	£m	£m	%	£m	%		%	£m	%	£m	£m	£m
	a	b	c	d	e	f	g	i	j	k	l	m
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

Key movements

- Increase in gross exposure is due to customers utilising government lending schemes which has limited impact on EAD.
- At year end the government secured portion of certain COVID-19 lending schemes had not been moved to Standardised Central Governments as intended. If this had been completed EAD and RWA density would be flat with prior year, PD would still have improved but by a lower amount than shown, and LGD would have shown a small increase compared to prior year.

Pillar 1 Capital requirements: Credit risk continued

Table 31: IRB – Credit risk exposures by portfolio and PD range – Retail Other non-SME (CR6)

	December 2020											
PD Scale	Original on-balance sheet gross exposure £m	Off balance sheet exposures pre CCF £m	Average CCF %	EAD post CRM and post CCF £m	Average PD %	Number of Obligors	Average LGD %	RWA £m	RWA density %	EL £m	Value adjustments and provisions £m	Undrawn commitments (post CCF) £m
	a	b	c	d	e	f	g	i	j	k	l	m
0.00 to <0.15	352	—	30.00%	353	0.08%	20,267	34.64%	37	10.37%	—		—
0.15 to <0.25	71	2	30.00%	74	0.22%	17,321	74.68%	25	33.91%	—		—
0.25 to <0.50	5,678	6	30.00%	5,691	0.37%	499,192	36.71%	1,711	30.07%	18		2
0.50 to <0.75	3,191	5	30.00%	3,202	0.72%	263,635	43.56%	1,535	47.95%	17		2
0.75 to <2.50	6,334	21	30.00%	6,380	1.54%	676,431	64.79%	5,452	85.47%	73		6
2.50 to <10.00	3,557	12	30.00%	3,584	4.43%	400,537	67.04%	3,898	108.75%	112		4
10.00 to <100.00	747	3	30.00%	753	29.30%	89,126	54.25%	1,030	136.72%	126		1
100.00 (Default)	392	—	—	392	100.00%	75,624	55.20%	727	185.66%	176		—
Sub-total	20,321	49	30.00%	20,428	4.48%	2,042,133	52.98%	14,415	70.57%	523	868	15

	December 2019											
PD Scale	Original on-balance sheet gross exposure £m	Off balance sheet exposures pre CCF £m	Average CCF %	EAD post CRM and post CCF £m	Average PD %	Number of Obligors	Average LGD %	RWA £m	RWA density %	EL £m	Value adjustments and provisions £m	Undrawn commitments (post CCF) £m
	a	b	c	d	e	f	g	i	j	k	l	m
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

Key movements

- EAD post CRM and post CCF has decreased by £0.5bn due to lower unsecured balances.
- Average PD increased during 2020 due to a higher level of defaulted balances.

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 2020, corporate specialised lending exposures subject to supervisory slotting amounted to £12.4bn (2019: £12.5bn). Risk-weighted assets arising from this amounted to £9.1bn (2019: £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 32: IRB – Specialised lending (CR10)

		December 2020					
		Specialised lending					
Regulatory Categories	Remaining maturity	On-balance sheet amount £m	Off-balance sheet amount £m	RW %	Exposure amount £m	RWA £m	Expected losses £m
1) Strong	Less than 2.5 years	1,971	691	50%	2,526	1,263	—
	Equal to or more than 2.5 years	2,523	1,359	70%	3,273	2,290	13
2) Good	Less than 2.5 years	1,923	479	70%	2,319	1,622	9
	Equal to or more than 2.5 years	2,958	223	90%	3,230	2,905	26
3) Satisfactory	Less than 2.5 years	168	12	115%	189	216	5
	Equal to or more than 2.5 years	399	41	115%	468	535	13
4) Weak	Less than 2.5 years	27	1	250%	33	82	3
	Equal to or more than 2.5 years	60	—	250%	77	193	6
5) Default	Less than 2.5 years	136	38	0%	272	—	136
	Equal to or more than 2.5 years	20	1	0%	29	—	15
Total	Less than 2.5 years	4,225	1,222		5,338	3,183	153
	Equal to or more than 2.5 years	5,960	1,625		7,077	5,923	73

		December 2019					
		Specialised lending					
Regulatory Categories	Remaining maturity	On-balance sheet amount £m	Off-balance sheet amount £m	RW %	Exposure amount £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 2020, credit risk exposures risk-weighted under the Standardised Approach post-CCF and CRM, amounted to £113.9bn, generating risk-weighted assets of £20.7bn.

Table 33: Standardised approach – credit risk exposure and Credit Risk Mitigation (CRM) effects (CR4)

	December 2020					
	Exposures before CCF and CRM		Exposures post CCF and CRM		RWA and RWA density	
	On-balance sheet amount £m	Off-balance sheet amount £m	On-balance sheet amount £m	Off-balance sheet amount £m	RWA £m	RWA density [1] %
	a	b	c	d	e	f
Central governments or central banks	60,695	—	71,296	730	—	0%
Regional governments or local authorities	426	—	425	—	29	7%
Public sector entities	4,274	—	4,274	—	1	—
Multilateral development banks	7,158	—	7,158	—	—	—
International organisations	—	—	—	—	—	—
Institutions	208	749	209	1,085	296	23%
Corporates	6,967	5,052	6,713	1,845	7,418	87%
Retail	11,332	23,044	10,410	236	7,606	71%
Secured by mortgages on immovable property	5,886	24	5,886	7	2,063	35%
of which: residential property	5,885	24	5,885	7	2,062	35%
of which: commercial property	1	—	1	—	1	100%
Exposures in default	1,034	87	1,032	26	1,179	111%
Items associated with particularly high risk	—	—	—	—	—	—
Covered bonds	—	—	—	—	—	—
Short term claims on institutions and corporates	—	—	—	—	—	—
Collective investment undertakings (CIUs)	—	—	—	—	—	—
Equity exposures	—	—	—	—	—	—
Other items	2,550	—	2,550	—	2,092	82%
Total	100,530	28,957	109,953	3,930	20,684	18%

Pillar 1 Capital requirements: Credit risk continued

	December 2019					
	Exposures before CCF and CRM		Exposures post CCF and CRM		RWA and RWA density	
	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density [1]
	£m	£m	£m	£m	£m	%
	a	b	a	b	e	f
Central governments or central banks	46,658	1	46,937	406	—	—
Regional governments or local authorities	476	—	476	—	28	6 %
Public sector entities	4,169	—	4,169	—	1	—
Multilateral development banks	6,243	—	6,243	—	—	—
International organisations	—	—	—	—	—	—
Institutions	401	52	506	782	219	17 %
Corporates	6,666	3,722	6,502	1,407	7,056	89 %
Retail	11,756	21,704	11,756	210	8,532	71 %
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 %
Exposures in default	1,138	234	1,138	54	1,295	109 %
Items associated with particularly high risk	—	—	—	—	—	—
Covered bonds	—	—	—	—	—	—
Short term claims on institutions and corporates	—	—	—	—	—	—
Collective investment undertakings (CIUs)	—	—	—	—	—	—
Equity exposures	—	—	—	—	—	—
Other items	2,809	—	2,809	—	2,400	85 %
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.

Key movements

– The reduction in RWA density is mainly driven by a large increase in exposures to central governments and banks due to increased deposits with the Bank of England and the recognition of guarantees on COVID-19 government loan schemes.

Pillar 1 Capital requirements: Credit risk continued

Table 34: 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.

	December 2020																
	Risk Weight																
	0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Others	Total	Of which: Unrated
Exposure Classes	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Central governments or central banks	72,027	—	—	—	—	—	—	—	—	—	—	—	—	—	—	72,027	71,812
Regional government or local authorities	278	—	—	—	147	—	—	—	—	—	—	—	—	—	—	425	1
Public sector entities	4,273	—	—	—	—	—	—	—	—	1	—	—	—	—	—	4,274	3,144
Multilateral development banks	7,158	—	—	—	—	—	—	—	—	—	—	—	—	—	—	7,158	7,158
International organisations	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	–
Institutions	—	—	701	—	94	—	499	—	—	—	—	—	—	—	—	1,294	704
Corporates	—	—	—	—	—	—	1,131	—	—	7,401	26	—	—	—	—	8,558	7,435
Retail	—	—	—	—	—	—	—	—	10,646	—	—	—	—	—	—	10,646	10,646
Secured by mortgages on immovable property	—	—	—	—	—	5,892	—	—	—	1	—	—	—	—	—	5,893	5,893
of which: residential property	—	—	—	—	—	5,892	—	—	—	—	—	—	—	—	—	5,892	5,892
of which: commercial property	—	—	—	—	—	—	—	—	—	1	—	—	—	—	—	1	1
Exposures in default	—	—	—	—	—	—	—	—	—	816	242	—	—	—	—	1,058	1,058
Items associated with particularly high risk	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	–
Covered bonds	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	–
Institutions and corporations with a short term credit assessment	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	–
Collective investment undertakings	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	–
Equity	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	–
Other items	79	—	—	—	474	—	—	—	—	1,997	—	—	—	—	—	2,550	2,550
Total	83,815	—	701	—	715	5,892	1,630	—	10,646	10,216	268	—	—	—	—	113,883	110,400

Pillar 1 Capital requirements: Credit risk continued

Table 34: Standardised approach – exposures by asset class (CR5) (Continued)

	December 2019																
	Risk Weight																
	0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Others	Total	Of which: Unrated
Exposure Classes	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Central governments or central banks	47,343	—	—	—	—	—	—	—	—	—	—	—	—	—	—	47,343	47,018
Regional government or local authorities	335	—	—	—	141	—	—	—	—	—	—	—	—	—	—	476	—
Public sector entities	4,169	—	—	—	—	—	—	—	—	1	—	—	—	—	—	4,169	1
Multilateral development banks	6,243	—	—	—	—	—	—	—	—	—	—	—	—	—	—	6,243	6,243
International organisations	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Institutions	—	—	846	—	120	—	322	—	—	—	—	—	—	—	—	1,288	885
Corporates	—	—	—	—	1	—	1,287	—	—	6,606	15	—	—	—	—	7,908	6,220
Retail	—	—	—	—	—	—	—	—	11,966	—	—	—	—	—	—	11,966	11,966
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
Exposures in default	—	—	—	—	—	—	—	—	—	987	205	—	—	—	—	1,192	1,192
Items associated with particularly high risk	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Covered bonds	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Institutions and corporations with a short term credit assessment	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Collective investment undertakings	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Equity	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Other items	71	—	—	—	423	—	—	—	—	2,315	—	—	—	—	—	2,809	2,809
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 2020, 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 35: Geographical breakdown of exposures (CRB-C)

	2020 United Kingdom £m	2020 Rest of Europe £m	2020 United States of America £m	2020 Asia-Pacific £m	2020 Other £m	2020 Total £m
Central governments or central banks	—	—	2,147	—	674	2,821
Institutions	3,149	532	191	382	1,829	6,083
Corporates	60,488	5,134	959	94	1,027	67,702
of which: Specialised lending	10,775	1,425	43	1	508	12,752
of which: SMEs	10,590	24	—	—	6	10,620
Retail	401,570	9,321	—	1	2	410,894
Secured by real estate property	330,401	9,320	—	—	2	339,724
SMEs	7,740	2	—	—	2	7,746
Non-SMEs	322,660	9,318	—	—	—	331,978
Qualifying revolving	40,745	—	—	—	—	40,745
Other retail	30,425	—	—	—	—	30,426
SMEs	9,997	—	—	—	—	9,998
Non-SMEs	20,428	—	—	—	—	20,428
Equity	—	—	—	—	—	—
Non-credit oligation assets	10,963	9	—	—	—	10,972
Total IRB approach	476,171	14,996	3,297	476	3,532	498,472
Central governments or central banks	48,688	12,007	—	—	—	60,695
Regional governments or local authorities	1	278	—	—	146	426
Public sector entities	1	4,273	—	—	—	4,274
Multilateral development banks	—	—	—	—	7,158	7,158
International organisations	—	—	—	—	—	—
Institutions	516	33	48	—	—	598
Corporates	7,152	1,431	511	217	661	9,973
Retail	10,803	754	2	5	4	11,568
Secured by mortgages on immovable property	5,312	175	55	272	79	5,893
Exposures in default	576	40	23	17	403	1,060
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	2,515	31	—	5	—	2,550
Total standardised approach	75,565	19,022	640	517	8,451	104,195
Total	551,735	34,018	3,937	993	11,983	602,667

Pillar 1 Capital requirements: Credit risk continued

	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	37,236	9,422	—	—	—	46,658
Regional governments or local authorities	—	335	—	—	141	476
Public sector entities	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

Key movements
- The increase in exposure in the UK is due to COVID-19 lending schemes, increased amounts deposited with the Bank of England and an increase in mortgage lending.
- The increase in exposure in Rest of Europe is driven by an increase in deposits placed with the Bundesbank.

Pillar 1 Capital requirements: Credit risk continued

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

Table 36: Exposures subject to the IRB approach analysed by geographical region

	2020 United Kingdom			2020 Rest of Europe			2020 United States of America			2020 Asia-Pacific			2020 Other			2020 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	—		—	—		—	2,147		0.01%	—		—	674		0.06%	2,821		0.01%
Institutions	3,149		0.09%	532		0.06%	191		0.04%	382		0.05%	1,829		0.14%	6,083		0.10%
Corporate – main	39,123		4.87%	3,685		4.93%	916		0.11%	93		0.25%	513		2.65%	44,330		4.75%
Corporate – SME	10,590		6.61%	24		0.77%	—		—	—		—	6		2.58%	10,620		6.60%
Corporate – specialised lending1	—		37.50%	—		—	—		—	—		—	—		—	—		37.50%
Total – Foundation IRB approach	52,861		4.90%	4,241		4.29%	3,254		0.04%	475		0.09%	3,021		0.52%	63,853		4.40%
Retail IRB approach																		
Retail mortgages	330,401	10.71%	2.20%	9,320	14.26%	0.75%	—	—	—	1	12.65%	1.11%	2	14.43%	1.90%	339,724	10.81%	2.16%
of which: residential mortgages (SME)	7,740	17.85%	4.12%	2	12.49%	2.25%	—	—	—	1	12.65%	1.11%	2	14.43%	1.90%	7,746	17.85%	4.11%
of which: residential mortgages (non-SME)	322,660	10.54%	2.15%	9,318	14.26%	0.75%	—	—	—	—	—	—	—	—	—	331,978	10.65%	2.11%
Qualifying revolving retail exposures	40,745	62.60%	2.04%	—	—	—	—	—	—	—	—	—	—	—	—	40,745	62.60%	2.04%
Other SME	9,997	70.89%	9.25%	—	73.63%	4.75%	—	—	—	—	38.28%	2.92%	—	80.69%	1.38%	9,998	70.89%	9.24%
Other non-SME	20,428	52.98%	4.48%	—	—	—	—	—	—	—	—	—	—	—	—	20,428	52.98%	4.48%
Total – Retail IRB approach	401,570	18.68%	2.35%	9,321	14.26%	0.75%	—	—	—	1	22.12%	1.78%	2	14.74%	1.90%	410,894	18.58%	2.31%

Pillar 1 Capital requirements: Credit risk continued

	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 lending1	—		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 32 on page 51).

Key movements

– The increase in PD for Corporate - main within Rest of Europe is due to an increase in defaulted cases.

Pillar 1 Capital requirements: Credit risk continued

ANALYSIS OF CREDIT RISK EXPOSURES BY INDUSTRY

Credit risk exposures as at 31 December 2020, analysed by major industrial sector, are provided in the table below. Exposures are presented are on a pre CRM and post CCF basis.

Table 37: Concentration of exposures by industry (CRB-D)

	2020 Agriculture, forestry and fishing £m	2020 Energy and water supply £m	2020 Manufacturing £m	2020 Construction £m	2020 Transport, distribution and hotels £m	2020 Postal and comms £m	2020 Property companies £m	2020 Financial, business and other services £m	2020 Personal: mortgages £m	2020 Personal: other £m	2020 Lease financing £m	2020 Hire purchase £m	2020 Total £m
Central governments or central banks	—	—	—	—	—	—	—	2,821	—	—	—	—	2,821
Institutions	—	—	—	—	—	—	—	6,001	—	—	44	37	6,083
Corporates	1,281	3,322	8,431	3,750	13,423	870	17,714	14,638	—	7	1,330	2,936	67,702
of which: Specialised lending	—	1,180	126	225	944	198	9,408	670	—	—	—	—	12,752
of which: SMEs	1,161	69	1,176	493	2,239	81	1,227	3,822	—	—	2	348	10,620
Retail	1,662	9	926	1,873	4,343	118	3,842	4,952	331,978	49,197	—	11,995	410,894
Secured by real estate property	1,226	3	276	232	1,272	18	2,893	1,824	331,978	1	—	—	339,724
SMEs	1,226	3	276	232	1,272	18	2,893	1,824	—	1	—	—	7,746
Non-SMEs	—	—	—	—	—	—	—	—	331,978	—	—	—	331,978
Qualifying revolving	—	—	—	—	—	—	—	—	—	40,745	—	—	40,745
Other retail	436	6	650	1,641	3,071	99	949	3,128	—	8,451	—	11,995	30,426
SMEs	436	6	650	1,641	3,071	99	949	3,128	—	18	—	—	9,998
Non-SMEs	—	—	—	—	—	—	—	—	—	8,433	—	11,995	20,428
Equity	—	—	—	—	—	—	—	—	—	—	—	—	—
Non-credit obligation assets													10,973
Total IRB approach	2,944	3,331	9,358	5,622	17,766	988	21,556	28,412	331,978	49,203	1,375	14,967	498,473
Central governments or central banks	—	—	—	—	—	—	—	60,669	—	—	26	—	60,695
Regional governments or local authorities	—	—	—	—	—	—	—	426	—	—	—	—	426
Public sector entities	—	—	—	—	—	—	—	4,274	—	—	—	—	4,274
Multilateral development banks	—	—	—	—	—	—	—	7,158	—	—	—	—	7,158
International organisations	—	—	—	—	—	—	—	—	—	—	—	—	—
Institutions	—	—	—	—	—	—	—	586	—	—	12	—	598
Corporates	2,528	164	648	115	1,306	23	768	3,394	4	257	206	560	9,973
Retail	1,512	5	31	45	174	2	201	1,131	111	7,807	210	339	11,568
Secured by mortgages on immovable property	—	—	—	—	—	—	1	2	5,889	—	—	—	5,893
Exposures in default	67	—	28	4	438	—	11	5	349	148	1	8	1,060
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													2,550
Total standardised approach	4,108	168	706	165	1,918	25	981	77,646	6,353	8,213	455	907	104,195
Total	7,051	3,499	10,064	5,787	19,684	1,013	22,537	106,058	338,331	57,416	1,829	15,875	602,667

Pillar 1 Capital requirements: Credit risk continued

	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	—	—	—	—	—	—	—	46,622	—	—	35	1	46,658
Regional governments or local authorities	—	—	—	—	—	—	—	476	—	—	—	—	476
Public sector entities	—	—	—	—	—	—	—	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

ANALYSIS OF CREDIT RISK EXPOSURES BY RESIDUAL MATURITY

Credit risk exposures at 31 December 2020, analysed by residual maturity, are provided in the table below. Exposures are presented on a pre CRM and post CCF basis.

Table 38: Maturity of exposures (CRB-E)

	2020					
	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	—	—	920	1,901	—	2,821
Institutions	449	3,281	1,896	456	—	6,083
Corporates	5,231	14,532	35,467	12,472	—	67,702
of which: Specialised lending	178	2,118	7,212	3,245	—	12,752
of which: SMEs	655	2,883	2,242	4,840	—	10,620
Retail	42,866	26,108	34,273	307,647	—	410,894
Secured by real estate property	1,969	22,599	17,260	297,896	—	339,724
SMEs	143	999	688	5,915	—	7,746
Non-SMEs	1,826	21,600	16,572	291,980	—	331,978
Qualifying revolving	40,745	—	—	—	—	40,745
Other retail	153	3,508	17,013	9,751	—	30,426
SMEs	116	1,112	241	8,529	—	9,998
Non-SMEs	36	2,397	16,772	1,222	—	20,428
Equity	—	—	—	—	—	—
Non-credit obligation assets	1,340	950	1,561	29	7,093	10,973
Total IRB approach	49,887	44,871	74,117	322,505	7,093	498,473
Central governments or central banks	33,809	13,568	4,300	8,554	464	60,695
Regional governments or local authorities	—	34	244	148	—	426
Public sector entities	—	731	3,093	450	—	4,274
Multilateral development banks	—	358	5,108	1,692	—	7,158
International organisations	—	—	—	—	—	—
Institutions	113	420	40	25	—	598
Corporates	433	1,992	3,798	3,751	—	9,973
Retail	6,653	333	1,564	3,018	—	11,568
Secured by mortgages on immovable property	23	167	522	5,181	—	5,893
Exposures in default	97	404	188	370	—	1,060
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	164	71	297	331	1,687	2,550
Total standardised approach	41,291	18,080	19,154	23,519	2,150	104,195
Total	91,178	62,950	93,272	346,024	9,243	602,667

Pillar 1 Capital requirements: Credit risk continued

	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	35,863	574	5,943	4,278	—	46,658
Regional governments or local authorities	—	55	280	141	—	476
Public sector entities	—	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

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 2020 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 39: Credit quality of exposures by exposure class and instrument (CR1-A)

	December 2020				
	Gross carrying values of		Specific credit risk adjustment[1]	Credit risk adjustment charges in the period[1]	Net values
	Defaulted exposures	Non-defaulted exposures			
	£m	£m	£m	£m	£m
	a	b	c	f	g
Central governments or central banks	—	3,020	1	1	3,019
Institutions	—	6,780	1	1	6,780
Corporates	2,454	77,245	1,446	1,015	78,253
of which: Specialised lending	306	13,041	316	249	13,031
of which: SMEs	460	10,791	255	139	10,995
Retail	4,210	406,780	3,548	1,906	407,443
Secured by real estate property	3,324	323,486	1,691	539	325,119
SMEs	167	7,663	173	89	7,657
Non-SMEs	3,157	315,823	1,519	450	317,462
Qualifying revolving	286	53,520	866	674	52,941
Other retail	599	29,774	991	693	29,383
SMEs	208	9,796	123	114	9,880
Non-SMEs	392	19,978	868	579	19,503
Equity	—	—	—	—	—
Non-credit obligation assets	—	10,973	—	—	10,973
Total IRB approach	6,664	504,799	4,996	2,924	506,467
Central governments or central banks		60,695	—	—	60,695
Regional governments or local authorities		426	—	—	426
Public sector entities		4,274	—	—	4,274
Multilateral development banks		7,158	—	—	7,158
International organisations		—	—	—	—
Institutions		958	1	1	957
Corporates		12,123	104	106	12,019
of which: SMEs		4,041	17	12	4,024
Retail		34,749	373	261	34,376
of which: SMEs		3,343	19	6	3,324
Secured by mortgages on immovable property		5,945	35	8	5,910
of which: SMEs		8	—	—	8
Exposures in default[2]	1,887		765	327	1,121
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		2,550	—	—	2,550
Total standardised approach	1,887	128,879	1,279	702	129,487
Total	8,550	633,678	6,274	3,627	635,954
of which: Loans	8,043	407,806	5,847	3,374	410,002
of which: Debt securities	1	4,341	1	—	4,341
of which: Off-balance sheet exposures	506	132,140	426	253	132,221

Pillar 1 Capital requirements: Credit risk continued

Table 39: Credit quality of exposures by exposure class and instrument (CR1-A) (continued)

December 2019	Gross carrying values of				
	Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	Credit risk adjustment charges in the period	Net values
	£m	£m	£m	£m	£m
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		46,659	—	—	46,659
Regional governments or local authorities		476	—	—	476
Public sector entities		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[2]	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

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

2 The breakdown of 'exposures in default' by the exposure class that corresponds to the exposure before default, comprises Corporate £1,254m (2019: £1,286m) and Retail £633m (2019: £635m).

Pillar 1 Capital requirements: Credit risk continued

Table 40: Credit quality of exposures by industry types (CR1-B)

	2020				
	Gross carrying values of				
	Defaulted exposures £m	Non-defaulted exposures £m	Specific credit risk adjustment[1] £m	Credit risk adjustment charges in the period[1] £m	Net value £m
	a	b	c	f	g
Agriculture, forestry and fishing	231	7,134	83	82	7,282
Energy and water supply	1	4,390	12	33	4,380
Manufacturing	500	12,178	216	136	12,462
Construction	352	6,253	218	47	6,387
Transport, distribution and hotels	1,866	21,107	952	490	22,021
Postal and communications	4	1,177	12	19	1,169
Property companies	521	23,654	415	279	23,760
Financial, business and other services	462	122,659	507	369	122,614
Personal: mortgages	3,574	321,962	1,635	464	323,902
Personal: other	765	92,831	1,733	1,477	91,863
Lease financing	11	4,504	4	30	4,511
Hire purchase	263	15,828	487	200	15,604
Total	8,550	633,678	6,274	3,627	635,954

	2019				
	Gross carrying values of				
	Defaulted exposures £m	Non-defaulted exposures £m	Specific credit risk adjustment £m	Credit risk adjustment charges in the period £m	Net value £m
	a	b	c	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

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

Pillar 1 Capital requirements: Credit risk continued

Table 41: Credit quality of exposures by geography (CR1-C)

2020

	Gross carrying values of				
	Defaulted exposures £m	Non-defaulted exposures £m	Specific credit risk adjustment[1] £m	Credit risk adjustment charges in the period[1] £m	Net value £m
	a	b	c	f	g
United Kingdom	7,186	580,289	5,497	3,231	581,979
Rest of Europe	358	36,056	180	155	36,234
United States of America	25	4,741	9	3	4,757
Asia-Pacific	22	1,118	10	3	1,131
Other	959	11,473	579	234	11,853
Total	8,550	633,678	6,274	3,627	635,954

2019

	Gross carrying values of				
	Defaulted exposures £m	Non-defaulted exposures £m	Specific credit risk adjustment £m	Credit risk adjustment charges in the period £m	Net value £m
	a	b	c	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

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

Pillar 1 Capital requirements: Credit risk continued

ANALYSIS OF PERFORMING, NON-PERFORMING AND FORBORNE EXPOSURES

In December 2019 the EBA published guidelines on the disclosure of non-performing and forborne exposures, to be applied from December 2020. 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 42 to 44.

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 in the Credit Risk section of the Lloyds Bank plc Annual Report and Accounts on pages 29 to 43 (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 42: Credit quality of forborne exposures (CQ1)

	December 2020							
	a	b	c	d	e	f	g	h
	Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
	Performing Forborne	Non-performing	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
1 Loans and advances	2,592	7,952	5,586	6,276	(134)	(1,845)	5,893	3,808
2 Central banks	—	—	—	—	—	—	—	—
3 General governments	—	—	—	—	—	—	—	—
4 Credit institutions	—	—	—	—	—	—	—	—
5 Other financial corporations	27	37	37	13	(13)	(9)	34	2
6 Non-financial corporations	542	3,753	3,736	3,557	(38)	(1,306)	805	544
7 Households	2,023	4,162	1,813	2,706	(84)	(530)	5,054	3,261
8 Debt Securities	—	1	1	1	—	(1)	—	—
9 Loans Commitments Given	168	393	178	260	(2)	(24)	21	11
10 **Total**	2,760	8,345	5,765	6,537	(136)	(1,870)	5,914	3,819

	December 2019							
	a	b	c	d	e	f	g	h
	Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
£m	Performing Forborne	Non-performing	Of Which: Defaulted	Of Which: Impaired	On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
1 Loans and advances	2,277	8,059	4,932	5,987	(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 43: Credit quality of performing and non-performing exposures by past due days (CQ3)

		December 2020											
		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 day <= 180 days	Past due > 180 day <= 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**	482,959	480,734	2,225	11,454	5,145	1,756	1,153	1,231	1,818	217	133	8,300
2	Central banks	1,372	1,372	—	—	—	—	—	—	—	—	—	—
3	General governments	635	627	8	—	—	—	—	—	—	—	—	—
4	Credit institutions	5,590	5,586	4	—	—	—	—	—	—	—	—	—
5	Other financial corporations	63,141	63,136	5	38	26	1	—	—	4	—	7	38
6	Non-financial corporations	75,275	74,979	296	3,815	2,392	443	2	2	972	4	—	3,798
7	Of which: SMEs	42,033	42,025	8	939	568	367	1	1	—	3	—	927
8	Households	336,945	335,035	1,911	7,601	2,727	1,313	1,151	1,229	843	213	126	4,465
9	**Debt securities**	32,840	32,840	—	1	—	—	—	—	—	—	1	1
10	Central banks	—	—	—	—	—	—	—	—	—	—	—	—
11	General governments	15,026	15,026	—	—	—	—	—	—	—	—	—	—
12	Credit institutions	11,637	11,637	—	—	—	—	—	—	—	—	—	—
13	Other financial corporations	5,455	5,455	—	—	—	—	—	—	—	—	—	—
14	Non-financial corporations	722	722	—	1	—	—	—	—	—	—	1	1
15	**Off-balance-sheet exposures**	134,654			636								366
16	Central banks	—			—								—
17	General governments	164			—								—
18	Credit institutions	38			—								—
19	Other financial corporations	10,778			5								5
20	Non-financial corporations	37,053			363								361
21	Households	86,621			268								—
22	**Total**	650,453	513,574	2,225	12,091	5,145	1,756	1,153	1,231	1,818	217	134	8,667

Pillar 1 Capital requirements: Credit risk continued

		December 2019											
		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 day <= 180 days	Past due > 180 day <= 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 44: Performing and non-performing exposures and related provisions (CR1)

		December 2020														
		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
		Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
		Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions					
			Of which stage 1	Of which stage 2		Of which stage2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		On performing exposures	On non-performing exposures
1	**Loans and advances**	482,959	424,830	57,136	11,454	2,744	8,708	(3,329)	(1,355)	(1,974)	(2,380)	(233)	(2,147)	(280)	360,393	6,586
2	Central banks	1,372	1,372	—	—	—	—	—	—	—	—	—	—	—	—	—
3	General governments	635	608	—	—	—	—	—	—	—	—	—	—	—	462	—
4	Credit institutions	5,590	5,590	—	—	—	—	(9)	(9)	—	—	—	—	—	4	—
5	Other financial corporations	63,141	62,048	609	38	24	13	(81)	(19)	(62)	(9)	—	(9)	—	689	2
6	Non-financial corporations	75,275	61,244	13,899	3,815	257	3,557	(1,100)	(464)	(636)	(1,325)	(23)	(1,303)	(280)	49,278	551
7	Of which: SMEs	42,033	36,602	5,431	939	101	838	(457)	(157)	(301)	(149)	(2)	(147)	—	32,840	471
8	Households	336,945	293,968	42,628	7,601	2,462	5,138	(2,140)	(864)	(1,276)	(1,046)	(210)	(835)	—	309,961	6,033
9	**Debt securities**	32,840	32,840	—	1	—	1	(5)	(5)	—	(1)	—	(1)	—	—	—
10	Central banks	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
11	General governments	15,026	15,026	—	—	—	—	(1)	(1)	—	—	—	—	—	—	—
12	Credit institutions	11,637	11,637	—	—	—	—	—	—	—	—	—	—	—	—	—
13	Other financial corporations	5,455	5,455	—	—	—	—	(5)	(5)	—	—	—	—	—	—	—
14	Non-financial corporations	722	722	—	1	—	1	—	—	—	(1)	—	(1)	—	—	—
15	**Off-balance-sheet exposures**	134,654	127,361	7,293	636	351	285	(400)	(192)	(208)	(27)	(13)	(13)		8,982	11
16	Central banks	—	—	—	—	—	—	—	—	—	—	—	—		—	—
17	General governments	164	164	—	—	—	—	—	—	—	—	—	—		4	—
18	Credit institutions	38	38	—	—	—	—	—	—	—	—	—	—		38	—
19	Other financial corporations	10,778	10,734	44	5	5	—	(6)	(6)	(1)	—	—	—		123	—
20	Non-financial corporations	37,053	34,208	2,845	363	167	196	(169)	(74)	(94)	(18)	(5)	(13)		8,813	11
21	Households	86,621	82,217	4,404	268	180	88	(224)	(111)	(113)	(9)	(9)	—		5	—
22	**Total**	650,453	585,031	64,429	12,091	3,096	8,994	(3,734)	(1,552)	(2,182)	(2,408)	(247)	(2,161)	(280)	369,375	6,597

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

		December 2019														
		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
		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					
	£m		Of which stage 1	Of which stage 2		Of which stage2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		On performing exposures	On non-performing exposures
1	**Loans and advances**	472,350	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	—	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

Pillar 1 Capital requirements: Credit risk continued

COMPARISON OF EXPECTED LOSSES TO SPECIFIC CREDIT RISK ADJUSTMENTS

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

Further details on accounting expected credit losses (ECLs) can be found in the 2020 Lloyds Bank plc Annual Report and Accounts: Note 2 (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.

Table 45: Regulatory expected losses and specific credit risk adjustments

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

	2020	2020	2020	2019	2019	2019
	Regulatory expected losses	Specific credit risk adjustments	Excess expected losses	Regulatory expected losses	Specific credit risk adjustments	Excess expected losses
	£m	£m	£m	£m	£m	£m
CREDIT RISK						
Foundation IRB approach						
Central governments or central banks	—	1	(1)	—	—	—
Institutions	2	1	2	2	—	2
Corporates	1,150	1,130	20	912	567	345
Retail IRB approach						
Residential mortgages	1,049	1,691	(642)	994	1,223	(230)
QRRE	622	866	(244)	636	522	114
Other SME	68	123	(55)	77	56	22
Other non-SME	523	868	(344)	471	620	(149)
Other IRB approaches						
Corporate – specialised lending	226	316	(90)	211	115	96
Other						
Counterparty credit risk	9	—	9	14	—	14
Central impairment overlay		400	(400)			
Other adjustments[1]	—	—	(20)	—	—	(20)
Total	3,650	5,396	(1,766)	3,317	3,103	194

Reconciliation of SCRAs to statutory consolidated balance sheet allowance for impairment losses on loans and receivables	2020	2019
Total SCRAs applied against expected losses	5,396	3,103
SCRAs applied to Standardised Approach	1,279	896
Acquisition related and other adjustments[2]	(543)	(619)
Total per statutory consolidated balance sheet	6,132	3,380

1 Other adjustments relate to prudent valuation adjustments.

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

Pillar 1 Capital requirements: Credit risk continued

Key movements (2020)

SCRAs:

Increases in provisions across all asset classes reflecting potential future losses from the Group's revised economic outlook as a consequence of the coronavirus pandemic

Expected losses:

FIRB Corporates

– Whilst a reduction in exposure during the year (c£3.0bn) led to a consequential reduction in EL, a modest rise in defaulted assets, whilst only £0.6bn EAD, more than offset this to create the overall EL increase.

Retail IRB Residential Mortgages

– Increase driven by model changes and increased lending offset by the benefit of improved HPI.

QRRE

– Small decrease driven by movements in drawn exposure and improved credit quality partly due to COVID-19 customer support measures.

Retail Other – Non SME

– Increase driven by model changes and small increase in defaulted exposure.

PILLAR 1 CAPITAL REQUIREMENTS - SECURITISATION

Revised Framework

The revised securitisation framework was fully implemented on 1st January 2020. On the whole, the impact of this has been to increase RWAs compared to prior period. Any positions previously under the Ratings Based Approach (RBA) have moved to the approaches under the revised framework hierarchy. The tables in this section relate to the revised framework.

Role

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

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.

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 26 (Securitisations and covered bonds) of the 2020 Lloyds Bank plc Annual Report and Accounts.

No securitisation transactions undertaken during the year were recognised as sales. No new capital efficient synthetic securitisations were originated during the year.

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 2020 the Group had a small number of STS positions in its role as an Investor and Sponsor.

Re-securitisation

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

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.

Pillar 1 Capital requirements: Securitisation continued

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.

Pillar 1 Capital requirements: Securitisation continued

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

Furthermore, additional monitoring measures are applied: 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: Securitisation exposures in the non-trading book (SEC1)

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
		Institution acts as originator							Institution acts as sponsor				Institution acts as investor			
		Traditional				Synthetic		Sub-total	Traditional		Synthetic	Sub-total	Traditional		Synthetic	Sub-total
		STS		Non-STS			of which SRT		STS	Non-STS			STS	Non-STS		
			of which SRT		of which SRT											
1	**Total exposures**	—	—	—	—	10,949	10,949	10,949	811	4,914	—	5,725	2,064	5,664	—	7,727
2	Retail (total)	—	—	—	—	—	—	—	811	2,935	—	3,746	1,964	4,338	—	6,302
3	residential mortgage	—	—	—	—	—	—	—	—	306	—	306	—	2,461	—	2,461
4	credit card	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
5	other retail exposures	—	—	—	—	—	—	—	811	2,629	—	3,440	1,964	1,878	—	3,842
6	re-securitisation	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
7	Wholesale (total)	—	—	—	—	10,949	10,949	10,949	—	1,979	—	1,979	100	1,325	—	1,425
8	loans to corporates	—	—	—	—	7,329	7,329	7,329	—	—	—	—	—	195	—	195
9	commercial mortgage	—	—	—	—	726	726	726	—	—	—	—	—	487	—	487
10	lease and receivables	—	—	—	—	—	—	—	—	1,506	—	1,506	—	300	—	300
11	other wholesale	—	—	—	—	2,895	2,895	2,895	—	473	—	473	100	343	—	443
12	re-securitisation	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—

Pillar 1 Capital requirements: Securitisation continued

ORIGINATED SECURITISATIONS

Regulatory treatment

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

Capital requirements in relation to originated securitisation positions are primarily determined under the Securitisation Internal Ratings Based Approach (SEC-IRBA) or the Securitisation Standardised approach (SEC-SA). 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 SEC-IRBA and SEC-SA. 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 £10.9bn (2019: £11.7bn) comprising synthetic originated securitisations. An analysis is provided in Table 46.

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

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

As at 31 December 2020, securitisation positions arising from origination activities and risk-weighted under the SEC-IRBA amounted to £10.2bn (2019: £6.5bn), generating a capital requirement of £156m (2019: £97m).

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

The risk weight for SEC-SA is based on a supervisory formula and the capital requirement for the underlying assets as calculated under the standardised approach for credit risk, tranche thickness and the ratio of delinquent to total exposures. As at 31 December 2020, securitisation positions arising from origination activities and risk-weighted under the SEC-SA amounted to £0.5bn (2019: £0.8bn) generating a capital requirement of £12m (2019: £14m).

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

The SEC-ERBA 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 2020, securitisation positions arising from origination activities and risk-weighted under the ERBA amounted to £0.2bn (2019: nil) generating a capital requirement of £16m (2019: nil).

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. 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 2020 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 2020 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 42(2) (Financial Instruments: Fair Value measurement) of the 2020 Lloyds Bank plc Annual Report and Accounts.

Pillar 1 Capital requirements: 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 2020	$20.0bn/$4.0bn (£14.7bn/£2.9bn)
Conduit structure	Fully supported multi-seller
Credit enhancement	Full support liquidity
Liquidity provider	Lloyds Bank Plc and Bank of Scotland Plc

Structure and liquidity facilities

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

Assets purchased relate to pools of third party receivables.

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

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

Cancara Assets

All the external assets in the conduit are consolidated for accounting purposes in the Group's financial statements, following similar accounting policies to those established for originated securitisations. The total consolidated assets in the conduits are set out in Note 41 (Structured entities) of the 2020 Lloyds Bank plc Annual Report and Accounts.

Capital assessment

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

The Group's IAA model is a proprietary credit rating system. This model generates a rating equivalent to an external rating. This rating then feeds the SEC-ERBA in order to calculate the capital requirement.

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

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

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

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

Pillar 1 Capital requirements: Securitisation continued

The table below provides analysis of securitisation positions where the Group acts as originator or sponsor.

Table 47: Securitisation exposures in the non-trading book and associated regulatory capital requirements - institution acting as originator or as sponsor (SEC3)

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q
		Exposure values (by RW bands/deductions)					Exposure values (by regulatory approach)				RWEA (by regulatory approach)				Capital charge after cap			
		≤20% RW	>20% to 50% RW	>50% to 100% RW	>100% to <1250% RW	1250% RW/ deductions	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250%/ deductions	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250%/ deductions	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250%/ deductions
1	**Total exposures**	12,185	3,411	1,037	41	—	10,224	5,939	512	—	1,951	1,749	151	—	156	140	12	—
2	Traditional transactions	3,738	1,175	772	41	—	—	5,725	—	—	—	1,555	—	—	—	124	—	—
3	Securitisation	3,738	1,175	772	41	—	—	5,725	—	—	—	1,555	—	—	—	124	—	—
4	Retail underlying	3,216	530	—	—	—	—	3,746	—		—	643	—		—	51	—	—
5	Of which STS	811	—	—	—	—	—	811	—		—	81	—		—	6	—	—
6	Wholesale	522	644	772	41	—	—	1,979	—		—	912	—		—	73	—	—
7	Of which STS	—	—	—	—	—	—	—	—		—	—	—		—	—	—	—
8	Re-securitisation	—	—	—	—	—	—	—	—		—	—	—		—	—	—	—
9	Synthetic transactions	8,447	2,237	266	—	—	10,224	214	512	—	1,951	194	151	—	156	16	12	—
10	Securitisation	8,447	2,237	266	—	—	10,224	214	512	—	1,951	194	151	—	156	16	12	—
11	Retail underlying	—	—	—	—	—	—	—	—		—	—	—		—	—	—	—
12	Wholesale	8,447	2,237	266	—	—	10,224	214	512		1,951	194	151		156	16	12	—
13	Re-securitisation	—	—	—	—	—	—	—	—		—	—	—		—	—	—	—

Pillar 1 Capital requirements: Securitisation continued

Table 48: Exposures securitised by the institution - Exposures in default and specific credit risk adjustments (SEC5)

		a	b	c
		Exposures securitised by the institution - Institution acts as originator or as sponsor		
		Total outstanding nominal amount		Total amount of specific credit risk adjustments made during the period
			Of which exposures in default	
1	**Total exposures**	12,055	80	1
2	Retail (total)	—	—	—
3	residential mortgage	—	—	—
4	credit card	—	—	—
5	other retail exposures	—	—	—
6	re-securitisation	—	—	—
7	Wholesale (total)	12,055	80	1
8	loans to corporates	8,217	76	1
9	commercial mortgage	841	4	—
10	lease and receivables	—	—	—
11	other wholesale	2,997	—	—
12	re-securitisation	—	—	—

INVESTED SECURITISATIONS

Direct investments and liquidity facilities

In addition to sponsoring an ABCP conduit, the Group has invested directly in third party ABS and notes and is a provider of liquidity facilities to other third party securitisations. Key movements in Investor positions were a result of new financing facilities, including items moved onto the balance sheet due to ring-fencing considerations, offset by terminations and amortisations during the year.

The majority of these direct investments are accounted for as loans and receivables on the balance sheet and held at amortised cost, with the remainder held at fair value through other comprehensive income or at fair value through profit or loss. Further details on the Group's holding of ABS are presented in Note 45(c) (Financial Risk Management: Credit Quality of Assets) of the 2020 Lloyds Bank plc Annual Report and Accounts.

Pillar 1 Capital requirements: Securitisation continued

Invested securitisations

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

As at 31 December 2020, securitisation positions relating to the Group's direct investments in third party ABS and notes and the provision of liquidity facilities to third party securitisations risk weighted under the SEC-SA, amounted to £5.8bn and under the SEC-ERBA amounted to £1.9bn. This includes £2.1bn exposure (capital requirement £16m) related to STS positions.

Table 49: Securitisation exposures in the non-trading book and associated regulatory capital requirements - institution acting as investor (SEC4)

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q
		Exposure values (by RW bands/deductions)					Exposure values (by regulatory approach)				RWEA (by regulatory approach)				Capital charge after cap			
		≤20% RW	>20% to 50% RW	>50% to 100% RW	>100% to <1250% RW	1250% RW/ deductions	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250%/ deductions	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250%/ deductions	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250%/ deductions
1	**Total exposures**	7,204	295	222	6	—	—	1,910	5,817	—	—	428	837	—	—	34	67	—
2	Traditional securitisation	7,204	295	222	6	—	—	1,910	5,817	—	—	428	837	—	—	34	67	—
3	Securitisation	7,204	295	222	6	—	—	1,910	5,817	—	—	428	837	—	—	34	67	—
4	Retail underlying	6,109	193	—	—	—	—	1,682	4,620	—	—	218	655	—	—	17	52	—
5	Of which STS	1,964	—	—	—	—	—	912	1,051	—	—	91	105	—	—	7	8	—
6	Wholesale	1,095	102	222	6	—	—	228	1,197	—	—	210	183	—	—	17	15	—
7	Of which STS	100	—	—	—	—	—	—	100	—	—	—	10	—	—	—	1	—
8	Re-securitisation	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
9	Synthetic securitisation	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
10	Securitisation	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
11	Retail underlying	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
12	Wholesale	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
13	Re-securitisation	—	—	—	—	—	—	—	—	—	—	—	—		—	—	—	—

PILLAR 1 CAPITAL REQUIREMENTS - COUNTERPARTY CREDIT RISK

DEFINITION

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

INTERNAL CAPITAL AND CREDIT LIMITS

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

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

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

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

SECURING COLLATERAL AND ESTABLISHING CREDIT RESERVES

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

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

Collateral arrangements are governed by standard agreements (such as Global Master Repurchase Agreements and Credit Support Annexes (CSA) to International Swaps and Derivative Association (ISDA) Master Agreements). It is policy that appropriate documentation is put in place for all clients prior to trading, any exceptions being subject to specific approval from the appropriate Credit Sanctioner. Policy also defines minimum acceptable requirements for the negotiation of ISDA and CSA documentation. Derivative transactions with 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).

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 42 (Financial Instruments) of the 2020 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 50: CCR: analysis by measurement approach

	2020	2019
	EAD post CRM	EAD post CRM
	£m	£m
CCR standardised approach	—	—
CCR mark-to-market method	2,500	2,581
CCR internal model method	—	—
SFT comprehensive approach	13,767	10,988
CCR central counterparty	4,735	6,899
Contributions to the default fund of a central counterparty	242	96
Total	21,244	20,564

Key movements

– CCR central counterparty exposure decreased by £2.2bn mainly due to trade optimisation.
– SFT exposure increased by £2.8bn mainly due to the funding from Bank of England, under the Term Funding Scheme with additional incentives for SMEs (TFSME), which increased by £1.6bn and also other smaller movements across various counterparties.
– Contributions to the default fund of a central counterparty increased by £0.15bn due to increase default fund requirements from LCH SwapClear.

Table 51: 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.

		December 2020						
		Notional	Replacement cost/current market value [1]	Potential future credit exposure [1]	Effective expected positive exposure (EEPE)	Multiplier	EAD Post CRM [2]	RWAs
		£m	£m	£m	£m	x	£m	£m
		a	b	c	d	e	f	g
1	Mark to Market		2,237	887			2,500	1,436
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)						13,767	305
10	VaR for SFTs						—	—
11	**Total**	—	2,237	887	—	—	16,267	1,740

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 £0.6bn 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).

Key movements

– Financial collateral comprehensive method (for SFTs) increased by £2.8bn mainly due to the funding from Bank of England, under the Term Funding Scheme with additional incentives for SMEs (TFSME), which increased by £1.6bn and also other smaller movements across various counterparties.

Pillar 1 Capital requirements: Counterparty credit risk continued

		December 2019						
		Notional	Replacement cost/current market value[1]	Potential future credit exposure[1]	Effective expected positive exposure (EEPE)	Multiplier	EAD Post CRM[2]	RWAs
		£m	£m	£m	£m	x	£m	£m
		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

Table 52: Exposures to CCPs (CCR8)

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

		December 2020		December 2019	
		EAD post CRM	RWA	EAD post CRM	RWA
		£m	£m	£m	£m
		a	b	a	b
1	**Exposures to QCCPs (total)**	**4,976**	**393**	6,995	229
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	**4,630**	**96**	6,818	140
3	(i) OTC derivatives	**4,465**	**89**	6,648	133
4	(ii) Exchange-traded derivatives	**164**	**7**	169	7
5	(iii) SFTs	**1**	**—**	—	—
6	(iv) Netting sets where cross-product netting has been approved	**—**	**—**	—	—
7	Segregated initial margin	**—**		—	—
8	Non-segregated initial margin	**104**	**2**	81	2
9	Prefunded default fund contributions	**242**	**295**	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	**—**	**—**	—	—

Key movements

- Exposure for trades at QCCPs decreased by £2.2bn due to trade optimisation.
- Contributions to the default fund of a central counterparty increased by £0.15bn due to increase default fund requirements from LCH SwapClear.

Pillar 1 Capital requirements: Counterparty credit risk continued

Table 53: Credit valuation adjustment (CVA) capital charge (CCR2)[1]

		December 2020		December 2019	
		EAD post CRM £m	RWA £m	EAD post CRM £m	RWA £m
		a	b-a	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	630	355	723	271
EU4	Based on Original Exposure Method	—	—	—	—
5	**Total subject to the CVA capital charge**	630	355	723	271

1 The CVA exposures disclosed in this table are embedded in the exposures reported in Table 51: 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 54: Counterparty credit risk exposures: analysis by exposure class

	December 2020		December 2019	
	EAD post CRM £m	RWA £m	EAD post CRM £m	RWA £m
Foundation IRB approach				
Corporate – main	2,002	724	1,474	576
Corporate – SME	2	2	2	2
Central governments or central banks	1,587	94	666	36
Institutions	837	288	1,314	392
Other IRB approach				
Corporate – specialised lending[1]	828	614	789	577
Total IRB approach	5,256	1,723	4,246	1,584
Exposures subject to the standardised approach			—	—
Central governments or central banks	10,883	—	9,262	—
Multilateral development banks	—	—	—	—
International organisations	93	—	29	—
Institutions	4,737	99	6,903	144
Corporates	33	17	27	16
Total standardised approach	15,746	116	16,221	159
Contributions to the default fund of a Central Counterparty	242	295	96	88
Credit valuation adjustment[2]		355		271
Total	21,244	2,488	20,564	2,102

1 Exposures subject to the IRB Supervisory Slotting Approach.

2 CVA exposure values of £0.6bn are embedded in the exposure class analysis above.

Key movements

- Exposures to Institutions subject to the standardised approach decreased by £2.2bn mainly due to trade optimisation with QCCPs.
- Exposures to Central governments or central banks subject to the standardised approach increased by £1.6bn mainly due to the funding from Bank of England, under the Term Funding Scheme with additional incentives for SMEs (TFSME), which increased by £1.6bn.
- Exposures to Central governments or central banks subject to the IRB approach increased by £0.9bn due to smaller movement across multiple counterparties.

Pillar 1 Capital requirements: Counterparty credit risk continued

Table 55: Risk-weighted assets flow statements of CCR exposures[1,2]

	RWA amount	Capital requirements
	£m	£m
RWA as 31 December 2019	**2,102**	**168**
Asset Size	377	30
Asset quality	(11)	(1)
Model updates	—	—
Methodology and policy	—	—
Acquisitions and disposals	—	—
Foreign exchange movements	20	2
Other	—	—
RWA as at 31 December 2020	**2,488**	**199**

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

– Risk weighted assets increased by £0.4bn due to increase in asset size and favourable FX movements.

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 56: IRB – Credit risk exposures by portfolio and PD range – Corporates Main (CCR4)

	December 2020						
PD Scale	EAD post CRM £m	Average PD %	Number of obligors	Average LGD %	Average Maturity (years)	RWA £m	RWA density %
	a	b	c	d	e	f	g
0.00 to <0.15	1,421	0.07%	217	42.3%	3.0	374	26.4%
0.15 to <0.25	138	0.18%	55	45.0%	0.1	39	28.2%
0.25 to <0.50	285	0.36%	335	43.4%	0.9	126	44.1%
0.50 to <0.75	34	0.63%	72	45.0%	2.3	27	79.0%
0.75 to <2.50	62	1.36%	156	45.0%	2.9	70	113.0%
2.50 to <10.00	60	4.27%	93	45.0%	2.2	88	145.1%
10.00 to <100.00	—	19.30%	5	45.0%	1.6	1	224.7%
100.00 (Default)	2	100.00%	11	45.0%	1.1	—	—%
Sub-total	2,002	0.40%	944	42.8%	2.5	724	36.2%

	December 2019						
PD Scale	EAD post CRM £m	Average PD %	Number of obligors	Average LGD %	Average Maturity (years)	RWA £m	RWA density %
	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%

Pillar 1 Capital requirements: Counterparty credit risk continued

Table 57: IRB – CCR exposures by portfolio and PD scale – Central governments or central banks (CCR4)

	December 2020						
PD Scale	EAD post CRM £m	Average PD %	Number of obligors	Average LGD %	Average Maturity (years)	RWA £m	RWA density %
	a	b	c	d	e	f	g
0.00 to <0.15	**1,587**	**0.05%**	**8**	**45.0%**	**—**	**94**	**6.0%**
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	**1,587**	**0.05%**	**8**	**45.0%**	**—**	**94**	**6.0%**

	December 2019						
PD Scale	EAD post CRM £m	Average PD %	Number of obligors	Average LGD %	Average Maturity (years)	RWA £m	RWA density %
	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%

Pillar 1 Capital requirements: Counterparty credit risk continued

Table 58: IRB – CCR exposure by portfolio and PD scale – Institutions (CCR4)

	December 2020						
	EAD post CRM	Average PD	Number of obligors	Average LGD	Average Maturity (years)	RWA	RWA density
PD Scale	£m	%		%		£m	%
	a	b	c	d	e	f	g
0.00 to <0.15	787	0.05%	100	45.0%	2.9	244	31.0%
0.15 to <0.25	50	0.18%	10	45.0%	4.7	44	87.2%
0.25 to <0.50	—	0.39%	2	45.0%	2.2	—	81.3%
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	837	0.06%	112	45.0%	3.0	288	34.4%

	December 2019						
	EAD post CRM	Average PD	Number of obligors	Average LGD	Average Maturity (years)	RWA	RWA density
PD Scale	£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	—	95.4%
0.50 to <0.75	—	—	0	—	—	—	—
0.75 to <2.50	—	1.00%	1	45.0%	—	—	64.8%
2.50 to <10.00	—	—	0	—	—	—	—
10.00 to <100.00	—	—	0	—	—	—	—
100.00 (Default)	—	—	0	—	—	—	—
Sub-total	1,314	0.05%	141	45.0%	2.7	392	29.8%

Pillar 1 Capital requirements: Counterparty credit risk continued

Table 59: CCR corporate exposures subject to supervisory slotting

December 2020 Specialised lending

Regulatory categories	Remaining maturity	On-balance sheet amount £m	Off-balance sheet amount £m	RW %	EAD post CRM £m	RWA £m
1) Strong	Less than 2.5 years	12	—	50%	12	6
	Equal to or more than 2.5 years	1,119	—	70%	684	479
2) Good	Less than 2.5 years	17	—	70%	15	11
	Equal to or more than 2.5 years	95	—	90%	62	56
3) Satisfactory	Less than 2.5 years	—	—	115%	—	—
	Equal to or more than 2.5 years	54	—	115%	54	62
4) Weak	Less than 2.5 years	—	—	250%	—	—
	Equal to or more than 2.5 years	—	—	250%	—	—
5) Default	Less than 2.5 years	—	—	0%	—	—
	Equal to or more than 2.5 years	—	—	0%	—	—
Total	Less than 2.5 years	30	—		27	17
	Equal to or more than 2.5 years	1,269	—		801	597

December 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 60: 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".

		December 2020												
		0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others	Total	Of which: Unrated
	Exposure Classes	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
1	Central governments or central banks	**10,883**	—	—	—	—	—	—	—	—	—	—	**10,883**	**10,883**
4	Multilateral development banks	—	—	—	—	—	—	—	—	—	—	—	—	—
5	International organisations	**93**	—	—	—	—	—	—	—	—	—	—	**93**	**93**
6	Institutions	—	**4,572**	**162**	—	—	**2**	—	—	—	—	—	**4,737**	**4,737**
7	Corporates	—	—	—	—	—	**32**	—	—	**1**	—	—	**33**	**33**
11	**Total – Standardised Approach**	**10,976**	**4,572**	**162**	—	—	**34**	—	—	**1**	—	—	**15,746**	**15,746**

		December 2019												
		0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others	Total	Of which: Unrated
	Exposure Classes	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
1	Central governments or central banks	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

Key movements

- EAD increase in Central governments or central banks by £1.6bn is mainly due to the funding from Bank of England, under the Term Funding Scheme with additional incentives for SMEs (TFSME), which increased by £1.6bn
- Reduction of £2.2bn in EAD in Institutions is driven by decreased central counterparty exposure due to trade optimisation.

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 61: CCR: analysis by contract type

	2020 EAD post CRM £m	2019 EAD post CRM £m
Interest rate and inflation contracts	**6,764**	8,878
Foreign exchange contracts	**264**	414
Equity contracts	**—**	1
Credit derivatives	**102**	98
Commodity contracts	**—**	7
Securities financing transactions	**13,872**	11,069
Contributions to the default fund of a Central Counterparty	**242**	96
Total	**21,244**	20,564
of which: central counterparty	**4,735**	6,899

Key movements

– Interest rate and inflation contracts decreased by £2.1bn EAD mainly driven by decreased central counterparty exposure due to trade optimisation.

– SFTs increased by £2.8bn EAD mainly due to the funding from Bank of England, under the Term Funding Scheme with additional incentives for SMEs (TFSME), which increased by £1.6bn and also other smaller movements across various counterparties.

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 2020, are presented separately in the table below.

Table 62: Impact of netting and collateral held on exposure values (CCR5-A)

		December 2020				
		Gross positive fair value exposure amount £m	Netting benefits credit £m	Netted current credit exposure £m	Collateral held[1] £m	Net Credit exposure[2] £m
		a	b	c	d	e
1	Derivatives	**67,664**	**61,826**	**5,838**	**3,958**	**1,880**
2	SFTs	**119,298**	**—**	**119,298**	**109,971**	**9,328**
4	**Total**	**186,962**	**61,826**	**125,136**	**113,929**	**11,208**

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 51: 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.

		December 2019				
		Gross positive fair value exposure amount £m	Netting benefits credit £m	Netted current credit exposure £m	Collateral held[1] £m	Net Credit exposure[2] £m
		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

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 2020 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 63: Credit derivative exposures (CCR6)

	December 2020			December 2019		
	Credit derivative hedges			Credit derivative hedges		
	Protection bought £m	Protection sold £m	Other credit derivations £m	Protection bought £m	Protection sold £m	Other credit derivations £m
	a	b	c	a	b	c
Notionals						
Single-name credit default swaps	1,752	247	—	1,755	212	—
Index credit default swaps	405	—	—	349	89	—
Total return swaps	—	600	—	67	261	—
Credit options	—	—	—	—	—	—
Other credit derivatives	—	—	—	—	—	—
Total notionals	2,157	847	—	2,170	563	—
Fair values	—	—	—	—	—	—
Positive fair value (asset)	7	15	—	6	12	—
Negative fair value (liability)	(60)	—	—	(74)	(24)	—

PILLAR 1 CAPITAL REQUIREMENTS - MARKET RISK

DEFINITION

- Market risk is defined as the risk that the Group's capital or earnings profile is affected by adverse market rates or prices, in particular interest rates and credit spreads in the Banking business, interest rates, and credit spreads in the Group's Defined Benefit Pension Schemes.
- Market risk represents approximately 0.1% of the Group's risk- weighted assets.

Table 64: Market risk own funds requirements

	2020 Risk-weighted assets £m	2020 Capital requirements £m	2019 Risk-weighted assets £m	2019 Capital requirements £m
Internal models approach	**154**	**12**	125	10
VaR	**43**	**3**	12	1
SVaR	**100**	**8**	102	8
Incremental risk charge	**—**	**—**	—	—
Comprehensive risk measure	**—**	**—**	—	—
Risks not in VaR	**11**	**1**	12	1
Standardised approach	**56**	**4**	45	4
Interest rate risk (general and specific)	**8**	**1**	13	1
Equity risk (general and specific)	**—**	**—**	—	—
Foreign exchange risk	**48**	**4**	33	3
Commodity risk	**—**	**—**	—	—
Specific interest rate risk of securitisation position	**—**	**—**	—	—
Total	**210**	**17**	171	14

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

Liquidity Risk

DEFINITION

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

EXPOSURE

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

MEASUREMENT

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

MITIGATION

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

MONITORING

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

LIQUIDITY COVERAGE RATIO (LCR)

The 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 2020 Lloyds Bank plc Annual Report and Accounts (Funding and liquidity risk, page 44).

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 65: Liquidity Coverage Ratio (LIQ1)

		2020							
		Total unweighted value (average) £m				Total weighted value (average) £m			
		At 31 Mar	At 30 Jun	At 30 Sep	At 31 Dec	At 31 Mar	At 30 Jun	At 30 Sep	At 31 Dec
	High-quality liquid assets								
1	Total HQLA					111,487	113,983	112,506	113,434
	Cash outflows								
2	**Retail deposits and deposits from small business customers, of which:**	272,522	276,414	282,775	291,188	17,975	18,153	18,502	19,003
3	Stable deposits	216,018	219,835	225,527	232,462	10,801	10,992	11,276	11,623
4	Less stable deposits	56,504	56,578	57,248	58,726	7,174	7,161	7,225	7,380
5	**Unsecured wholesale funding:**	89,364	90,713	92,236	94,429	48,352	48,088	47,925	48,209
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	23,551	24,189	25,322	26,930	5,888	6,047	6,331	6,732
7	Non-operational deposits (all counterparties)	63,595	64,228	64,321	64,786	40,247	39,745	39,001	38,763
8	Unsecured debt	2,218	2,295	2,593	2,713	2,218	2,295	2,593	2,713
9	**Secured wholesale funding**					77	51	36	36
10	**Additional requirements:**	52,252	51,841	52,167	53,997	20,167	20,473	20,790	21,706
11	Outflows related to derivative exposures and other collateral requirements	12,656	13,110	13,463	14,146	12,656	13,110	13,463	14,146
12	Outflows related to loss of funding on debt products	1,152	1,169	1,172	1,267	1,152	1,169	1,172	1,267
13	Credit and liquidity facilities	38,443	37,562	37,532	38,585	6,358	6,194	6,155	6,294
14	**Other contractual funding obligations**	863	816	640	592	427	443	280	245
15	**Other contingent funding obligations**	81,195	81,879	82,822	85,342	4,050	4,027	4,068	4,457
16	TOTAL CASH OUTFLOWS					91,049	91,234	91,600	93,656
	Cash inflows								
17	**Secured lending (eg: reverse repos)**	15,572	16,175	15,430	14,161	64	68	100	85
18	**Inflows from fully performing exposures**	4,408	4,397	4,404	4,331	2,734	2,810	2,898	2,835
19	Other cash inflows	1,293	1,259	1,326	1,304	938	856	906	893
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non- convertible					—	—	—	—
EU-19b	(Excess inflows from a related specialised credit institution)					—	—	—	—
20	TOTAL CASH INFLOWS	21,272	21,832	21,161	19,797	3,736	3,734	3,904	3,813
EU-20a	**Fully exempt flows**	—	—	—	—	—	—	—	—
EU-20b	**Inflows subject to 90% cap**	—	—	—	—	—	—	—	—
EU-20c	**Inflows subject to 75% cap**	21,081	21,684	21,052	19,567	3,736	3,734	3,904	3,813
									Total adjusted value £m
21	**Liquidity buffer**					111,487	113,983	112,506	113,434
22	**Total net cash outflows**					87,313	87,501	87,697	89,844
23	**Liquidity Coverage Ratio (%)**					128%	130%	128%	126%

		2019 Total unweighted value (average) At 31 Dec	2019 Total weighted value (average) 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		—
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 66: Own funds template

	Transitional rules		Fully loaded rules	
	At 31 Dec 2020 £m	At 31 Dec 2019 £m	At 31 Dec 2020 £m	At 31 Dec 2019 £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	31,020	28,380	31,020	28,380
Accumulated other comprehensive income and other reserves (including unrealised gains and losses)	3,809	3,820	3,809	3,820
Foreseeable dividend	(1,000)	—	(1,000)	—
Common equity tier 1 (CET1) capital before regulatory adjustments	36,003	34,374	36,003	34,374
Common equity tier 1 (CET1) capital: regulatory adjustments				
Additional value adjustments	(173)	(220)	(173)	(220)
Intangible assets (net of related tax liability)	(2,986)	(4,050)	(2,986)	(4,050)
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)	(3,525)	(3,207)	(3,525)	(3,207)
Fair value reserves related to gains or losses on cash flow hedges	(1,507)	(1,556)	(1,507)	(1,556)
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	77	22	77	22
Defined benefit pension fund assets	(1,322)	(531)	(1,322)	(531)
Total regulatory adjustments applied to common equity tier 1 (CET1)	(9,436)	(9,737)	(9,436)	(9,737)
Common equity tier 1 (CET1) capital	26,567	24,637	26,567	24,637
Additional tier 1 (AT1) capital: instruments				
Capital instruments and related share premium accounts	5,935	4,865	5,935	4,865
of which: classified as equity under applicable accounting standards	5,935	4,865	5,935	4,865
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	1,225	1,384	–	—
Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in CET1) issued by subsidiaries and held by third parties	135	656	–	—
of which: instruments issued by subsidiaries subject to phase out	135	656	–	—
Additional tier 1 (AT1) capital	7,295	6,905	5,935	4,865
Tier 1 capital	33,862	31,542	32,502	29,502

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

	Transitional rules		Fully loaded rules	
	At 31 Dec 2020 £m	At 31 Dec 2019 £m	At 31 Dec 2020 £m	At 31 Dec 2019 £m
Tier 2 (T2) capital: Instruments and provisions				
Capital instruments and related share premium accounts	5,445	4,577	5,445	4,577
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	572	1,268	–	—
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	808	1,069	9	43
of which: instruments issued by subsidiaries subject to phase out	798	1,026	–	—
Credit risk adjustments	–	—	–	—
Tier 2 (T2) capital before regulatory adjustments	6,825	6,914	5,454	4,620
Tier (T2) capital: regulatory adjustments				
IFRS 9 transitional adjustments	(524)	(480)	(524)	(480)
Total regulatory adjustments applied to tier 2 (T2) capital	(524)	(480)	(524)	(480)
Tier 2 (T2) capital	6,301	6,434	4,930	4,140
Total capital	40,163	37,976	37,432	33,642
Total risk-weighted assets	170,862	171,940	170,862	171,940
Capital ratios and buffers				
Common Equity Tier 1 (as a percentage of risk exposure amount)	15.5%	14.3%	15.5%	14.3%
Tier 1 (as a percentage of risk exposure amount)	19.8%	18.3%	19.0%	17.2%
Total capital (as a percentage of risk exposure amount)	23.5%	22.1%	21.9%	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)	4.501%	5.444%	4.501%	5.444%
of which: capital conservation buffer requirement	2.500%	2.500%	2.500%	2.500%
of which: countercyclical buffer requirement	0.001%	0.944%	0.001%	0.944%
of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	2.000%	2.000%	2.000%	2.000%
Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)[1]	11.0%	9.8%	11.0%	9.8%
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)	293	229	293	229
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)	912	707	912	707
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	711	738	711	738
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	1,360	2,041	–	—
Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	348	1,109	–	—
Current cap on T2 instruments subject to phase out arrangements	1,325	1,987	–	—
Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	249	966	–	—

1 Of which 2.3 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 2020, 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 67: Items extracted from the consolidated regulatory balance sheet and reconciliation of own funds items to audited financial statements

Lloyds Bank Group balance sheet category	Own funds description	Items extracted from the consolidated regulatory balance sheet (1) £m	Adjustments: Deferred tax £m	Adjustments: Threshold adjustments £m	Adjustments: Non-eligible instruments (10) £m	Adjustments: Amounts excluded from AT1 and T2 due to Cap (10) £m	Adjustments: Regulatory and other adjustments £m	Transitional own funds £m	Notes	Reversal of IFRS 9 transitional arrangements £m	Transitional own funds (IFRS 9 full impact) (11) £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	29,155					1,865	31,020	2	(1,869)	29,151
Other reserves	Accumulated other comprehensive income and other reserves (including unrealised gains and losses)	3,812					(3)	3,809	2		3,809
	Common equity tier 1 (CET1) capital: regulatory adjustments										
	Additional value adjustments						(173)	(173)	3		(173)
Goodwill and other intangible assets	Intangible assets (net of related tax liability)	(4,582)	417				1,179	(2,986)	4		(2,986)
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)	(3,468)	(1,289)	912			320	(3,525)	5	(107)	(3,632)
	Fair value reserves related to gains or losses on cash flow hedges						(1,507)	(1,507)	6		(1,507)
	Negative amounts resulting from the calculation of expected loss amounts						—	—	7		—
	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing						77	77	8		77
Retirement benefit assets	Defined benefit pension fund assets	(1,714)	392				—	(1,322)	5		(1,322)
	Foreseeable dividend						(1,000)	(1,000)	9		(1,000)
	Common Equity Tier 1 (CET1) capital	25,377	(480)	912	—	—	758	26,567		(1,976)	24,591
	Additional Tier 1 (AT1) capital: instruments										
Other equity instruments	Capital instruments and the related share premium accounts	5,935			—	—	—	5,935			5,935

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	1,600			—	(314)	(61)	1,225	10		1,225
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	171			—	(35)	(1)	135	10		135
	Additional Tier 1 (AT1) capital	7,706	—	—	—	(349)	(62)	7,295		—	7,295
	Tier 1 capital	33,083	(480)	912	—	(349)	696	33,862		(1,976)	31,886
	Tier 2 (T2) capital: instruments and provisions										
Subordinated liabilities	Capital instruments and related share premium accounts	5,612	—	—	—	—	(167)	5,445	10		5,445
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	419	—	—	—	215	(62)	572	10		572
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	1,440	—	—	(66)	(115)	(451)	808	10		808
	Tier 2 (T2) capital: regulatory adjustments										
	IFRS 9 transitional adjustment						(524)	(524)		524	—
	Eligible provisions						—	—	11	711	711
	Tier 2 (T2) capital	7,471	—	—	(66)	100	(1,204)	6,301		1,235	7,536
	Total capital	40,554	(480)	912	(66)	(249)	(508)	40,163		(741)	39,422

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 11.
3. The additional value adjustments of £173m 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 107 provides a breakdown of the constituent elements of the Group's prudent valuation adjustment.
4. Own funds intangible assets of £4,582m extracted from the consolidated regulatory balance sheet representing £470m of goodwill and £4,112m of other intangible assets (£3,281m relating to intangible software assets). Capital rules require the amount to be deducted from own funds to be reduced by the amount of associated deferred tax liabilities and, in addition, to be adjusted to reflect the prudential amortisation of intangible software assets in accordance with the revised capital treatment implemented in December 2020. Remaining unamortised 'available for use' intangible software assets are now risk-weighted under the revised treatment rather than deducted from capital.
5. The own funds deduction of £3,525m 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. £912m of the deferred tax assets relating to temporary differences may be risk weighted instead of deducted from capital as presented in the threshold adjustments column. Deferred tax assets are also adjusted to reflect the application of the IFRS 9 transitional arrangements.
6. Cash flow hedge reserve forms part of other reserves in the consolidated regulatory balance sheet. Please refer to note 34 Other Reserves in the 2020 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 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 73.
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. The £1,000m foreseeable dividend reflects the interim dividend proposed by the Board of Directors.
10. 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 regulatory balance sheet total £m
Amount of qualifying items referred to in Article 484 (4) of the CRR and the related share premium accounts subject to phase out from AT1	**1,600**
Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in CET1) issued by subsidiaries and held by third parties	**171**
Capital instruments and related share premium accounts	**5,612**
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	**419**
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	**1,440**
Total subordinated liabilities as presented on the consolidated regulatory balance sheet, page 8	**9,242**

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

Legacy tier 1 instruments that qualified as tier 1 capital under regulations that preceded CRD IV are subject to certain restrictions, including a cap set at 20% of the value of such instruments that were in issue at 31 December 2012. Any excess over the cap is reallocated to tier 2 capital where, together with legacy tier 2 instruments that qualified as tier 2 capital under regulations that preceded CRD IV, they become subject to equivalent restrictions, including a cap set at 20% of the value of the legacy tier 2 instruments that were in issue at 31 December 2012.

In addition the Group has a tier 2 instrument (£46m) that will ultimately be subject to full phase out from regulatory capital by June 2025 under CRR II eligibility requirements. This instrument has therefore been included under '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.

11. The application of the IFRS 9 transitional arrangements for capital is reflected through the regulatory and other adjustments column. These comprise the following;
    - An increase in retained earnings of £1,869m reflecting the tax adjusted add-back (subject to the applicable factor) for the initial net increase in impairment provisions on 1 January 2018 ('static' relief) and the subsequent net increase in Stage 1 and Stage 2 ECLs from 1 January 2020 ('dynamic' relief)
    - A resultant movement in DTA deductions of £107m
    - A consequential adjustment to reduce tier 2 capital by £1,235m. Normally any excess of IFRS 9 expected credit losses over regulatory expected losses in respect of the Group's IRB portfolios is added to tier 2 capital ('eligible provisions'), subject to a percentage cap based on IRB risk-weighted assets. However, as a consequence of applying the IFRS 9 transitional arrangements for capital, eligible provisions may be partially or fully reduced, with any resultant surplus adjustment under the arrangements subsequently deducted from tier 2 capital.

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

PRUDENT VALUATION ADJUSTMENTS

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

Table 68: Prudent valuation adjustment (PV1)

		2020							
		Equity £m	Interest rates £m	FX £m	Credit £m	Commodities £m	Total £m	of which: In the trading book £m	of which: In the banking book £m
		a	b	c	d	e	f	g	h
1	Closeout uncertainty, of which:	3	177	—	59	—	239	—	239
2	*Mid-market value*	3	81	—	28	—	111	—	111
3	*Closeout cost*	—	96	—	7	—	103	—	103
4	*Concentration*	—	—	—	25	—	25	—	25
5	Early termination	—	—	—	—	—	—	—	—
6	Model risk	—	21	—	19	—	40	—	40
7	Operational risk	—	18	—	3	—	21	—	21
8	Investing and funding costs						6	—	6
9	Unearned credit spreads						20	—	20
10	Future administrative costs	—	9	—	5	—	14	—	14
11	Other[1]	(2)	(131)	—	(35)	—	(168)	—	(168)
12	**Total adjustment**						173		

		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 69: Leverage ratio common disclosure

	At 31 December 2020 Fully loaded £m	At 31 December 2019 Fully loaded £m
On-balance sheet exposures (excluding derivatives and SFTs)		
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)[1]	526,629	519,516
Asset amounts deducted in determining Tier 1 capital	(6,013)	(7,641)
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	520,616	511,875
Derivative exposures		
Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	2,289	2,491
Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	5,744	8,186
Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	367	—
Deductions of receivables assets for cash variation margin provided in derivatives transactions	(2,125)	(3,264)
Adjusted effective notional amount of written credit derivatives	247	301
Adjusted effective notional offsets and add-on deductions for written credit derivatives	(102)	(153)
Total derivative exposures	6,420	7,561
Securities financing transaction exposures		
Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	61,490	56,497
Netted amounts of cash payables and cash receivables of gross SFT assets	(5,417)	(4,465)
Counterparty credit risk exposure for SFT assets	1,060	689
Total securities financing transaction exposures	57,133	52,721
Other off-balance sheet exposures		
Off-balance sheet exposures at gross notional amount	138,915	123,239
Adjustments for conversion to credit equivalent amounts	(85,565)	(79,067)
Other off-balance sheet exposures	53,350	44,172
Capital and total exposure measure		
Tier 1 capital	32,502	29,502
Leverage ratio total exposure measure	637,519	616,329
Leverage ratio		
Leverage ratio	5.1%	4.8%

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

A description of the factors that had an impact on the leverage ratio during the year is discussed on page 15.

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

Table 70: Summary reconciliation of accounting assets and leverage ratio exposures

	At December 2020 Fully loaded £m	At December 2019 Fully loaded £m
Total assets as per published financial statements	599,939	581,368
Adjustment for regular-way purchases and sales of financial assets subject to trade date accounting[1]	(35)	—
Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	(123)	(1,294)
Adjustments for derivative financial instruments	(1,937)	(965)
Adjustments for securities financing transactions (SFTs)	1,060	689
Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	53,350	44,172
Other adjustments[2]	(14,735)	(7,641)
Leverage ratio total exposure measure	637,519	616,329

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

Table 71: Split-up of on balance sheet exposures (excluding derivatives, STFS and exempted exposures)

	At December 2020 Fully loaded £m	At December 2019 Fully loaded £m
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	526,629	519,516
Trading book exposures	—	290
Banking book exposures, of which:	526,629	519,226
Covered bonds	2,395	2,253
Exposures treated as sovereigns	72,940	56,182
Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	4,699	4,645
Institutions	3,672	3,594
Secured by mortgages of immovable properties	321,272	315,166
Retail exposures	40,818	44,785
Corporates	44,348	50,449
Exposures in default	7,551	6,679
Other exposures (eg equity, securitisations, and other non-credit obligation assets)	28,934	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 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 Committees, the Group Executive Committee, the Group and Ring-Fenced Banks Risk Committees, Board Risk Committee and the Board. Further details on the process by which the Group manages its capital position in respect of both risk-based capital and leverage requirements is discussed on pages 11 to 12.

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

Table 72: Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

	2020 General credit exposures[2,3]		2020 Trading book exposures[2]		2020 Securitisation exposures[3]	2020 Own funds requirements					
Breakdown by Country (£m)	Exposure Value for SA	Exposure Value for IRB	Sum of long and short positions of trading book exposures for SA	Value of trading book exposures for internal models	Exposure value for non-trading book	of which: General credit exposures[2,3]	of which: Trading book exposures[2]	of which: Securitisation exposures[3]	Total	2020 Own funds requirement weights	2020 Countercyclical capital buffer rate
Hong Kong	117	—	—	—	—	4	—	—	4	0.03%	1.000%
Norway	2	80	—	—	—	5	—	—	5	0.05%	1.000%
Czech Republic	—	—	—	—	—	—	—	—	—	—	0.500%
Slovakia	45	—	—	—	—	4	—	—	4	0.03%	1.000%
Bulgaria	—	—	—	—	—	—	—	—	—	—	0.500%
Luxembourg	10	178	—	—	64	8	—	1	9	0.08%	0.250%
i) Total[1]	174	258	—	—	64	21	—	1	22	0.19%	
							—				
United Kingdom	24,718	466,236	—	—	18,518	10,344	—	294	10,638	93.08%	—
United States of America	592	1,349	—	—	4,522	70	—	90	160	1.40%	—
Netherlands	910	10,864	—	—	88	165	—	1	165	1.45%	—
ii) Total[1]	26,220	478,449	—	—	23,128	10,579	—	385	10,964	95.93%	
			—	—			—				
iii) Rest of the World[1]	2,344	4,382	—	—	1,210	420	—	23	443	3.88%	
			—	—			—				
Total	28,738	483,089	—	—	24,402	11,020	—	409	11,429	100.00%	

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

	2019 General credit exposures[2,3]		2019 Trading book exposures[2]		2019 Securitisation exposures[3]		2019 Own funds requirements					
Breakdown by Country (£m)	Exposure Value for SA	Exposure Value for IRB	Sum of long and short positions of trading book exposures for SA	Value of trading book exposures for internal models	Exposure Value for 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	—	—	—	—	—	—	—	—	—	—	0.00%	1.500%
Iceland	—	—	—	—	—	—	—	—	—	—	0.00%	1.750%
Slovakia	26	—	—	—	—	—	2	—	—	2	0.02%	1.500%
Lithuania	—	—	—	—	—	—	—	—	—	—	0.00%	1.000%
Bulgaria	—	—	—	—	—	—	—	—	—	—	0.00%	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	**2020**	2019
Total risk exposure amount	**£170,862m**	£171,940m
Institution specific countercyclical buffer rate	**0.001%**	0.944%
Institution specific countercyclical buffer requirement	**£2m**	£1,623m

1. The breakdown by country is disclosed on the following basis:
   i) those countries for which a countercyclical capital buffer rate has been set.
   ii) those countries for which a countercyclical capital buffer rate has not been set and have an own funds requirement weighting of greater than or equal to one per cent, the threshold having been determined by the Group in accordance with the EBA guidelines on materiality for Pillar 3.
   iii) the aggregate of all remaining countries for which a countercyclical buffer rate has not been set and individually have an own funds requirement weighting of less than one per cent.
2. For the purposes of the calculation of the countercyclical capital buffer, general credit risk and trading book exposures exclude exposures to central governments, central banks, regional governments, local authorities, public sector entities, multilateral development banks, international organisations and institutions. In addition, trading book exposures are limited to those that are subject to the own funds requirement for specific risk or incremental default and migration risk.
3. General credit and securitisation exposures include counterparty credit risk and are stated on a post CRM basis.

Appendix 2: Asset encumbrance

Table 73: Asset Encumbrance

The values reported in the tables below represent the median of the quarter-end positions over the period 31 March 2020 to 31 December 2020.

	2020							
	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 EHQLA and HQLA, £m	£m	of which EHQLA and HQLA, £m
Encumbered and unencumbered assets								
Total assets	**87,491**	**14,797**			**516,169**	**65,842**		
Equity instruments	**—**	**—**	**—**	**—**	**146**	**—**	**146**	**—**
Debt securities[1]	**8,470**	**6,792**	**8,470**	**6,792**	**25,439**	**21,627**	**25,439**	**21,627**
of which: covered bonds	**2**	**2**	**2**	**2**	**2,828**	**2,827**	**2,828**	**2,827**
of which: securitisations	**1,469**	**—**	**1,469**	**—**	**542**	**9**	**542**	**9**
of which: issued by general governments	**6,325**	**6,173**	**6,325**	**6,173**	**8,628**	**8,628**	**8,628**	**8,628**
of which: issued by financial corporations	**2,145**	**619**	**2,145**	**619**	**15,734**	**12,071**	**15,734**	**12,071**
of which: issued by non-financial corporations	**—**	**—**	**—**	**—**	**730**	**730**	**730**	**730**
Other assets[2]	**79,021**	**7,973**			**491,561**	**44,155**		

	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 EHQLA and HQLA, £m	£m	of which EHQLA and HQLA, £m
Encumbered and unencumbered assets								
Total assets	102,470				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: securitisations	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	—	894	—
Other assets[2]	92,846	4,561			463,024	37,629		

Collateral received and own debt securities issued	2020 Fair value of encumbered collateral received or own debt securities issued £m	2020 Fair value of encumbered collateral received or own debt securities issued: of which notionally eligible EHQLA and HQLA, £m	2020 Unencumbered Fair value of collateral received or own debt securities issued available for encumbrance £m	2020 Unencumbered Fair value of collateral received or own debt securities issued available for encumbrance: of which EHQLA and HQLA, £m	2019 Fair value of encumbered collateral received or own debt securities issued £m	2019 Fair value of encumbered collateral received or own debt securities issued: of which notionally eligible EHQLA and HQLA, £m	2019 Unencumbered Fair value of collateral received or own debt securities issued available for encumbrance £m	2019 Unencumbered Fair value of collateral received or own debt securities issued available for encumbrance: of which EHQLA and HQLA, £m
Collateral received	21,375	21,312	50,192	50,106	13,829	13,827	54,517	54,465
Loans on demand	—	—	—	—	—	—	—	—
Equity instruments	—	—	—	—	—	—	—	—
Debt securities[1]	21,375	21,312	50,192	50,106	13,829	13,827	54,517	54,465
of which: covered bonds	—	—	905	893	1	1	234	234
of which: securitisations	—	—	534	534	—	—	170	170
of which: issued by general governments	21,051	21,051	48,632	48,632	13,739	13,739	54,372	54,372
of which: issued by financial corporations	246	183	1,251	1,165	90	57	399	382
of which: issued by non-financial corporations	—	—	302	302	—	—	—	—
Loans and advances other than loans on demand	—	—	—	—	—	—	—	—
Other collateral received	—	—	—	—	—	—	—	—
Own debt securities issued other than own covered bonds or securitisations	—	—	—	—	—	—	—	—
Own covered bonds and asset-backed securities issued and not yet pledged			8,413	—			9,310	—
Total assets, collateral received and own debt securities issued	110,069	36,665			116,298	25,305		

Sources of Encumbrance	2020 Matching liabilities, contingent liabilities or securities lent £m	2020 Assets, collateral received and own debt securities issued other than covered bonds and securitisations encumbered £m	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[4] £m
Carrying amount of selected financial liabilities[3]	83,821	95,644	82,239	103,348

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.
4 2019 numbers restated in line with 2020 basis for reporting.

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 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 diverse benefits each candidate can bring to the overall Board composition.

Objectives for achieving Board diversity may be set on a regular basis. In January 2021 the Board considered and approved updates to aspirations set out in the Board Diversity Policy relating to gender diversity and the number of senior roles held by Black, Asian and Minority Ethnic executives.

On gender diversity the Board is committed to maintaining at least three female Board members and over time will aim to reach 50 per cent female representation on the Board to match the 50 per cent ambition that the Group has set for female senior roles. Reflecting these aspirations, the Board will aim to continue to meet the Hampton-Alexander objective of 33 per cent female representation. Female representation on the Board is currently 35.7 per cent (based on five female Directors and nine male Directors).

The Group has also set a target of 13 per cent of senior roles to be held by Black, Asian and Minority Ethnic executives by 2025. The Board currently meets, and will aim to continue to meet, the objectives of the Parker review with at least one Black, Asian and Minority Ethnic Board member.

BOARD OF DIRECTORS

Robin Budenberg CBE Chairman

Appointed: Non-Executive Director from 1 October 2020 and Chairman from 1 January 2021

Skills, experience and contribution:

– Extensive financial services and investment banking background

– Strong governance and strategic advisory skills to companies and government

– Regulatory, public policy and stakeholder management experience

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

External appointments: Chairman of The Crown Estate.

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

– Drive and commitment to customers

– Proven ability to build and lead strong management teams

António previously worked for Citibank and 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 Chief Executive of Santander UK.

External appointments: Non-Executive Director of EXOR N.V., Fundação 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

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

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

External appointments: None.

Appendix 3: Board of Directors continued

Sarah Bentley Independent Director

Appointed: January 2019

Skills, experience and contribution:

– Extensive digital and digital transformation experience

– Strong customer and marketing skills

Sarah is Chief Executive Officer and Executive Director of Thames Water Utilities Limited and a Director of Water UK, the trade association of the water and wastewater industry. Prior to joining Thames Water in autumn 2020, Sarah was Chief Customer Officer at Severn Trent plc and a member of its Executive Committee. Before joining Severn Trent, Sarah was the Managing Partner for Accenture's Digital business unit in the UK & Ireland. Sarah previously worked internationally in a number of roles including Strategy, Marketing & Propositions for BT's Global Services division, CEO of Datapoint, and Senior Vice President of eLoyalty.

External appointments: Thames Water, Chief Executive Officer and Director of Water UK

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. Alan was formerly Chairman of Urban&Civic plc and of Brown, Shipley & Co. Limited, a Non-Executive Director and Chairman of the Risk Committee of the Nationwide Building Society and of Willis Limited, and a Governor of Motability. Alan is a Fellow of the Chartered Institute of Bankers and the Royal Statistical Society.

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

Nigel Hinshelwood Senior Independent Director

Appointed: January 2019

Skills, experience and contribution:

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

– Significant experience of large scale transformation, operations and technology

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. Nigel was formerly a Non-Executive Director of Lloyd's of London Franchise Board.

External appointments: Non-Executive Director of Nordea Bank Group and Chairman of its Risk Committee, Member of Lloyd's of London's Technology and Transformation Committee, International Advisory Council Member of Adobe Systems Software Ireland Limited, 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

Appointed: January 2019

Skills, experience and contribution:

– Extensive experience in core strategic finance and controllership roles in the financial services industry

– Significant 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 Lighthouse Insurance Group and Cabot UK Holdco Limited and Cabot Credit Management Group Limited and Chairman of its Audit and Risk Committees.

Appendix 3: Board of Directors continued

Sarah Legg Independent Director

Appointed: December 2019

Skills, experience and contribution:

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

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

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

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 is a former Treasurer of the Conservative Party and became a Life Peer in October 2015, serving on the House of Lords Select Committee on Charities.

External appointments: Senior Advisor to Greenhill Europe, a Trustee of The Lovington Foundation and Chairman of the Board of Visitors of the Ashmolean Museum.

Amanda Mackenzie 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 7 years as Chief Marketing and Communications Officer and was seconded to help launch the United Nation's Sustainable Development Goals. She is also a former Director of British Airways AirMiles, BT, Hewlett Packard Inc and British Gas.

External appointments: 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 and 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.

External appointments: : Chairman of the board of Reach plc, Chairman of the charity Prisoners Abroad and a member of the board of Opera Ventures.

Appendix 3: Board of Directors continued

Stuart Sinclair Independent Director

Appointed: January 2016

Skills, experience and contribution:

– Extensive experience in retail banking, insurance and consumer finance

– Significant experience in strategic planning and implementation

– Experience in consumer analysis, marketing and distribution

Stuart is a former Non-Executive Director of TSB Banking Group plc, LV Group and Virgin Direct. He was previously the Interim Chairman of Provident Financial plc, Senior Independent Director of Swinton Group and of QBE and a Council Member, Chatham House. In his executive career, he was President and Chief Operating Officer of Aspen Insurance, President of GE Capital China, Chief Executive Officer of Tesco Personal Finance and Director of UK Retail Banking at the Royal Bank of Scotland.

External appointments: Chairman of International Personal Finance plc and of Willis 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

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

– Passionate advocate of customers, the community and financial inclusion

Sara's previous appointments include Managing Director of Argos, various senior positions at J Sainsbury plc Lead Non-Executive Director at the Department for Work and Pensions, a Non-Executive Director of United Utilities Group as well as a number of senior management roles for Abbey National and Mars Confectionery.

External appointments: Non-Executive Director of BT Group plc, Chair of the Remuneration Committee, New College, Oxford and a Trustee of Lloyds Bank Foundation for England & Wales.

Catherine Woods Independent Director

Appointed: March 2020

Skills, experience and contribution:

– Extensive executive experience of international financial institutions

– Deep experience of risk and transformation oversight

– Strong focus on culture and corporate governance

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

External appointments: Non-Executive Director of Beazley plc and Chair of the reinsurance and European insurance subsidiary, Beazley Insurance. Non-Executive Director and Deputy Chair of BlackRock Asset Management Ireland Limited.

Appendix 4: Remuneration disclosure

This section discloses the remuneration awards made by the Group to Material Risk Takers (MRTs) in respect of the 2020 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 115 to 134 and the Directors' Remuneration Policy (DRP) on pages 135 to 137 within the Lloyds Banking Group plc 2020 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 2020 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/who-we-are/group-overview/corporate-governance. These terms are reviewed each year to ensure compliance with the remuneration regulations and were last updated in November 2020.

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 2020 Annual Report and Accounts. In particular, see pages 121 to 122.

Appendix 4: Remuneration disclosure

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.

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 2020 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 135 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 128 of the DRR and page 137 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 135 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

Appendix 4: Remuneration disclosure

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 136 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 139 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 131 to 133 of the DRR as well as page 137 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

Long Term Share Plan

The Long Term Share Plan is the Group's long-term incentive opportunity to align executive management and behaviour to the Group's objectives of delivering long-term superior and sustainable returns. Senior colleagues, including MRTs, are eligible to participate in the plan. Individual awards are based upon individual contribution. Awards are made in the form of conditional shares and award levels are set at the time of grant, in compliance with regulatory requirements, and may be subject to a discount in determining total variable remuneration under the rules set by the European Banking Authority. The number of shares to be awarded may be calculated using a fair value or based on a discount to market value, as appropriate. Vesting of awards will be subject to an assessment of underpin thresholds being maintained measured over a period of three years, or such longer period, as determined by the Committee. Awards for MRTs are subject to deferral and a holding period in line with regulatory requirements and market practice. Further detail of the awards made in 2021 can be found on page 132 of the DRR.

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

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 131 and 133 and 137 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 127.

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 MRTs
- Non-MRTs

Termination payments

Executive Directors and GEC members: see page 140 of the 2020 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 74: Analysis of high earners by band

Number of Material Risk Takers paid €1 million[1,2] or more	2020 Material Risk Takers[3,4]	2019 Material Risk Taker
€1.0m - €1.5m	10	22
€1.5m - €2.0m	—	5
€2.0m - €2.5m	6	—
€2.5m - €3.0m	—	4
€3.0m - €3.5m	1	2
€3.5m - €4.0m	—	—
€4.0m - €4.5m	—	—
€4.5m - €5.0m	—	—
€5.0m - €6.0m	—	1
€6.0m - €7.0m	—	—
€7.0m - €8.0m	—	—

1 Converted to Euros using the exchange rate €1 = £1.11804 (average exchange rate 1 December 2020 – 31 December 2020 based on the European Commission Budget exchange rates). The exchange rate used for 2019 was €1 = £0.8518.

2 Values for Long Term Share Plan awards are based on face value at grant. An EBA discount factor has not been applied to awards made in 2021 in respect of performance year 2020.

3 Total number of Material Risk Takers earning more than €1m has decreased from 34 in 2019 to 17 in 2020.

4 2020 and 2019 data has been calculated using methodology consistent with EBA guidelines.

Table 75: 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	11.2	13.9	2.1	62.7	89.9

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

Table 76: Fixed and variable remuneration (Material risk takers)

Analysis of remuneration between fixed and variable amounts

		Awarded in relation to the 2020 performance year				
		Management Body				
Remuneration £m		Executive Directors	Non-Executive Directors	Senior Management[2]	Other MRTs	2020 Total
Fixed Remuneration £m	Number of employees	3	14	108	80	205
	Total fixed remuneration	4.3	—	44.5	21.0	69.8
	Of which: Cash based	2.7	—	40.5	20.8	64.0
	Of which: Shares[1]	1.6	—	4.0	0.3	5.8
Variable Remuneration £m	Total variable remuneration	0.6	—	13.9	6.3	20.8
	Of which: Upfront cash based	—	—	—	0.7	0.7
	Of which: Share based[3]	0.6	—	13.9	5.6	20.1
	Of which: Deferred					—
	Vested	—	—	—	—	—
	Unvested	0.6	—	13.9	5.6	20.1
Total Remuneration £m		4.9	—	58.4	27.3	90.6

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 Long Term Share Plan awards are based on face value at grant. An EBA discount factor has not been applied to awards made in 2021 in respect of performance year 2020.

Appendix 4: Remuneration disclosure

Table 77: Total outstanding deferred variable remuneration

		Total outstanding deferred variable remuneration at 31 December 2020				
		Management Body				
	Remuneration £m	Executive Directors	Non-Executive Directors	Senior Management[2]	Other MRTs	2020 Total
Variable Remuneration £m	Number of employees	3	14	108	80	205
	Total outstanding deferred variable remuneration	16.6	—	91.3	23.3	131.2
	Of which : Vested	1.4	—	10.5	4.5	16.4
	Of which : Unvested	15.2	—	80.8	18.8	114.8

Table 78: Other payments awarded in relation to the 2020 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	—	—	—	—	—	—
Other Material Risk Takers	—	—	—	—	—	—

Table 79: Deferred remuneration

Analysis of deferred remuneration at 31 December 2020

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]	16.6	16.6	—	0.4
Senior Management	91.3	91.3	0.1	3.9
Other Material Risk Takers	23.3	23.3	—	2.6

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

	2020					
		Method of regulatory consolidation				
Name of the entity	Method of accounting 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
FONTWELL SECURITIES 2016 LTD	Full Consolidation			x		Special Purpose Entity
FONTWELL II SECURITIES 2020 DAC	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. 44) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 45) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 46) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 47) UK LIMITED	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 48) UK LIMITED	Full Consolidation			x		Special Purpose Entity
HOUSING ASSOCIATION RISK TRANSFER 2019 DAC	Full Consolidation			x		Special Purpose Entity
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 2020 Lloyds Bank plc Annual Report and Accounts, pages 224 to 227, 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 77 to 82.

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
8	OV1	Overview of risk-weighted assets
9	CR8	Risk-weighted assets flow statements of credit risk exposures
10	CR3	CRM techniques – Overview
14-19	CR9	Backtesting of PD per portfolio
21	CRB-B	Total and average net amount of exposures
22-27; 29-31	CR6	IRB – Credit risk exposures by portfolio and PD range
32	CR10	IRB - specialised lending
33	CR4	Standardised approach – Credit risk exposure and Credit Mitigation (CRM) effects
34	CR5	Standardised approach - Exposure by asset class
35	CRB-C	Geographical breakdown of exposures
37	CRB-D	Concentration of exposures by industry
38	CRB-E	Maturity of exposures
39	CR1-A	Credit quality of exposures by exposure class and instrument
40	CR1-B	Credit quality of exposures by industry types
41	CR1-C	Credit quality of exposures by geography
42	CQ1	Credit quality of forborne exposures
43	CQ3	Credit quality of performing and non-performing exposures by past due days
44	CR1	Performing and non-performing exposures and related provisions
46	SEC1	Securitisation exposures in the non-trading book
47	SEC3	Securitisation exposures in the non-trading book and associated regulatory capital requirements - institution acting as originator or as sponsor
48	SEC5	Exposures securitised by the institution - Exposures in default and specific credit risk adjustments
49	SEC4	Securitisation exposures in the non-trading book and associated regulatory capital requirements - institution acting as investor
51	CCR1	Analysis of CCR exposure by approach
52	CCR8	Exposures to CCPs
53	CCR2	Credit Valuation Adjustment (CVA) capital charge
56-58	CCR4	IRB – CCR exposure by portfolio and PD scale
60	CCR3	Standardised approach – CCR exposures by regulatory portfolio and risk
62	CCR5-A	Impact of netting and collateral held on exposure values
63	CCR6	Credit derivatives exposures
65	LIQ1	Liquidity coverage ratio
68	PV1	Prudential valuation adjustment
80	LI3	Outline of the differences between the accounting and regulatory scopes of consolidation

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
CQ8	Collateral obtained by taking possession and execution processes – vintage breakdown	Threshold for disclosure not met
CR2-A	Changes in the stock of general and specific credit risk adjustments	Equivalent disclosures are provided in the Lloyds 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 Group level	Equivalent disclosures are provided in appendix 5
COVID1	Information on loans and advances subject to legislative and non-legislative moratoria	Not Applicable at Lloyds Bank Group level
COVID2	Breakdown of loans and advances subject to legislative and non-legislative moratoria by residual maturity of moratoria	Not Applicable at Lloyds Bank Group level
COVID3	Information on newly originated loans and advances provided under newly applicable public guarantee schemes introduced in response to COVID-19 crisis	Not Applicable at Lloyds Bank Group level
SEC2	Securitisation exposures in the trading book	Excluded on materiality basis

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		The Group's operational risk systems, mitigation and approach to capital requirements are disclosed on page 62 to 63 of the Lloyds Bank plc Annual Report
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 Annual Report pages 17-66 (Risk Management)
435 (1) (b)	Structure and organisation of risk management function.		x		Lloyds Bank plc Annual Report pages 17-66 (Risk Management)
435 (1) (c)	Risk reporting and measurement systems.		x		Lloyds Bank plc Annual Report pages 17-66 (Risk Management)
435 (1) (d)	Hedging and mitigating risk – policies and processes.		x		Lloyds Bank plc Annual Report pages 17-66 (Risk Management)
435 (1) (e)	A declaration of adequacy of risk management arrangements approved by the Board.			x	Page 82 of Lloyds Bank plc 20-F (Board responsibility)
435 (1) (f)	Concise risk statement approved by the Board.		x		Pages 8 to 10 of Lloyds Bank plc Annual Report (Risk overview)
435 (2)	Information on governance arrangements, including information on Board composition and recruitment and risk committees.		x	x	Page 20 of Lloyds Bank plc Annual Report (Risk Governance) Page 77 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 77 of Lloyds Bank plc 20-F (Corporate Governance)
435 (2) (e)	Description of information flow on risk to Board.		x		Lloyds Bank plc Annual Report pages 17-66 (Risk Management)
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).

Appendix 7: CRR mapping continued

CRR ref	High-level summary	Pillar 3	ARA	20-F	Compliance reference
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			
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 11 (The Group's approach to 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			Page 103 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-downloads
437 (1) (c)	the full terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments;				Separately disclosed on Lloyds Banking Group website https://www.lloydsbankinggroup.com/investors/financial-downloads
437 (1) (d)	disclosure of the nature and amounts of the following:				
437 (1) (d)	(i) each prudential filter applied pursuant to Articles 32 to 35.	x			Page 103 own funds reconciliation
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 (The Group's approach to Capital Risk)
438 (b)	Result of ICAAP on demand from authorities.				Not applicable
438 (c)	Capital requirements for each Standardised approach credit risk exposure class.	x			Page 38 Table 21 – Total and average net amount of exposures CRB-B
438 (d)	Capital requirements for each Internal Ratings Based Approach credit risk exposure class.	x			
438 (e)	Capital requirements for market risk or settlement risk.	x			Page 19 Table 8 – 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 19 Table 8 – Overview of Risk-weighted Assets (OV1)
438	Requirement to disclose specialised lending exposures and equity exposures in the banking book falling under the simple risk weight approach.	x			Page 52 Table 32: 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 84 (internal capital and credit limits)
439 (b)	Discussion of policies for securing collateral and establishing credit reserves.	x			Page 84 (securing collateral and establishing credit reserves)
439 (c)	Discussion of management of wrong-way risk exposures.	x			Page 84 (Correlation (wrong way) risk)

Appendix 7: CRR mapping continued

CRR ref	High-level summary	Pillar 3	ARA	20-F	Compliance reference
439 (d)	Disclosure of collateral to be provided (outflows) in the event of a ratings downgrade.	x			Page 84 (Collateral requirements in the event of a downgrade in credit rating)
439 (e)	Derivation of net derivative credit exposure.	x			Page 94 (Net derivatives credit exposures, including Table 62: 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 85 (Table 51: Analysis of CCR exposure by approach (CCR1))
439 (g)	Notional value of credit derivative hedges and current credit exposure by type of exposure.	x			Page 95 (Notional value of credit derivative transactions including Table 63: 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 109 (Table 72 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 69 (Analysis of performing, non-performing and forborne exposures)
442 (b)	Approaches for calculating specific and general credit risk adjustments.		x		ARA: Page 93 (Note 2(h): Accounting policies, Impairment of Financial assets)
442 (c)	Disclosure of pre-CRM EAD by exposure class.	x			Page 38 (Table 21: Total and average net amount of exposures (CRB-B))
442 (d)	Disclosure of pre-CRM EAD by geography and exposure class.	x			Page 57 (Table 35: Geographical breakdown of exposures (CRB-C))
442 (e)	Disclosure of pre-CRM EAD by industry and exposure class.	x			Page 61 (Table 37: Concentration of exposures by industry (CRB-D))
442 (f)	Disclosure of pre-CRM EAD by residual maturity and exposure class.	x			Page 63 (Table 38: Maturity of exposures (CRB-E))
442 (g) (i),	Breakdown of impaired, past due, specific and general (ii), (iii) credit risk adjustments, and impairment charges for the period, by industry.	x			Page 67 (Table 40: 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),	Reconciliation of changes in specific and general credit (iii), (iv), (v) risk adjustments for impaired exposures.		x		ARA: Page 130 (Note 16: Financial assets at amortised cost)
442	Specific credit risk adjustments recorded to income statement are disclosed separately.	x			Page 67 (Table 40: Credit quality of exposures by industry types (CR1-B))
Unencumbered assets					
443	Disclosures on unencumbered assets.	x			Page 111: 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 53 (Analysis of credit risk exposures subject to the Standardised approach)
444 (b)	Exposure classes associated with each ECAI.	x			Page 55 (Table 34: 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 53 (Table 33: Standardised approach – credit risk exposures and Credit Risk Mitigation (CRM) effects (CR4)) Page 55 (Table 34 Standardised approach – exposures by asset class (CR5))

Appendix 7: CRR mapping continued

CRR ref	High-level summary	Pillar 3	ARA	20-F	Compliance reference
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			The Group applies the Standardised Approach to determine risk-weighted assets and capital requirements for operational risk
Exposure in equities not included in the trading book					
447 (a)	Differentiation of exposures based on objectives and an overview of accounting techniques and valuation methodologies.				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		Pages 25 to 28 of Lloyds Bank plc Annual Report (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		
Exposure to securitisation positions					
449 (a)	Objectives in relation to securitisation activity.	x			Page 76 (Banking book securitisation strategy and roles)
449 (b)	Nature of other risks in securitised assets, including liquidity.	x			Page 76 (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 76 (Banking book securitisation strategy and roles)
449 (e)	Indication of the extent of involvement in roles.	x			Page 81 (Table 47: Securitisation exposures in the non-trading book and associated regulatory capital requirements – institution acting as originator or as sponsor (SEC3)) Page 83 (Table 49: Securitisation exposures in the non-trading book and associated regulatory capital requirements – institution acting as investor (SEC4))
449 (f)	Processes in place to monitor changes in credit and market risks of securitisation exposures, and how the processes differ for re-securitisation exposures.	x			Page 77 (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 80 (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 78 (Table 46: Securitisation exposures in the non-trading book (SEC1))
449 (i)	Types of SSPEs used to securitise third-party exposures as a sponsor.	x			Page 80 (Sponsored and invested securitisations)
449 (j) (i-vi)	Summary of accounting policies for securitisations.	x			Page 79 (Accounting treatment)
449 (k)	Names of ECAIs used for securitisations and type.	x			Page 79 (Originated securitisations – regulatory treatment) Page 80 (Capital assessment)
449 (l)	Full description of Internal Assessment Approach.	x			Page 80 (Capital assessment)
449 (m)	Explanation of significant changes in quantitative disclosures.	x			Key movements explained where applicable under relevant tables

Appendix 7: CRR mapping continued

CRR ref	High-level summary	Pillar 3	ARA	20-F	Compliance reference
449 (n)	As appropriate, separately for the Banking and trading book securitisation exposures:	x			
449 (n) (i)	Amount of outstanding exposures securitised;	x			Page 78 (Table 46: Securitisation exposures in the non-trading book (SEC1))
449 (n) (ii)	On balance sheet securitisation retained or purchased, and off balance sheet exposures;	x			Page 91 (Table 46: Securitisation exposures in the non-trading book (SEC1))
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 81 (Table 47: Securitisation exposures in the non-trading book and associated regulatory capital requirements – institution acting as originator or as sponsor (SEC3)) Page 83 (Table 49: Securitisation exposures in the non-trading book and associated regulatory capital requirements – institution acting as investor (SEC4))
449 (n) (vi)	Securitisation activity including the amount of exposures securitised and recognised gains or losses on sales;	x			Page 76 (Securitisation programmes and activity)
449 (o)	Banking and trading book securitisations.				
449 (o) (i)	Retained and purchased positions and associated capital requirements, broken down by risk-weight bands.	x			Page 81 (Table 47: Securitisation exposures in the non-trading book and associated regulatory capital requirements – institution acting as originator or as sponsor (SEC3)) Page 83 (Table 49: Securitisation exposures in the non-trading book and associated regulatory capital requirements – institution acting as investor (SEC4))
449 (o) (ii)	Retained and purchased re-securitisation positions before and after hedging and insurance; exposure to financial guarantors broken down by guarantor credit worthiness.	x			Not applicable
449 (p)	Impaired assets and recognised losses related to banking book securitisations, by exposure type.	x			Page 82 (Table 48: Exposures securitised by the institution – Exposures in default and specific credit risk adjustments (SEC5))
449 (q)	Exposure and capital requirements for trading book securitisations, separated into traditional and synthetic.	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)	Leverage ratio, and breakdown of total exposure measure, including reconciliation to financial statements, and derecognised fiduciary items.	x			Page 107 (Table 69: Leverage ratio common disclosure and Table 72: Summary reconciliation of accounting assets and leverage ratio exposures)
451 (1) (b)					Page 108 (Table 71: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted
451 (1) (c)					
451 (1) (d)	Description of the processes used to manage the risk of excessive leverage, and factors that impacted the leverage ratio during the year.				Page 108 (Description of the processes used to manage the risk of excessive leverage)
451 (1) (e)		x			
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 application of model outputs)
452 (b) (iii)	Management and recognition of credit risk mitigation;	x			Page 21 (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 38 (Table 21: Total and average net amount of exposures (CRB-B)). This is also shown in other tables throughout the document.

Appendix 7: CRR mapping continued

CRR ref	High-level summary	Pillar 3	ARA	20-F	Compliance reference
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 41 to 45 (Analysis of Credit Risk Exposures subject to the Foundation IRB approach including Tables 22-25 (CR6)) Pages 46 to 51 (Exposures subject to the Retail IRB approach including tables 26 to 31 (CR6)) Page 52 (Exposures subject to other IRB approaches including table 32 (CR10))
452 (g)	Actual specific risk adjustments for the period and explanation of changes.	x			Page 74 Comparison of expected losses to specific credit risk adjustments
452 (h)	Commentary on drivers of losses in preceding period.	x			Page 74 (Table 45: 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 29 to 37 (Model performance including Table 20: Model performance and Tables 14 -19 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 59 (Table 36: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 21 (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 28 (Credit Risk – limitations on concentrations)
453 (f)	Standardised or Foundation IRB Approach, exposure value covered by eligible collateral.	x			Page 23 (Table 10: 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	subsidiary undertakings on a consolidated basis
G-SIB	Global Systemically Important Bank
H	
HPI	House price index
HQLA	High quality liquid assets
I	
IAA	Internal Assessment Approach
IAS	International Accounting Standard
ICAAP	Internal Capital Adequacy Assessment Process
ICG	Individual Capital Guidance
IFRS	International Financial Reporting Standards
IMM	Internal Model Method
IRB	Internal Ratings-Based Approach
IRRBB	Interest rate risk in the banking book
IRC	Incremental risk charge
ISDA	International Swaps and Derivatives Association
L	
LCR	Liquidity coverage ratio
LGD	Loss given default
LIBOR	London Interbank Offer Rate
LTV	Loan-to-value
M	
MGC	Model Governance Committee
Moody's	Moody's Investors Service
MTM	Mark-to-market
O	
OTC	Over-the-counter
P	
PD	Probability of default
PFE	Potential future exposure
PIT	Point-in-time
PRA	Prudential Regulation Authority (UK)
PRR	Position risk requirement
PVA	Prudent valuation adjustment
Q	
QCCP	Qualifying Central Counterparty
QRRE	Qualifying revolving retail exposure
R	
RBA	
RBA	Ratings Based Approach
Retail IRB	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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