HELPING BRITAIN PROSPER

Capital and Risk Management Pillar 3 Report 2019

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Forward looking statements

This document contains certain forward looking statements within the meaning of Section 21E of the US Securities Exchange Act of 1934, as amended, and section 27A of the US Securities Act of 1933, as amended, with respect to the business, strategy, plans and/or results of Lloyds Banking Group plc together with its subsidiaries (the 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 Group's or its directors' and/or management's beliefs and expectations, are forward looking statements.

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

Examples of such forward looking statements include, but are not limited to: projections or expectations of the Group's future financial position including profit attributable to shareholders, provisions, economic profit, dividends, capital structure, portfolios, net interest margin, capital ratios, liquidity, risk-weighted assets (RWAs), expenditures or any other financial items or ratios; litigation, regulatory and governmental investigations; the Group's future financial performance; the level and extent of future impairments and write-downs; statements of plans, objectives or goals of the 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 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 Group's credit ratings; the ability to derive cost savings and other benefits including, but without limitation as a result of any acquisitions, disposals and other strategic transactions; the ability to achieve strategic objectives; changing customer behaviour including consumer spending, saving and borrowing habits; changes to borrower or counterparty credit quality; concentration of financial exposure; management and monitoring of conduct risk; instability in the global financial markets, including Eurozone instability, instability as a result of uncertainty surrounding the exit by the UK from the European Union (EU) and as a result of such exit and the potential for other countries to exit the EU or the Eurozone and the impact of any sovereign credit rating downgrade or other sovereign financial issues; political instability including as a result of any UK general election; technological changes and risks to the security of IT and operational infrastructure, systems, data and information resulting from increased threat of cyber and other attacks; natural, pandemic and other disasters, adverse weather and similar contingencies outside the Group's control; inadequate or failed internal or external processes or systems; acts of war, other acts of hostility, terrorist acts and responses to those acts, geopolitical, pandemic or other such events; risks relating to climate change; changes in laws, regulations, practices and accounting standards or taxation, including as a result of the exit by the UK from the EU, or a further possible referendum on Scottish independence; changes to regulatory capital or liquidity requirements and similar contingencies outside the Group's control; the policies, decisions and actions of governmental or regulatory authorities or courts in the UK, the EU, the US or elsewhere including the implementation and interpretation of key legislation and regulation together with any resulting impact on the future structure of the Group; the ability to attract and retain senior management and other employees and meet its diversity objectives; actions or omissions by the Group's directors, management or employees including industrial action; changes to the Group's post-retirement defined benefit scheme obligations; the extent of any future impairment charges or write-downs caused by, but not limited to, depressed asset valuations, market disruptions and illiquid markets; the value and effectiveness of any credit protection purchased by the Group; the inability to hedge certain risks economically; the adequacy of loss reserves; the actions of competitors, including non-bank financial services, lending companies and digital innovators and disruptive technologies; and exposure to regulatory or competition scrutiny, legal, regulatory or competition proceedings, investigations or complaints. Please refer to the latest Annual Report or Form 20-F filed by Lloyds Banking Group plc with the US Securities and Exchange Commission for a discussion of certain factors and risks together with examples of forward looking statements.

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

Except as required by any applicable law or regulation, the forward looking statements contained in this document are made as of today's date, and the 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 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

2019 13.6% (13.8% pro forma[1])

2018 14.6% (13.9% pro forma[2])

1 Reflecting the dividend paid up by the Insurance business in February 2020.

2 The pro forma CET1 ratio at 31 December 2018 reflects the Insurance dividend paid up in February 2019 and incorporates the effects of the share buyback announced in February 2019.

COMMON EQUITY TIER 1 RATIO

The Group's pro forma common equity tier 1 capital ratio reduced to 13.8 per cent (31 December 2018: 13.9 per cent pro forma) as a solid underlying financial performance and lower risk-weighted assets were offset by PPI charges (partially mitigated by the cancellation of the remaining 2019 share buyback programme), additional pension contributions, the interim dividend and the accrual for the full year ordinary dividend.

TOTAL CAPITAL RATIO

2019 21.3%

2018 22.9%

TOTAL CAPITAL RATIO

The reduction in the Group's total capital ratio reflects the reduction in common equity tier 1 capital and the net reduction in AT1 capital instruments, partially offset by the reduction in risk-weighted assets.

UK LEVERAGE RATIO

2019 5.1% (5.2% pro forma[1])

2018 5.5% (5.6% pro forma[2])

1 Reflecting the dividend paid up by the Insurance business in February 2020.

2 Reflecting the dividend paid up by the Insurance business in February 2019.

UK LEVERAGE RATIO

The Group's UK leverage ratio reduced to 5.1 per cent, primarily driven by the reduction in tier 1 capital. This was partially offset by the reduction in the leverage exposure measure driven mainly by derivatives and off balance sheet items following optimisation within Commercial Banking.

RISK-WEIGHTED ASSETS

2019 £203.4bn

2018 £206.4bn

RISK-WEIGHTED ASSETS

The Group has reduced risk weighted assets by £3bn, reflecting significant portfolio optimisation activity in the Commercial Banking division partly offset by the acquisition of the Tesco mortgage portfolio, the introduction of IFRS 16 and other model updates.

AVERAGE LIQUIDITY COVERAGE RATIO (WEIGHTED)

2019 137%

2018 128%

AVERAGE LIQUIDITY COVERAGE RATIO

The Group's liquidity position is strong and in excess of the regulatory minimum and internal risk appetite, with an average LCR of 137 per cent as at 31 December 2019 (2018: 128 per cent).

SPLIT OF RISK-WEIGHTED ASSETS

Risk-weighted assets by risk type[1]

Credit risk (IRB)[2] £135.6bn	(2018: £135.7bn)
Credit risk (STA)[2] £24.4bn	(2018: £25.8bn)
CCR[3] £5.9bn	(2018: £7.3bn)
Market risk £1.8bn	(2018: £2.1bn)
Operational risk £25.5bn	(2018: £25.5bn)

Split of Risk-weighted assets by division[1]

Retail £98.4bn	(2018: £94.3bn)
Commercial Banking £77.4bn	(2018: £86.0bn)
Insurance and Wealth £1.3bn	(2018: £1.2bn)
Central Items £16.1bn	(2018: £14.8bn)

1 Numbers do not include threshold risk-weighted assets.

2 Descriptions of credit risk approaches are detailed on page 13.

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

Key metrics

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

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

		a	b	c	d	e
		T	T-1	T-2	T-3	T-4
		Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1) (£m)	**27,744**	28,238	28,767	28,883	30,167
2	CET1 capital as if IFRS 9 transitional arrangements had not been applied (£m)	**27,002**	27,470	28,272	28,375	29,592
3	Tier 1 (£m)	**33,992**	33,982	34,506	35,703	37,539
4	Tier 1 capital as if IFRS 9 transitional arrangements had not been applied (£m)	**33,249**	33,214	34,011	35,196	36,964
5	Total capital (£m)	**43,416**	44,678	44,708	45,379	47,234
6	Total capital as if IFRS 9 transitional arrangements had not been applied (£m)	**43,153**	44,389	44,688	45,351	47,195
	Risk-weighted assets (amounts)					
7	Total risk-weighted assets (£m)	**203,431**	209,070	206,520	207,664	206,366
8	Total risk-weighted assets as if IFRS 9 transitional arrangements had not been applied (£m)	**203,083**	208,658	206,789	207,903	206,614
	Risk-based capital ratios as a percentage of RWA					
9	Common Equity Tier 1 ratio (%)[2]	**13.6%**	13.5%	13.9%	13.9%	14.6%
10	CET1 ratio as if IFRS 9 transitional arrangements had not been applied (%)	**13.3%**	13.2%	13.7%	13.6%	14.3%
11	Tier 1 ratio (%)	**16.7%**	16.3%	16.7%	17.2%	18.2%
12	Tier 1 ratio as if IFRS 9 transitional arrangements had not been applied (%)	**16.4%**	15.9%	16.4%	16.9%	17.9%
13	Total capital ratio (%)	**21.3%**	21.4%	21.6%	21.9%	22.9%
14	Total capital ratio as if IFRS 9 transitional arrangements had not been applied (%)	**21.2%**	21.3%	21.6%	21.8%	22.8%
	Additional CET1 buffer requirements as a percentage of RWA					
	Capital conservation buffer requirement (2.5% from 2019)	**2.5%**	2.5%	2.5%	2.5%	1.9%
	Countercyclical buffer requirement (%)	**0.9%**	0.9%	0.9%	0.9%	0.9%
	Bank G-SIB and/or D-SIB additional requirements (%)[5]	**–**	–	–	–	–
	Total of bank CET1 specific buffer requirements (%)	**3.4%**	3.4%	3.4%	3.4%	2.8%
	CET1 available after meeting the bank's minimum capital requirements (%)	**9.1%**	9.0%	9.4%	9.4%	10.1%
	UK leverage ratio[3]					
15	UK leverage ratio exposure measure (£m)	**654,387**	683,562	668,207	668,264	663,277
16	UK leverage ratio (%)	**5.1%**	4.9%	5.1%	5.3%	5.5%
17	UK leverage ratio as if IFRS 9 transitional arrangements had not been applied (%)	**5.0%**	4.8%	5.0%	5.2%	5.4%
	Average Liquidity Coverage Ratio (weighted) (LCR)[4]					
	Total High Quality Liquid Assets (HQLA) (£m)	**130,262**	130,554	129,483	128,501	125,731
	Total net cash outflow (£m)	**94,966**	97,478	98,075	98,641	98,489
	LCR ratio (%)	**137%**	134%	132%	130%	128%

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

2 The common equity tier 1 ratio is 13.8 per cent on a pro forma basis reflecting the dividend paid up by the Insurance business in February 2020 in relation to its 2019 earnings (31 December 2018: 13.9 per cent pro forma, also incorporating the effects of the share buyback announced in February 2019).

3 The UK leverage ratio is 5.2 per cent on a pro forma basis upon recognition of the dividend paid up by the Insurance business in February 2020 in relation to its 2019 earnings (31 December 2018: 5.6 per cent pro forma). The CRD IV leverage ratio at 31 December 2019 is 4.8 per cent (31 December 2018: 5.1 per cent).

4 Average LCR values for prior quarters of 2019 have been restated.

5 Although the Group does not have a Systemic Risk Buffer (SRB), it is required to hold additional CET1 capital to meet its Ring-Fenced Bank's SRB of 2.0 per cent, which equates to 1.7 per cent of Group risk-weighted assets.

Key metrics

Table 2: Key Metrics – TLAC requirements (KM2)

		a	b	c
		T	T-1	T-2
		Q4 2019[1] £m	Q3 2019[1] £m	Q2 2019[1] £m
1	Total loss absorbing capacity (TLAC) available	66,120	67,988	66,415
1a	Fully loaded ECL accounting model TLAC available	65,857	67,699	66,395
2	Total RWA at the level of the resolution group	203,431	209,070	206,520
3	TLAC as a percentage of RWA[2]	32.5%	32.5%	32.2%
3a	Fully loaded ECL accounting model TLAC as a percentage of fully loaded ECL accounting model RWA	32.4%	32.4%	32.1%
4	UK leverage ratio exposure measure at the level of the resolution group	654,387	683,562	668,207
5	TLAC as a percentage of UK leverage ratio exposure measure	10.1%	9.9%	9.9%
5a	Fully loaded ECL accounting model TLAC as a percentage of fully loaded ECL accounting model UK leverage ratio exposure measure	10.1%	9.9%	9.9%
6a	Does the subordination exemption in the antepenultimate paragraph of Section 11 of the FSB TLAC Term Sheet apply?	No	No	No
6b	Does the subordination exemption in the penultimate paragraph of Section 11 of the FSB TLAC Term Sheet apply?	No	No	No
6c	If the capped subordination exemption applies, the amount of funding issued that ranks pari passu with excluded liabilities and that is recognised as external TLAC, divided by funding issued that ranks pari passu with excluded liabilities and that would be recognised as external TLAC if no cap was applied (%)	N/a	N/a	N/a

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

2 At 31 December 2019 the TLAC (MREL) ratio was 32.6 per cent on a pro forma basis reflecting the dividend paid up by the Insurance business in February 2020.

Introduction

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

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 2019.

In satisfaction of certain disclosure requirements, reference has been made to the 2019 Lloyds Banking Group plc Annual Report and Accounts (ARA). As such, this document should be read in conjunction with the Annual Report and Accounts, as highlighted throughout the remainder of the document.

RISK STATEMENT

The effectiveness of the risk management and internal control systems is reviewed regularly by the Board and the Audit Committee, which also receives reports of reviews undertaken by the Risk Division and Group Internal Audit. A statement from the Board is included within the Governance section of the 2019 Lloyds Banking Group plc Annual Report and Accounts (page 64) confirming that the Board concluded that the Group's risk management arrangements were adequate to provide assurance that the risk management systems put in place are suitable with regard to the Group's profile and strategy.

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

In addition, a risk statement approved by the management body is included within the Risk Overview section of the 2019 Lloyds Banking Group Annual Report and Accounts (pages 30 to 35).

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

RING-FENCED BANK SUB-GROUP PILLAR 3 DISCLOSURE

Following the implementation of UK ring-fencing legislation, the Group's ring-fenced bank sub-group (Lloyds Bank Group), is required to publish consolidated Pillar 3 disclosures in accordance with Part Eight of the CRR. Prior to 2019 Lloyds Bank Group published limited disclosures in accordance with Article 13 of the CRR, applicable to Large Subsidiaries. The Lloyds Bank Group Pillar 3 disclosure will be published in conjunction with the Lloyds Bank plc Annual Report and Accounts.

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

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

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

The Group is not currently classified as a Global Systemically Important Bank (G-SIB), however, by virtue of its leverage exposure measure exceeding €200bn, the Group is required to report G-SIB indicator metrics to the PRA. The Group's indicator metrics which will be used within the 2019 Basel G-SIBs annual exercise will be disclosed in April 2020; the results of the annual exercise will be made available by the Basel Committee later this year.

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

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

Disclosure policy

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

BASIS OF PREPARATION

This document contains the consolidated Pillar 3 disclosures of Lloyds Banking Group plc as at 31 December 2019, prepared in accordance with the requirements of CRR Part Eight (Disclosure by Institutions) and associated EBA guidelines and technical standards in force at December 2019. A CRR mapping table has been included in Appendix 6, 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 surrounding scope of consolidation, the definition of credit risk exposure and the recognition, classification and valuation of capital securities.

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

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

Article 432 of the CRR on non-material, proprietary or confidential information permits institutions to omit one or more disclosures if the information provided by such a disclosure is not regarded as material. As the Group's portfolio of trading book securitisation positions is relatively small (£21m exposure, £3m risk-weighted assets) in the context of both the overall trading book and the Group's banking book securitisation positions, the Group has elected to provide only limited disclosure around its trading book securitisation positions.

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

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

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

BASIS OF CREDIT RISK EXPOSURES

To ensure compliance with both CRR requirements and subsequent EBA guidelines, credit risk exposures are presented on different bases throughout the document. Information on the exposure basis is given either in column headings or supporting narrative within the Pillar 3 Credit risk section (pages 28 to 78).

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

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

FREQUENCY, MEDIA AND LOCATION

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

The EBA guidelines on Pillar 3 disclosure frequency that were formally adopted by the Group from October 2015 define key information that institutions in the EU banking sector should consider disclosing on a more frequent than annual basis under Pillar 3. The Group's assessment of these guidelines has resulted in the disclosure of specific capital and leverage information at the interim quarter ends with further detailed analysis provided at half-year. The additional EBA guidelines issued in December 2016 (referred to in the Introduction) 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 Group's Pillar 3 Disclosure Policy, including the review and approval of the disclosures by the Group's Disclosure Committee and Audit Committee following the receipt of attestations in respect of both the quantitative and qualitative disclosures from Finance and Risk Directors.

RISK PROFILE DISCLOSURE

In accordance with 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 News Release, Annual Report and Accounts and Pillar 3 disclosures) comprehensively portray its risk profile.

In this respect, the 2019 Lloyds Banking Group plc Annual Report and Accounts provides an in depth analysis of the principal risks and emerging risks to which the Group is exposed, together with further detail on the Group's key risk drivers.

The Group's Pillar 3 disclosures focus primarily on capital risk and the key risk categories behind the Group's Pillar 1 capital requirements (credit, counterparty credit, market and operational risks), providing granular information and analysis in addition to that presented within the 2019 Lloyds Banking Group plc Annual Report and Accounts.

The relevant analysis is presented in the following sections of the 2019 Lloyds Banking Group plc Annual Report and Accounts:

– Risk overview, pages 40 to 46;
– Emerging risks, page 133;
– Risk categories, page 138.

Scope of consolidation

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

INTRODUCTION

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

REGULATORY CONSOLIDATION

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

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

Undertakings in which the Group or its subsidiaries hold a 'participation', where it is deemed that the Group exerts significant influence over the undertaking, are generally consolidated within the regulatory calculations on a proportional (pro-rata) basis. This follows line-by-line (accounting) consolidation based on the ownership share in the particular undertaking. Such undertakings may include joint ventures and associates, as defined under IFRS accounting standards, and specified venture capital investments, where these are classified as financial sector entities. In certain circumstances, participations are deducted from capital rather than proportionally consolidated.

Insurance undertakings are excluded from the calculation of consolidated capital requirements and consolidated capital resources. The Group's investments in insurance undertakings are instead subject to threshold rules under CRD IV that determine the extent to which the investments are deducted from capital with remaining amounts risk-weighted in accordance with the rules. The regulatory consolidation group diagram presented below highlights the key insurance undertakings of the Group that are excluded from the scope of regulatory consolidation.

The full list of entities where the regulatory method of consolidation or treatment differs from the accounting method of consolidation or treatment is provided in Appendix 4, Table 89.

The capital requirements for the Insurance Group (under the Solvency II regime) and the capital available to meet them are regularly calculated in order to ensure that insurance businesses within the Group are sufficiently capitalised. The minimum required capital must be maintained at all times throughout the year.

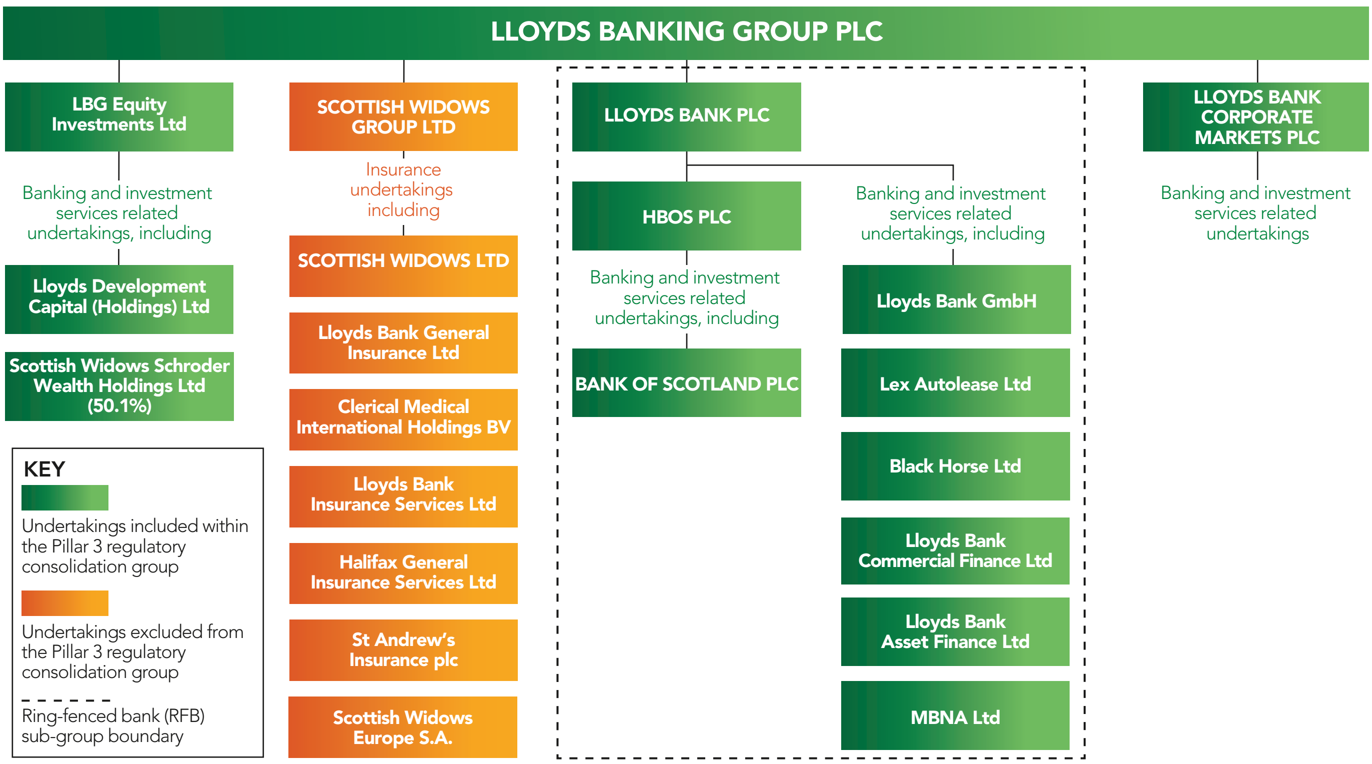
Venture capital investments that are not classified as financial institutions and investments held by the Group in respect of which it does not have the ability to exert significant influence are included within the calculation of capital requirements, being treated as equity exposures. The underlying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

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

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

REGULATORY CONSOLIDATION GROUP

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



Scope of consolidation continued

CONSOLIDATED BALANCE SHEET UNDER THE REGULATORY SCOPE OF CONSOLIDATION

The following table provides a reconciliation of the Group's consolidated balance sheet as at 31 December 2019 on an accounting consolidation basis (as presented on pages 200 and 201 of the 2019 Lloyds Banking Group plc Annual Report and Accounts) to the Group's consolidated balance sheet under the regulatory scope of consolidation. It also breaks down how carrying values under the scope of regulatory consolidation are allocated to the different risk frameworks laid out in Part Three of the CRR.

Table 3: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories (LI1)

	2019						
			Carrying values of items:				
	Carrying values as reported in published financial statements £m	Carrying values under regulatory scope of consolidation £m	subject to credit risk framework £m	subject to counterparty credit risk framework £m	subject to securitisation framework £m	subject to market risk framework £m	not subject to capital requirements or subject to deduction from capital £m
	a	b	c	d	e	f	g
Assets							
Cash and balances at central banks	55,130	54,417	54,417	–	–	–	–
Items in the course of collection from banks	313	–	–	–	–	–	–
Financial assets at fair value through profit or loss	160,189	24,059	4,499	11,065	–	17,982	1,139
Derivative financial instruments	26,369	25,076	–	24,118	–	18,885	–
Financial assets at amortised cost	510,307	511,365	426,512	62,214	22,557	–	84
Loans and advances to banks	9,775	10,542	5,677	4,866	–	–	–
Loans and advances to customers	494,988	493,575	415,343	57,347	20,885	–	–
Debt securities	5,544	7,248	5,493	–	1,672	–	84
Financial assets at fair value through other comprehensive income	25,092	25,090	24,888	–	–	–	202
Investment in group undertakings	304	8,739	3,237	–	–	–	5,502
Value of in-force business	5,558	–	–	–	–	–	–
Goodwill	2,324	537	–	–	–	–	537
Other intangible assets	3,808	3,847	–	–	–	–	3,847
Property, plant and equipment	13,104	9,598	9,598	–	–	–	–
Current tax recoverable	7	–	–	–	–	–	–
Deferred tax assets	2,666	3,481	870	–	–	–	2,611
Retirement benefit assets	681	681	–	–	–	–	681
Other assets	28,041	3,345	3,238	109	–	–	–
Total Assets	833,893	670,235	527,259	97,505	22,557	36,867	14,602

Scope of consolidation continued

	2019						
			Carrying values of items:				
	Carrying values as reported in published financial statements £m	Carrying values under regulatory scope of consolidation £m	subject to credit risk framework £m	subject to counterparty credit risk framework £m	subject to securitisation framework £m	subject to market risk framework £m	not subject to capital requirements or subject to deduction from capital £m
	a	b	c	d	e	f	g
Liabilities							
Deposits from banks	28,179	–	–	–	–	–	–
Customer deposits	421,320	450,313	–	33,679	–	–	416,635
Items in course of transmission to banks	373	–	–	–	–	–	–
Financial liabilities at fair value through profit or loss	21,486	21,487	–	11,047	–	13,955	–
Derivative financial instruments	25,779	24,982	–	23,065	–	15,654	–
Notes in circulation	1,079	–	–	–	–	–	–
Debt securities in issue	97,689	95,826	–	–	–	–	95,826
Liabilities arising from insurance contracts and participating investment contracts	111,449	–	–	–	–	–	–
Liabilities arising from non-participating investment contracts	37,459	–	–	–	–	–	–
Other liabilities	20,333	8,497	–	–	–	–	8,497
Retirement benefit obligations	257	256	–	–	–	–	256
Current tax liabilities	187	197	–	–	–	–	197
Deferred tax liabilities	44	–	–	–	–	–	–
Other provisions	3,323	3,131	–	–	–	–	3,131
Subordinated liabilities	17,130	15,408	–	–	–	–	15,408
Total Liabilities	786,087	620,097	–	67,791	–	29,609	539,949

Differences between accounting and regulatory scopes of consolidation: Insurance undertakings are included in the published financial statements but excluded from the scope of the Group's regulatory consolidation. Therefore, assets and liabilities relating to the Group's insurance undertakings require to be removed from the regulatory balance sheet. The regulatory consolidation group diagram on page 7 highlights the key undertakings of the Group that are excluded from the scope of regulatory consolidation.

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

Market risk framework: Refer to Table 70: Market risk linkages to the balance sheet.

Not subject to capital requirements or subject to deduction from capital: Includes items which are not subject to capital requirements, as well as assets that are ultimately deducted from own funds and which are therefore not risk-weighted. See Table 79: 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 4: Main sources of differences between regulatory exposure amounts and carrying values in financial statements (LI2)

	Items subject to:		
	Credit risk framework £m	CCR framework £m	Securitisation framework £m
	a	c	d
Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	**527,259**	**97,505**	**22,557**
Off balance sheet amounts	80,318	95,943	7,887
Differences due to specific regulatory adjustments	6,014	–	(1,672)
Differences due to consideration of provisions	3,107	–	–
Differences due to consideration of collateral, haircuts and netting	–	(176,493)	–
Regulatory Potential Future Exposures	–	16,337	–
Exposure amounts considered for regulatory purposes	**616,698**	**33,292**	**28,772**

The carrying value of assets corresponds to the balances reported in Table 3.

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.

Scope of consolidation

THE GROUP'S APPROACH TO RISK

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

To meet ring-fencing requirements from 1 January 2019, core UK retail financial services and ancillary retail activities have been ring-fenced from other activities of the Group. The Group Enterprise Risk Management Framework and Group Risk Appetite apply across the Group and are supplemented by risk management frameworks and risk appetites for the sub-groups to meet sub-group specific needs. In each case these operate within the Group parameters. The Group's Corporate Governance Framework applies across Lloyds Banking Group plc, Lloyds Bank plc, Bank of Scotland plc and HBOS plc. It is tailored where needed to meet the entity specific needs of Lloyds Bank plc and Bank of Scotland plc, and supplementary Corporate Governance Frameworks are in place to address sub-group specific requirements of the other sub-groups (LBCM, Insurance and LBG Equity Investments).

Risk culture

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

Risk appetite

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

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

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

Governance frameworks

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

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

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

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

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

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

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

Risk decision making and reporting

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

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

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

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

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 2019 Lloyds Banking Group plc Annual Report and Accounts, pages 40 to 46.

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 2019 Lloyds Banking Group plc Annual Report and Accounts, page 137.

Further details on the Group's risk governance are presented in the Risk Management section of the 2019 Lloyds Banking Group plc Annual Report and Accounts, pages 135 to 137.

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 2019 Lloyds Banking Group plc Annual Report and Accounts, as follows: Conduct risk page 163; Funding and liquidity risk, page 175; Regulatory and legal risk, page 162; Insurance underwriting risk, page 165; People risk, page 165; Financial reporting risk, page 131; and Governance risk, page 181.

The regulatory capital framework

The Group's regulatory capital framework is defined by CRD IV, as amended by provisions of the revised Capital Requirements Regulation (CRR II) that came into force in June 2019. Directive requirements are implemented in the UK by the PRA and supplemented through additional regulation under the PRA Rulebook.

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

REGULATORY CAPITAL RESOURCES

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

Common equity tier 1 capital

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

Additional tier 1 capital

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

Under transitional rules for capital, securities that do not qualify in their own right as AT1 capital but were issued and recognised as eligible tier 1 capital prior to the implementation of CRD IV can be partially included within AT1 capital ('grandfathering') until they are phased out altogether by 2022. To the extent that these securities no longer qualify as AT1 capital they may nevertheless still qualify as tier 2 capital.

Following revisions to eligibility criteria for capital instruments under CRR II, certain grandfathered tier 1 capital instruments of the Group that will fully transition to tier 2 capital by 2022 will cease to qualify as regulatory capital after June 2025 in accordance with the revised transitional rules.

Transitional tier 1 subordinated debt instruments issued by the Group's Insurance business and held by the Group are deducted from AT1 capital.

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

Tier 2 capital

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

Under transitional rules for capital, securities that do not qualify in their own right as T2 capital but were issued and recognised as eligible T2 capital prior to the implementation of CRD IV can be partially included within T2 capital ('grandfathering') until they are phased out altogether by 2022.

Following revisions to eligibility criteria for capital instruments under CRR II, certain tier 2 capital instruments of the Group will cease to qualify as regulatory capital after June 2025 in accordance with the revised transitional rules.

There are two further adjustments: any excess of IFRS 9 expected credit losses over regulatory expected losses in respect of the Group's IRB portfolios is added back to T2 capital, subject to a percentage cap based on IRB risk-weighted assets; and a deduction is made for tier 2 subordinated debt instruments issued by the Group's Insurance business that are held by the Group.

T1 and T2 together form Total Capital.

REGULATORY CAPITAL REQUIREMENTS AND BUFFERS

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

PILLAR 1 – MINIMUM CAPITAL REQUIREMENTS

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

The minimum amount of total capital, under Pillar 1 of the regulatory framework, is set at 8 per cent of total risk-weighted assets. At least 4.5 per cent of risk-weighted assets are required to be covered by CET1 capital and at least 6 per cent of risk-weighted assets are required to be covered by tier 1 capital. These minimum Pillar 1 requirements are supplemented by additional minimum requirements under Pillar 2A of the regulatory framework and a number of regulatory capital buffers as described on pages 15 and 16.

A range of approaches, varying in sophistication, are available under the regulatory framework to use in measuring risk-weighted assets and thereby determine the minimum level of capital required under Pillar 1. The Group's risk-weighted assets are predominantly calculated using internal models that are prudently calibrated based on loss experience and are subject to a number of internal controls and external approval from the PRA. A brief summary of the different approaches for the different risk types and their application by the Group is disclosed on pages 13 and 14, with further detail provided in each of the sections as indicated.

The regulatory capital framework continued

PILLAR 1 CAPITAL REQUIREMENTS

Risk type	Approaches	Application within the Group
Credit risk	Credit risk risk-weighted assets represent a measure of on and off-balance sheet exposures weighted according to risk as specified under the rules. There are two approaches available:	
	Standardised Approach (STA) This is the simpler approach which relies on the application of a prescribed set of risk weights to credit risk exposures, dependent on a number of factors including the applicable asset class and underlying credit quality. The Standardised Approach takes account of credit risk mitigation and specific credit risk adjustments (SCRAs) that the Group has applied against an exposure, before the relevant risk weight is applied to the adjusted exposure amount. Unlike exposures modelled under the IRB approach, there is no distinction made between expected and unexpected losses for exposures on the Standardised Approach. Under this approach banks can utilise risk assessments from External Credit Assessment Institutions (ECAIs) for a number of exposure classes that cover rated counterparties, including corporates, central governments or central banks and institutions. The Group uses ratings published by Standard & Poor's, Moody's and Fitch to determine risk-weights for rated counterparties under this approach.	The Group applies the Standardised Approach to the MBNA credit card portfolio, the acquired Tesco residential mortgage portfolio and a small number of other portfolios across the Group. A number of portfolios are either awaiting roll-out under the Group's IRB roll-out plan (including the MBNA credit card portfolio) or are permanently exempt from the IRB Approach, including the majority of the Group's central government and central bank exposures. Minimal movement in the roll- out position occurred during 2019, with MBNA assets expected to move to the IRB approach in the medium to long term, subject to the full integration of the MBNA portfolio, data testing, model governance and regulatory approval.
	IRB Approach (IRB) There are two main variations for commercial exposures – Foundation IRB (FIRB) and Advanced IRB (AIRB). For retail exposures, Retail IRB (RIRB) is available. In each case a prescribed regulatory formula is used to calculate risk-weighted assets which incorporates probability of default (PD), loss given default (LGD) and EAD in addition to other variables such as maturity and correlation.	
	Regulatory expected losses (EL) under the FIRB, AIRB and RIRB approaches are calculated by multiplying regulatory EAD by PD and LGD, with the exception of defaulted exposures on the AIRB where the best estimate of expected loss (BEEL) is used. Scaling factors are applied to the calculation of risk-weighted assets with an uplift applied for Financial Institutions Interconnectedness (FII) and a reduction for exposures to certain SMEs.	Information on the comparison of EL and SCRAs, which form the basis of the calculation of Excess EL can be found on page 78.
	Foundation IRB Approach The FIRB Approach uses internal assessments of a counterparty's PD (subject to certain floors) together with regulatory defined assessments for LGD and EAD.	The FIRB Approach is used for the majority of the Group's commercial exposures as the Group does not have permission to utilise the AIRB Approach for these portfolios.
	Advanced IRB Approach The AIRB Approach uses internal assessments of PD, EAD and LGD (subject to certain floors). *Retail IRB Approach* The Retail IRB Approach is a version of the AIRB Approach tailored to retail exposures.	The Group has permission to utilise the AIRB Approach for retail portfolios only and it applies the Retail IRB Approach for its modelled retail exposures. For more information on IRB models refer to the Model Performance section on pages 38 to 45.
	Other IRB Approaches For certain specialised lending exposures there is also a Supervisory Slotting Approach which assigns regulatory prescribed risk weights to assets based on the characteristics of each exposure. For more detail on the application of the Supervisory Slotting Approach refer to page 59. A number of alternative methodologies exist for other exposures such as equity exposures and securitisation positions. For exposures on the Supervisory Slotting Approach and Equity Simple Risk Weight method, regulatory expected losses are determined by applying prescribed percentages.	The Group applies the Supervisory Slotting Approach to certain corporate specialised lending exposures that comprise mainly of the commercial real estate portfolios. The Simple Risk Weight Method is applied to the Group's equity exposures. Securitisation positions that existed prior to 1 January 2019 are predominantly risk weighted under the Ratings Based Approach (RBA), with limited use made of the Internal Assessment Approach (IAA), and Standardised Approach. New and certain restructured positions created during 2019 are risk weighted in accordance with the revised securitisation framework that was implemented on 1 January 2019. These positions are predominantly risk weighted under the Internal Ratings Based Approach (IRBA), with the remainder subject to the External Ratings Based Approach (ERBA) and revised Standardised Approach. From 1 January 2020 all positions old and new will become subject to the revised framework.

The regulatory capital framework continued

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

PILLAR 2 – SUPERVISORY REVIEW PROCESS

The Pillar 1 minimum requirement for capital is supplemented by a Pillar 2A firm specific Individual Capital Requirement (ICR) and a framework of regulatory capital buffers.

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

INDIVIDUAL CAPITAL REQUIREMENT

Under Pillar 2A additional minimum requirements are set by the PRA through the issuance of a firm-specific ICR. This reflects a point-in-time estimate by the PRA, which may change over time, of the minimum amount of capital that is needed by the Group to cover risks that are not fully covered by Pillar 1, such as credit concentration and operational risk, and those risks not covered at all by Pillar 1, such as pensions and interest rate risk in the banking book.

During 2019 the Group's ICR was reduced from 4.7 per cent of risk-weighted assets at 1 January 2019 to 4.6 per cent of risk-weighted assets, of which 56 per cent (2.6 per cent of risk-weighted assets) must be met by CET1 capital.

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

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

Some of the key risks assessed within the ICAAP include:

Risks not fully captured under Pillar 1

- Concentration risk – greater loss volatility arising from a higher level of loan default correlation than is assumed by the Pillar 1 assessment. Such correlation can arise from, for example, geographic, industry sector and single name concentrations.
- Underestimation risk – where it is considered that the Pillar 1 capital assessments for credit, market or operational risk underestimate the risk. The operational risk assessment includes consideration of conduct risk.
- Residual value risk – the risk that the value of assets being returned are less than the customer balance, with resultant loss to the Group.

The regulatory capital framework continued

Risks not covered at all by Pillar 1

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

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

REGULATORY CAPITAL BUFFERS

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

Systemic buffers

Systemic buffers are designed to hold systemically important banks to higher capital standards, so that they can withstand a greater level of stress before requiring resolution.

- Although the Group is not currently classified as a global systemically important institution (G-SII) under the Capital Requirements Directive, it has been classified as an 'other' systemically important institution (O-SII) by the PRA. The O-SII buffer is set to zero in the UK.
- The systemic risk buffer (SRB) came into force for UK ring-fenced banks during 2019, with the PRA setting a buffer of 2.0 per cent of risk-weighted assets for the Group's Ring-Fenced Bank (RFB) sub-group. This equates to 1.7 per cent of risk-weighted assets at Group level, with the difference reflecting the risk-weighted assets of the Group that are not in the RFB sub-group and for which the SRB does not therefore apply. The size of buffer applied to the RFB sub-group is set annually by the PRA in December and is dependent upon its total assets, with application by January of the second year following the year when the rates are published.

Capital conservation buffer

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

Countercyclical capital buffer

The countercyclical capital buffer (CCYB) is time-varying and is designed to require banks to hold additional capital to remove or reduce the build-up of systemic risk in times of credit boom, providing additional loss absorbing capacity and acting as an incentive for banks to constrain further credit growth. The amount of the buffer is determined by reference to buffer rates set by the FPC for the individual countries where the Group has relevant credit exposures.

The CCYB rate for the UK is currently set at 1.0 per cent and will increase to 2.0 per cent in December 2020 following a review by the FPC of the appropriate level to set in the current standard risk environment. As a result of this change, the PRA will consult in 2020 on a reduction in Pillar 2A capital requirements by 50 per cent of the relevant bank specific increase in the CCYB, which would leave overall loss absorbing capacity (MREL) broadly unchanged, but increase the Group's requirement plus buffers for CET1 by c.65 basis points.

The FPC regularly considers the adequacy of the UK CCYB in light of the evolution of the overall risk environment.

As at 31 December 2019 non-zero buffer rates also currently apply for Bulgaria, the Czech Republic, Denmark, France, Hong Kong, Iceland, Ireland, Lithuania, Norway, Slovakia and Sweden. During 2020 Belgium, Germany, and Luxembourg will implement non-zero buffer rates. The Group's overall countercyclical capital buffer at 31 December 2019 was 0.9 per cent of risk-weighted assets which reflects the concentration of exposures of the Group to the UK.

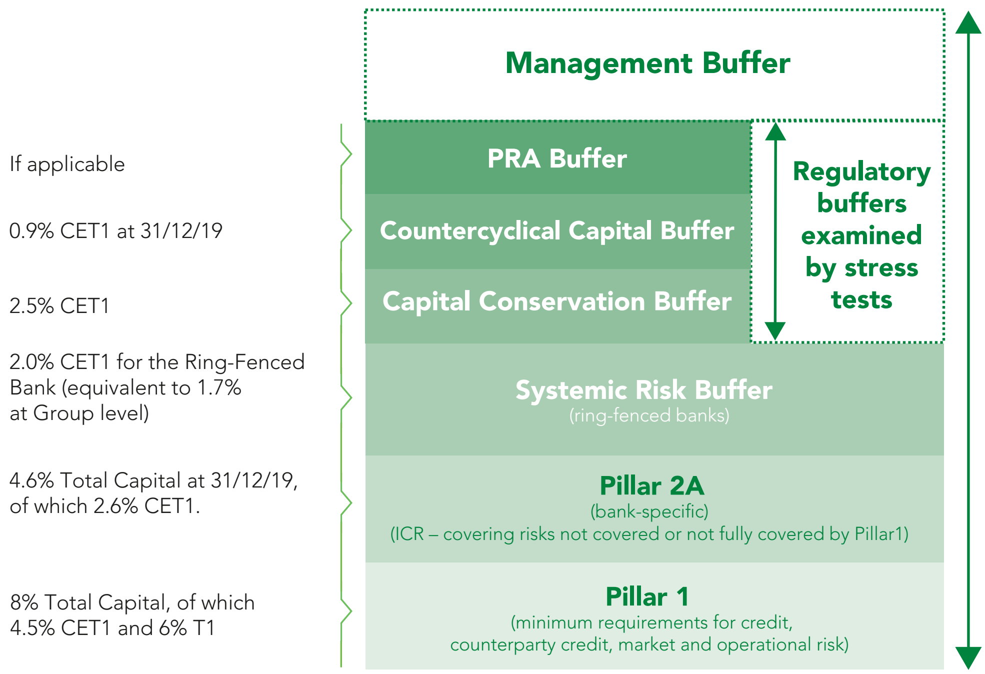
Additional disclosures around the geographical distribution of credit exposures relevant to the calculation of the countercyclical capital buffer have been included in Appendix 1.

PRA buffer

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

Further details on the Group's stress testing processes and the 2019 PRA stress testing results are included on page 73 of the 2019 Lloyds Banking Group plc Annual Report and Accounts.

The following diagram summarises the requirements applied to the Group under the capital framework. Percentages referenced below are against risk-weighted assets.



The Group's Pillar 2A CET1 requirement reduced during the year from 2.7 per cent at 1 January 2019 to 2.6 per cent at 31 December 2019. A systemic risk buffer of 2.0 per cent came into force during 2019 for the Group's Ring-Fenced Bank, equivalent to 1.7 per cent at Group level.

The Board's view of the current level of CET1 capital required is c.12.5 per cent, plus a management buffer of around 1 per cent.

The regulatory capital framework continued

All buffers

All buffers are required to be met with CET1 capital. Usage of the PRA Buffer would trigger a dialogue between the Group and the PRA to agree what action is required whereas a breach of the CRD IV combined buffer (all other regulatory buffers as referenced above) would give rise to mandatory restrictions upon any discretionary capital distributions.

Sectoral capital requirements

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

PILLAR 3 – MARKET DISCIPLINE

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

Minimum disclosure requirements are set out under the relevant CRR provisions (Part Eight – Disclosure by Institutions), with further guidance and additional requirements set by the EBA. This includes the implementation of ongoing revisions to the Basel Pillar 3 framework, designed in part to enhance consistency and comparability.

LEVERAGE FRAMEWORK

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

The minimum leverage ratio requirement under the UK Leverage Ratio Framework is 3.25 per cent. This is supplemented by a time-varying countercyclical leverage buffer (CCLB) which is determined by multiplying the leverage exposure measure by 35 per cent of the countercyclical capital buffer (CCYB) rate. As at 31 December 2019 the CCLB was 0.3 per cent. This is set to increase in proportion to the increase in the countercyclical capital buffer following the FPC's decision to increase the UK CCYB rate to 2.0 per cent with effect from December 2020. An additional leverage ratio buffer (ALRB) of 0.7 per cent applies to the RFB sub-group and is determined by multiplying the RFB sub-group leverage exposure measure by 35 per cent of the SRB. This equates to 0.6 per cent of the total leverage exposure measure at Group level.

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

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

The Group is required to continue to calculate and disclose a leverage ratio on a CRD IV basis, alongside the UK ratio.

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

RING-FENCING

The Group became subject to the legal and regulatory requirements of UK ring-fencing legislation from 1 January 2019.

As a predominantly UK retail and commercial bank, the impact on the Group is relatively limited, with minimal impact for the majority of the Group's retail and commercial customers.

As a result the vast majority of the Group's banking operations continue to be held by Lloyds Bank plc and its subsidiaries (the 'Ring-Fenced Bank').

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

IFRS 9 TRANSITIONAL ARRANGEMENTS

The European Parliament and Council published final rules in December 2017 on IFRS 9 transitional arrangements for capital. The arrangements, set out under CRR Article 473a, allow the initial net impact on CET1 capital resulting from the increase in accounting impairment provisions under the IFRS 9 Expected Credit Loss (ECL) framework, plus 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 a five year transition period.

The phase in factors allow 85 per cent of the resultant 'transitional adjustment' to be added back to CET1 capital in 2019, reducing down to 70 per cent in 2020, 50 per cent in 2021 and 25 per cent in 2022, with full recognition of the impact of IFRS 9 ECLs on CET1 capital from 2023.

The effect of adding back the transitional adjustment to CET1 capital results in further consequential adjustments being made to T2 capital (eligible provisions) and risk-weighted assets.

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

FUTURE REGULATORY DEVELOPMENTS

Introduction

The Group's 2019 year end disclosures comply with all relevant CRD IV requirements and associated EBA guidelines and technical standards in force at 31 December 2019 as referenced in Appendices 5 and 6. It is important to note that specific aspects of the CRD IV text remain dependent upon the issuance and application of EBA technical standards and guidelines as well as PRA policy and standards in relation to areas of national discretion.

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

Some of the key areas of development are discussed in the sections noted below:

- **Final Basel III reforms** will be subject to interpretation and implementation through European and UK legislation over the course of the next few years.
- **EU Risk Reduction Package** which comprises extensive revisions to the existing CRD IV directive and regulation.
- **Other risk framework developments** which include a combination of ongoing consultations, recommendations and final rules awaiting implementation.

Disclosure requirements

In December 2018, the Basel Committee on Banking Supervision published its third and final phase of revisions to the Pillar 3 framework, covering disclosure requirements arising from the final Basel III reforms and asset encumbrance. These requirements, together with the earlier revisions published in January 2015 (first phase) and March 2017 (second phase), complete the Pillar 3 framework. The implementation timeline for disclosure requirements in respect of the second phase of revisions was extended out one year to end-2020, with the final phase of revisions expected to be implemented in full by 2022 in order to align with the implementation of the final Basel III reforms.

Final Basel III reforms

The Basel Committee published its final reforms of the Basel III Framework in December 2017. The purpose of the reforms is to restore credibility in the calculation of risk-weighted assets and to improve comparability between banks' capital ratios through the following measures:

- improving the granularity and risk sensitivity of the **standardised credit risk framework;**
- addressing shortcomings related to the use of the **IRB credit risk framework**, including excessive complexity, lack of comparability and lack of robustness in modelling certain asset classes, by removing the option to apply the Advanced IRB Approach for low default portfolios (banks, other financial institutions and large and mid-sized corporates), adopting input floors for PDs, LGDs and EADs to ensure a degree of

The regulatory capital framework continued

conservatism is maintained in modelled outputs and providing greater specification of parameter estimation practices to reduce variability in risk-weighted assets.

- replacing the existing approaches under the **operational risk framework** with a single risk sensitive standardised approach (the Standardised Measurement Approach) that combines a measure of a bank's income with a measure of its historic operational risk losses.
- revisions to the **credit valuation adjustment (CVA) risk framework** designed to enhance its risk sensitivity, strengthen its robustness and improve its consistency.
- replacing the current Basel II **capital floors (output)** requirement with a new version based on the revised Basel III standardised approaches.

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

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

The Basel Committee has proposed that the final reforms to the Basel III Framework should be implemented by 1 January 2022, with the exception of the capital floors (output) requirement which will be phased in over a five year period, commencing 1 January 2022 with a 50 per cent floor and thereafter building towards the full floor of 72.5 per cent by 1 January 2027.

The revised **market risk framework** that was finalised by the Basel Committee in January 2016 and subsequently updated in January 2019 is also to be implemented by 1 January 2022 in line with the other reforms. The original 2016 revisions have been considered as part of the EU Risk Reduction Package to address certain specific outstanding issues.

The Basel Committee has recently consulted on further revisions to market risk disclosure requirements under Pillar 3 to reflect the changes introduced in January 2019.

EU Risk Reduction Package

In June 2019 European authorities published a substantial package of reforms aimed at further strengthening the resilience of banks across the EU. The package includes revisions to both the Capital Requirements Directive (CRD V) and Regulation (CRR II), covering supervisory measures and powers, capital conservation measures and, amongst other reforms, the implementation of various Basel III Framework revisions, including market risk, standardised counterparty credit risk (SA-CCR), leverage, the net stable funding ratio (NSFR) and Pillar 3 as further detailed below.

- **Market risk** – The Basel Committee originally issued its final standards on the Fundamental Review of the Trading Book (FRTB) in January 2016. The standard includes a move away from VaR based metrics under the internal models approach to a new expected shortfall measure of risk under stress, a revised Standardised approach for calculating market risk capital to a more risk-sensitive approach, incorporation of the risk of market illiquidity and a revised boundary between the banking book and the trading book. The BCBS implementation date for FRTB is January 2022, whereas the implementation in the EU is June 2023.
- **Standardised counterparty credit risk framework (SA-CCR)** – The Basel Committee issued its final revisions to the standardised counterparty credit risk framework in March 2014. The new requirements will impact upon the calculation of CCR exposures under the standardised approach and are required to be implemented by June 2021.
- **Leverage** – The EU Risk Reduction Package introduces a binding minimum leverage ratio requirement of 3 per cent. This is to be supplemented through the introduction of a leverage ratio buffer requirement based upon the final Basel III reforms. In addition the Package contains multiple revisions to the definition of the leverage ratio exposure measure, combining both certain revisions that feature as part of the final Basel III reforms and additional EU specific revisions. Implementation is required by June 2021.
- **Net stable funding ratio (NSFR)** – The Basel Committee issued its standard for a NSFR in October 2014 as part of the key Basel III reforms to promote a more resilient banking sector, anticipating that it would become a minimum standard by 1 January 2018. The NSFR is expressed as a percentage, calculated as the ratio of an institution's amount of available stable funding to its required stable funding over a one year horizon, with a minimum requirement of 100 per cent on a continual basis. The EU Risk Reduction Package includes the NSFR standard, albeit with a number of EU specific variations from the original Basel NSFR standard. Implementation is required by June 2021.
- **Pillar 3** – Revisions to the Basel Pillar 3 framework currently reflected through the EBA guidelines on Pillar 3 will be formally adopted through the EU Risk Reduction Package in addition to a range of other EU specific amendments. The revisions are required to be implemented by June 2021.

Other risk framework developments

Other ongoing changes include the following which are of most relevance to the Group and span a range of different implementation dates.

- **Mortgage risk weights** – The PRA published final rules in June 2017 that require a new hybrid approach to be applied to mortgage book PD modelling and for LGD sets minimum peak-to-trough house price fall assumptions in Downturn LGD which must be greater than or equal to 25 per cent. The new requirements are to be implemented by the end of 2020.
- **Mortgage definition of default** – The EBA issued advice in December 2017 to the European Commission on the appropriateness of continuing to apply the 180 days past due (DPD) provision in the definition of default exemption for material exposures, recommending that this exemption be disallowed and all institutions should consequently rely on the 90 DPD regime for all exposures, subject to an appropriate transition period. This change is expected to be implemented along with other changes to the definition of default outlined in EBA guidelines, namely inclusion of non-performing forborne and more restrictions regarding criteria for exit from default status. The PRA Policy statement published in March 2019 notes that all changes to the definition of default should be implemented for mortgages by end of 2020 along with the implementation of rules on mortgage risk weights mentioned above.
- All other changes stemming from the EBA's IRB repair program will be implemented for mortgages along with the changes above.
- **IRB Repair Programme** – The EBA has issued new regulation impacting IRB modelling approaches. This regulation, elements of which are still to be finalised by the EBA or PRA, covers the definition of default, PD, LGD, the treatment of defaulted exposures, Downturn LGD, and Credit Risk Mitigation. The PRA has issued Policy statement PS 7/19 in relation to definition of default and has consulted on the parameter estimation elements with a focus on estimation of downturn LGD. Implementation of these changes will begin in 2020. The effect of this new regulation will also be impacted by the final Basel III reforms in respect of the revisions to the IRB credit risk framework.
- **Interest rate risk in the banking book (IRRBB)** – Final EBA guidelines on the management of interest rate risk arising from non-trading book activities were published in July 2018. They were a result of the consultation paper published in October 2017 and built upon the EBA guidelines published in May 2015. The final guidelines take account of existing supervisory expectations and practices including the Standards on Interest Rate Risk in the Banking Book published by the Basel Committee in April 2016. The BCBS Standards will be implemented within the EU in two phases. Firstly, through the final EBA guidelines which became effective from the end of June 2019 and, secondly, through the ongoing revision of the CRD and the CRR. The EBA

The regulatory capital framework continued

guidelines uphold the BCBS Standards enhanced Pillar 2A approach for IRRBB capital.

- **Sovereign risk** – The Basel Committee published a consultation paper in November 2019 on the voluntary disclosure of sovereign exposures via Pillar 3. The proposed disclosure templates capture information at jurisdiction and individual currency levels on sovereign exposures and related risk-weighted assets as well as maturity analysis.
- **EU non-performing loans initiatives** – EU regulators and authorities have introduced a series of initiatives designed to tackle the high levels of non-performing loans (NPLs) on bank balance sheets across Europe, with the aim of accelerating the reduction in the current stock of NPLs and in preventing the build-up of new NPLs going forward. The initiatives include guidelines on the management of NPLs, new regulatory reporting and disclosure requirements, the development of secondary markets in NPLs and the introduction of a Pillar 1 backstop measure designed to introduce a framework for common minimum coverage levels for newly originated loans that become non-performing. The backstop measure will result in a deduction from CET1 capital where the minimum coverage level exceeds the provisions and other adjustments already applied to the loan.

Minimum requirement for own funds and eligible liabilities (MREL)

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

At EU level, G-SIBs are subject to the minimum requirements for own funds and eligible liabilities (MREL) that came into force in June 2019 following the implementation of the revised Capital Requirements Regulation (CRR II). The MREL framework reflects the European implementation of the global TLAC standard. 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 the bank whilst in resolution. MREL requirements can be satisfied by a combination of regulatory capital and certain unsecured liabilities (which must be subordinate to a firm's operating liabilities).

In the UK the Bank of England has implemented the requirements of the TLAC standard through a statement of policy on MREL (the MREL SoP).

As the Group is not classified as a G-SIB it is not therefore directly subject to the CRR II MREL requirements. However the Group is subject to the Bank of England's MREL SoP and must therefore maintain a minimum level of MREL resources from 1 January 2020.

The Group operates a single point of entry (SPE) resolution strategy, with Lloyds Banking Group plc as the designated resolution entity. Applying the Bank of England's MREL SoP to current minimum capital requirements, the Group's indicative MREL requirement, excluding regulatory capital and leverage buffers, is as follows:

- From 1 January 2020, the higher of 2 times Pillar 1 plus Pillar 2A, equivalent to 20.6 per cent of risk-weighted assets, or 6.5 per cent of the UK leverage ratio exposure measure
- From 1 January 2022, the higher of 2 times Pillar 1 plus 2 times Pillar 2A, equivalent to 25.2 per cent of risk-weighted assets, or 6.5 per cent of the UK leverage ratio exposure measure.

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

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

Internal MREL requirements will also apply to the Group's material sub-groups and entities, including the RFB sub-group, Lloyds Bank plc, Bank of Scotland plc and Lloyds Bank Corporate Markets plc, from 1 January 2020.

An analysis of the Group's current MREL position is provided on page 24.

BREXIT

For the duration of the transition period, the UK will continue to apply EU capital directives and regulation. Aside from a few exceptions, this will allow firms to continue applying the current rules during the transition period following the UK's exit on 31 January 2020 .

Adoption of, or alignment to, future changes to EU directives or regulation by the UK after the transition period ends remains unclear. It is feasible that a different approach could be undertaken by the UK in respect of the implementation of future regulatory changes and therefore the outline of EU changes provided in the sections above may not necessarily represent the UK approach where such changes are implemented after the end of the transition period.

Capital management

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

CET1 ratio of 13.6% (13.8% pro forma[1])

Transitional T1 capital ratio of 16.7%

Transitional total capital ratio of 21.3%

UK leverage ratio of 5.1% (5.2% pro forma[1])

- The Group has a capital management framework that is designed to ensure that it operates within its risk appetite, uses its capital resources efficiently and continues to comply with regulatory requirements.
- CET1 capital resources have reduced by £2.4bn over the year, primarily reflecting dividends paid and accrued, the extent of the 2019 share buyback programme completed during the year, additional pension contributions and an increase in intangible assets, excess expected losses and significant investments, partially offset by profit generation (net of PPI charges) and dividends received from the Insurance business.
- AT1 capital resources have reduced by £1.1bn over the year, primarily reflecting a redemption during the year and the annual reduction in the transitional limit applied to grandfathered AT1 capital instruments, offset in part by the issuance of new capital instruments.
- Tier 2 capital resources have reduced by £0.3bn over the year, largely reflecting the amortisation of dated instruments and a reduction in eligible provisions, partially offset by the transitioning of grandfathered AT1 instruments to Tier 2.
- A description of the main features of CET1, AT1 and T2 instruments issued by the Group and its significant subsidiaries are included in a separate document on the Group's website. Summary information on movements and the underlying terms and conditions of capital securities is presented in Note 39 (Subordinated Liabilities) of the 2019 Lloyds Banking Group plc Annual Report and Accounts.
- The Group's UK leverage ratio reduced to 5.1 per cent, primarily driven by the reduction in Tier 1 capital. This was partially offset by the £8.9 billion reduction in the leverage exposure measure which largely reflected the reduction in the derivatives exposure measure and off-balance sheet items.

1. Reflecting the dividend paid up by the Insurance business in February 2020.

Capital management continued

THE GROUP'S APPROACH TO CAPITAL RISK

DEFINITION

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

EXPOSURES

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

MEASUREMENT

The Group maintains capital level commensurate with a prudent level of solvency and aims to deliver consistent and high quality returns to shareholders. To support this the capital risk appetite is calibrated by taking into consideration both an internal view of the amount of capital the Group should hold as well as recognising external regulatory requirements.

The Group measures both its capital requirements and the amount of capital resources it holds to meet those requirements through applying the regulatory framework defined by the Capital Requirements Directive and Regulation (CRD IV), as amended by provisions of the revised Capital Requirements Regulation (CRR II) that came into force in June 2019. Directive requirements are implemented in the UK by the Prudential Regulation Authority (PRA) and supplemented through additional regulation under the PRA Rulebook.

MITIGATION

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

The Group maintains a recovery plan which sets out a range of potential mitigating actions that could be taken in response to a stress. The Group is able to accumulate additional capital through the retention of profits over time, which can be enhanced through reducing or cancelling dividend payments and share buybacks, by raising new equity via, for example, a rights issue or debt exchange and by raising additional tier 1 or tier 2 capital securities. The cost and availability of additional capital is dependent upon market conditions and perceptions at the time. The Group is also able to manage the demand for capital through management actions including adjusting its lending strategy, risk hedging strategies and through business disposals.

MONITORING

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

The Group's capital plan also considers the impact of IFRS 9 which has the potential to increase bank capital volatility. Under stress this is primarily a result of provisioning for assets that are not in default at an earlier stage than would have been the case under IAS 39. In the short to medium term the IFRS 9 transitional arrangements for capital, which the Group has adopted, will provide some stability in capital requirements against the increased provisioning, measurement uncertainty and volatility introduced by IFRS 9.

For the Bank of England Annual Cyclical Scenario stress test, the Bank of England has taken action to avoid an unwarranted de facto increase in capital requirements that could result from the interaction of IFRS 9. The stress hurdle rates for banks participating in the exercise are adjusted to recognise the additional resilience provided by the earlier provisions taken under IFRS 9. The Bank of England is considering options for a more enduring treatment of IFRS9 provisions in the capital framework and alternative options will be explored further during the 2020 Bank of England ACS stress test.

Regular reporting of actual and base case and stress scenario projected ratios for Group, the RFB sub-group and key legal entities is undertaken, including submissions to the Group Capital Risk Committee (GCRC), Group Financial Risk Committee (GFRC), Group Asset and Liability Committee (GALCO), Group Risk Committee (GRC), Board Risk Committee (BRC) and the Board. Capital policies and procedures are well established and subject to independent oversight.

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

TARGET CAPITAL RATIOS

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

This takes into account, amongst other things:

- the minimum Pillar 1 CET1 capital requirement of 4.5 per cent of risk-weighted assets
- the Group's Pillar 2A set by the PRA. During the year the PRA reduced the Group's Pillar 2A requirement from 4.7 per cent to 4.6 per cent of risk-weighted assets at 31 December 2019, of which 2.6 per cent must be met by CET1 capital
- the capital conservation buffer (CCB) requirement of 2.5 per cent of risk-weighted assets
- the Group's current countercyclical capital buffer (CCYB) requirement of 0.9 per cent of risk-weighted assets, which is set to increase following the FPC's decision to increase the UK CCYB rate from 1.0 per cent to 2.0 per cent, effective from December 2020. In conjunction the PRA will consult during 2020 on a proposed reduction in Pillar 2A capital requirements by 50 per cent of this increase in the CCYB, equivalent to reducing the Pillar 2A CET1 requirement by 28 per cent of the increase
- the Ring-Fenced Bank sub-group's systemic risk buffer (SRB) of 2.0 per cent of risk-weighted assets, which equates to 1.7 per cent of risk weighted assets at Group level

Capital management continued

– the Group's PRA Buffer, which the PRA sets after taking account of the results of the annual PRA stress test and other information, as well as outputs from the Group's internal stress tests. The PRA requires the PRA Buffer itself to remain confidential between the Group and the PRA

DIVIDEND POLICY

The Group has established a policy to pay a progressive and sustainable ordinary dividend. Any growth in the ordinary dividend will be decided by the Board in light of the circumstances at the time.

The Board also gives due consideration to the return of capital through the use of special dividends or share buybacks. Surplus capital represents capital over and above the amount management wish to retain to grow the business, meet regulatory requirements and cover uncertainties. The amount of required capital may vary from time to time depending on circumstances and by its nature there can be no guarantee that any return of surplus capital will be appropriate.

The ability of the Group to pay a dividend is also subject to constraints including the availability of distributable reserves, legal and regulatory restrictions and the Group's financial and operating performance.

Distributable reserves are determined as required by the Companies Act 2006 by reference to a company's individual financial statements. At 31 December 2019 Lloyds Banking Group plc ('the Company') had accumulated distributable reserves of approximately £10 billion. Substantially all of the Company's merger reserve is available for distribution under UK company law as a result of transactions undertaken to recapitalise the Company in 2009.

Lloyds Banking Group plc acts as a holding company which also issues capital and other securities to capitalise and fund the activities of the Group. The profitability of the holding company, and consequently its ability to sustain dividend payments, is therefore dependent upon the continued receipt of dividends from its main operating subsidiaries, including Lloyds Bank plc (the Ring-Fenced bank), Lloyds Bank Corporate Markets plc (the non-ring-fenced bank), LBG Equity Investments Limited and Scottish Widows Group Limited (the Insurance business). The principal operating subsidiary is Lloyds Bank plc which, at 31 December 2019, had a consolidated CET1 capital ratio of 14.3 per cent (31 December 2018: 14.9 per cent). A number of Group subsidiaries, principally those with banking and insurance activities, are subject to regulatory capital requirements which require minimum amounts of capital to be maintained relative to their size and risk. The Group actively manages the capital of its subsidiaries, which includes monitoring the regulatory capital ratios for its banking and insurance subsidiaries and, on a consolidated basis, the RFB sub-group against approved risk appetite levels. The Group operates a formal capital management policy which requires all subsidiary entities to remit surplus capital to their parent companies.

In May 2019 the Group announced that it will move to the payment of quarterly dividends in 2020, with the first quarterly dividend in respect of the period to 31 March 2020 payable in June 2020. The new approach will result in three equal interim ordinary dividend payments for the first three quarters of the year followed by, subject to performance, a larger final dividend for the fourth quarter of the year. The first three quarterly payments, payable in June, September and December will be equal to 20 per cent of the previous year's total ordinary dividend per share. The fourth quarter payment will be announced with the full year results, with the amount continuing to deliver a full year dividend payment that reflects the Group's financial performance and objective of a progressive and sustainable ordinary dividend.

ANALYSIS OF CAPITAL POSITION

The Group's pro forma CET1 capital build amounted to 207 basis points before PPI, and to 86 basis points after the in-year PPI charge, reflecting:

– Underlying capital build (198 basis points), including the dividend paid up by the Insurance business in February 2020 in relation to its 2019 earnings (18 basis points)

– Other movements (20 basis points), reflecting market movements and the continued optimisation of Commercial Banking risk-weighted assets, net of additional pension contributions and model updates

– Offset by a reduction of 121 basis points relating to the in-year PPI charge and 11 basis points relating to the impact of changes arising from the implementation of IFRS 16 on risk-weighted assets.

The Group's capital position also benefitted by 34 basis points as a result of the cancellation of the remaining c.£650 million of the 2019 buyback programme, as announced in September 2019. The Group used 9 basis points of capital for the acquisition of the Tesco UK Prime residential mortgage portfolio.

Overall the Group's CET1 capital ratio is 15.0 per cent on a pro forma basis before ordinary dividends and 13.8 per cent on a pro forma basis after ordinary dividends (31 December 2018: 13.9 per cent pro forma, after ordinary dividends and incorporating the effects of the share buyback announced in February 2019).

Excluding the Insurance dividend paid in February 2020 the Group's actual CET1 ratio is 13.6 after ordinary dividends (31 December 2018: 14.6 per cent).

The accrual for foreseeable dividends reflects the recommended final ordinary dividend of 2.25 pence per share.

The transitional total capital ratio, after ordinary dividends, reduced to 21.3 per cent, (21.5 per cent on a pro forma basis) largely reflecting the reduction in CET 1 capital and the net reduction in AT1 capital instruments, partially offset by the reduction in risk-weighted assets.

The UK leverage ratio, after ordinary dividends, reduced from 5.6 per cent on a pro forma basis to 5.2 per cent on a pro forma basis, largely reflecting the reduction in the fully loaded tier 1 capital position, partially offset by a reduction in the exposure measure.

TOTAL CAPITAL REQUIREMENT

The Group's total capital requirement (TCR) as at 31 December 2019, being the aggregate of the Group's Pillar 1 and current Pillar 2A capital requirements, was £25,608 million (31 December 2018: £26,124 million).

CAPITAL RESOURCES

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

Capital management continued

CAPITAL RESOURCES

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

Table 5: Capital resources (audited)

	Transitional		Fully loaded	
	2019 £m	2018 £m	2019 £m	2018 £m
Common equity tier 1				
Shareholders' equity per balance sheet	41,697	43,434	41,697	43,434
Adjustment to retained earnings for foreseeable dividends	(1,586)	(1,523)	(1,586)	(1,523)
Deconsolidation adjustments[1]	2,337	2,273	2,337	2,273
Adjustment for own credit	26	(280)	26	(280)
Cash flow hedging reserve	(1,504)	(1,051)	(1,504)	(1,051)
Other adjustments	247	(19)	247	(19)
	41,217	42,834	41,217	42,834
Less: deductions from common equity tier 1				
Goodwill and other intangible assets	(4,179)	(3,667)	(4,179)	(3,667)
Prudent valuation adjustment	(509)	(529)	(509)	(529)
Excess of expected losses over impairment provisions and value adjustments	(243)	(27)	(243)	(27)
Removal of defined benefit pension surplus	(531)	(994)	(531)	(994)
Securitisation deductions	(185)	(191)	(185)	(191)
Significant investments[1]	(4,626)	(4,222)	(4,626)	(4,222)
Deferred tax assets	(3,200)	(3,037)	(3,200)	(3,037)
Common equity tier 1 capital	27,744	30,167	27,744	30,167
Additional tier 1				
Other equity instruments	5,881	6,466	5,881	6,466
Preference shares and preferred securities[2]	4,127	4,008	–	–
Transitional limit and other adjustments	(2,474)	(1,804)	–	–
	7,534	8,670	5,881	6,466
Less: deductions from tier 1				
Significant investments[1]	(1,286)	(1,298)	–	–
Total tier 1 capital	33,992	37,539	33,625	36,633
Tier 2				
Other subordinated liabilities[2]	13,003	13,648	13,003	13,648
Deconsolidation of instruments issued by insurance entities[1]	(1,796)	(1,767)	(1,796)	(1,767)
Adjustments for transitional limit and non-eligible instruments	2,278	1,504	(2,204)	(1,266)
Amortisation and other adjustments	(3,101)	(2,717)	(3,101)	(2,717)
	10,384	10,668	5,902	7,898
Less: deductions from tier 2				
Significant investments[1]	(960)	(973)	(2,246)	(2,271)
Total Capital Resources	43,416	47,234	37,281	42,260
Risk-weighted assets	203,431	206,366	203,431	206,366
Common equity tier 1 capital ratio (%)[3]	13.6%	14.6%	13.6%	14.6%
Tier 1 capital ratio (%)	16.7%	18.2%	16.5%	17.8%
Total capital ratio (%)	21.3%	22.9%	18.3%	20.5%

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

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

3 The common equity tier 1 ratio is 13.8 per cent on a pro forma basis reflecting the dividend paid up by the Insurance business in February 2020 in relation to its 2019 earnings (31 December 2018: 13.9 per cent pro forma, incorporating the effects of the share buyback announced in February 2019.

Capital management continued

Movements in capital resources

The key difference between the transitional capital calculation as at 31 December 2019 and the fully loaded equivalent is primarily related to capital securities that previously qualified as tier 1 or tier 2 capital, but that do not fully qualify under the regulation, which can be included in additional tier 1 (AT1) or tier 2 capital (as applicable) up to specified limits which reduce by 10 per cent per annum until 2022. In addition, following revisions to eligibility criteria for capital instruments under CRR II, certain tier 1 capital instruments of the Group that will transition to tier 2 capital by 2022 will cease to qualify as regulatory capital in June 2025. The key movements on a transitional basis are set out in the table below.

Table 6: Movements in capital resources

	Common equity tier 1 £m	Additional tier 1 £m	Tier 2 £m	Total capital £m
At 31 December 2018	**30,167**	**7,372**	**9,695**	**47,234**
Banking profit attributable to ordinary shareholders[1]	2,228	–	–	2,228
Movement in foreseeable dividends[2]	(63)	–	–	(63)
Dividends paid out on ordinary shares during the year	(2,312)	–	–	(2,312)
Dividends received from the Insurance business[1]	450	–	–	450
Share buy-back completed	(1,095)	–	–	(1,095)
IFRS 9 transitional adjustment to reserves	(49)	–	–	(49)
Movement in treasury shares and employee share schemes	233	–	–	233
Pension movements:				
Removal of defined benefit pension surplus	463	–	–	463
Movement through other comprehensive income	(1,117)	–	–	(1,117)
Fair value through other comprehensive income reserve	(142)	–	–	(142)
Prudent valuation adjustment	20	–	–	20
Deferred tax asset	(163)	–	–	(163)
Goodwill and other intangible assets	(512)	–	–	(512)
Excess of expected losses over impairment provisions and value adjustments	(216)	–	–	(216)
Significant investments	(404)	12	13	(379)
Movements in other equity, subordinated debt and other tier 2 items:				
Repurchases, redemptions and other	–	(2,032)	(284)	(2,316)
Issuances	–	896	–	896
Other movements	256	–	–	256
At 31 December 2019	**27,744**	**6,248**	**9,424**	**43,416**

1 Under the regulatory framework, profits made by Insurance are removed from CET1 capital. However, when dividends are paid to the Group by Insurance these are recognised through CET1 capital. The £450 million of dividends received from Insurance during the year include £350 million in respect of their 2018 full year ordinary dividend and £100 million in respect of their 2019 interim ordinary dividend.

2 Reflects the accrual for the 2019 full year ordinary dividend and the reversal of the accrual for the 2018 full year ordinary dividend which was paid during the year.

CET1 capital resources have reduced by £2,423 million over the year, primarily reflecting:

- the interim dividend paid in September 2019 and the accrual for the 2019 full year ordinary dividend
- the extent of the 2019 share buyback programme completed during the year prior to the cancellation of the remaining buyback programme in September 2019
- the impact of additional pension contributions made during the year
- the increase in other intangible assets, excess expected losses and significant investments in financial sector entities
- offset in part by profit generation during the year (net of PPI provision charges), the receipt of dividends paid by the Insurance business during the year and movements in treasury shares and employee share schemes

AT1 capital resources have reduced by £1,124 million over the year, primarily reflecting a redemption during the year and the annual reduction in the transitional limit applied to grandfathered AT1 capital instruments, offset in part by the issuance of new capital instruments.

Tier 2 capital resources have reduced by £271 million over the year, largely reflecting the amortisation of dated instruments and a reduction in eligible provisions, partially offset by the transitioning of grandfathered AT1 instruments to tier 2.

Capital management continued

Table 6A: Minimum requirement for own funds and eligible liabilities

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

	Transitional	
	At 31 Dec 2019 £m	At 31 Dec 2018 £m
Total capital resources (transitional basis)	43,416	47,234
Ineligible AT1 and tier 2 instruments[1]	(874)	(613)
Amortised portion of eligible tier 2 instruments issued by Lloyds Banking Group plc	24	–
Senior unsecured securities issued by Lloyds Banking Group plc	23,554	20,213
Total MREL resources[2]	66,120	66,834
Risk-weighted assets	203,431	206,366
MREL ratio[3]	32.5%	32.4%
Leverage exposure measure	654,387	663,277
MREL leverage ratio	10.1%	10.1%

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

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

3 The MREL ratio is 32.6 per cent on a pro forma basis upon recognition of the dividend paid up by the Insurance business in February 2020 in relation to its 2019 earnings (31 December 2018: 32.6 per cent pro forma).

During 2019, the Group issued externally £3.5 billion (sterling equivalent) of senior unsecured securities from Lloyds Banking Group plc which, while not included in total capital, are eligible to meet MREL requirement. Combined with previous issuances made over the last few years the Group remains comfortably positioned to meet MREL requirements from 1 January 2020 and, as at 31 December 2019, had a transitional MREL ratio of 32.5 per cent of risk-weighted assets.

Total MREL resources reduced by £714m, largely as a result of the reduction in total capital resources, offset in part by the increase in senior unsecured securities following the issuances in the year.

CAPITAL INSTRUMENTS AND ELIGIBLE MREL LIABILITIES

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

Summary information on movements in subordinated liabilities and share capital and the terms and conditions applying to these instruments is presented in the Notes to the Consolidated Financial Statements of the 2019 Lloyds Banking Group plc Annual Report and Accounts on page 262.

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

The recognition, classification and valuation of these instruments within the Group's regulatory capital resources are subject to the requirements of CRD IV. This can lead to a different treatment from the IFRS accounting approach upon which the disclosures within the 2019 Lloyds Banking Group plc Annual Report and Accounts are based. Not all subordinated liabilities qualify as regulatory capital, and for those that do, differences between the accounting and the regulatory value can arise in relation to fair value hedge accounting adjustments, accrued interest and regulatory amortisation.

OWN FUNDS DISCLOSURES

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

Capital management continued

LEVERAGE RATIO

Table 7: Leverage ratio

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

	Fully loaded 2019 £m	2018 £m
Total tier 1 capital for leverage ratio		
Common equity tier 1 capital	**27,744**	30,167
Additional tier 1 capital	**5,881**	6,466
Total tier 1 capital	**33,625**	36,633
Exposure measure		
Statutory balance sheet assets		
Derivative financial instruments	**26,369**	23,595
Securities financing transactions	**67,424**	69,301
Loans and advances and other assets	**740,100**	704,702
Total assets	**833,893**	797,598
Qualifying central bank claims	**(49,590)**	(50,105)
Deconsolidation adjustments[1]		
Derivatives financial instruments	**(1,293)**	(1,376)
Securities financing transactions	**(334)**	(487)
Loans and advances and other assets	**(167,410)**	(130,048)
Total deconsolidation adjustments	**(169,037)**	(131,911)
Derivatives adjustments		
Adjustment for regulatory netting	**(11,298)**	(8,828)
Adjustment for cash collateral	**(12,551)**	(10,536)
Net written credit protection	**458**	539
Regulatory potential future exposure	**16,337**	18,250
Total derivatives adjustments	**(7,054)**	(575)
Securities financing transactions adjustments	**1,164**	40
Off-balance sheet items	**53,191**	56,393
Regulatory deductions and other adjustments	**(8,180)**	(8,163)
Total exposure measure[2]	**654,387**	663,277
Average leverage exposure measure[3]	**667,433**	
UK leverage ratio[2,4]	**5.1%**	5.5%
Average UK leverage ratio[3]	**5.0%**	
CRD IV leverage exposure measure[5]	**703,977**	713,382
CRD IV leverage ratio[5]	**4.8%**	5.1%

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

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

3 The average UK leverage ratio is based on the average of the month end tier 1 capital position and average exposure measure over the quarter (1 October 2019 to 31 December 2019). The average of 5.0 per cent compares to 4.9 per cent at the start and 5.1 per cent at the end of the quarter.

4 The UK leverage ratio is 5.2 per cent on a pro forma basis upon recognition of the dividend paid up by the Insurance business in February 2020 in relation to its 2019 earnings (31 December 2018: 5.6 per cent pro forma).

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

Key movements

- The Group's fully loaded UK leverage ratio reduced to 5.1 per cent, primarily driven by the reduction in tier 1 capital. This was partially offset by the £8.9 billion reduction in the leverage exposure measure which largely reflected the reduction in the derivatives exposure measure and off-balance sheet items.
- On a pro forma basis the UK leverage ratio reduced to 5.2 per cent from 5.6 per cent pro forma at 31 December 2018.
- The derivatives exposure measure, representing derivative financial instruments per the balance sheet net of deconsolidation and derivatives adjustment, reduced by £3.6 billion during the period, predominantly reflecting a move from a collateralised-to-market to a settled-to-market approach for swaps transacted through a central counterparty.
- The SFT exposure measure, representing SFT assets per the balance sheet net of deconsolidation and other SFT adjustments, reduced by £0.6 billion during the period, largely reflecting a reduction in volumes.
- Off-balance sheet items reduced by £3.2 billion during the period, reflecting an overall reduction in corporate facilities driven by commercial portfolio management, offset in part by new residential mortgage offers placed.
- The average UK leverage ratio of 5.0 per cent over the quarter largely reflected a higher average exposure measure compared to the position at 31 December 2019, with the reductions in the derivative exposure measure and off-balance sheet items described above largely occurring towards the end of the quarter.

Pillar 1 Capital requirements: Overview of risk-weighted assets

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

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

– Credit risk-weighted assets account for 79% of total risk-weighted assets.

Table 8: Risk-weighted assets movement by key driver

	Credit Risk IRB £m	Credit Risk STA £m	Credit Risk Total[1] £m	Counterparty Credit Risk[2] £m	Market Risk £m	Operational Risk £m	Total £m
Total risk-weighted assets as at 31 December 2018							**206,366**
Less: total threshold risk-weighted assets[3]							**(10,026)**
Risk-weighted assets at 31 December 2018	**135,743**	**25,757**	**161,500**	**7,250**	**2,085**	**25,505**	**196,340**
Asset size	**(2,707)**	**(1,184)**	**(3,891)**	**(257)**	**(110)**	**–**	**(4,258)**
Asset quality	**2,190**	**(682)**	**1,508**	**(672)**	**–**	**–**	**836**
Model updates	**2,284**	**–**	**2,284**	**–**	**(110)**	**–**	**2,174**
Methodology and policy	**(1,083)**	**(747)**	**(1,830)**	**(339)**	**4**	**–**	**(2,165)**
Acquisitions and disposals	**–**	**1,326**	**1,326**	**–**	**–**	**–**	**1,326**
Movement in risk levels (market risk only)	**–**	**–**	**–**	**–**	**(79)**	**–**	**(79)**
Foreign exchange movements	**(833)**	**(50)**	**(883)**	**(105)**	**–**	**–**	**(988)**
Other	**–**	**–**	**–**	**–**	**–**	**(23)**	**(23)**
Risk-weighted assets at 31 December 2019	**135,594**	**24,420**	**160,014**	**5,877**	**1,790**	**25,482**	**193,163**
Threshold risk-weighted assets[3]							**10,268**
Total risk-weighted assets as at 31 December 2019							**203,431**

1 Credit risk includes securitisation risk-weighted assets.

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

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

Key movements

Credit risk, risk weighted assets:

– **Asset size** reduction of £3.9bn, largely driven by commercial portfolio management, includes changes in book size (both drawn and undrawn balances) and composition, excluding acquisitions and disposals.

– **Asset quality** increase of £1.5bn includes increases in the valuation of equity investments as well as movements due to changes in borrower risk, including changes in the macro-economic environment

– **Model updates** increase in risk-weighted assets of £2.3bn which relates to changes to the Retail mortgage models.

– **Methodology and policy** changes reduced risk-weighted assets by £1.8bn principally as a result of securitisation activity partially offset by the introduction of IFRS16.

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

Counterparty credit risk, risk weighted assets decreased by £1.4bn due to reduced contributions to the default fund of a Central Counterparty, movement in CVA, and a reduction in asset size.

Market risk, risk weighted assets reductions of £0.3bn were driven by refinements to internal models, change in the business model following Ring Fencing, and movement in risk levels.

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

Table 9: Overview of risk-weighted assets (OV1)

		2019 RWA £m	2018 RWA £m	2019 Minimum capital Requirements £m	2018 Minimum capital Requirements £m
		T	T-1	T	T-1
1	**Credit risk (excluding counterparty credit risk)**	**155,013**	157,239	**12,401**	12,579
2	of which: standardised approach	**23,853**	25,548	**1,908**	2,044
3	of which: the foundation rating-based (FIRB) approach	**44,769**	48,747	**3,581**	3,900
4	of which: the retail IRB (RIRB) approach	**63,208**	59,522	**5,057**	4,762
	of which: corporates – specialised lending	**9,074**	11,808	**726**	945
	of which: non-credit obligation assets	**7,443**	5,866	**595**	469
5	of which: equity IRB under the simple risk-weight or the internal models approach	**6,666**	5,749	**533**	460
6	**Counterparty credit risk**	**5,877**	7,250	**470**	580
7	of which: marked to market	**4,539**	4,917	**363**	393
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)	**286**	471	**23**	38
11	of which: exposures to central counterparties (including trades, default fund contributions and initial margin)	**468**	1,160	**37**	93
12	of which: credit valuation adjustment (CVA)	**584**	702	**47**	56
13	**Settlement risk**	**–**	–	**–**	–
14	**Securitisation exposures in banking book**	**5,002**	4,262	**400**	341
15	of which: IRB ratings-based approach (RBA)	**1,880**	3,159	**150**	253
16	of which: IRB supervisory formula approach (SFA)	**–**	72	**–**	6
17	of which: internal assessment approach (IAA)	**234**	820	**19**	66
18	of which: standardised approach	**177**	209	**14**	17
	of which: revised framework internal ratings based approach	**1,214**		**97**	
	of which: revised framework standardised approach	**391**		**31**	
	of which: revised framework external ratings based approach	**1,107**		**89**	
19	**Market risk**	**1,790**	2,085	**143**	167
20	of which: standardised approach	**279**	416	**22**	34
21	of which: internal model approaches	**1,511**	1,669	**121**	134
22	**Large exposures**	**–**	–	**–**	–
23	**Operational risk**	**25,482**	25,505	**2,039**	2,040
24	of which: basic indicator approach	**–**	–	**–**	–
25	of which: standardised approach	**25,482**	25,505	**2,039**	2,040
26	of which: advanced measurement approach	**–**	–	**–**	–
27	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	**10,268**	10,026	**821**	802
	of which: significant investment	**8,093**	8,597		688
	of which: deferred tax asset	**2,175**	1,429		114
28	**Floor adjustment**	**–**	–	**–**	–
29	**Total**	**203,431**	206,366	**16,275**	16,509

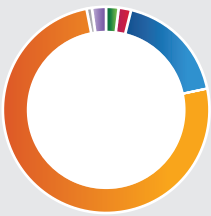
A detailed analysis of the key movements in exposures and risk-weighted assets is provided in Table 22.

Pillar 1 Capital requirements: Credit risk

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

- The Group remained focused on the UK, which generates over 89% of credit risk exposures.
- Of the Group's credit risk exposures, 83% (£510.2bn) are risk-weighted under the IRB approach, with the remainder (£102.4bn) risk-weighted using the Standardised approach.
- Total credit risk risk-weighted assets decreased by 1% to £155.0bn primarily due to Commercial Banking active portfolio management offset by model refinements.
- The Group's average risk weight for credit risk IRB exposures remained broadly stable, while there was a small reduction in the average risk-weight for standardised exposures.
- During 2019 expected losses have increased by £0.3bn due to model refinements and a small increase in defaults within the corporate portfolio.
- The Group's models continue to maintain a conservative approach in line with PRA regulation.

IRB exposures



Standardised exposures

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

Table 10: Risk-weighted assets flow statements of credit risk exposures (CR8)

		Credit Risk IRB RWA amount Total £m	Credit Risk IRB Capital requirements Total £m	Credit Risk STA RWA amount Total £m	Credit Risk STA Capital requirements Total £m
		a	b	a	b
1	**Risk-weighted assets at 31 December 2018[1]**	**135,743**	**10,859**	**25,757**	**2,061**
2	Asset size	(2,707)	(217)	(1,184)	(95)
3	Asset quality	2,190	175	(682)	(55)
4	Model updates	2,284	183	–	–
5	Methodology and policy	(1,083)	(87)	(747)	(60)
6	Acquisitions and disposals	–	–	1,326	106
7	Foreign exchange movements	(833)	(67)	(50)	(4)
8	Other	–	–	–	–
9	**Risk-weighted assets at 31 December 2019[1]**	**135,594**	**10,848**	**24,420**	**1,954**

1 Credit risk, risk-weighted assets and capital requirements are inclusive of securitisations. At 31 December 2019 IRB securitisation risk-weighted assets were £4,435m (2018: £4,052m) and standardised securitisation risk-weighted assets were £568m (2018: £209m).

Pillar 1 Capital requirements: Credit risk continued

OVERVIEW

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

RISK APPETITE
The 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. The credit risk exposures are categorised as 'retail', arising primarily in the Retail division, and some small and medium sized enterprises (SMEs), and 'corporate' (including larger SMEs, corporates, banks, financial institutions and sovereigns) arising primarily in the Commercial Banking, Wealth and Central Items divisions.

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

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

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

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

Table 11: Divisional credit risk exposures and risk-weighted assets

Division	Risk Weight approach	2019 EAD pre CRM post CCF £m	2019 Risk-weighted assets £m	2019 Average risk weight %	2018 EAD pre CRM post CCF[1] £m	2018 Risk-weighted assets[1] £m	2018 Average risk weight %
Retail	IRB	**387,972**	**67,399**	**17%**	388,469	62,997	16%
	Standardised	**18,316**	**11,274**	**62%**	16,905	11,524	68%
Commercial Banking	IRB	**101,410**	**51,422**	**51%**	112,499	58,584	52%
	Standardised	**12,404**	**9,849**	**79%**	13,308	11,518	87%
Insurance and Wealth	IRB	**2**	**2**	**95%**	–	–	–
	Standardised	**1,010**	**735**	**73%**	924	660	71%
Central Items	IRB	**20,805**	**12,337**	**59%**	21,213	10,110	46%
	Standardised	**70,673**	**1,995**	**3%**	67,599	1,846	3%
Total		**612,591**	**155,013**	**25%**	620,917	157,239	25%
	Total IRB	**510,189**	**131,160**	**26%**	522,181	131,692	25%
	Total Standardised	**102,402**	**23,853**	**23%**	98,736	25,548	26%

1 Restated.

Key movements

Retail credit risk-weighted assets increased by £4.2bn mainly due to the acquisition of the Tesco mortgage portfolio and IRB model refinements.

Commercial Banking credit risk-weighted assets decreased by £8.8bn due to portfolio management activity including capital efficient securitisation activity.

Central Items risk-weighted assets increased by £2.4bn due to the impact of IFRS 16 and increases in equity valuations.

Pillar 1 Capital requirements: Credit risk continued

MEASUREMENT

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

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

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

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

For regulatory capital purposes the Group's credit risk exposures are measured as risk-weighted assets, primarily calculated using Internal Ratings Based approach, with the remainder calculated under the Standardised approach. The Group's application of these approaches is explained in more detail on pages 13 and 14.

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, Group Risk Committee and the Board Risk Committee.

The performance of all rating models is monitored on a regular basis, as outlined on pages 38 to 45.

Further details are provided on page 130 of the Risk Management section of the 2019 Lloyds Banking Group plc Annual Report and Accounts.

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 142 to 144 of the 2019 Lloyds Banking Group plc Annual Report and Accounts.

Collateral

The Group maintains appetite parameters on the acceptability of specific classes of collateral. Only certain types of collateral are deemed eligible for internal risk management and regulatory capital purposes. The recognition of eligible collateral requires a number of factors to be considered such as legal certainty of charge, frequency and 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 142 to 143 of the 2019 Lloyds Banking Group plc Annual Report and Accounts.

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

Eligible financial collateral

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

Other eligible collateral

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

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

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

Refer to page 130 of the Risk Management section and Note 53 (Financial Risk Management) of the 2019 Lloyds Banking Group plc Annual Report and Accounts for further information on collateral.

Pillar 1 Capital requirements: Credit risk continued

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 90.

Guarantees

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

APPLICATION OF CREDIT RISK MITIGATION

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

	Standardised		IRB		
	EAD	Other	EAD	LGD	PD
Eligible financial collateral					
trading book	✓		✓		
non-trading book	✓			✓	
Other eligible collateral					
real estate collateral[1]		✓		✓	✓
other physical collateral				✓	✓
credit insurance[2]		✓			✓
receivables	✓			✓	
life policies	✓			✓	
Credit derivatives[2]		✓			✓
Collateralised guarantees		✓		✓	
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 12: CRM techniques – Overview (CR3)

	2019				
	Exposures unsecured-carrying amount £m	Exposures to be secured[1] £m	Exposures secured by collateral[2] £m	Exposures secured by financial guarantees £m	Exposures secured by credit derivatives[3] £m
	a	b	c	d	e
Exposures subject to the IRB approach					
Central governments or central banks	8,482	679	–	679	–
Institutions	8,629	850	810	–	40
Corporates	67,281	38,268	37,178	247	842
of which: Specialised lending	–	13,197	13,197	–	–
of which: SMEs	4,399	6,697	6,697	–	–
Retail	64,370	322,574	322,574	–	–
Secured by real estate property	–	310,760	310,760	–	–
SMEs	–	8,263	8,263	–	–
Non-SMEs	–	302,497	302,497	–	–
Qualifying revolving	53,717	–	–	–	–
Other retail	10,653	11,814	11,814	–	–
SMEs	2,154	27	27	–	–
Non-SMEs	8,499	11,787	11,787	–	–
Equity	3,085	–	–	–	–
Non-credit obligation assets	11,167	–	–	–	–
Total – IRB approach	163,015	362,371	360,563	926	882
Exposures subject to the standardised approach	–	–	–	–	–
Central governments and central banks[4]	56,825	–	–	–	–
Regional governments or local authorities[4]	476	–	–	–	–
Public sector entities[4]	4,169	–	–	–	–
Multilateral development banks	6,243	–	–	–	–
International organisations	–	–	–	–	–
Institutions	131	–	–	–	–
Corporates	11,718	836	406	363	67
Retail	33,425	276	276	–	–
Secured by mortgages on immovable property	–	7,590	7,590	–	–
Exposures in default	1,008	365	365	–	–
Items associated with particularly high risk	–	–	–	–	–
Covered bonds	–	–	–	–	–
Claims on institutions and corporates with a short-term credit assessment	–	–	–	–	–
Collective investment undertakings	711	–	–	–	–
Equity exposures	–	–	–	–	–
Other exposures	3,185	–	–	–	–
Total – standardised approach	117,891	9,067	8,637	363	67
Total exposures	280,906	371,438	369,200	1,289	949
of which: defaulted	2,362	3,386	3,386	–	–

Further details on collateral held as security for financial assets, collateral pledged as security and collateral repossessed can be found in Note 53 (Financial Risk Management) of the 2019 Lloyds Banking Group plc Annual Report and Accounts.

Pillar 1 Capital requirements: Credit risk continued

	2018				
	Exposures unsecured-carrying amount £m	Exposures to be secured[1] £m	Exposures secured by collateral[2] £m	Exposures secured by financial guarantees £m	Exposures secured by credit derivatives[3] £m
	a	b	c	d	e
Exposures subject to the IRB approach					
Central governments or central banks	11,966	757	–	757	–
Institutions	6,419	98	82	–	15
Corporates	74,631	43,898	43,046	259	593
of which: Specialised lending	–	16,755	16,755	–	–
of which: SMEs	4,376	7,810	7,810	–	–
Retail	62,606	323,585	323,585	–	–
Secured by real estate property	–	312,634	312,634	–	–
SMEs	–	9,122	9,122	–	–
Non-SMEs	–	303,511	303,511	–	–
Qualifying revolving	52,509	–	–	–	–
Other retail	10,098	10,951	10,951	–	–
SMEs	2,147	29	29	–	–
Non-SMEs	7,951	10,922	10,922	–	–
Equity	2,700	–	–	–	–
Non–credit obligation assets	9,933	–	–	–	–
Total – IRB approach	168,256	368,337	366,713	1,016	609
Exposures subject to the standardised approach					
Central governments and central banks[4]	61,429	–	–	–	–
Regional governments or local authorities[4]	5	–	–	–	–
Public sector entities[4]	41	–	–	–	–
Multilateral development banks	2,974	–	–	–	–
International organisations	–	–	–	–	–
Institutions	160	–	–	–	–
Corporates	15,774	916	473	426	17
Retail	32,262	168	168	–	–
Secured by mortgages on immovable property	–	4,510	4,510	–	–
Exposures in default	1,230	438	438	–	–
Items associated with particularly high risk	–	–	–	–	–
Covered bonds	–	–	–	–	–
Claims on institutions and corporates with a short-term credit assessment	–	–	–	–	–
Collective investment undertakings	716	–	–	–	–
Equity exposures	–	–	–	–	–
Other exposures	3,680	–	–	–	–
Total – standardised approach	118,271	6,032	5,589	426	17
Total exposures	286,527	374,369	372,301	1,442	625
of which: defaulted	2,442	3,655	3,655	–	–

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

2 At 31 December 2019 the value of exposures secured by eligible financial collateral is £4.6bn (2018: £4.2bn) and the value of exposures secured by other eligible collateral is £364.4bn (2018: £368.0bn).

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

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

Pillar 1 Capital requirements: Credit risk continued

INTERNAL RATING SCALES

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

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

PD master scales

Table 13: 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 14: Internal Retail master scale

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

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

Pillar 1 Capital requirements: Credit risk continued

DISTRIBUTION OF EXPOSURES BY APPROACH

To illustrate the degree to which IRB models are used within the bank, the table below shows the EAD split between RIRB, FIRB, Other IRB (including supervisory slotting, equity exposures and securitisation positions) and Standardised (not modelled) approaches across the different Basel asset classes. Exposures presented in the table below are in line with Table 22, and are on a post CRM and post CCF basis.

	RIRB £m	FIRB £m	Other IRB £m	Standardised £m
Central governments or central banks	–	8,482	–	57,509
Regional governments or local authorities	–	–	–	476
Public sector entities	–	–	–	4,169
Multilateral development banks	–	–	–	6,243
Institutions	–	8,682	–	1,061
Corporates[1]	–	77,741	12,573	9,414
Retail – Secured by property	324,427	–	–	7,585
Retail – Qualifying revolving	39,159	–	–	–
Retail – Other	23,202	–	–	12,146
Other[2]			14,253	5,090
Total	386,788	94,904	26,825	103,692
% coverage	63%	16%	4%	17%

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

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

SCOPE OF THE IRB PERMISSION

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

The Group applies the Supervisory Slotting Approach to certain corporate specialised lending exposures (including the Group's income-producing real estate exposures) and the Simple Risk Weight Method to equity exposures; hence no models are used for these two groups. Securitisation positions are predominantly risk-weighted under the Ratings Based Approach (RBA) and the revised framework IRB approach, with some use made of the Internal Assessment Approach, the Standardised and revised framework Standardised approaches and the External Rating Based Approach (ERBA).

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

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

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

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

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

3 MBNA exposures are currently rated on the Standardised approach.

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

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, 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

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

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

INTERNAL DEVELOPMENT AND MONITORING OF IRB MODELS

Model development, validation and review

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

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

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

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

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

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

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

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

Pillar 1 Capital requirements: Credit risk continued

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

Further information on model risk, including details on measurement, mitigation and monitoring can be found in the Risk Management section of the 2019 Lloyds Banking Group plc Annual Report and Accounts (page 187).

Relationships between risk management function and internal audit function

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

OTHER APPLICATION OF IRB MODEL OUTPUTS

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

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

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

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

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

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

Pillar 1 Capital requirements: Credit risk continued

MODEL PERFORMANCE

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

Backtesting of PD models

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

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

– The PD ranges match those in the respective retail and commercial internal master scales.

– The external rating equivalent is the equivalent S&P rating described on page 34.

– The weighted average PD is calculated using the regulatory PD weighted by the EAD at the start of the period

– The arithmetic average PD is calculated using the regulatory PD at the start of the period. This PD is volume weighted.

– The number of obligors is shown at the beginning and end of the period. This represents the full book position at both points, with new obligors (opened during the period) included in the end of year position (if still on book). Obligors that left during the year are not included in the end of year position. Various definitions of obligor operate within the bank, reflecting how the exposures are managed within each area. This translates as follows:

  – **Cards, Loans and Overdrafts** aggregate at customer level within brand and product (an obligor's accounts are aggregated if they share the same brand and product).

  – **Mortgages** and **UK Motor Finance (Retail)** treat each account as a unique obligor. An obligor with two accounts would have two PDs.

  – The Commercial Banking (including BDCS) and **UK Motor Finance (Commercial)** definition is legal entity by source system (obligors reside on different source systems according to the nature of the lending). This means that one legal entity might be represented by one or more obligors in the data if that entity has borrowing across one or more businesses (source systems).

    Furthermore, obligors that are 'connected' may share the same PD subject to certain conditions (known as Obligor Risk Groups, or ORGs).These cases have been aggregated and reported as single obligors since 2018. However, where exposures within an ORG span multiple asset classes, the ORG will be counted in each of those asset classes.

– The number of defaults during the year is the total number of non-defaulted obligors at the start of the year that subsequently defaulted at any point in the following 12 months. The allocation to a risk grade is based on the PIT PD at the start of the year for Retail asset classes and regulatory PD for Non-Retail asset classes. Exposures opened during the year are not included.

– 'Defaulted obligors – new exposures' relates to obligors that opened during the year and subsequently defaulted. Only one figure is provided within this column and this is assigned to the row 'New to Book'. This figure is currently unavailable for the Corporate SME and Corporate Main tables.

– The average default rate is calculated as a simple (volume weighted) average of the default rates over the past five years.

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

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

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

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

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

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

– New PIT and Downturn LGD models for HBOS Credit Cards.

Pillar 1 Capital requirements: Credit risk continued

Table 15: Back-testing of PD per portfolio – Retail – Mortgages (UK) (CR9)

RWA coverage: 95-99%

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%	0.25%	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

2018

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%	0.23%	0.20%	1,974,582	1,971,745	723	N/a	0.04%
0.10 - 0.40%	0.75%	0.72%	567,800	469,113	1,129	N/a	0.19%
0.40 - 0.80%	1.53%	1.63%	113,930	99,781	655	N/a	0.55%
0.80 - 1.20%	2.64%	2.91%	29,225	24,622	261	N/a	0.95%
1.20 - 2.50%	5.25%	5.50%	40,262	41,176	634	N/a	1.59%
2.50 - 4.50%	8.97%	9.51%	25,934	22,401	862	N/a	3.06%
4.40 - 7.50%	12.54%	13.69%	15,986	15,137	891	N/a	5.08%
7.50 - 10.00%	22.51%	22.87%	6,841	7,475	534	N/a	8.05%
10.00 - 14.00%	25.32%	26.31%	7,542	5,662	800	N/a	9.56%
14.00 - 20.00%	34.13%	34.96%	4,728	5,421	727	N/a	16.08%
20.00 - 30.00%	48.04%	48.18%	5,352	4,326	1,268	N/a	24.61%
30.00 - 45.00%	57.76%	59.34%	5,330	5,116	1,822	N/a	35.66%
45.00 - 99.99%	78.66%	79.62%	6,269	4,956	3,506	N/a	57.00%
In Default	100.00%	100.00%	29,440	26,881	N/a	N/a	N/a
New to Book	N/a	N/a	-	239,361	N/a	18	N/a

Key observations

– The majority of obligors are rated on a TTC basis which is conservative relative to the average historic default rates.
– Obligors are allocated to grades based on PIT PDs, so the weighted and arithmetic average PDs are above the range due to the use of more conservative TTC PDs.
– The five year default rate has changed little since last year. However the distribution of obligors by PD grade has shifted slightly towards higher risk PD grades since 2018, primarily in the lower PD bands.

Pillar 1 Capital requirements: Credit risk continued

Table 16: Back-testing of PD per portfolio – Retail QRRE (CR9)

RWA coverage: 100%

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%
4.40 - 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

2018

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%	4,888,034	4,562,417	785	N/a	0.03%
0.10 - 0.40%	0.23%	0.22%	10,152,967	10,178,529	6,801	N/a	0.12%
0.40 - 0.80%	0.57%	0.58%	4,778,957	5,106,690	14,422	N/a	0.39%
0.80 - 1.20%	0.99%	0.99%	2,579,596	2,830,933	16,640	N/a	0.79%
1.20 - 2.50%	1.73%	1.67%	2,912,982	3,514,917	49,907	N/a	1.53%
2.50 - 4.50%	3.31%	3.30%	1,080,663	1,203,808	47,025	N/a	3.17%
4.40 - 7.50%	5.69%	5.67%	505,831	594,179	35,195	N/a	5.07%
7.50 - 10.00%	8.64%	8.65%	147,540	167,647	14,657	N/a	7.10%
10.00 - 14.00%	11.76%	11.78%	126,124	131,972	14,226	N/a	9.98%
14.00 - 20.00%	16.72%	16.81%	107,506	98,318	14,778	N/a	14.59%
20.00 - 30.00%	24.84%	24.98%	147,537	100,912	33,301	N/a	21.85%
30.00 - 45.00%	36.89%	36.25%	133,428	123,100	42,183	N/a	31.58%
45.00 - 99.99%	58.66%	58.24%	88,189	123,575	42,182	N/a	53.78%
In Default	100.00%	100.00%	734,921	1,009,756	N/a	N/a	N/a
New to Book	N/a	N/a	–	2,812,800	N/a	13,630	N/a

Key observations

– All PD models are PIT with a PD buffer.

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

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

– A 2019 enhancement to data, used to identify defaults for HBoS branded Overdrafts, has been retrospectively applied to the start of the latest backtesting period. This gives rise to a difference in the distribution of obligors, including Defaulted obligors, between the 2018 end position and that at the start of 2019.

Pillar 1 Capital requirements: Credit risk continued

Table 17: Back-testing of PD per portfolio – Retail – Other (non-SME) (CR9)

RWA coverage: 100%

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%	0.08%	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%
4.40 - 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

2018

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%	0.08%	0.08%	19,321	21,893	17	N/a	0.09%
0.10 - 0.40%	0.36%	0.36%	388,599	419,612	2,856	N/a	0.54%
0.40 - 0.80%	0.68%	0.66%	339,487	366,194	2,718	N/a	0.69%
0.80 - 1.20%	1.00%	1.00%	180,100	182,181	976	N/a	0.71%
1.20 - 2.50%	1.68%	1.70%	569,346	594,470	9,354	N/a	1.42%
2.50 - 4.50%	3.27%	3.29%	246,303	237,553	9,712	N/a	2.92%
4.40 - 7.50%	5.87%	5.83%	108,671	102,780	9,085	N/a	5.77%
7.50 - 10.00%	8.86%	8.72%	25,044	23,448	2,799	N/a	8.24%
10.00 - 14.00%	11.12%	11.30%	20,877	19,585	3,128	N/a	10.42%
14.00 - 20.00%	16.46%	16.48%	8,371	7,106	1,491	N/a	12.28%
20.0 0 - 30.00%	21.75%	22.20%	13,350	18,242	2,564	N/a	17.30%
30.00 - 45.00%	34.97%	35.21%	16,166	16,824	5,268	N/a	30.24%
45.00 - 99.99%	71.10%	71.30%	19,238	19,802	12,793	N/a	65.61%
In Default	100.00%	100.00%	126,608	142,211	N/a	N/a	N/a
New to Book	N/a	N/a	–	643,110	N/a	3,580	N/a

Key observations

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

– Enhancements to data processing lead to a differences in the number of obligors reported at the end of 2018 to the start of 2019.

Pillar 1 Capital requirements: Credit risk continued

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

RWA coverage: 100%

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%	–	–	–	–	–	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%
4.40 - 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

2018

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%	–	–	–	–	–	N/a	–
0.10 - 0.40%	–	–	–	–	–	N/a	–
0.40 - 0.80%	0.61%	0.60%	55,249	56,597	148	N/a	0.24%
0.80 - 1.20%	1.12%	1.12%	13,470	15,621	99	N/a	0.79%
1.20 - 2.50%	1.67%	1.67%	13,166	13,246	164	N/a	1.42%
2.50 - 4.50%	2.80%	2.62%	12,167	11,367	305	N/a	2.26%
4.40 - 7.50%	5.67%	5.67%	12,616	13,631	664	N/a	4.46%
7.50 - 10.00%	8.04%	8.04%	491	662	5	N/a	1.67%
10.00 - 14.00%	10.61%	10.61%	4,996	5,695	467	N/a	5.47%
14.00 - 20.00%	18.14%	19.79%	19,947	23,129	840	N/a	13.40%
20.00 - 30.00%	–	–	–	–	–	N/a	–
30.00 - 45.00%	34.10%	34.10%	1,418	1,694	333	N/a	28.41%
45.00 - 99.99%	78.18%	78.18%	1,964	2,094	703	N/a	30.81%
In Default	100.00%	100.00%	8,611	8,619	N/a	N/a	N/a
New to Book	N/a	N/a	N/a	N/a	N/a	N/a	N/a

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

Key observations

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

Pillar 1 Capital requirements: Credit risk continued

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

RWA coverage: 70-75%

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%	62	57	–	N/a	0.00%
0.035 - 0.050%	A+	0.04%	0.04%	41	47	1	N/a	0.49%
0.050 - 0.080%	A	0.06%	0.06%	96	58	–	N/a	0.00%
0.080 - 0.140%	A–	0.11%	0.11%	268	178	–	N/a	0.05%
0.140 - 0.220%	BBB+	0.18%	0.19%	1,016	830	–	N/a	0.07%
0.220 - 0.340%	BBB	0.28%	0.27%	998	738	7	N/a	0.25%
0.340 - 0.500%	BBB–	0.42%	0.43%	2,514	2,449	11	N/a	0.28%
0.500 - 0.760%	BB+	0.63%	0.66%	2,747	2,794	16	N/a	0.48%
0.760 - 1.240%	BB	1.00%	1.00%	2,395	2,288	36	N/a	0.78%
1.240 - 2.000%	BB–	1.62%	1.64%	1,992	1,841	27	N/a	1.22%
2.000 - 3.200%	B+	2.60%	2.61%	471	538	13	N/a	3.01%
3.200 - 5.200%	B+	3.96%	3.83%	1,116	1,109	52	N/a	2.30%
5.200 - 7.200%	B	6.20%	6.15%	179	228	18	N/a	6.34%
7.200 - 10.200%	B–	8.70%	8.70%	120	117	4	N/a	3.61%
10.200 - 13.800%	B–	12.00%	11.76%	52	63	6	N/a	8.70%
13.800 - 99.99%	CCC to C	29.95%	29.03%	188	141	34	N/a	11.51%
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

2018

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%	212	62	–	N/a	0.18%
0.035 - 0.050%	A+	0.04%	0.05%	457	41	–	N/a	0.00%
0.050 - 0.080%	A	0.06%	0.06%	107	96	–	N/a	0.00%
0.080 - 0.140%	A-	0.11%	0.11%	310	267	–	N/a	0.09%
0.140 - 0.220%	BBB+	0.18%	0.19%	1,078	1,015	1	N/a	0.09%
0.220 - 0.340%	BBB	0.28%	0.27%	1,047	995	1	N/a	0.13%
0.340 - 0.500%	BBB-	0.42%	0.43%	2,650	2,509	2	N/a	0.24%
0.500 - 0.760%	BB+	0.63%	0.66%	2,904	2,742	8	N/a	0.52%
0.760 - 1.240%	BB	1.01%	1.00%	2,531	2,393	13	N/a	0.57%
1.240 - 2.000%	BB-	1.62%	1.61%	1,776	1,992	15	N/a	1.18%
2.000 - 3.200%	B+	2.60%	2.60%	482	470	12	N/a	2.70%
3.200 - 5.200%	B+	4.11%	3.82%	1,106	1,115	9	N/a	1.59%
5.200 - 7.200%	B	6.20%	6.14%	210	179	15	N/a	5.09%
7.200 - 10.200%	B-	8.70%	8.69%	92	120	2	N/a	3.16%
10.200 - 13.800%	B-	11.99%	11.70%	60	52	3	N/a	7.26%
13.800 - 99.99%	CCC to C	30.52%	28.04%	179	188	9	N/a	9.67%
In Default	Default	100.00%	100.00%	416	304	N/a	N/a	N/a
New to Book	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a

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

Key observations

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

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

– Reclassification of a number of obligors in UK Motor Finance (Commercial) leads to differences in the position reported at the end of 2018 compared to the start of 2019.

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

Pillar 1 Capital requirements: Credit risk continued

Table 20: Back-testing of PD per portfolio – Corporate SME (CR9)[1]

RWA coverage: 65-70%

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	0.00%
0.140 - 0.220%	BBB+	0.18%	0.18%	121	40	–	N/a	0.15%
0.220 - 0.340%	BBB	0.28%	0.28%	234	180	–	N/a	0.32%
0.340 - 0.500%	BBB-	0.42%	0.42%	337	515	–	N/a	0.09%
0.500 - 0.760%	BB+	0.62%	0.61%	4,289	4,309	16	N/a	0.45%
0.760 - 1.240%	BB	1.07%	1.08%	2,033	2,040	18	N/a	0.73%
1.240 - 2.000%	BB-	1.65%	1.65%	1,488	1,474	14	N/a	0.95%
2.000 - 3.200%	B+	2.61%	2.61%	1,088	1,167	17	N/a	1.69%
3.200 - 5.200%	B+	4.20%	4.20%	182	203	7	N/a	2.17%
5.200 - 7.200%	B	5.81%	5.76%	849	917	51	N/a	4.53%
7.200 - 10.200%	B-	8.20%	8.25%	195	158	6	N/a	2.20%
10.200 - 13.800%	B-	10.83%	10.88%	203	252	6	N/a	6.15%
13.800 - 99.99%	CCC to C	28.94%	26.49%	303	283	17	N/a	15.20%
In Default	Default	N/a	N/a	190	203	N/a	N/a	N/a
New to Book	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a

2018

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%	6	4	–	N/a	0.00%
0.035 - 0.050%	A+	0.04%	0.04%	1	3	–	N/a	0.00%
0.050 - 0.080%	A	0.06%	0.06%	30	23	–	N/a	0.00%
0.080 - 0.140%	A-	0.11%	0.11%	79	83	–	N/a	0.06%
0.140 - 0.220%	BBB+	0.18%	0.18%	130	121	1	N/a	0.19%
0.220 - 0.340%	BBB	0.28%	0.28%	239	238	2	N/a	0.54%
0.340 - 0.500%	BBB-	0.42%	0.42%	285	342	–	N/a	0.20%
0.500 - 0.760%	BB+	0.63%	0.63%	3,915	4,291	18	N/a	0.46%
0.760 - 1.240%	BB	1.06%	1.09%	1,913	2,034	5	N/a	0.88%
1.240 - 2.000%	BB-	1.65%	1.65%	1,547	1,488	18	N/a	0.99%
2.000 - 3.200%	B+	2.61%	2.61%	1,187	1,088	9	N/a	2.10%
3.200 - 5.200%	B+	4.20%	4.20%	185	182	2	N/a	1.40%
5.200 - 7.200%	B	5.78%	5.76%	854	848	42	N/a	4.22%
7.200 - 10.200%	B-	8.22%	8.27%	145	195	3	N/a	1.95%
10.200 - 13.800%	B-	10.77%	10.76%	352	203	19	N/a	8.39%
13.800 - 99.99%	CCC to C	28.66%	29.18%	316	303	22	N/a	20.01%
In Default	Default	100.00%	100.00%	219	191	N/a	N/a	N/a
New to Book	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a

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

Key observations

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

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

– Observed default rates generally rise through the PD ranges as expected. In all but one instance, the actual default rate is below the predicted PD

Pillar 1 Capital requirements: Credit risk continued

Performance summary of EAD and LGD models

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

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

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

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

Table 21: Model performance

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

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

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

Key observations

Retail SME:
– Predicted LGDs continue to exceed actual LGDs.

Retail Mortgages:
– Predicted LGDs continue to exceed actual LGDs.

Retail – QRRE:
– Predicted LGDs continue to exceed actual LGDs.
– Actual LGD has risen due to change in mix of defaulting obligors driven by previous changes to pricing structure for Retail Overdrafts and collections processes on Retail Credit Cards.
– Following PRA approval, a new LGD model has been implemented for HBoS Cards, aligning methodology across Cards, PCA and Loans portfolios.

Retail – Other (non-SME):
– Predicted LGDs continue to exceed actual LGDs.
– The reductions in actual and predicted LGDs are driven by the growing proportion of Motor Finance exposures in this asset class which, given their secured nature, have lower LGDs than Unsecured Retail Loans.

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

		2019 EAD pre CRM and post CCF £m	2019 EAD post CRM and post CCF £m	2019 Average credit risk exposure £m	2019 Risk-weighted assets £m	2019 Minimum capital requirements £m	2019 Average risk weight %
		a	a	b			
1	Central governments or central banks	8,961	8,482	9,890	541	43	6%
2	Institutions	8,629	8,682	7,923	1,224	98	14%
3	Corporates	91,558	90,314	98,520	52,077	4,166	58%
4	of which: Specialised lending	12,866	12,573	15,056	9,074	726	72%
5	of which: SMEs	10,564	10,564	11,120	7,386	591	70%
6	Retail	386,788	386,788	388,255	63,208	5,057	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	23,202	23,202	22,578	15,975	1,278	69%
12	*SMEs*	2,237	2,237	2,238	1,559	125	70%
13	*Non-SMEs*	20,965	20,965	20,340	14,417	1,153	69%
14	Equity	3,085	3,085	2,912	6,666	533	216%
	Non-credit obligation assets[1]	11,167	11,167	10,871	7,443	595	67%
15	**Total IRB approach**	510,189	508,518	518,371	131,160	10,493	26%
16	Central governments or central banks[2]	56,824	57,509	62,962	–	–	–
17	Regional governments or local authorities[2]	476	476	96	28	2	6%
18	Public sector entities[2]	4,169	4,169	839	1	–	–
19	Multilateral development banks	6,243	6,243	5,249	–	–	–
20	International organisations	–	–	–	–	–	–
21	Institutions	171	1,061	138	64	5	6%
22	Corporates	9,698	9,414	11,195	8,309	665	88%
23	of which: SMEs	3,769	3,686	3,600	3,509	281	95%
24	Retail	12,146	12,146	12,168	8,662	693	71%
25	of which: SMEs	2,657	2,657	2,486	1,545	124	58%
26	Secured by mortgages on immovable property	7,585	7,585	5,732	2,655	212	35%
27	of which: SMEs	8	8	11	4	–	43%
28	Exposures in default	1,193	1,193	1,383	1,296	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	711	711	569	142	11	20%
33	Equity exposures	–	–	–	–	–	–
34	Other exposures[1]	3,185	3,185	3,717	2,696	216	85%
35	**Total standardised approach**	102,402	103,692	104,049	23,853	1,908	23%
36	**Total**	612,591	612,210	622,420	155,013	12,401	25%

Pillar 1 Capital requirements: Credit risk continued

		2018 EAD pre CRM and post CCF £m	2018 EAD post CRM and post CCF £m	2018 Average credit risk exposure £m	2018 Risk-weighted assets £m	2018 Minimum capital requirements £m	2018 Average risk weight %
		a	a	b			
1	Central governments or central banks	12,435	11,966	17,445	740	59	6%
2	Institutions	5,954	5,980	5,759	1,103	88	18%
3	Corporates	103,367	102,561	104,031	58,712	4,697	57%
4	of which: Specialised lending	16,351	16,052	16,702	11,808	945	74%
5	of which: SMEs	11,638	11,638	11,594	8,162	653	70%
6	Retail	387,793	387,793	391,570	59,522	4,762	15%
7	Secured by real estate property	327,800	327,800	331,116	33,284	2,663	10%
8	*SMEs*	9,204	9,204	9,503	2,269	182	25%
9	*Non-SMEs*	318,596	318,596	321,613	31,015	2,481	10%
10	Qualifying revolving	38,342	38,342	39,564	11,294	904	29%
11	Other retail	21,651	21,651	20,891	14,943	1,195	69%
12	*SMEs*	2,234	2,234	2,210	1,581	126	71%
13	*Non-SMEs*	19,417	19,417	18,680	13,362	1,069	69%
14	Equity	2,700	2,700	3,111	5,749	460	213%
	Non-credit obligation assets[1]	9,933	9,933	9,920	5,866	469	59%
15	**Total IRB approach**	522,181	520,932	531,836	131,692	10,535	25%
16	Central governments or central banks[2]	61,428	62,077	70,949	4	–	–
17	Regional governments or local authorities[2]	5	5	5	1	–	20%
18	Public sector entities[2]	21	21	21	21	2	100%
19	Multilateral development banks	2,974	2,974	2,132	–	–	–
20	International organisations	–	–	–	–	–	–
21	Institutions	161	773	289	67	5	9%
22	Corporates	11,310	10,892	12,373	9,887	791	91%
23	of which: SMEs	3,424	3,331	3,661	3,156	252	95%
24	Retail	12,294	12,294	12,561	8,842	707	72%
25	of which: SMEs	2,271	2,271	2,210	1,325	106	58%
26	Secured by mortgages on immovable property	4,505	4,505	4,690	1,578	126	35%
27	of which: SMEs	11	11	9	5	0	44%
28	Exposures in default	1,642	1,642	895	2,186	175	133%
29	Items associated with particularly high risk	–	–	–	–	–	–
30	Covered bonds	–	–	–	–	–	–
31	Claims on institutions and corporates with a short-term credit assessment	–	–	–	–	–	–
32	Collective investments undertakings	716	716	557	143	11	20%
33	Equity exposures	–	–	–	–	–	–
34	Other exposures[1]	3,680	3,680	4,646	2,819	225	77%
35	**Total standardised approach**	98,736	99,580	109,119	25,548	2,044	26%
36	**Total**	620,917	620,512	640,955	157,239	12,579	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.

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

Pillar 1 Capital requirements: Credit risk continued

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

Exposures subject to the IRB approach – key movements

Central governments or central banks

– Exposures decreased by £3.5bn with a reduction in risk-weighted assets of £0.2bn. This was mainly due to a reduction in deposits placed with the US Federal Reserve and the US Treasury.

Institutions

– Exposures increased by £2.7bn and risk-weighted assets increased by £0.1bn as a result of net new, lower risk-weighted business.

Corporates

– Corporate exposure, including Specialised Lending and Corporate SME, reduced by £12.2bn, with RWA reducing £6.6bn, as a result of securitisation and other management actions, together with net customer repayments.

Retail – Secured by real estate property

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

Retail – Other (non-SME)

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

Non-credit obligation assets

– The implementation of IFRS 16 was the principal driver of an increase in exposures and risk-weighted assets of £1.2bn and £1.6bn respectively.

Exposures subject to the Standardised approach – key movements

Multilateral development banks

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

Corporates

– The net reduction in corporate exposures and risk- weighted assets of £1.5bn and £1.6bn respectively were principally a result of management activity.

Secured by mortgages on immovable property

– Exposures and risk-weighted assets increased by £3.1bn and £1.1bn largely as a result of the acquisition of the Tesco Bank UK prime residential mortgage portfolio.

Pillar 1 Capital requirements: Credit risk continued

ANALYSIS OF CREDIT RISK EXPOSURES SUBJECT TO THE FOUNDATION IRB APPROACH

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

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

The EBA guidelines include a single prescribed scale for presenting the credit quality of all IRB portfolios by asset class. The tables that follow present the prescribed scale. This does not map directly to the internal scales per tables 13 and 14, but is apportioned on the same basis.

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

Table 23: IRB – Credit risk exposures by portfolio and PD range – Central governments or central banks (CR6)

PD Scale Central governments or central banks	2019 Original on-balance sheet gross exposure £m	2019 Off balance sheet exposures pre CCF £m	2019 Average CCF %	2019 EAD post CRM and post CCF £m	2019 Average PD %	2019 Number of Obligors	2019 Average LGD %	2019 Average Maturity (years)	2019 RWA £m	2019 RWA density %	2019 EL £m	2019 Value adjustments and Provisions £m
	a	b	c	d	e	f	g	h	i	j	k	l
0.00 to <0.15	8,761	400	20.00%	8,482	0.01%	12	45.00%	1.9	541	6.38%	–	
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	0	–	–	0	12.00%	1	45.00%	1.0	0	200.46%	–	
100.00 (Default)	–	–	–	–	–	–	–	–	–	–	–	
Sub-total	**8,761**	**400**	**20.00%**	**8,482**	**0.01%**	**13**	**45.00%**	**1.9**	**541**	**6.38%**	**–**	**–**

PD Scale Central governments or central banks	2018 Original on-balance sheet gross exposure £m	2018 Off balance sheet exposures pre CCF £m	2018 Average CCF %	2018 EAD post CRM and post CCF £m	2018 Average PD %	2018 Number of Obligors	2018 Average LGD %	2018 Average Maturity (years)	2018 RWA £m	2018 RWA density %	2018 EL £m	2018 Value adjustments and Provisions £m
	a	b	c	d	e	f	g	h	i	j	k	l
0.00 to <0.15	12,146	576	–	11,966	0.01%	13	45.00%	1.9	740	6.19%	1	
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	12,146	576	–	11,966	0.01%	13	45.00%	1.9	740	6.19%	1	–

Key movements

– Exposures decreased by £3.5bn with a reduction in risk-weighted assets of £0.2bn, largely as a result of reduced deposits at the US Federal Reserve and the US Treasury.

Pillar 1 Capital requirements: Credit risk continued

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

PD Scale Institutions	2019 Original on-balance sheet gross exposure £m	2019 Off balance sheet exposures pre CCF £m	2019 Average CCF %	2019 EAD post CRM and post CCF £m	2019 Average PD %	2019 Number of Obligors	2019 Average LGD %	2019 Average Maturity (years)	2019 RWA £m	2019 RWA density %	2019 EL £m	2019 Value adjustments and Provisions £m
	a	b	c	d	e	f	g	h	i	j	k	l
0.00 to <0.15	**6,831**	**1,694**	**66.68%**	**7,839**	**0.05%**	**1,371**	**34.11%**	**1.3**	**839**	**10.70%**	**1**	
0.15 to <0.25	**407**	**45**	**64.89%**	**425**	**0.18%**	**51**	**41.03%**	**0.9**	**121**	**28.44%**	**1**	
0.25 to <0.50	**123**	**174**	**68.35%**	**242**	**0.32%**	**68**	**35.60%**	**1.1**	**92**	**37.88%**	**–**	
0.50 to <0.75	**1**	**3**	**22.88%**	**2**	**0.62%**	**26**	**44.90%**	**1.9**	**2**	**90.73%**	**–**	
0.75 to <2.50	**121**	**73**	**63.36%**	**167**	**1.28%**	**56**	**43.94%**	**1.0**	**161**	**96.19%**	**1**	
2.50 to <10.00	**2**	**4**	**100.00%**	**6**	**2.75%**	**24**	**44.87%**	**1.2**	**8**	**133.33%**	**–**	
10.00 to <100.00	**1**	**–**	**–**	**1**	**13.40%**	**13**	**40.75%**	**1.1**	**2**	**225.06%**	**–**	
100.00 (Default)	**0**	**–**	**–**	**0**	**100.00%**	**6**	**45.00%**	**1.7**	**–**	**0.00%**	**–**	
Sub-total	**7,487**	**1,993**	**66.67%**	**8,682**	**0.09%**	**1,615**	**34.69%**	**1.3**	**1,224**	**14.10%**	**3**	**1**

PD Scale Institutions	2018 Original on-balance sheet gross exposure £m	2018 Off balance sheet exposures pre CCF £m	2018 Average CCF %	2018 EAD post CRM and post CCF £m	2018 Average PD %	2018 Number of Obligors	2018 Average LGD %	2018 Average Maturity (years)	2018 RWA £m	2018 RWA density %	2018 EL £m	2018 Value adjustments and Provisions £m
	a	b	c	d	e	f	g	h	i	j	k	l
0.00 to <0.15	4,433	1,090	64.00%	5,130	0.06%	1,534	38.87%	1.2	647	12.60%	1	
0.15 to <0.25	257	104	66.36%	326	0.18%	65	41.15%	0.7	87	26.67%	–	
0.25 to <0.50	20	181	69.84%	141	0.28%	65	45.00%	1.5	65	46.34%	–	
0.50 to <0.75	151	28	33.31%	161	0.63%	34	44.99%	0.8	98	60.98%	–	
0.75 to <2.50	129	69	60.32%	171	1.35%	56	37.05%	0.8	149	87.06%	1	
2.50 to <10.00	42	8	58.58%	47	2.61%	22	45.00%	0.6	52	111.35%	1	
10.00 to <100.00	2	–	–	2	16.25%	14	44.52%	1.3	5	243.91%	–	
100.00 (Default)	2	–	–	2	100.00%	5	45.00%	4.4	–	–	1	
Sub-total	5,037	1,480	64.09%	5,980	0.18%	1,796	39.31%	1.2	1,103	18.44%	5	1

Key movements

– Exposures increased by £2.7bn and risk-weighted assets increased by £0.1bn as a result of new business growth in the lower risk weight categories.
– Average PD reduced from 0.18% to 0.09% as a result of a lower risk portfolio mix.

Pillar 1 Capital requirements: Credit risk continued

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

PD Scale Corporate – Main	2019 Original on-balance sheet gross exposure £m	2019 Off balance sheet exposures pre CCF £m	2019 Average CCF %	2019 EAD post CRM and post CCF £m	2019 Average PD %	2019 Number of Obligors	2019 Average LGD %	2019 Average Maturity (years)	2019 RWA £m	2019 RWA density %	2019 EL £m	2019 Value adjustments and Provisions £m
	a	b	c	d	e	f	g	h	i	j	k	l
0.00 to <0.15	**17,045**	**19,046**	**75.31%**	**30,817**	**0.08%**	**918**	**42.94%**	**2.5**	**8,196**	**26.60%**	**12**	
0.15 to <0.25	**4,279**	**4,690**	**69.52%**	**6,877**	**0.18%**	**3,036**	**44.78%**	**2.2**	**3,040**	**44.20%**	**6**	
0.25 to <0.50	**7,564**	**9,320**	**69.22%**	**12,283**	**0.34%**	**5,403**	**43.62%**	**2.4**	**7,451**	**60.66%**	**20**	
0.50 to <0.75	**3,317**	**1,796**	**71.22%**	**4,347**	**0.63%**	**7,105**	**43.63%**	**2.3**	**3,478**	**80.02%**	**12**	
0.75 to <2.50	**5,233**	**2,963**	**71.70%**	**7,149**	**1.24%**	**10,653**	**43.16%**	**2.1**	**6,959**	**97.34%**	**39**	
2.50 to <10.00	**3,023**	**1,319**	**67.22%**	**3,810**	**3.89%**	**5,155**	**42.68%**	**1.7**	**4,919**	**129.12%**	**61**	
10.00 to <100.00	**482**	**427**	**69.44%**	**749**	**17.69%**	**521**	**41.81%**	**1.8**	**1,574**	**210.25%**	**60**	
100.00 (Default)	**1,014**	**154**	**85.25%**	**1,145**	**100.00%**	**1,234**	**42.14%**	**1.5**	**–**	**0.00%**	**495**	
Sub-total	**41,957**	**39,715**	**72.44%**	**67,177**	**2.42%**	**34,025**	**43.28%**	**2.3**	**35,617**	**53.02%**	**705**	**416**

PD Scale Corporate – Main	2018 Original on-balance sheet gross exposure £m	2018 Off balance sheet exposures pre CCF £m	2018 Average CCF %	2018 EAD post CRM and post CCF £m	2018 Average PD %	2018 Number of Obligors	2018 Average LGD %	2018 Average Maturity (years)	2018 RWA £m	2018 RWA density %	2018 EL £m	2018 Value adjustments and Provisions £m
	a	b	c	d	e	f	g	h	i	j	k	l
0.00 to <0.15	19,317	18,621	75.99%	33,275	0.08%	1,159	42.89%	2.7	8,826	26.52%	11	
0.15 to <0.25	4,448	6,373	70.97%	8,518	0.18%	3,176	44.66%	2.5	3,731	43.80%	7	
0.25 to <0.50	9,576	10,832	67.78%	15,048	0.35%	5,840	43.88%	2.4	8,875	58.98%	23	
0.50 to <0.75	3,161	2,235	73.49%	4,655	0.63%	7,392	43.32%	2.1	3,449	74.10%	13	
0.75 to <2.50	6,284	3,769	68.69%	8,419	1.24%	11,067	43.10%	2.1	8,093	96.12%	45	
2.50 to <10.00	2,762	1,575	64.68%	3,710	4.07%	5,045	42.93%	2.1	5,071	136.68%	64	
10.00 to <100.00	228	88	72.91%	291	23.99%	571	44.38%	2.1	697	239.64%	31	
100.00 (Default)	897	84	74.38%	955	100.00%	631	43.11%	1.6	–	–	412	
Sub-total	46,673	43,577	72.05%	74,871	1.88%	34,880	43.35%	2.5	38,741	51.74%	606	663

Key movements

– Exposure decreased £7.7bn and RWA decreased by £3.1bn, principally, as a result of active portfolio management including the inception of new securitisations.
– Average PD increased from 1.88% to 2.42% largely as a result of the small rise in defaulted assets.

Pillar 1 Capital requirements: Credit risk continued

Table 26: IRB – Credit risk exposures by portfolio and PD range – Corporate SME (CR6)

PD Scale Corporate – SME	2019 Original on-balance sheet gross exposure £m	2019 Off balance sheet exposures pre CCF £m	2019 Average CCF %	2019 EAD post CRM and post CCF £m	2019 Average PD %	2019 Number of Obligors	2019 Average LGD %	2019 Average Maturity (years)	2019 RWA £m	2019 RWA density %	2019 EL £m	2019 Value adjustments and Provisions £m
	a	b	c	d	e	f	g	h	i	j	k	l
0.00 to <0.15	602	259	83.55%	820	0.08%	128	42.42%	3.3	234	28.57%	–	
0.15 to <0.25	89	175	73.24%	217	0.19%	210	43.78%	1.9	71	32.85%	–	
0.25 to <0.50	936	453	73.55%	1,263	0.36%	913	42.03%	2.6	700	55.39%	3	
0.50 to <0.75	1,374	429	70.25%	1,675	0.57%	4,524	39.10%	3.3	997	59.51%	4	
0.75 to <2.50	2,755	787	71.06%	3,324	1.25%	7,357	38.54%	2.9	2,398	72.14%	17	
2.50 to <10.00	2,223	439	75.92%	2,555	4.23%	4,973	38.32%	2.6	2,464	96.44%	43	
10.00 to <100.00	367	31	70.32%	389	20.01%	1,644	37.52%	2.4	523	134.47%	27	
100.00 (Default)	306	25	63.21%	322	100.00%	782	39.43%	2.3	–	0.00%	127	
Sub-total	**8,652**	**2,598**	**73.49%**	**10,564**	**5.34%**	**20,533**	**39.39%**	**2.8**	**7,386**	**69.92%**	**222**	**155**

PD Scale Corporate – SME	2018 Original on-balance sheet gross exposure £m	2018 Off balance sheet exposures pre CCF £m	2018 Average CCF %	2018 EAD post CRM and post CCF £m	2018 Average PD %	2018 Number of Obligors	2018 Average LGD %	2018 Average Maturity (years)	2018 RWA £m	2018 RWA density %	2018 EL £m	2018 Value adjustments and Provisions £m
	a	b	c	d	e	f	g	h	i	j	k	l
0.00 to <0.15	614	267	79.58%	849	0.08%	923	41.44%	2.9	176	20.78%	–	
0.15 to <0.25	128	187	75.53%	269	0.18%	218	43.27%	1.9	80	29.62%	–	
0.25 to <0.50	892	501	72.84%	1,248	0.37%	1,515	41.59%	2.4	592	47.46%	2	
0.50 to <0.75	1,567	451	69.58%	1,880	0.58%	4,388	38.87%	3.2	1,115	59.31%	4	
0.75 to <2.50	3,207	819	70.77%	3,786	1.24%	7,794	38.01%	3.0	2,724	71.94%	18	
2.50 to <10.00	2,597	425	72.29%	2,905	4.32%	5,061	38.36%	2.7	2,852	98.18%	48	
10.00 to <100.00	404	43	73.74%	433	18.81%	1,536	37.88%	2.6	623	143.88%	31	
100.00 (Default)	248	29	67.25%	267	100.00%	827	38.92%	2.2	–	–	104	
Sub-total	9,657	2,722	72.40%	11,638	4.62%	22,262	39.01%	2.8	8,162	70.14%	208	193

Key movements

– Exposures reduced by £1.1bn and risk-weighted assets by £0.8bn as a result of customer repayment offset by new business.
– Average PD increased solely as a result of a small increase 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 13 and 14, 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 27: IRB – Credit risk exposures by portfolio and PD range – Residential mortgages (SME) (CR6)

PD Scale Residential mortgages (SME)	2019 Original on-balance sheet gross exposure £m	2019 Off balance sheet exposures pre CCF £m	2019 Average CCF %	2019 EAD post CRM and post CCF £m	2019 Average PD %	2019 Number of Obligors	2019 Average LGD %	2019 RWA £m	2019 RWA density %	2019 EL £m	2019 Value adjustments and Provisions £m	2019 Undrawn commitments (post CCF) £m
	a	b	c	d	e	f	g	i	j	k	l	
0.00 to <0.15	–	–	–	–	–	–	–	–	–	–		–
0.15 to <0.25	–	–	–	–	–	–	–	–	–	–		–
0.25 to <0.50	–	–	–	–	–	–	–	–	–	–		–
0.50 to <0.75	2,983	269	97.10%	3,252	0.54%	24,017	17.41%	400	12.31%	3		261
0.75 to <2.50	2,957	286	97.58%	3,247	1.15%	21,517	16.58%	630	19.41%	6		279
2.50 to <10.00	1,243	74	97.27%	1,317	4.21%	8,714	17.12%	572	43.42%	10		72
10.00 to <100.00	352	13	96.36%	366	22.34%	3,291	18.38%	280	76.29%	15		12
100.00 (Default)	165	5	98.10%	171	100.00%	1,168	14.51%	154	89.78%	25		5
Sub-total	**7,700**	**646**	**97.33%**	**8,354**	**4.35%**	**58,707**	**17.03%**	**2,036**	**24.37%**	**59**	**83**	**629**
PD Scale Residential mortgages (SME)	2018 Original on-balance sheet gross exposure £m	2018 Off balance sheet exposures pre CCF £m	2018 Average CCF %	2018 EAD post CRM and post CCF £m	2018 Average PD %	2018 Number of Obligors	2018 Average LGD %	2018 RWA £m	2018 RWA density %	2018 EL £m	2018 Value adjustments and Provisions £m	2018 Undrawn commitments (post CCF) £m
	a	b	c	d	e	f	g	i	j	k	l	
0.00 to <0.15	–	–	–	–	–	–	–	–	–	–		–
0.15 to <0.25	–	–	–	–	–	–	–	–	–	–		–
0.25 to <0.50	–	–	–	–	–	–	–	–	–	–		–
0.50 to <0.75	3,187	299	97.24%	3,478	0.54%	25,642	17.54%	433	12.45%	3		291
0.75 to <2.50	3,390	311	97.71%	3,694	1.15%	23,572	16.47%	714	19.34%	7		304
2.50 to <10.00	1,367	83	97.38%	1,448	4.27%	9,544	17.25%	641	44.30%	11		81
10.00 to <100.00	396	19	97.50%	414	23.05%	3,313	17.74%	308	74.39%	17		18
100.00 (Default)	166	4	98.06%	170	100.00%	1,324	13.35%	172	101.47%	23		4
Sub-total	8,505	716	97.47%	9,204	4.22%	63,395	17.00%	2,269	24.65%	61	99	697

Pillar 1 Capital requirements: Credit risk continued

Table 28: IRB – Credit risk exposures by portfolio and PD range – Residential mortgages (non-SME) (CR6)

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

PD Scale Residential mortgages (non-SME)	2018 Original on-balance sheet gross exposure £m	2018 Off balance sheet exposures pre CCF £m	2018 Average CCF %	2018 EAD post CRM and post CCF £m	2018 Average PD %	2018 Number of Obligors	2018 Average LGD %	2018 RWA £m	2018 RWA density %	2018 EL £m	2018 Value adjustments and Provisions £m	2018 Undrawn commitments (post CCF) £m
	a	b	c	d	e	f	g	i	j	k	l	
0.00 to <0.15	232,731	10,951	98.04%	255,103	0.27%	2,190,785	10.35%	15,539	6.09%	85		10,737
0.15 to <0.25	24,340	249	75.86%	25,642	0.79%	209,034	10.41%	3,096	12.08%	23		189
0.25 to <0.50	14,822	147	80.01%	15,608	1.27%	124,494	10.92%	2,519	16.14%	21		117
0.50 to <0.75	3,941	15	72.54%	4,139	2.31%	37,428	11.75%	1,108	26.76%	10		11
0.75 to <2.50	6,607	544	69.58%	7,301	5.10%	58,297	11.47%	2,780	38.07%	40		379
2.50 to <10.00	4,335	16	100.00%	4,542	16.59%	37,596	10.66%	2,816	61.99%	80		16
10.00 to <100.00	2,782	–	–	2,856	51.24%	23,623	10.28%	1,710	59.87%	155		–
100.00 (Default)	3,405	–	–	3,405	100.00%	26,057	11.60%	1,447	42.50%	407		–
Sub-total	292,962	11,921	96.03%	318,596	2.25%	2,707,314	10.45%	31,015	9.73%	821	1,372	11,448

Key movements

– EAD post CRM and post CCF decreased by £2.5bn, partially due to model calibrations.
– RWA increased by £2.7bn, due to changes to the mortgage model and a change to the definition of default to include forborne non-performing past term interest only accounts.

Pillar 1 Capital requirements: Credit risk continued

Table 29: Residential mortgage exposures by major portfolio

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

Major Portfolio	2019 EAD pre CRM and post CCF £m	2019 Exposure weighted average PD %	2019 Exposure weighted average LGD[1] %	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

Major Portfolio	2018 EAD pre CRM and post CCF £m	2018 Exposure weighted average PD %	2018 Exposure weighted average LGD[1] %	2018 Average risk weight %	2018 Undrawn commitments (pre CCF)[2] £m	2018 Undrawn commitments (post CCF) £m
UK mainstream	241,548	2.20%	10.04%	8.96%	9,740	9,659
UK buy-to-let	54,766	1.39%	11.84%	12.49%	1,215	1,206
UK self certified	13,201	7.40%	8.37%	10.76%	454	233
Dutch mortgages	7,249	1.07%	16.68%	12.88%	512	349
Other mortgages	11,037	3.96%	16.17%	22.11%	716	698
Total	327,800	2.31%	10.63%	10.15%	12,637	12,146

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 2018 and 2019.

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

Pillar 1 Capital requirements: Credit risk continued

Table 30: IRB – Credit risk exposures by portfolio and PD range – Qualifying revolving retail exposures (CR6)

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

PD Scale Qualifying revolving retail exposures	2018 Original on-balance sheet gross exposure £m	2018 Off balance sheet exposures pre CCF £m	2018 Average CCF %	2018 EAD post CRM and post CCF £m	2018 Average PD %	2018 Number of Obligors	2018 Average LGD %	2018 RWA £m	2018 RWA density %	2018 EL £m	2018 Value adjustments and Provisions £m	2018 Undrawn commitments (post CCF) £m
	a	b	c	d	e	f	g	i	j	k	l	
0.00 to <0.15	771	13,928	65.48%	9,891	0.09%	8,019,751	62.75%	359	3.63%	6		9,120
0.15 to <0.25	554	6,461	64.12%	4,697	0.20%	3,822,377	67.76%	362	7.71%	6		4,143
0.25 to <0.50	1,443	9,952	58.88%	7,304	0.36%	5,294,693	71.33%	957	13.10%	19		5,860
0.50 to <0.75	1,201	4,240	61.37%	3,803	0.62%	3,053,183	75.12%	797	20.97%	18		2,602
0.75 to <2.50	3,962	5,501	70.86%	7,860	1.37%	6,495,278	78.91%	3,147	40.04%	85		3,898
2.50 to <10.00	2,485	1,329	85.87%	3,627	4.50%	1,847,413	79.94%	3,230	89.06%	130		1,141
10.00 to <100.00	653	115	117.32%	810	31.57%	599,867	77.13%	1,663	205.32%	197		135
100.00 (Default)	350	28	0.00%	350	100.00%	1,127,625	54.46%	780	222.95%	144		–
Sub-total	11,420	41,555	64.73%	38,342	2.46%	30,260,187	71.39%	11,294	29.46%	605	467	26,900

Key movements

– The implementation of an improved LGD model for HBOS Cards rating systems during 2019 has led to reduction in average LGD.

Pillar 1 Capital requirements: Credit risk continued

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

PD Scale Other SME	2019 Original on-balance sheet gross exposure £m	2019 Off balance sheet exposures pre CCF £m	2019 Average CCF %	2019 EAD post CRM and post CCF £m	2019 Average PD %	2019 Number of Obligors	2019 Average LGD %	2019 RWA £m	2019 RWA density %	2019 EL £m	2019 Value adjustments and Provisions £m	2019 Undrawn commitments (post CCF) £m
	a	b	c	d	e	f	g	i	j	k	l	
0.00 to <0.15	–	–	–	–	–	–	–	–	–	–		–
0.15 to <0.25	–	–	–	–	–	–	–	–	–	–		–
0.25 to <0.50	–	–	–	–	–	–	–	–	–	–		–
0.50 to <0.75	301	367	99.99%	668	0.54%	57,530	77.92%	316	47.39%	3		367
0.75 to <2.50	439	348	99.99%	787	1.15%	61,956	77.70%	523	66.48%	7		348
2.50 to <10.00	293	127	99.99%	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

PD Scale Other SME	2018 Original on-balance sheet gross exposure £m	2018 Off balance sheet exposures pre CCF £m	2018 Average CCF %	2018 EAD post CRM and post CCF £m	2018 Average PD %	2018 Number of Obligors	2018 Average LGD %	2018 RWA £m	2018 RWA density %	2018 EL £m	2018 Value adjustments and Provisions £m	2018 Undrawn commitments (post CCF) £m
	a	b	c	d	e	f	g	i	j	k	l	
0.00 to <0.15	–	–	–	–	–	–	–	–	–	–		–
0.15 to <0.25	–	–	–	–	–	–	–	–	–	–		–
0.25 to <0.50	–	–	–	–	–	–	–	–	–	–		–
0.50 to <0.75	301	380	100.00%	681	0.54%	58,941	78.37%	354	52.06%	3		380
0.75 to <2.50	461	344	100.00%	805	1.14%	62,191	77.41%	554	68.84%	7		344
2.50 to <10.00	308	109	100.00%	418	4.45%	32,695	78.22%	401	96.09%	15		109
10.00 to <100.00	110	23	100.00%	133	25.00%	32,949	85.14%	184	137.74%	29		23
100.00 (Default)	194	4	100.00%	198	100.00%	9,747	13.37%	87	44.09%	26		4
Sub-total	1,375	859	100.00%	2,234	11.76%	196,523	72.64%	1,581	70.74%	80	58	859

Pillar 1 Capital requirements: Credit risk continued

Table 32: IRB – Credit risk exposures by portfolio and PD range – Retail Other non-SME (CR6)

PD Scale Other non-SME	2019 Original on-balance sheet gross exposure £m	2019 Off balance sheet exposures pre CCF £m	2019 Average CCF %	2019 EAD post CRM and post CCF £m	2019 Average PD %	2019 Number of Obligors	2019 Average LGD %	2019 RWA £m	2019 RWA density %	2019 EL £m	2019 Value adjustments and Provisions £m	2019 Undrawn commitments (post CCF) £m
	a	b	c	d	e	f	g	i	j	k	l	
0.00 to <0.15	437	–	30.00%	438	0.08%	27,802	34.27%	39	8.83%	–		–
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	5,489	6	30.00%	5,503	0.37%	499,573	37.13%	1,465	26.63%	11		2
0.50 to <0.75	3,326	6	30.00%	3,338	0.71%	276,662	44.14%	1,462	43.79%	13		2
0.75 to <2.50	6,655	22	30.00%	6,703	1.54%	714,269	64.55%	5,594	83.46%	73		7
2.50 to <10.00	3,834	14	30.00%	3,861	4.48%	438,524	66.38%	4,115	106.56%	124		4
10.00 to <100.00	738	4	30.00%	745	31.74%	97,734	58.44%	998	133.93%	151		1
100.00 (Default)	286	–	–	286	100.00%	114,837	49.83%	713	249.65%	99		–
Sub-total	20,852	54	30.00%	20,965	4.02%	2,190,929	53.44%	14,417	68.76%	471	620	16

PD Scale Other non-SME	2018 Original on-balance sheet gross exposure £m	2018 Off balance sheet exposures pre CCF £m	2018 Average CCF %	2018 EAD post CRM and post CCF £m	2018 Average PD %	2018 Number of Obligors	2018 Average LGD %	2018 RWA £m	2018 RWA density %	2018 EL £m	2018 Value adjustments and Provisions £m	2018 Undrawn commitments (post CCF) £m
	a	b	c	d	e	f	g	i	j	k	l	
0.00 to <0.15	306	–	–	307	0.08%	21,322	34.64%	27	8.83%	–		–
0.15 to <0.25	91	2	30.00%	94	0.22%	18,553	77.02%	34	35.69%	–		1
0.25 to <0.50	4,622	7	30.00%	4,635	0.37%	441,562	39.07%	1,279	27.58%	7		2
0.50 to <0.75	3,011	7	30.00%	3,024	0.71%	290,943	47.96%	1,403	46.41%	10		2
0.75 to <2.50	7,400	27	30.00%	7,452	1.52%	788,745	61.27%	5,911	79.32%	73		8
2.50 to <10.00	2,995	14	30.00%	3,020	4.35%	363,522	66.61%	3,222	106.68%	93		4
10.00 to <100.00	599	3	30.00%	605	33.20%	81,692	56.06%	804	132.84%	127		1
100.00 (Default)	279	–	–	279	100.00%	143,293	50.08%	683	245.07%	87		–
Sub-total	19,302	61	30.00%	19,417	3.93%	2,149,632	54.06%	13,362	68.82%	398	490	18

Key movements

– EAD post CRM and post has increased by CCF £1.5bn, respectively, due to growth in the UK Motor Finance business and Personal Loans.

– Risk weighted assets increased by £1.1bn due to increased exposure and model refinement and calibration.

Pillar 1 Capital requirements: Credit risk continued

ANALYSIS OF CREDIT RISK EXPOSURES SUBJECT TO OTHER IRB APPROACHES

Corporate specialised lending exposures subject to supervisory slotting

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

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

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

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

As at 31 December 2019, corporate specialised lending exposures subject to supervisory slotting amounted to £12.6bn (2018: £16.0bn). Risk-weighted assets arising from this amounted to £9.1bn (2018: £11.8bn) 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 33A: IRB – Specialised lending (CR10)

		2019					
		Specialised lending					
Regulatory Categories	Remaining maturity	On-balance sheet amount £m	Off-balance sheet amount £m	RW %	EAD post CRM and post CCF £m	RWA £m	Expected losses £m
1) Strong	Less than 2.5 years	2,458	539	50%	2,639	1,320	–
	Equal to or more than 2.5 years	3,051	1,032	70%	3,846	2,691	15
2) Good	Less than 2.5 years	1,734	414	70%	2,085	1,459	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	405	17	115%	434	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	4,503	971		5,102	2,971	120
	Equal to or more than 2.5 years	6,222	1,501		7,471	6,103	90

		2018					
		Specialised lending					
Regulatory Categories	Remaining maturity	On-balance sheet amount £m	Off-balance sheet amount £m	RW %	EAD post CRM and post CCF £m	RWA £m	Expected losses £m
1) Strong	Less than 2.5 years	3,069	970	50%	3,634	1,817	–
	Equal to or more than 2.5 years	2,586	858	70%	3,181	2,226	13
2) Good	Less than 2.5 years	2,284	631	70%	2,809	1,965	11
	Equal to or more than 2.5 years	4,817	609	90%	5,331	4,794	43
3) Satisfactory	Less than 2.5 years	98	12	115%	110	125	3
	Equal to or more than 2.5 years	543	16	115%	592	677	17
4) Weak	Less than 2.5 years	8	1	250%	8	20	1
	Equal to or more than 2.5 years	66	–	250%	72	180	6
5) Default	Less than 2.5 years	121	4	0%	228	–	114
	Equal to or more than 2.5 years	56	3	0%	85	–	43
Total	Less than 2.5 years	5,579	1,619		6,788	3,927	129
	Equal to or more than 2.5 years	8,068	1,486		9,260	7,877	120

Key movements

- Exposures reduced by £3.5bn and risk-weighted assets reduced by £2.7bn principally as a result of securitisation activity.

Pillar 1 Capital requirements: Credit risk continued

ANALYSIS OF EQUITY EXPOSURES

EQUITY EXPOSURES SUBJECT TO THE SIMPLE RISK WEIGHT METHOD

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

As at 31 December 2019, total credit risk exposures in respect of equities subject to the Simple Risk Weight Method amounted to £3.1bn (2018: £2.7bn). Risk-weighted assets arising from this amounted to £6.7bn (2018: £5.7bn).

Table 33B: Equity exposures subject to the simple risk weight method (CR10)

2019

	Equities under the simple risk-weight approach					
Categories	On-balance sheet amount £m	Off-balance sheet amount £m	RW %	EAD post CRM and post CCF £m	RWA £m	Capital requirements £m
Exchange-traded equity exposures	37	–	290%	37	107	9
Private equity exposures[1]	2,567	55	190%	2,622	4,982	399
Other equity exposures	427	–	370%	427	1,578	126
Total	3,030	55		3,085	6,666	533

2018

	Equities under the simple risk-weight approach					
Categories	On-balance sheet amount £m	Off-balance sheet amount £m	RW %	EAD post CRM and post CCF £m	RWA £m	Capital requirements £m
Exchange-traded equity exposures	53	–	290%	53	154	12
Private equity exposures[1]	2,280	52	190%	2,332	4,431	354
Other equity exposures	314	–	370%	314	1,163	93
Total	2,648	52		2,700	5,749	460

1 The Group's private equity investments predominantly consist of venture capital investments, the equity component of which is reflected through both equity exposures (Table 33B) and the analysis of non-trading book exposures in equities (Table 34). Equity exposures in Table 33B also include the investment in debt securities issued by venture capital entities.

Non-trading book exposures in equities

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

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

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

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

Financial assets at fair value through other comprehensive income, Note 2 (Accounting Policies) of the 2019 Lloyds Banking Group plc Annual Report and Accounts.

Equity investments (including venture capital), Note 50 (Financial Instruments) of the 2019 Lloyds Banking Group plc Annual Report and Accounts.

The balance sheet value of non-trading book exposures in equities, as at 31 December 2019, is presented in the table below. There was no difference between the balance sheet value and the fair value of these exposures.

Table 34: Analysis of non-trading book exposures in equities

Equity grouping	2019 Balance sheet value £m	2018 Balance sheet value £m
Publicly quoted equities	27	37
Privately held equities	2,171	1,624
Total	2,198	1,661

There were no realised gains or losses (2018: £129m realised losses) recognised in the year to 31 December 2019 in respect of the sale and liquidation of non-trading book exposures in equities (assets at fair value through other comprehensive income).

As at 31 December 2019, there were £0.3m of unrealised losses on equity investments at fair value through other comprehensive income (2018: £nil).

Pillar 1 Capital requirements: Credit risk continued

ANALYSIS OF CREDIT RISK EXPOSURES SUBJECT TO THE STANDARDISED APPROACH

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

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

As at 31 December 2019, credit risk exposures risk-weighted under the Standardised Approach post-CCF and CRM, amounted to £103.7bn (2018: £99.6bn), generating risk-weighted assets of £23.9bn (2018: £25.5bn).

Table 35: Standardised approach – credit risk exposure and Credit Risk Mitigation (CRM) effects (CR4)

		2019					
		Exposures pre CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
		On balance sheet amount £m	Off balance sheet amount £m	On balance sheet amount £m	Off balance sheet amount £m	RWA £m	RWA density[1] %
		a	b	c	d	e	f
1	Central governments or central banks[2]	56,823	1	57,103	406	–	–
2	Regional governments or local authorities[2]	476	–	476	–	28	6%
3	Public sector entities[2]	4,169	–	4,169	–	1	–
4	Multilateral development banks	6,243	–	6,243	–	–	–
5	International organisations	–	–	–	–	–	–
6	Institutions	131	–	236	824	64	6%
7	Corporates	7,688	4,866	7,523	1,891	8,309	88%
8	Retail	11,877	21,824	11,877	269	8,662	71%
9	Secured by mortgages on immovable property	7,581	9	7,581	4	2,655	35%
	of which: residential property	7,580	9	7,580	4	2,654	35%
	of which: commercial property	1	–	1	–	1	100%
10	Exposures in default	1,139	234	1,139	54	1,296	109%
11	Items associated with particularly high risk	–	–	–	–	–	–
12	Covered bonds	–	–	–	–	–	–
13	Claims on institutions and corporates with a short-term credit assessment	–	–	–	–	–	–
14	Collective investment undertakings	711	–	711	–	142	20%
15	Equity exposures	–	–	–	–	–	–
16	Other items	3,185	–	3,185	–	2,696	85%
17	**Total**	100,024	26,935	100,243	3,449	23,853	23%

		2018					
		Exposures pre CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
		On balance sheet amount £m	Off balance sheet amount £m	On balance sheet amount £m	Off balance sheet amount £m	RWA £m	RWA density[1] %
		a	b	c	d	e	f
1	Central governments or central banks[2]	61,428	1	61,608	468	4	–
2	Regional governments or local authorities[2]	5	–	5	–	1	20%
3	Public sector entities[2]	1	40	1	20	21	100%
4	Multilateral development banks	2,974	–	2,974	–	–	–
5	International organisations	–	–	–	–	–	–
6	Institutions	160	–	193	580	67	9%
7	Corporates	8,162	8,527	7,773	3,120	9,887	91%
8	Retail	12,098	20,332	12,098	196	8,842	72%
9	Secured by mortgages on immovable property	4,500	9	4,500	5	1,578	35%
	of which: residential property	4,498	9	4,498	5	1,576	35%
	of which: commercial property	2	–	2	–	2	100%
10	Exposures in default	1,570	98	1,570	72	2,186	133%
11	Items associated with particularly high risk	–	–	–	–	–	–
12	Covered bonds	–	–	–	–	–	–
13	Claims on institutions and corporates with a short-term credit assessment	–	–	–	–	–	–
14	Collective investment undertakings	716	–	716	–	143	20%
15	Equity exposures	–	–	–	–	–	–
16	Other items	3,680	–	3,680	–	2,819	77%
17	**Total**	95,295	29,008	95,119	4,461	25,548	26%

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

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

Key movements

– The reduction in RWA density is mainly driven by an increase in exposures to multilateral development banks and lower exposure to corporates, exposures in default and other items.

Pillar 1 Capital requirements: Credit risk continued

Table 36: Standardised approach – exposures by asset classes and risk weights (post CCF and post CRM) (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 exposures to central governments or central banks, regional governments or local authorities, and public sector entities within the UK and EEA that receive a zero per cent risk weight in line with regulatory permission.

		2019 Risk Weight																
	Exposure Classes	**0% £m**	**2% £m**	**4% £m**	**10% £m**	**20% £m**	**35% £m**	**50% £m**	**70% £m**	**75% £m**	**100% £m**	**150% £m**	**250% £m**	**370% £m**	**1250% £m**	**Others £m**	**Total £m**	**Of which: Unrated £m**
1	Central governments or central banks[1]	**57,509**	–	–	–	–	–	–	–	–	–	–	–	–	–	–	**57,509**	**57,184**
2	Regional government or local authorities[1]	**335**	–	–	–	**141**	–	–	–	–	–	–	–	–	–	–	**476**	–
3	Public sector entities[1]	**4,169**	–	–	–	–	–	–	–	–	**1**	–	–	–	–	–	**4,169**	**1**
4	Multilateral development banks	**6,243**	–	–	–	–	–	–	–	–	–	–	–	–	–	–	**6,243**	**6,243**
5	International organisations	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
6	Institutions	–	–	**929**	–	**129**	–	**2**	–	–	–	–	–	–	–	–	**1,061**	**978**
7	Corporates	–	–	–	–	**20**	–	**1,762**	–	–	**7,618**	**15**	–	–	–	–	**9,414**	**7,340**
8	Retail	–	–	–	–	–	–	–	–	**12,146**	–	–	–	–	–	–	**12,146**	**12,146**
9	Secured by mortgages on immovable property	–	–	–	–	–	**7,584**	–	–	–	**1**	–	–	–	–	–	**7,585**	**7,585**
	of which: residential property	–	–	–	–	–	**7,584**	–	–	–	–	–	–	–	–	–	**7,584**	**7,584**
	of which: commercial property	–	–	–	–	–	–	–	–	–	**1**	–	–	–	–	–	**1**	**1**
10	Exposures in default	–	–	–	–	–	–	–	–	–	**988**	**205**	–	–	–	–	**1,193**	**1,193**
11	Items associated with particularly high risk	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
12	Covered bonds	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
13	Claims on institutions and corporates with a short-term credit assessment	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
14	Collective investment undertakings	–	–	–	–	**711**	–	–	–	–	–	–	–	–	–	–	**711**	–
15	Equity	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
16	Other items	**135**	–	–	–	**444**	–	–	–	–	**2,607**	–	–	–	–	–	**3,185**	**3,185**
17	**Total**	**68,390**	–	**929**	–	**1,445**	**7,584**	**1,764**	–	**12,146**	**11,215**	**220**	–	–	–	–	**103,692**	**95,856**

		2018 Risk Weight																
	Exposure Classes	0% £m	2% £m	4% £m	10% £m	20% £m	35% £m	50% £m	70% £m	75% £m	100% £m	150% £m	250% £m	370% £m	1250% £m	Others £m	Total £m	Of which: Unrated £m
1	Central governments or central banks[1]	62,058	–	–	–	19	–	–	–	–	–	–	–	–	–	–	62,077	58,522
2	Regional government or local authorities[1]	–	–	–	–	5	–	–	–	–	–	–	–	–	–	–	5	5
3	Public sector entities[1]	–	–	–	–	–	–	–	–	–	21	–	–	–	–	–	21	21
4	Multilateral development banks	2,974	–	–	–	–	–	–	–	–	–	–	–	–	–	–	2,974	2,974
5	International organisations	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
6	Institutions	–	–	613	–	124	–	36	–	–	–	–	–	–	–	–	773	655
7	Corporates	–	–	–	–	123	–	1,252	–	–	9,501	16	–	–	–	–	10,892	9,405
8	Retail	–	–	–	–	–	–	–	–	12,294	–	–	–	–	–	–	12,294	12,294
9	Secured by mortgages on immovable property	–	–	–	–	–	4,503	–	–	–	2	–	–	–	–	–	4,505	4,505
	of which: residential property	–	–	–	–	–	4,503	–	–	–	–	–	–	–	–	–	4,503	4,503
	of which: commercial property	–	–	–	–	–	–	–	–	–	2	–	–	–	–	–	2	2
10	Exposures in default	–	–	–	–	–	–	–	–	–	525	1,117	–	–	–	–	1,642	1,642
11	Items associated with particularly high risk	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
12	Covered bonds	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
13	Claims on institutions and corporates with a short-term credit assessment	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
14	Collective investment undertakings	–	–	–	–	716	–	–	–	–	–	–	–	–	–	–	716	–
15	Equity	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
16	Other items	122	–	–	–	924	–	–	–	–	2,634	–	–	–	–	–	3,680	3,680
17	**Total**	65,154	–	613	–	1,911	4,503	1,288	–	12,294	12,682	1,133	–	–	–	–	99,580	93,704

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

Pillar 1 Capital requirements: Credit risk continued

ANALYSIS OF CREDIT RISK EXPOSURES BY GEOGRAPHY

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

Table 37: Geographical breakdown of exposures (CRB-C)

	2019 United Kingdom £m	2019 Rest of Europe £m	2019 United States of America £m	2019 Asia-Pacific £m	2019 Other £m	2019 Total £m
Central governments or central banks	11	–	8,304	–	647	8,961
Institutions	3,690	1,476	425	1,211	1,826	8,629
Corporates	69,130	10,735	8,569	293	2,831	91,558
of which: Specialised lending	10,493	1,585	50	1	736	12,866
of which: SMEs	10,491	26	–	–	47	10,564
Retail	379,161	7,623	–	1	4	386,788
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	65	–	–	–	23,202
SMEs	2,236	–	–	–	–	2,237
Non-SMEs	20,901	64	–	–	–	20,965
Equity	2,576	128	382	–	–	3,085
Non-credit oligation assets	11,128	39	–	–	–	11,167
Total IRB approach	465,695	20,001	17,680	1,505	5,308	510,189
Central governments or central banks[1]	47,401	9,422	–	–	–	56,824
Regional governments or local authorities[1]	–	335	–	–	141	476
Public sector entities[1]	1	4,169	–	–	–	4,169
Multilateral development banks	–	–	–	–	6,243	6,243
International organisations	–	–	–	–	–	–
Institutions	106	63	2	–	–	171
Corporates	6,254	1,434	1,473	284	253	9,698
Retail	11,436	699	2	6	4	12,146
Secured by mortgages on immovable property	6,930	191	66	309	89	7,585
Exposures in default	559	31	4	13	585	1,193
Items associated with particularly high risk	–	–	–	–	–	–
Covered bonds	–	–	–	–	–	–
Claims on institutions and corporates with a short-term credit assessment	–	–	–	–	–	–
Collective investments undertakings	711	–	–	–	–	711
Equity exposures	–	–	–	–	–	–
Other exposures	3,054	68	–	5	58	3,185
Total standardised approach	76,454	16,412	1,547	619	7,371	102,402
Total	542,149	36,413	19,227	2,123	12,679	612,591

Pillar 1 Capital requirements: Credit risk continued

	2018 United Kingdom £m	2018 Rest of Europe £m	2018 United States of America £m	2018 Asia-Pacific £m	2018 Other £m	2018 Total £m
Central governments or central banks	433	–	11,625	–	377	12,435
Institutions	2,534	676	435	974	1,335	5,954
Corporates	78,844	11,373	9,923	475	2,752	103,367
of which: Specialised lending	13,294	2,062	370	1	622	16,351
of which: SMEs	11,552	30	–	–	56	11,638
Retail	380,467	7,319	–	1	6	387,793
Secured by real estate property	320,539	7,255	–	1	5	327,800
SMEs	9,192	6	–	1	5	9,204
Non-SMEs	311,348	7,249	–	–	–	318,596
Qualifying revolving	38,342	–	–	–	–	38,342
Other retail	21,586	64	–	–	1	21,651
SMEs	2,234	–	–	–	1	2,234
Non-SMEs	19,353	64	–	–	–	19,417
Equity	2,367	64	268	1	–	2,700
Non-credit oligation assets	9,919	15	–	–	–	9,933
Total IRB approach	474,564	19,447	22,251	1,450	4,470	522,181
Central governments or central banks[1]	51,506	9,903	–	–	19	61,428
Regional governments or local authorities[1]	5	–	–	–	–	5
Public sector entities[1]	21	–	–	–	–	21
Multilateral development banks	–	–	–	–	2,974	2,974
International organisations	–	–	–	–	–	–
Institutions	42	82	36	–	–	161
Corporates	7,067	1,674	1,720	532	317	11,310
Retail	11,664	617	2	7	5	12,294
Secured by mortgages on immovable property	3,736	221	76	362	109	4,505
Exposures in default	687	35	5	11	904	1,642
Items associated with particularly high risk	–	–	–	–	–	–
Covered bonds	–	–	–	–	–	–
Claims on institutions and corporates with a short-term credit assessment	–	–	–	–	–	–
Collective investments undertakings	716	–	–	–	–	716
Equity exposures	–	–	–	–	–	–
Other exposures	3,522	92	–	5	62	3,680
Total standardised approach	78,965	12,624	1,840	917	4,390	98,736
Total	553,529	32,070	24,091	2,367	8,860	620,917

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

Pillar 1 Capital requirements: Credit risk continued

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

Table 38: Exposures subject to the IRB approach analysed by geographical region

	2019 United Kingdom			2019 Rest of Europe			2019 United States of America			2019 Asia–Pacific			2019 Other			2019 Total		
	EAD pre CRM and post CCF £m	LGD %	PD %	EAD pre CRM and post CCF £m	LGD %	PD %	EAD pre CRM and post CCF £m	LGD %	PD %	EAD pre CRM and post CCF £m	LGD %	PD %	EAD pre CRM and post CCF £m	LGD %	PD %	EAD pre CRM and post CCF £m	LGD %	PD %
Exposures subject to the IRB approach																		
Foundation IRB approach																		
Central governments or central banks	11		0.01%	–		0.00%	8,304		0.01%	–		0.00%	647		0.03%	8,961		0.01%
Institutions	3,690		0.11%	1,476		0.08%	425		0.06%	1,211		0.10%	1,826		0.09%	8,629		0.09%
Corporate – main	48,145		3.31%	9,124		0.26%	8,519		0.25%	292		0.14%	2,048		0.16%	68,128		2.42%
Corporate – SME	10,491		5.37%	26		1.01%	–		–	–		–	47		1.40%	10,564		5.34%
Corporate – specialised lending[1]	–		4.91%	–		–	–		–	–		–	–		0.00%	–		4.91%
Total – Foundation IRB approach	62,337		3.47%	10,626		0.23%	17,248		0.13%	1,503		0.10%	4,568		0.13%	96,283		2.31%
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%	–	82.35%	1.25%	–	86.47%	4.03%	–	81.67%	2.59%	2,237	73.30%	11.54%
Other non–SME	20,901	53.48%	4.03%	64	37.71%	1.03%	–	–	–	–	–	–	–	–	–	20,965	53.44%	4.02%
Total – Retail IRB approach	379,161	19.06%	2.35%	7,623	15.89%	0.81%	–	82.35%	1.25%	1	20.06%	1.66%	4	12.87%	11.39%	386,788	19.00%	2.32%

	2018 United Kingdom			2018 Rest of Europe			2018 United States of America			2018 Asia-Pacific			2018 Other			2018 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	433		0.03%	–		–	11,625		0.01%	–		–	377		0.01%	12,435		0.01%
Institutions	2,534		0.13%	676		0.30%	435		0.11%	974		0.29%	1,335		0.17%	5,954		0.18%
Corporate – main	53,997		2.51%	9,280		0.28%	9,553		0.20%	474		0.16%	2,074		0.40%	75,378		1.88%
Corporate – SME	11,552		4.65%	30		1.35%	–		–	–		–	56		0.72%	11,638		4.62%
Corporate – specialised lending[1]	3		1.42%	–		–	–		–	–		–	–		–	3		1.42%
Total – Foundation IRB approach	68,520		2.78%	9,986		0.29%	21,613		0.09%	1,448		0.25%	3,842		0.30%	105,408		1.87%
Retail IRB approach																		
Retail mortgages	320,539	10.49%	2.34%	7,255	16.68%	1.07%	–	–	–	1	12.17%	4.80%	5	13.03%	6.99%	327,800	10.63%	2.31%
of which: residential mortgages (SME)	9,192	17.00%	4.22%	6	12.47%	1.84%	–	–	–	1	12.17%	4.80%	5	13.03%	6.99%	9,204	17.00%	4.22%
of which: residential mortgages (non-SME)	311,348	10.30%	2.28%	7,249	16.68%	1.07%	–	–	–	–	–	–	–	–	–	318,596	10.45%	2.25%
Qualifying revolving retail exposures	38,342	71.39%	2.46%	–	–	–	–	–	–	–	–	–	–	–	–	38,342	71.39%	2.46%
Other SME	2,234	72.64%	11.76%	–	–	–	–	–	–	–	–	–	1	75.62%	0.57%	2,234	72.64%	11.76%
Other non-SME	19,353	54.11%	3.94%	64	40.28%	1.76%	–	–	–	–	–	–	–	–	–	19,417	54.06%	3.93%
Total – Retail IRB approach	380,467	19.21%	2.49%	7,319	16.89%	1.08%	–	–	–	1	12.17%	4.80%	6	18.73%	6.41%	387,793	19.17%	2.46%

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 33A on page 59).

Pillar 1 Capital requirements: Credit risk continued

ANALYSIS OF CREDIT RISK EXPOSURES BY INDUSTRY

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

Table 39: Concentration of exposures by industry (CRB-D)

	2019 Agriculture, forestry and fishing £m	2019 Energy and water supply £m	2019 Manufacturing £m	2019 Construction £m	2019 Transport, distribution and hotels £m	2019 Postal and comms £m	2019 Property companies £m	2019 Financial, business and other services £m	2019 Personal: mortgages £m	2019 Personal: other £m	2019 Lease financing £m	2019 Hire purchase £m	2019 Total £m
Central governments or central banks	–	–	–	–	–	–	–	8,961	–	–	–	–	8,961
Institutions	–	–	–	–	–	–	–	8,505	–	–	60	64	8,629
Corporates	1,213	3,444	10,913	4,226	14,595	757	19,283	31,961	–	7	1,968	3,189	91,558
of which: Specialised lending	–	616	208	393	1,019	139	9,735	463	–	–	293	–	12,866
of which: SMEs	1,007	75	1,316	595	2,334	81	1,296	3,483	–	–	1	377	10,564
Retail	1,524	6	454	581	1,912	35	3,606	2,468	316,073	47,993	–	12,136	386,788
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	–	8,833	–	12,136	23,202
SMEs	206	2	166	324	531	15	220	770	–	3	–	–	2,237
Non-SMEs	–	–	–	–	–	–	–	–	–	8,829	–	12,136	20,965
Equity	–	31	380	93	343	404	83	1,751	–	–	–	–	3,085
Non-credit oligation assets													11,167
Total IRB approach	2,737	3,480	11,747	4,900	16,850	1,197	22,972	53,647	316,073	48,000	2,028	15,389	510,189
Central governments or central banks[1]	–	–	–	–	–	–	–	56,788	–	–	35	1	56,824
Regional governments or local authorities[1]	–	–	–	–	–	–	–	476	–	–	–	–	476
Public sector entities[1]	–	–	–	–	–	–	–	4,169	–	–	–	–	4,169
Multilateral development banks	–	–	–	–	–	–	–	6,243	–	–	–	–	6,243
International organisations	–	–	–	–	–	–	–	–	–	–	–	–	–
Institutions	–	–	–	–	–	–	–	165	–	–	6	–	171
Corporates	2,424	177	940	107	1,728	23	1,029	2,764	4	224	216	63	9,698
Retail	1,432	5	33	46	190	2	219	223	127	8,787	220	862	12,146
Secured by mortgages on immovable property	–	–	–	–	–	–	1	2	7,582	–	–	–	7,585
Exposures in default	30	–	17	1	586	–	4	5	362	184	1	4	1,193
Items associated with particularly high risk	–	–	–	–	–	–	–	–	–	–	–	–	–
Covered bonds	–	–	–	–	–	–	–	–	–	–	–	–	–
Claims on institutions and corporates with a short-term credit assessment	–	–	–	–	–	–	–	–	–	–	–	–	–
Collective investments undertakings	–	–	–	–	–	–	–	711	–	–	–	–	711
Equity exposures	–	–	–	–	–	–	–	–	–	–	–	–	–
Other exposures													3,185
Total standardised approach	3,887	181	990	154	2,504	25	1,253	71,546	8,075	9,195	478	929	102,402
Total	6,624	3,662	12,737	5,054	19,354	1,222	24,225	125,193	324,147	57,195	2,506	16,318	612,591

Pillar 1 Capital requirements: Credit risk continued

	2018 Agriculture, forestry and fishing £m	2018 Energy and water supply £m	2018 Manufacturing £m	2018 Construction £m	2018 Transport, distribution and hotels £m	2018 Postal and comms £m	2018 Property companies £m	2018 Financial, business and other services £m	2018 Personal: mortgages £m	2018 Personal: other £m	2018 Lease financing £m	2018 Hire purchase £m	2018 Total £m
Central governments or central banks	–	–	–	–	–	–	–	12,435	–	–	–	–	12,435
Institutions	–	–	–	–	–	–	–	5,808	–	–	73	73	5,954
Corporates	1,482	3,950	12,051	4,477	16,440	1,504	24,312	34,001	–	–	2,104	3,046	103,367
of which: Specialised lending	10	954	304	152	1,145	140	12,661	687	–	–	299	–	16,351
of which: SMEs	1,248	60	1,429	554	2,616	56	1,628	3,645	–	–	35	367	11,638
Retail	1,637	7	492	595	2,032	37	4,054	2,580	318,596	46,582	–	11,181	387,793
Secured by real estate property	1,435	5	326	282	1,513	23	3,820	1,799	318,596	1	–	–	327,800
SMEs	1,435	5	326	282	1,513	23	3,820	1,799	–	1	–	–	9,204
Non-SMEs	–	–	–	–	–	–	–	–	318,596	–	–	–	318,596
Qualifying revolving	–	–	–	–	–	–	–	–	–	38,342	–	–	38,342
Other retail	202	2	166	313	519	14	233	781	–	8,239	–	11,181	21,651
SMEs	202	2	166	313	519	14	233	781	–	3	–	–	2,234
Non-SMEs	–	–	–	–	–	–	–	–	–	8,236	–	11,181	19,417
Equity	–	–	370	106	281	307	68	1,568	–	–	–	–	2,700
Non-credit oligation assets													9,933
Total IRB approach	3,119	3,956	12,913	5,178	18,752	1,848	28,434	56,392	318,596	46,582	2,177	14,300	522,181
Central governments or central banks[1]	–	–	–	–	–	–	–	61,380	–	–	47	1	61,428
Regional governments or local authorities[1]	–	–	–	–	–	–	–	5	–	–	–	–	5
Public sector entities[1]	–	–	–	–	–	–	–	21	–	–	–	–	21
Multilateral development banks	–	–	–	–	–	–	–	2,974	–	–	–	–	2,974
International organisations	–	–	–	–	–	–	–	–	–	–	–	–	–
Institutions	–	–	–	–	–	–	–	155	–	–	5	–	161
Corporates	2,128	345	1,485	91	2,318	320	962	3,176	4	179	242	59	11,310
Retail	1,293	4	17	18	128	1	202	168	107	9,307	248	801	12,294
Secured by mortgages on immovable property	–	–	–	–	–	–	1	3	4,500	–	–	–	4,505
Exposures in default	36	–	3	7	914	–	33	23	433	190	1	3	1,642
Items associated with particularly high risk	–	–	–	–	–	–	–	–	–	–	–	–	–
Covered bonds	–	–	–	–	–	–	–	–	–	–	–	–	–
Claims on institutions and corporates with a short-term credit assessment	–	–	–	–	–	–	–	–	–	–	–	–	–
Collective investments undertakings	–	–	–	–	–	–	–	716	–	–	–	–	716
Equity exposures	–	–	–	–	–	–	–	–	–	–	–	–	–
Other exposures													3,680
Total standardised approach	3,457	349	1,505	116	3,361	321	1,198	68,622	5,044	9,676	543	864	98,736
Total	6,577	4,305	14,419	5,295	22,113	2,168	29,631	125,014	323,640	56,258	2,720	15,164	620,917

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

Pillar 1 Capital requirements: Credit risk continued

ANALYSIS OF CREDIT RISK EXPOSURES BY RESIDUAL MATURITY

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

Table 40: Maturity of exposures (CRB-E)

	2019					
	Net exposure value					
	On demand £m	<= 1 year £m	> 1 year <= 5 years £m	> 5 years £m	No stated maturity £m	Total £m
Central governments or central banks	–	6,217	687	2,058	–	8,961
Institutions	1,625	4,532	2,033	439	–	8,629
Corporates	6,203	24,886	48,140	12,328	–	91,558
of which: Specialised lending	99	2,528	6,944	3,294	–	12,866
of which: SMEs	770	3,275	2,845	3,674	–	10,564
Retail	41,123	18,852	36,767	290,046	–	386,788
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	3,364	17,551	2,121	–	23,202
SMEs	136	1,133	237	731	–	2,237
Non-SMEs	29	2,232	17,314	1,391	–	20,965
Equity	–	–	–	–	3,085	3,085
Non-credit obligation assets	1,377	1,096	1,742	72	6,880	11,167
Total IRB approach	50,328	55,583	89,369	304,943	9,965	510,189
Central governments or central banks[1]	46,029	574	5,943	4,278	–	56,824
Regional governments or local authorities[1]	–	55	280	141	–	476
Public sector entities[1]	–	306	3,241	623	–	4,169
Multilateral development banks	–	129	4,440	1,674	–	6,243
International organisations	–	–	–	–	–	–
Institutions	74	74	24	0	–	171
Corporates	408	1,617	3,089	4,584	–	9,698
Retail	7,816	423	1,848	2,059	–	12,146
Secured by mortgages on immovable property	842	152	547	6,044	–	7,585
Exposures in default	131	668	78	317	–	1,193
Items associated with particularly high risk	–	–	–	–	–	–
Covered bonds	–	–	–	–	–	–
Claims on institutions and corporates with a short-term credit assessment	–	–	–	–	–	–
Collective investments undertakings	–	–	–	–	711	711
Equity exposures	–	–	–	–	–	–
Other exposures	201	396	429	250	1,910	3,185
Total standardised approach	55,500	4,394	19,918	19,970	2,620	102,402
Total	105,829	59,976	109,287	324,913	12,586	612,591

Pillar 1 Capital requirements: Credit risk continued

	2018					
	Net exposure value					
	On demand £m	<= 1 year £m	> 1 year <= 5 years £m	> 5 years £m	No stated maturity £m	Total £m
Central governments or central banks	–	8,660	1,731	2,044	–	12,435
Institutions	1,442	2,905	1,514	92	–	5,954
Corporates	7,181	27,701	51,156	17,328	–	103,367
of which: Specialised lending	193	3,165	8,532	4,461	–	16,351
of which: SMEs	916	3,708	2,887	4,128	–	11,638
Retail	40,103	17,969	35,732	293,989	–	387,793
Secured by real estate property	1,616	14,659	19,702	291,822	–	327,800
SMEs	218	1,247	741	6,998	–	9,204
Non-SMEs	1,398	13,413	18,961	284,825	–	318,596
Qualifying revolving	38,342	–	–	–	–	38,342
Other retail	145	3,309	16,030	2,167	–	21,651
SMEs	124	1,101	239	770	–	2,234
Non-SMEs	21	2,208	15,790	1,397	–	19,417
Equity	–	–	–	–	2,700	2,700
Non-credit obligation assets	1,562	1,093	1,897	71	5,310	9,933
Total IRB approach	50,289	58,327	92,030	313,525	8,009	522,181
Central governments or central banks	30,021	15,567	10,353	5,486	–	61,428
Regional governments or local authorities[1]	–	–	–	5	–	5
Public sector entities	–	–	20	1	–	21
Multilateral development banks	–	394	1,369	1,211	–	2,974
International organisations	–	–	–	–	–	–
Institutions	31	64	66	–	–	161
Corporates	862	2,258	3,422	4,769	–	11,310
Retail	8,523	258	1,781	1,732	–	12,294
Secured by mortgages on immovable property	704	129	606	3,065	–	4,505
Exposures in default	112	944	108	478	–	1,642
Items associated with particularly high risk	–	–	–	–	–	–
Covered bonds	–	–	–	–	–	–
Claims on institutions and corporates with a short-term credit assessment	–	–	–	–	–	–
Collective investments undertakings	–	–	–	–	716	716
Equity exposures	–	–	–	–	–	–
Other exposures	165	147	585	304	2,480	3,680
Total standardised approach	40,419	19,761	18,310	17,051	3,195	98,736
Total	90,708	78,089	110,339	330,576	11,205	620,917

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

Pillar 1 Capital requirements: Credit risk continued

IMPAIRMENT AND CREDIT QUALITY OF EXPOSURES

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

Further details are provided in Note 2 (Accounting policies), Impairment of Financial assets and Note 3 (Critical accounting judgements and estimates), Allowance for expected credit losses on pages 209 and 210 and 214 to 216 respectively of the 2019 Lloyds Banking Group 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 41: Credit quality of exposures by exposure class and instrument (CR1-A)

	2019					
	Gross carrying values of					
	Defaulted exposures £m	Non-defaulted exposures £m	Specific credit risk adjustment £m	General credit risk adjustment £m	Credit risk adjustment charges in the period £m	Net values £m
	a	b	c	d	f	g
Central governments or central banks	–	9,161	–	–	–	9,161
Institutions	–	9,479	1	–	–	9,479
Corporates	1,776	104,458	686	–	(19)	105,549
of which: Specialised lending	277	13,035	115	–	(44)	13,197
of which: SMEs	331	10,919	155	–	5	11,096
Retail	3,779	385,587	2,421	–	743	386,945
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	22,676	676	–	422	22,467
SMEs	182	2,055	56	–	2	2,181
Non-SMEs	286	20,620	620	–	420	20,286
Equity	–	3,085	–	–	–	3,085
Non-credit obligation assets	–	11,167	–	–	–	11,167
Total IRB approach	5,556	522,938	3,107	–	724	525,386
Central governments or central banks[1]		56,825	–	–	–	56,825
Regional governments or local authorities[1]		476	–	–	–	476
Public sector entities[1]		4,169	–	–	–	4,169
Multilateral development banks		6,243	–	–	–	6,243
International organisations		–	–	–	–	–
Institutions		132	–	–	–	132
Corporates		12,578	24	–	4	12,554
of which: SMEs		4,029	8	–	–	4,020
Retail		33,955	255	–	197	33,700
of which: SMEs		2,877	20	–	–	2,857
Secured by mortgages on immovable property		7,619	29	–	(3)	7,590
of which: SMEs		8	–	–	–	8
Exposures in default[2]	1,925	–	552	–	373	1,373
Items associated with particularly high risk		–	–	–	–	–
Covered bonds		–	–	–	–	–
Claims on institutions and corporates with a short-term credit assessment		–	–	–	–	–
Collective investments undertakings		711	–	–	–	711
Equity exposures		–	–	–	–	–
Other exposures		3,185	–	–	–	3,185
Total standardised approach	1,925	125,893	860	–	570	126,958
Total	7,481	648,831	3,967	–	1,294	652,344
of which: Loans	7,053	417,762	3,795	–	1,309	421,020
of which: Debt securities	3	5,489	–	–	–	5,493
of which: Off-balance-sheet exposures	425	131,514	172	–	(15)	131,766

Pillar 1 Capital requirements: Credit risk continued

2018	Gross carrying values of: Defaulted exposures £m	Gross carrying values of: Non-defaulted exposures £m	Specific credit risk adjustment £m	General credit risk adjustment £m	Credit risk adjustment charges in the period £m	Net values £m
	a	b	c	d	f	g
Central governments or central banks	–	12,723	–	–	–	12,723
Institutions	2	6,515	1	–	(12)	6,516
Corporates	1,566	118,016	1,053	–	88	118,529
of which: Specialised lending	307	16,646	198	–	(2)	16,755
of which: SMEs	277	12,102	193	–	9	12,186
Retail	4,429	384,248	2,485	–	638	386,191
Secured by real estate property	3,575	310,530	1,471	–	41	312,634
SMEs	170	9,051	99	–	10	9,122
Non-SMEs	3,405	301,479	1,372	–	31	303,511
Qualifying revolving	378	52,598	467	–	303	52,509
Other retail	477	21,120	548	–	293	21,049
SMEs	198	2,036	58	–	11	2,176
Non-SMEs	279	19,084	490	–	282	18,873
Equity	–	2,700	–	–	–	2,700
Non-credit obligation assets	–	9,933	–	–	–	9,933
Total IRB approach	5,997	534,135	3,539	–	714	536,593
Central governments or central banks[1]		61,429	–	–	–	61,429
Regional governments or local authorities[1]		5	–	–	–	5
Public sector entities[1]		41	–	–	–	41
Multilateral development banks		2,974	–	–	–	2,974
International organisations		–	–	–	–	–
Institutions		161	–	–	–	161
Corporates		16,716	26	–	4	16,690
of which: SMEs		3,754	5	–	–	3,749
Retail		32,679	248	–	186	32,430
of which: SMEs		2,423	5	–	–	2,418
Secured by mortgages on immovable property		4,543	34	–	1	4,510
of which: SMEs		11	–	–	–	11
Exposures in default[2]	1,981	–	314	–	31	1,668
Items associated with particularly high risk		–	–	–	–	–
Covered bonds		–	–	–	–	–
Claims on institutions and corporates with a short-term credit assessment		–	–	–	–	–
Collective investments undertakings		716	–	–	–	716
Equity exposures		–	–	–	–	–
Other exposures		3,680	–	–	–	3,680
Total standardised approach	1,981	122,944	622	–	223	124,303
Total	7,978	657,079	4,162	–	937	660,896
of which: Loans	7,710	421,821	3,915	–	1,009	425,616
of which: Debt securities	12	4,519	–	–	–	4,531
of which: Off-balance-sheet exposures	256	135,404	247	–	(72)	135,413

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

2 The breakdown of 'exposures in default' by the exposure class that corresponds to the exposure before default, comprises Corporate £1,288m (2018: £1,224m) and Retail £637m (2018: £757m).

Pillar 1 Capital requirements: Credit risk continued

Table 42: Credit quality of exposures by industry types (CR1-B)

2019

	Gross carrying values of Defaulted exposures £m	Gross carrying values of Non-defaulted exposures £m	Specific credit risk adjustment £m	General credit risk adjustment £m	Credit risk adjustment charges in the period £m	Net values £m
	a	b	c	d	f	g
Agriculture, forestry and fishing	171	6,782	42	–	(4)	6,911
Energy and water supply	46	4,546	6	–	(3)	4,586
Manufacturing	380	15,754	86	–	7	16,048
Construction	318	5,873	193	–	5	5,998
Transport, distribution and hotels	1,593	21,167	515	–	325	22,245
Postal and communications	4	1,513	3	–	5	1,514
Property companies	445	25,279	182	–	(48)	25,543
Financial, business and other services	350	144,372	210	–	53	144,512
Personal: mortgages	3,250	308,787	1,243	–	(167)	310,795
Personal: other	746	92,745	1,106	–	947	92,384
Lease financing	11	5,568	3	–	–	5,576
Hire purchase	167	16,445	380	–	174	16,232
Total	7,481	648,831	3,967	–	1,294	652,344

2018

	Gross carrying values of Defaulted exposures £m	Gross carrying values of Non-defaulted exposures £m	Specific credit risk adjustment £m	General credit risk adjustment £m	Credit risk adjustment charges in the period £m	Net values £m
	a	b	c	d	f	g
Agriculture, forestry and fishing	160	6,788	53	–	(12)	6,896
Energy and water supply	–	5,434	9	–	(16)	5,426
Manufacturing	225	18,118	103	–	3	18,240
Construction	494	5,921	360	–	14	6,056
Transport, distribution and hotels	1,267	24,569	217	–	47	25,619
Postal and communications	3	2,691	2	–	(12)	2,692
Property companies	601	30,762	343	–	16	31,020
Financial, business and other services	351	145,077	265	–	87	145,163
Personal: mortgages	3,908	306,137	1,488	–	32	308,557
Personal: other	824	89,924	1,026	–	682	89,722
Lease financing	8	5,998	14	–	5	5,992
Hire purchase	138	15,659	282	–	91	15,514
Total	7,978	657,079	4,162	–	937	660,896

Pillar 1 Capital requirements: Credit risk continued

Table 43: Credit quality of exposures by geography (CR1-C)

2019

	Gross carrying values of					
	Defaulted exposures £m	**Non-defaulted exposures £m**	**Specific credit risk adjustment £m**	**General credit risk adjustment £m**	**Credit risk adjustment charges in the period £m**	**Net values £m**
	a	**b**	**c**	**d**	**f**	**g**
United Kingdom	**6,203**	**572,487**	**3,533**	**–**	**991**	**575,157**
Rest of Europe	**193**	**39,364**	**74**	**–**	**13**	**39,483**
United States of America	**5**	**22,022**	**7**	**–**	**2**	**22,021**
Asia-Pacific	**17**	**2,192**	**7**	**–**	**(0)**	**2,202**
Other	**1,063**	**12,766**	**347**	**–**	**289**	**13,482**
Total	**7,481**	**648,831**	**3,967**	**–**	**1,294**	**652,344**

2018

	Gross carrying values of					
	Defaulted exposures £m	Non-defaulted exposures £m	Specific credit risk adjustment £m	General credit risk adjustment £m	Credit risk adjustment charges in the period £m	Net values £m
	a	b	c	d	f	g
United Kingdom	6,823	583,449	3,984	–	955	586,289
Rest of Europe	127	35,060	89	–	(4)	35,099
United States of America	22	27,809	20	–	(12)	27,811
Asia-Pacific	16	2,295	6	–	(1)	2,305
Other	989	8,466	64	–	(1)	9,392
Total	7,978	657,079	4,162	–	937	660,896

Pillar 1 Capital requirements: Credit risk continued

ANALYSIS OF PAST DUE, NON-PERFORMING AND FORBORNE EXPOSURES

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

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

The remaining four templates are not subject to threshold criteria, however template CQ7 – "Collateral obtained by taking possession and execution process", is not applicable to the Group as no collateral taken into possession is recognised on the Group balance sheet. The remaining three templates are disclosed in tables 44 to 46.

Exposures are treated as past due when a counterparty has failed to make payment when contractually due. Detail on past due exposures within Stage 2 is included on page 148 in the 2019 Lloyds Banking Group plc Annual Report and Accounts (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 44: Credit quality of forborne exposures (CQ1)

		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	2,285	8,460	5,231	6,285	(61)	(1,333)	6,579	4,723
2	Central banks	–	–	–	–	–	–	–	–
3	General governments	2	–	–	–	–	–	–	–
4	Credit institutions	–	–	–	–	–	–	–	–
5	Other financial corporations	7	332	288	288	(3)	(104)	8	6
6	Non-financial corporations	374	3,607	3,226	3,226	(9)	(879)	1,004	874
7	Households	1,902	4,520	1,718	2,772	(49)	(350)	5,567	3,844
8	Debt Securities	–	3	3	3	–	(3)	–	–
9	Loans Commitments Given	309	328	235	245	(1)	(1)	15	15
10	**Total**	2,594	8,791	5,469	6,533	(62)	(1,337)	6,594	4,738

Pillar 1 Capital requirements: Credit risk continued

Table 45: Credit quality of performing and non-performing exposures by past due days (CQ3)

		a	b	c	d	e	f	g	h	i	j	k	l
		Gross carrying amount/nominal amount											
		Performing			Non-performing								
			Not past due or Past due <= 30 days	Past due > 30 days <= 90 days		Unlikely to pay that are not past-due or past-due < = 90 days	Past due > 90 days <= 180 days	Past due > 180 days <= 1 year	Past due > 1 year <= 2 years	Past due > 2 years <= 5 years	Past due > 5 years <= 7 years	Past due > 7 years	Of which: defaulted
1	**Loans and advances**	549,901	547,533	2,367	11,789	6,427	2,084	1,187	1,068	813	151	59	7,561
2	Central banks	53,873	53,873	–	–	–	–	–	–	–	–	–	–
3	General governments	786	778	9	–	–	–	–	–	–	–	–	–
4	Credit institutions	9,786	9,782	4	–	–	–	–	–	–	–	–	–
5	Other financial corporations	75,906	75,899	7	333	326	–	–	2	4	–	–	288
6	Non-financial corporations	75,791	75,486	305	3,665	2,947	551	76	37	51	2	2	3,226
7	Of which: SMEs	33,787	33,762	26	789	550	207	8	19	3	2	–	786
8	Households	333,758	331,716	2,042	7,791	3,154	1,533	1,111	1,029	759	149	57	4,047
9	**Debt securities**	34,837	34,837	–	540	537	–	–	–	3	–	–	3
10	Central banks	51	51	–	–	–	–	–	–	–	–	–	–
11	General governments	13,446	13,446	–	–	–	–	–	–	–	–	–	–
12	Credit institutions	8,811	8,811	–	–	–	–	–	–	–	–	–	–
13	Other financial corporations	10,246	10,246	–	–	–	–	–	–	–	–	–	–
14	Non-financial corporations	2,283	2,283	–	540	537	–	–	–	3	–	–	3
15	**Off-balance-sheet exposures**	131,731			468								230
16	Central banks	–			–								–
17	General governments	95			3								1
18	Credit institutions	297			–								–
19	Other financial corporations	16,515			3								3
20	Non-financial corporations	38,867			271								226
21	Households	75,956			190								–
22	**Total**	716,468	582,370	2,367	12,797	6,964	2,084	1,187	1,068	816	151	59	7,794

Pillar 1 Capital requirements: Credit risk continued

Table 46: Performing and non-performing exposures and related provisions (CR1)

		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 writeoff	Collateral and financial guarantees received	
		Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions					
			Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		On performing exposures	On non-performing exposures
1	**Loans and advances**	495,591	460,855	34,736	11,788	3,423	8,364	(1,521)	(677)	(844)	(1,739)	(206)	(1,533)	(277)	326,895	7,527
2	Central banks	1,779	1,779	–	–	–	–	–	–	–	–	–	–	–	–	–
3	General governments	768	768	–	–	–	–	–	–	–	–	–	–	–	50	–
4	Credit institutions	8,720	8,720	–	–	–	–	(2)	(2)	–	–	–	–	–	–	–
5	Other financial corporations	75,277	74,877	400	333	44	288	(3)	(3)	–	(104)	(22)	(82)	–	700	8
6	Non-financial corporations	75,634	70,154	5,480	3,665	440	3,226	(342)	(116)	(226)	(902)	(10)	(892)	(277)	42,119	1,007
7	Of which: SMEs	33,787	31,332	2,456	789	68	721	(229)	(43)	(186)	(102)	(2)	(100)	–	18,302	575
8	Households	333,413	304,557	28,856	7,790	2,939	4,851	(1,175)	(557)	(618)	(734)	(174)	(559)	–	283,848	6,513
9	**Debt securities**	32,112	32,112	–	3	–	3	–	–	–	(3)	–	(3)	–	5,948	–
10	Central banks	51	51	–	–	–	–	–	–	–	–	–	–	–	–	–
11	General governments	13,427	13,427	–	–	–	–	–	–	–	–	–	–	–	–	–
12	Credit institutions	8,811	8,811	–	–	–	–	–	–	–	–	–	–	–	512	–
13	Other financial corporations	8,987	8,987	–	–	–	–	–	–	–	–	–	–	–	5,436	–
14	Non-financial corporations	836	836	–	3	–	3	–	–	–	(3)	–	(3)	–	–	–
15	**Off-balance-sheet exposures**	131,619			468								(5)	–	20,556	15
16	Central banks	–			–								–	–	–	–
17	General governments	95			3								–	–	456	–
18	Credit institutions	297			–								–	–	5	–
19	Other financial corporations	16,407			3								–	–	1,269	–
20	Non-financial corporations	38,863			271								(5)	–	6,451	15
21	Households	75,956			190								–	–	12,375	–
22	**Total**	659,321	492,967	34,736	12,258	3,423	8,368	(1,522)	(678)	(844)	(1,742)	(206)	(1,542)	(277)	353,399	7,542

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

Pillar 1 Capital requirements: Credit risk continued

Table 47: 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 provision' may be recognised in tier 2 capital subject to certain restrictions.

	2019 Regulatory expected losses £m	2019 Specific credit risk adjustments £m	2019 Excess expected losses £m	2018 Regulatory expected losses £m	2018 Specific credit risk adjustments £m	2018 Excess expected losses £m	2017 Regulatory expected losses £m	2017 Specific credit risk adjustments £m	2017 Excess expected losses £m
CREDIT RISK									
Foundation IRB approach									
Central governments or central banks	**–**	**–**	**–**	1	–	1	1	–	1
Institutions	**3**	**1**	**2**	5	1	4	15	–	15
Corporates	**927**	**571**	**356**	814	855	(41)	861	682	179
Retail IRB approach									
Residential mortgages	**994**	**1,223**	**(230)**	882	1,471	(589)	954	1,474	(520)
QRRE	**636**	**522**	**114**	605	467	138	628	251	378
Other SME	**77**	**56**	**22**	80	58	22	78	16	62
Other non-SME	**471**	**620**	**(149)**	398	490	(92)	400	261	139
Other IRB approaches									
Corporate – specialised lending	**211**	**115**	**96**	249	198	51	364	166	198
Counterparty credit risk	**43**	**–**	**43**	38	–	38	53	–	53
	3,363	**3,107**	**255**	3,070	3,539	(469)	3,353	2,849	504
Fair value adjustments[1]	**–**	**–**						91	
Total prior to additional adjustments	**3,363**	**3,107**	**255**	3,070	3,539	(469)	3,353	2,940	413
Other adjustments[2]			**(44)**			(37)			53
Total excess expected losses / (eligible provisions)			**211[3]**			(506)[3]			466
Expected Loss on equity exposures[4]	**32**	**–**	**32**	27		27	31		31
Negative amounts resulting from the calculation of expected loss amounts			**243**			27			498
Reconciliation of SCRAs to statutory consolidated balance sheet allowance for impairment losses on loans and receivables									
Total SCRAs applied against expected losses			**3,107**			3,539			2,940
SCRAs applied to Standardised Approach exposures			**860**			622			459
Acquisition related and other adjustments[5]			**(512)**			(799)			(1,172)
Total per statutory consolidated balance sheet			**3,455**			3,362			2,227

1 The calculation of EEL amounts, where regulatory ELs are netted against SCRAs on IRB portfolios, is subject to the application of acquisition related fair value adjustments (not applicable post implementation of IFRS 9).

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

3 As a consequence of applying IFRS 9 transitional relief to CET 1 capital, adjustments require to be applied to eligible provisions recognised through tier 2 capital where these provisions relate to the same IFRS 9 expected credit losses that have effectively been removed from the calculation of CET 1 capital by virtue of applying the transitional relief. As at 31 December 2018 the consequential adjustment applied to tier 2 eligible provisions reflects the 'static' adjustment arising under the transitional arrangements on 1 January 2018. As expected credit losses, and the resultant increase in the level of tier 2 eligible provisions, were higher for IRB exposures at 1 January 2018 compared to 31 December 2018, the application of the 'static' adjustment to tier 2 eligible provisions at 31 December 2018 resulted in no eligible provisions being recognised. As at 31 December 2019, the Group has moved into an excess expected loss position. However, the 'static' adjustment continues to be applied through tier 2 capital as required under the IFRS 9 transitional arrangements. Refer to Table 79 for further details.

4 Expected losses arising on equity exposures subject to the simple risk weight method require to be excluded from both the calculation of excess expected losses per CRR Article 159 and the calculation of IFRS 9 transitional relief per CRR Article 473a.

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

Pillar 1 Capital requirements: Credit risk continued

COMPARISON OF EXPECTED LOSSES TO SPECIFIC CREDIT RISK ADJUSTMENTS

The table on page 77 provides a comparison of regulatory ELs to SCRAs (accounting impairment provisions) on loans and receivables, in respect of credit risk exposures subject to the IRB Approach.

The treatment of regulatory ELs is covered on page 13.

Further details on accounting expected credit losses (ECLs) can be found in the 2019 Lloyds Banking Group plc Annual Report and Accounts: Notes 2(H) and 3 on pages 209 to 210 and 214 to 217.

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.

Key movements (2019)

FIRB Corporates

– The increase in expected loss was driven by a small increase in defaulted exposure, with reduction in SCRA being driven by write offs and lower forecast losses for defaulted assets as a result of security held.

Retail IRB Residential Mortgages

– The increase in expected loss was driven by model refinements. The reduction in SCRAs was due to improved credit quality of the portfolio and a reassessment of secured cases in long-term default.

QRRE

– Model refinements and calibrations are driving the small increases in EL and SCRA.

Retail Other – Non SME

– The increase in EL is due to model calibrations and changes in credit quality. Weakening car prices contributed to the increase in SCRA.

Specialised Lending

– EL has reduced primarily as a result of securitisation activity. SCRA reduction driven by write offs.

Key movements (2018)

FIRB Corporates

– The expected loss reduction was primarily driven by lower defaulted exposures, with the SCRA increase of £0.2bn mainly a result of the impact of IFRS 9.

Retail IRB Residential Mortgages

– SCRAs were stable year on year as an increase in SCRAs as a result of the impact of IFRS 9 was offset by the sale of the Irish mortgage portfolio.

QRRE & Other Retail IRB:

– Increases in SCRAs were due to the impact of IFRS 9.

Specialised Lending

– The expected loss reduction of £0.1bn was driven by lower defaulted exposures with the SCRA increase a result of the impact of IFRS 9.

Pillar 1 Capital requirements: Credit risk – securitisation

This section details Lloyds Banking Group's securitisation profile.

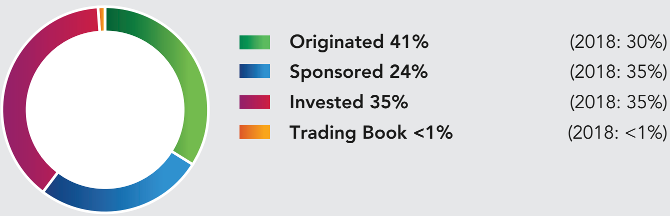
- The Group operates in the securitisation market in the following capacity:

  As an originator, sponsor of an asset-backed commercial paper (ABCP) conduit and as an arranger of and an investor in third party securitisations.

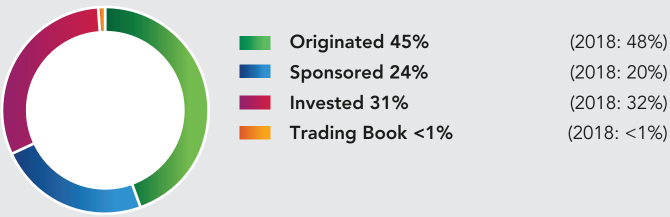
  As a provider of liquidity and funding facilities to own originated and sponsored positions as well as to third parties.

  As a holder of a small portfolio of ABS trading book securitisation positions.
- Regulation (EU) 2017/2401 ('the revised securitisation framework') was adopted on 1 January 2019, with grandfathering provisions in place until 1 January 2020 for positions that existed prior to the implementation date.
- Banking book securitisation exposures increased £1.5bn and RWAs £0.7bn in the year primarily as a result of new originated securitisation transactions, and new facilities to third party clients. This was offset by maturities, terminations, amortisations and net reduction in liquidity facility provided to the ABCP conduit.

Exposure by securitisation type



Risk-weighted assets by securitisation type



Pillar 1 Capital requirements: Credit risk – securitisation continued

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

Banking book securitisation strategy and roles

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

As an originator the Group uses securitisation as a means of managing its balance sheet. Although primarily a funding tool, the Group also uses originated securitisations to generate capital efficiencies 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.

Trading book securitisation strategy and roles

The Group's ABS trading book consists primarily of investments in third party securitisation positions and to a lesser extent, in the Group's sponsored securitisations.

The main objectives of the ABS trading book are;

– to create a secondary market through normal market making activity for the Group's related issuance where the underlying loans or receivables are originated by the Group;
– to support the development of a third party securitisation debt capital market business that generates fees for the Group by normal market making activities; and
– to carry out normal market making activities in support of the Group's clients.

The key risks attached to the Group's holding of trading book securitisation positions include price risk, credit risk, event risk, interest rate fluctuations, moral hazard and servicer risk. Liquidity risk is considered to be low as the Group's ABS trading book is relatively small, with maximum holding period limits and with positions held for the short term.

The trading desk does not undertake origination activities and does not structure transactions, nor does it re-structure or re-securitise securitisations for the purposes of holding them on the trading book.

As the Group's portfolio of trading book securitisation positions is relatively small (£21m exposure, £3m risk-weighted assets) in the context of both the overall trading book and the Group's banking book securitisation positions, the Group has elected to provide only limited disclosure around its trading book securitisation positions as permitted by CRR Article 432 and in accordance with related EBA guidelines.

Pillar 1 Capital requirements: Credit risk – securitisation continued

Summary analysis

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

Table 48: Summary of securitisation exposures and capital requirements

Securitisation type and risk weight approach	2019 Exposure value[1] £m	2019 Risk-weighted assets[2] £m	2019 Capital requirement £m	2019 Deduction from capital[3] £m	2018 Exposure value[1] £m	2018 Risk-weighted assets[2] £m	2018 Capital requirement £m	2018 Deduction from capital[3] £m
Originated:								
Ratings Based approach (RBA)	**4,374**	**844**	**68**	**–**	7,365	1,802	144	–
Standardised approach	**823**	**177**	**14**	**–**	937	209	17	–
Supervisory formula approach (SFA)	**–**	**–**	**–**	**–**	123	72	6	–
Revised framework internal ratings based approach (IRBA)	**6,542**	**1,214**	**97**	**–**				
Revised framework external ratings based approach (ERBA)	**–**	**–**	**–**	**–**				
Sponsored and invested:								
Internal assessment approach (IAA)	**2,321**	**234**	**19**	**–**	9,398	820	66	–
Ratings based approach (RBA)	**6,934**	**1,036**	**83**	**185**	9,442	1,358	109	191
Revised framework internal ratings based approach (IRBA)	**–**	**–**	**–**	**–**				
Revised framework standardised approach (SA)	**2,681**	**391**	**31**	**–**				
Revised framework external ratings based approach (ERBA)[4]	**5,098**	**1,106**	**88**	**–**				
Total banking book[5]	**28,772**	**5,002**	**400**	**185**	27,264	4,262	341	191
Trading book – specific interest rate market risk	**21**	**3**	**–**	**–**	31	3	–	–
Total trading book	**21**	**3**	**–**	**–**	31	3	–	–

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

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

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

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

5 Excludes counterparty credit risk securitisation positions, further information on which can be found on page 94.

Key movements

Banking book

– Originated: Increase during the year as the result of new capital efficient commercial asset backed securitisation transactions, partially offset by maturities and amortisations.

– Sponsor: Reduction in exposure value primarily relates to a number of transactions that were moved from the ABCP conduit onto LBG balance sheet for regulatory purposes due to ring-fencing considerations. In addition reduced and matured positions were partially offset by new and additional liquidity facilities provided in the year. The RWA movement is primarily driven by the implementation of the revised securitisation framework.

– Investor: The movement in exposure is a result of new financing facilities provided to third party clients, including items moved on balance sheet due to Ring-Fencing considerations, offset by terminations and amortisation of positions in the year.

Trading book

– The trading book exposures remained low throughout the year.

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 31 (Securitisations and covered bonds) of the 2019 Lloyds Banking Group plc Annual Report and Accounts.

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

Simple, transparent and standardised (STS) securitisations

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

Pillar 1 Capital requirements: Credit risk – securitisation continued

Re-securitisation

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

Risks inherent in banking book securitised assets

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

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

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

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

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

Monitoring changes in the credit risk of securitised exposures

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

Monitoring changes in the credit risk of ABS portfolios

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

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

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

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

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

Banking and trading book securitisation analysis

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

Table 49: Value of exposures of retained and purchased positions in the banking and trading book by exposure type

	2019						2018					
	Banking book				Trading book[1]		Banking book				Trading book[1]	
Exposure type	Originator £m	Sponsor £m	Investor £m	Total £m	Investor £m	Total £m	Originator £m	Sponsor £m	Investor £m	Total £m	Investor £m	Total £m
Retail (total) of which	–	4,303	7,519	11,822	21	21	–	6,382	5,187	11,569	26	26
residential mortgage	–	370	4,289	4,659	21	21	–	807	3,804	4,612	26	26
credit card	–	–	587	587	–	–	–	332	392	723	–	–
leases and receivables	–	2,772	1,372	4,144	–	–	–	3,309	–	3,309	–	–
other retail exposures	–	1,161	1,272	2,433	–	–	–	1,934	991	2,924	–	–
Commercial (total) of which	11,738	2,620	2,592	16,950	–	–	8,425	3,016	4,255	15,695	4	4
loans to corporates or SMEs	8,843	746	547	10,137	–	–	7,313	766	994	9,073	–	–
social housing associations	2,895	–	–	2,895	–	–	1,111	–	–	1,111	–	–
commercial mortgage	–	–	1,067	1,067	–	–	–	–	1,094	1,094	–	–
leases and receivables	–	1,674	445	2,119	–	–	–	2,039	2,127	4,166	3	3
other commercial	–	199	533	732	–	–	–	210	40	250	1	1
re-securitisation	–	–	–	–	–	–	–	–	–	–	–	–

1 All trading book securitisations are traditional securitisations.

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

On a regulatory basis, the gross securitised exposures in relation to originated securitisations where significant risk transfer is achieved amounted to £11.7bn (2018: £9.4bn) comprising synthetic originated securitisations. An analysis is provided in the table below together with the amount of impaired exposures and past due but performing exposures.

Table 50: Analysis of gross securitised exposures on a regulatory basis, in relation to originated securitisations

	2019			2018		
	Gross securitised exposure			Gross securitised exposure		
	Synthetic £m	Impaired exposures £m	Past due but not impaired exposures £m	Synthetic £m	Impaired exposures £m	Past due but not impaired exposures £m
Commercial						
social housing associations	2,895	–	–	1,166	–	–
loans to corporates or SMEs	8,843	77	12	8,206	57	8
Total	11,738	77	12	9,372	57	8

The gross charge to the income statement for the year to 31 December 2019 in respect of losses attributed to the gross securitised exposures noted above amounted to £4.5m (2018: £7m).

Originated securitisations subject to the RBA

The RBA utilises a set of defined risk weights prescribed by CRD IV rules. The appropriate risk weight is dependent on the rating of the position, its classification as a securitisation position or a re-securitisation position, the maturity and the seniority of the position and the granularity of the asset pool backing the position. As at 31 December 2019, securitisation positions arising from origination activities and risk-weighted under the RBA amounted to £4.4bn (2018: £7.4bn), generating a capital requirement of £68m (2018: £144m). An analysis of these positions, by risk weight category, is provided in the table below.

Table 51A: Analysis of originated positions under the RBA by risk weight category (grandfathered)

		Securitisation positions				Total 2019		Total 2018	
		Senior		Non-Senior					
S&P Equivalent Rating and RBA Risk Weight[1]		Exposure £m	Capital requirement £m	Exposure £m	Capital requirement £m	Exposure £m	Capital requirement £m	Exposure £m	Capital requirement £m
AAA	(7%, 12%)	3,139	19	220	2	3,359	21	5,633	69
AA	(8%, 15%)	–	–	406	5	406	5	666	14
A+	(10%, 18%)	–	–	188	3	188	3	410	7
A	(12%, 20%)	–	–	60	1	60	1	92	2
A-	(20%, 35%)	–	–	48	1	48	1	63	2
BBB+	(35%, 50%)	–	–	126	5	126	5	200	9
BBB	(60%, 75%)	–	–	29	2	29	2	76	4
BBB-	(100%, 100%)	–	–	45	4	45	4	54	5
BB+	(250%, 250%)	–	–	110	24	110	24	169	32
BB	(425%, 425%)	–	–	3	1	3	1	2	1
BB-	(650%, 650%)	–	–	–	–	–	–	–	–
Below BB- or unrated	Deduction	–	–	–	–	–	–	–	–
Total credit risk exposure/capital requirement[2]		3,139	19	1,235	49	4,374	68	7,364	144

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

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

As at 31 December 2019 there was no position arising from origination activities held and risk-weighted under the Supervisory Formula Approach (SFA), (2018: £123m, generating a capital requirement of £6m).

Pillar 1 Capital requirements: Credit risk – securitisation continued

Originated Securitisations subject to revised securitisation framework (IRBA)

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

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

Table 51B: Analysis of originated positions under the IRBA by risk weight category (revised framework)

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

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

Originated Securitisations subject to the Standardised approach

The Standardised approach utilises a set of defined risk weights prescribed by CRD IV rules. The appropriate risk-weight is dependent on the rating of the position and its classification as a securitisation position or re-securitisation position. As at 31 December 2019, securitisation positions arising from origination activities and risk-weighted under the Standardised approach amounted to £0.8bn (2018: £0.9bn) generating a capital requirement of £14m (2018: £17m). An analysis of these positions, by risk weight category, is provided in the table below.

Table 52: Analysis of originated positions under the Standardised approach (grandfathered) by risk weight category

		Total 2019		Total 2018	
		Securitisation positions		Securitisation positions	
Fitch equivalent rating and standardised approach risk weight		Exposure £m	Capital requirement £m	Exposure £m	Capital requirement £m
AAA to AA-	(20%)	797	13	864	14
A+ to A-	(50%)	26	1	73	3
BBB+ to BBB-	(100%)	–	–	–	–
BB+ to BB-	(350%)	–	–	–	–
Below BB- or unrated	Deduction	–	–	–	–
Total credit risk exposure/capital requirement[1]		823	14	937	17

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

Accounting treatment

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

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

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

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

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

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

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

Pillar 1 Capital requirements: Credit risk – securitisation continued

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

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

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

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

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

For those positions measured at fair value, further details on the valuation methodologies applied are outlined in Note 50(2) (Financial Instruments: Fair Value measurement) of the 2019 Lloyds Banking Group plc Annual Report and Accounts.

Pillar 1 Capital requirements: Credit risk – securitisation continued

Use of credit derivatives and guarantees

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

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

SPONSORED AND INVESTED SECURITISATIONS

Cancara – summary of activity

Cancara

General description	Cancara was established in 2002 by Lloyds Bank. It provides financing facilities to the Group's core corporate and financial institution clients, funded by ABCP.
Programme limit/CP outstanding as at 31 December 2019	$20bn/$5bn £15.1bn/£3.8bn
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. In 2018 certain liquidity facilities supporting the program were drawn to provide funding alongside the proceeds of ABCP issuance. During 2019 certain of the supporting liquidity facilities continued to be drawn to provide funding alongside ABCP issuance with a number of transactions moved on balance sheet due to ring-fencing requirements.

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 49 (Structured entities) of the 2019 Lloyds Banking Group plc Annual Report and Accounts.

Capital assessment

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

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

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

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

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

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

Pillar 1 Capital requirements: Credit risk – securitisation continued

During 2019 there was a net reduction in liquidity facilities provided to the ABCP conduit, a key driver of this being the movement onto LBG balance sheet of a number of transactions due to ring-fencing considerations.

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

Table 53A: Analysis of sponsored positions by risk weight category (grandfathered)

		2019		2018	
S&P equivalent rating and IAA risk weight		Exposure £m	Capital requirement £m	Exposure £m	Capital requirement £m
On Balance Sheet					
AAA	7%	**363**	**2**	1,841	11
AA+ to AA-	8%	**33**	**0**	450	3
A+	10%	**–**	**–**	–	–
A	12%	**392**	**2**	542	6
A-	20%	**–**	**–**	–	–
BBB	60%	**8**	**3**	–	–
Off Balance Sheet					
AAA	7%	**411**	**2**	3,655	22
AA+ to AA-	8%	**686**	**5**	1,649	11
A+	10%	**–**	**–**	–	–
A	12%	**423**	**4**	1,254	13
A-	20%	**–**	**–**	–	–
BBB	60%	**8**	**1**	8	–
Total credit risk exposure/capital requirement		**2,321**	**19**	9,398	66

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

Table 53B: Analysis of sponsored positions by risk weight category (revised framework)

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

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 on pages 308 and 309 in Note 53(c) (Financial Risk Management: Credit Quality of Assets) of the 2019 Lloyds Banking Group plc Annual Report and Accounts.

Pillar 1 Capital requirements: Credit risk – securitisation continued

Invested securitisations subject to the RBA

As at 31 December 2019, securitisation positions relating to the Group's direct investments in third party ABS and notes and the provision of liquidity facilities to third party securitisations risk weighted under the RBA, amounted to £6.9bn (2018: £9.4bn).

Table 54A: Analysis of invested positions by risk weight category (grandfathered)

		Securitisation positions 2019						Re-Securitisation positions 2019		2019		2018	
		Senior		Non-senior		Tranches backed by non granular pools		Senior		Total		Total	
S&P Equivalent Rating and RBA Risk Weight[1]		Exposure £m	Capital requirement £m	Exposure £m	Capital requirement £m	Exposure £m	Capital requirement £m	Exposure £m	Capital requirement £m	Exposure £m	Capital requirement £m	Exposure £m	Capital requirement £m
On Balance Sheet													
AAA	(7%, 12%, 20%)	3,516	21	–	–	1	0	–	–	3,517	21	4,823	29
AA	(8%, 15%, 25%)	284	2	362	5	369	8	–	–	1,016	14	1,751	18
A+	(10%, 18%, 35%)	–	–	57	1	1	0	–	–	57	1	381	6
A	(12%, 20%, 35%)	171	2	31	1	1	0	–	–	203	2	186	2
A-	(20%, 35%, 35%)	–	–	42	1	0	0	–	–	42	1	73	2
BBB+	(35%, 50%, 50%)	3	0	69	3	0	0	–	–	72	3	72	3
BBB	(60%, 75%, 75%)	19	1	29	2	0	0	–	–	48	3	96	5
BBB-	(100%, 100%, 100%)	–	–	–	–	–	–	–	–	–	–	–	–
BB+	(250%, 250%, 250%)	–	–	–	–	–	–	–	–	–	–	–	–
BB	(425%, 425%, 425%)	–	–	–	–	–	–	–	–	–	–	–	–
BB-	(650%, 650%, 650%)	–	–	–	–	–	–	–	–	–	–	2	1
Below BB- or unrated	Deduction	–	–	–	–	–	–	–	–	185	–	184	–
Off Balance Sheet													
AAA	(7%, 12%, 20%)	699	4	–	–	466	8	–	–	1,165	12	1,011	11
AA	(8%, 15%, 25%)	108	1	–	–	45	1	–	–	152	2	284	4
A+	(10%, 18%, 35%)	–	–	–	–	244	7	–	–	244	7	256	7
A	(12%, 20%, 35%)	46	0	–	–	149	4	–	–	195	5	271	6
A-	(20%, 35%, 35%)	–	–	–	–	70	2	–	–	70	2	71	2
BBB+	(35%, 50%, 50%)	–	–	–	–	80	3	–	–	80	3	80	3
BBB	(60%, 75%, 75%)	–	–	–	–	6	0	–	–	6	0	47	3
BBB-	(100%, 100%, 100%)	–	–	–	–	68	6	–	–	68	6	28	2
BB+	(250%, 250%, 250%)	–	–	–	–	–	–	–	–	–	–	–	–
BB	(425%, 425%, 425%)	–	–	–	–	–	–	–	–	–	–	10	3
BB-	(650%, 650%, 650%)	–	–	–	–	–	–	–	–	–	–	–	–
Below BB- or unrated	Deduction	–	–	–	–	–	–	–	–	–	–	7	–
Total		4,846	31	590	12	1,498	40	–	–	7,118	83	9,632	109
Deduction from capital										(185)	–	(191)	–
Total credit risk exposure/capital requirement[2]										6,934	83	9,442	109

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

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

Pillar 1 Capital requirements: Credit risk – securitisation continued

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

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

As at 31 December 2019, securitisation positions relating to the Group's direct investments in third party ABS and notes and the provision of liquidity facilities to third party securitisations risk weighted under the SA, amounted to £2.7bn and under the ERBA amounted to £0.5bn.

This includes £0.4bn exposure (capital requirement £3m) related to senior STS positions, primarily on balance sheet under the ERBA (de minimis off balance sheet under the SA).

Table 54B: Analysis of invested positions by risk weight category (revised framework)

	Securitisation positions 2019						Re-Securitisation positions 2019		2019	
	Senior		Non-senior		Tranches backed by non granular pools		Senior		Total	
Risk weight bands[1]	Exposure £m	Capital requirement £m	Exposure £m	Capital requirement £m	Exposure £m	Capital requirement £m	Exposure £m	Capital requirement £m	Exposure £m	Capital requirement £m
On Balance Sheet										
≤ 20% RW	2,018	23	–	–	–	–	–	–	2,018	23
>20% to 50% RW	475	8	–	–	–	–	–	–	475	8
>50% to 100% RW	–	–	–	–	–	–	–	–	–	–
>100% to <1250% RW	–	–	–	–	–	–	–	–	–	–
1250% RW	–	–	–	–	–	–	–	–	–	–
Off Balance Sheet										
≤ 20% RW	663	8	–	–	–	–	–	–	663	8
>20% to 50% RW	12	0	–	–	–	–	–	–	12	0
>50% to 100% RW	–	–	–	–	–	–	–	–	–	–
>100% to <1250% RW	9	1	–	–	–	–	–	–	9	1
1250% RW	–	–	–	–	–	–	–	–	–	–
Total[2]	3,177	40	–	–	–	–	–	–	3,177	40
of which:										
IRBA	–	–	–	–	–	–	–	–	–	–
SA	2,681	31	–	–	–	–	–	–	2,681	31
ERBA	496	9	–	–	–	–	–	–	496	9
1250% RW	–	–	–	–	–	–	–	–	–	–

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

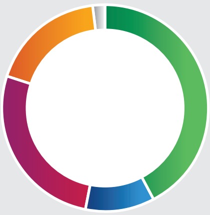
2 Total credit risk exposure is defined as the aggregate of the Group's gross retained or purchased positions, excluding those positions that are deducted from capital. Capital requirements are stated net of SCRAs, where applicable.

Pillar 1 Capital requirements: Counterparty credit risk

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

- The Group's counterparty credit risk strategy is to use collateral agreements and other risk management techniques, such as central clearing, to mitigate risk exposure.
- Counterparty credit risk (including credit valuation adjustment (CVA)) represents a small proportion (2.9%) (2018: 3.5%) of the Group's total risk-weighted assets.
- Counterparty credit risk exposure decreased by 20% to £33.3bn driven by the reduction in SFT and Central Counterparty exposures.
- Risk-weighted assets decreased by 19% to £5.9bn.

IRB exposures



Standardised exposures

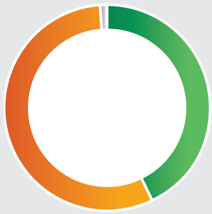


Table 55: Risk-weighted assets flow statements of CCR exposures[1,2]

	RWA amounts £m	Capital requirements £m
RWA as 31 December 2018	**7,250**	**580**
Asset size	(257)	(21)
Asset quality	(672)	(54)
Model updates	–	–
Methodology and policy	(339)	(27)
Acquisitions and disposals	–	–
Foreign exchange movements	(105)	(8)
Other	–	–
RWA as at 31 December 2019	**5,877**	**470**

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

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

Key movements

– **Counterparty credit risk and CVA risk weighted assets** decreased by £1.4bn due to reduced contributions to the default fund of a Central Counterparty, movement in CVA, and a reduction in asset size.

Pillar 1 Capital requirements: Counterparty credit risk continued

DEFINITION

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

INTERNAL CAPITAL AND CREDIT LIMITS

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

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

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

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

SECURING COLLATERAL AND ESTABLISHING CREDIT RESERVES

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

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

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

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

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

MASTER NETTING AGREEMENTS

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

COLLATERAL REQUIREMENTS IN THE EVENT OF A DOWNGRADE IN CREDIT RATING

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

CORRELATION (WRONG WAY) RISK

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

DERIVATIVE VALUATION ADJUSTMENTS

Details on the application of derivative valuation adjustments, including Credit and Debit Valuation Adjustments (CVA and DVA), are provided in Note 50 (Financial Instruments) of the 2019 Lloyds Banking Group plc Annual Report and Accounts.

Pillar 1 Capital requirements: Counterparty credit risk continued

COUNTERPARTY CREDIT RISK EXPOSURES: ANALYSIS BY MEASUREMENT APPROACH

The credit risk exposure value in respect of counterparty credit risk as at 31 December 2019 was £33.3bn (2018: £41.9bn). An analysis by measurement approach is presented in the table below.

Table 56: CCR: analysis by measurement approach

	2019	2018
	EAD post CRM £m	EAD post CRM £m
CCR standardised approach	–	–
CCR mark-to-market method	8,936	9,605
CCR internal model method	–	–
SFT comprehensive approach	11,877	15,854
CCR central counterparty	12,213	16,004
Contributions to the default fund of a central counterparty	267	404
Total	**33,292**	**41,867**

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

Key movements

- SFT exposure decreased by £4bn mainly due to the Term Funding Scheme which decreased by £4.7bn.
- CCR central counterparty exposure decreased by £3.8bn due to variation margin movements and the adoption of the Settle to Market approach with LCH SwapClear for LBCM.
- Contributions to the default fund of a central counterparty decreased by £0.1bn due to LCH optimisation and asset quality movements.

Table 57: Analysis of CCR exposure by approach (CCR1)[3]

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

		2019						
		Notional £m	Replacement cost/current market value[1] £m	Potential future credit exposure[1] £m	Effective expected positive exposure (EEPE) £m	Multiplier x	EAD Post CRM[2] £m	RWAs £m
		a	b	c	d	e	f	g
1	Mark to market		5,243	4,162			8,936	4,539
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)						11,877	286
10	VaR for SFTs						–	–
11	**Total**	–	5,243	4,162	–	–	20,813	4,825

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 £2.8bn (2018: £3bn) 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 59.
3 CCP exposures and charges are excluded from this table. For CCP balances please refer to Table 58: Exposures to CCPs (CCR8).

Key movements

- Financial collateral comprehensive method (for SFTs) reduced by £4bn mainly due to the Term Funding Scheme which decreased by £4.7bn.

Pillar 1 Capital requirements: Counterparty credit risk continued

		2018						
		Notional £m	Replacement cost/current market value[1] £m	Potential future credit exposure[1] £m	Effective expected positive exposure (EEPE) £m	Multiplier x	EAD Post CRM[2] £m	RWAs £m
1	Mark to market		5,627	4,367			9,605	4,917
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)						15,854	471
10	VaR for SFTs						-	–
11	**Total**	–	5,627	4,367	–	–	25,459	5,387

Table 58: Exposures to CCPs (CCR8)

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

		2019		2018	
		EAD post CRM £m	**RWAs £m**	EAD post CRM £m	RWAs £m
1	**Exposures to QCCPs (total)**	**12,480**	**468**	16,408	1,160
		a	**b**	a	b
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	**12,001**	**254**	15,915	329
3	(i) OTC derivatives	**10,997**	**220**	14,883	298
4	(ii) Exchange-traded derivatives	**931**	**33**	1,003	30
5	(iii) SFTs	**72**	**1**	30	1
6	(iv) Netting sets where cross-product netting has been approved	**–**	**–**	–	–
7	Segregated initial margin	**–**	**–**	–	
8	Non-segregated initial margin	**212**	**4**	89	2
9	Prefunded default fund contributions	**267**	**210**	404	830
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

- Exposures for trades at QCCPs decreased by £3.9bn mainly due to variation margin movements and the adoption of the Settle to Market approach with LCH SwapClear for LBCM.
- Prefunded default fund contributions decreased by £0.1bn due to LCH optimisation and asset quality movements.

Pillar 1 Capital requirements: Counterparty credit risk continued

Table 59: Credit valuation adjustment (CVA) capital charge (CCR2)[1]

		2019 EAD post CRM £m	2019 RWA £m	2018 EAD post CRM £m	2018 RWA £m
		a	b	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	2,809	584	2,985	702
EU4	Based on Original Exposure Method	–	–	–	–
5	**Total subject to the CVA capital charge**	2,809	584	2,985	702

1 The CVA exposures disclosed in this table are embedded in the exposures reported in Table 57: 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 60: CCR: analysis by exposure class

	2019 EAD post CRM £m	2019 Risk weighted assets £m	2018 EAD post CRM £m	2018 Risk weighted assets £m
Foundation IRB approach				
Corporate – Main	4,728	2,112	5,180	2,189
Corporate – SME	2	2	2	2
Central governments or central banks	1,197	55	429	21
Institutions	2,954	988	2,630	1,045
Other IRB approach				
Corporate – Specialised lending[1]	1,969	1,402	2,128	1,567
Securitisation positions[2]	213	79	174	67
Total IRB approach	11,063	4,638	10,542	4,891
Exposures subject to the standardised approach				
Central governments or central banks	9,343	–	13,961	–
Multilateral development banks	47	–	28	–
International organisations	75	–	41	–
Institutions	12,235	267	16,012	333
Corporates	262	178	878	494
Total standardised approach	21,962	445	30,920	827
Contributions to the default fund of a Central Counterparty	267	210	404	830
Credit valuation adjustment[3]		584		702
Total	33,292	5,877	41,866	7,250

1 Exposures subject to the IRB Supervisory Slotting Approach.

2 No positions relating to counterparty credit risk securitisation positions were deducted from capital (2018: £nil).

3 CVA exposure values of £2.8bn (2018: £3bn) are embedded in the exposure class analysis above.

Key movements

– Exposures to Central governments or central banks subject to the standardised approach decreased by £4.6bn mainly due to the Term Funding Scheme which decreased by £4.7bn.

– Exposures to Institutions subject to the standardised approach decreased by £3.8bn due to variation margin movements and the adoption of the Settle to Market approach with LCH SwapClear for LBCM.

Pillar 1 Capital requirements: Counterparty credit risk continued

COUNTERPARTY CREDIT RISK EXPOSURES: FURTHER ANALYSIS OF IRB EXPOSURES

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

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

Table 61: IRB – CCR exposure by portfolio and PD scale – Corporate Main (CCR4)

	2019						
PD Scale	**EAD post CRM**	**Average PD**	**Number of obligors**	**Average LGD**	**Average Maturity (years)**	**RWA**	**RWA density**
Corporate – Main	**£m**	**%**		**%**		**£m**	**%**
	a	**b**	**c**	**d**	**e**	**f**	**g**
0.00 to <0.15	**2,997**	**0.08%**	**837**	**44.1%**	**3.4**	**996**	**33.2%**
0.15 to <0.25	**505**	**0.18%**	**284**	**45.0%**	**2.9**	**245**	**48.4%**
0.25 to <0.50	**740**	**0.32%**	**835**	**45.1%**	**1.5**	**370**	**50.0%**
0.50 to <0.75	**115**	**0.63%**	**156**	**45.0%**	**1.6**	**82**	**70.9%**
0.75 to <2.50	**160**	**1.26%**	**218**	**45.0%**	**2.7**	**173**	**107.9%**
2.50 to <10.00	**171**	**4.75%**	**135**	**45.0%**	**1.4**	**243**	**142.1%**
10.00 to <100.00	**2**	**16.69%**	**11**	**45.0%**	**1.6**	**4**	**219.6%**
100.00 (Default)	**38**	**100.00%**	**16**	**45.0%**	**1.1**	**–**	**0.0%**
Sub-total	**4,728**	**1.15%**	**2,492**	**44.5%**	**2.9**	**2,112**	**44.7%**

	2018						
PD Scale	EAD post CRM	Average PD	Number of obligors	Average LGD	Average Maturity (years)	RWA	RWA density
Corporate – Main	£m	%		%		£m	%
	a	b	c	d	e	f	g
0.00 to <0.15	3,173	0.07%	866	45.0%	3.4	1,037	32.7%
0.15 to <0.25	662	0.18%	278	45.0%	3.1	330	49.9%
0.25 to <0.50	987	0.31%	986	45.1%	1.6	495	50.2%
0.50 to <0.75	65	0.63%	172	45.0%	2.4	53	81.2%
0.75 to <2.50	190	1.22%	232	45.0%	2.1	187	98.4%
2.50 to <10.00	59	3.88%	154	45.0%	2.3	84	142.7%
10.00 to <100.00	1	25.97%	8	45.0%	3.9	3	264.6%
100.00 (Default)	43	100.00%	10	45.0%	2.1	–	–
Sub-total	5,180	1.06%	2,706	45.0%	2.9	2,189	42.3%

Pillar 1 Capital requirements: Counterparty credit risk continued

Table 62: IRB – CCR exposures by portfolio and PD scale – Central governments or central banks (CCR4)

	2019						
PD Scale	**EAD post CRM**	**Average PD**	**Number of obligors**	**Average LGD**	**Average Maturity (years)**	**RWA**	**RWA density**
Central governments or central banks	**£m**	**%**		**%**		**£m**	**%**
	a	**b**	**c**	**d**	**e**	**f**	**g**
0.00 to <0.15	**1,197**	**0.04%**	**14**	**45.0%**	**0.0**	**55**	**4.6%**
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	**1,197**	**0.04%**	**14**	**45.0%**	**0.0**	**55**	**4.6%**

	2018						
PD Scale	EAD post CRM	Average PD	Number of obligors	Average LGD	Average Maturity (years)	RWA	RWA density
Central governments or central banks	£m	%		%		£m	%
	a	b	c	d	e	f	g
0.00 to <0.15	427	0.04%	8	45.0%	0.0	18	4.3%
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	1	12.00%	2	45.0%	1.0	3	200.5%
100.00 (Default)	–	–	–	–	–	–	–
Sub-total	429	0.08%	10	45.0%	0.0	21	4.9%

Key movements

– EAD post CRM increased by £0.8bn mainly due to increased Repo activity in the Ring-fenced bank.

Pillar 1 Capital requirements: Counterparty credit risk continued

Table 63: IRB – CCR exposure by portfolio and PD scale – Institutions (CCR4)

	2019						
PD Scale	**EAD post CRM**	**Average PD**	**Number of obligors**	**Average LGD**	**Average Maturity (years)**	**RWA**	**RWA density**
Institutions	**£m**	**%**		**%**		**£m**	**%**
	a	**b**	**c**	**d**	**e**	**f**	**g**
0.00 to <0.15	**2,657**	**0.05%**	**241**	**45.0%**	**2.9**	**767**	**28.9%**
0.15 to <0.25	**253**	**0.18%**	**36**	**45.0%**	**3.6**	**182**	**71.7%**
0.25 to <0.50	**29**	**0.30%**	**33**	**45.0%**	**3.7**	**23**	**80.8%**
0.50 to <0.75	**4**	**0.63%**	**2**	**45.0%**	**2.2**	**4**	**100.6%**
0.75 to <2.50	**10**	**1.06%**	**16**	**45.0%**	**2.0**	**9**	**93.4%**
2.50 to <10.00	**2**	**2.61%**	**3**	**45.0%**	**2.2**	**3**	**156.8%**
10.00 to <100.00	**0**	**31.00%**	**1**	**45.0%**	**3.5**	**1**	**302.5%**
100.00 (Default)	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Sub-total	**2,954**	**0.07%**	**332**	**45.0%**	**2.9**	**988**	**33.5%**

	2018						
PD Scale	EAD post CRM	Average PD	Number of obligors	Average LGD	Average Maturity (years)	RWA	RWA density
Institutions	£m	%		%		£m	%
	a	b	c	d	e	f	g
0.00 to <0.15	2,179	0.05%	239	45.0%	3.2	713	32.7%
0.15 to <0.25	386	0.18%	52	45.0%	3.4	269	69.8%
0.25 to <0.50	51	0.29%	34	45.0%	4.4	48	95.1%
0.50 to <0.75	7	0.63%	6	45.0%	1.0	5	71.8%
0.75 to <2.50	6	1.07%	8	45.0%	2.9	7	116.5%
2.50 to <10.00	1	2.60%	3	45.0%	1.0	1	136.5%
10.00 to <100.00	0	31.00%	1	45.0%	4.5	1	312.3%
100.00 (Default)	–	–	–	–	–	–	–
Sub-total	2,630	0.08%	343	45.0%	3.3	1,045	39.7%

Pillar 1 Capital requirements: Counterparty credit risk continued

Table 64: CCR corporate exposures subject to supervisory slotting

2019 Specialised lending

Regulatory Categories	Remaining maturity	On-balance sheet amount £m	Off-balance sheet amount £m	RW %	EAD post CRM £m	RWA £m
1) Strong	Less than 2.5 years	128	–	50%	128	64
	Equal to or more than 2.5 years	2,015	–	70%	1,560	1,092
2) Good	Less than 2.5 years	25	–	70%	25	17
	Equal to or more than 2.5 years	226	–	90%	192	173
3) Satisfactory	Less than 2.5 years	–	–	115%	–	–
	Equal to or more than 2.5 years	48	–	115%	48	55
4) Weak	Less than 2.5 years	–	–	250%	–	–
	Equal to or more than 2.5 years	–	–	250%	–	–
5) Default	Less than 2.5 years	1	–	0%	1	–
	Equal to or more than 2.5 years	15	–	0%	15	–
Total	Less than 2.5 years	154	–		153	81
	Equal to or more than 2.5 years	2,304	–		1,815	1,320

2018 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	54	–	50%	53	27
	Equal to or more than 2.5 years	2,059	–	70%	1,691	1,183
2) Good	Less than 2.5 years	15	–	70%	15	10
	Equal to or more than 2.5 years	311	–	90%	304	273
3) Satisfactory	Less than 2.5 years	0	–	115%	0	1
	Equal to or more than 2.5 years	63	–	115%	63	72
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	2	–	0%	2	–
Total	Less than 2.5 years	70	–		69	38
	Equal to or more than 2.5 years	2,435	–		2,059	1,530

Pillar 1 Capital requirements: Counterparty credit risk continued

Table 65: Standardised approach – CCR exposures by regulatory portfolio and risk (CCR3)

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

	2019													
	Exposure Classes	0% £m	2% £m	4% £m	10% £m	20% £m	50% £m	70% £m	75% £m	100% £m	150% £m	Others £m	Total £m	of which: Unrated £m
1	Central governments or central banks	9,343	–	–	–	–	–	–	–	–	–	–	9,343	9,320
4	Multilateral development banks	47	–	–	–	–	–	–	–	–	–	–	47	47
5	International organisations	75	–	–	–	–	–	–	–	–	–	–	75	75
6	Institutions	–	11,519	694	–	8	12	–	–	1	–	–	12,235	12,222
7	Corporates	–	–	–	–	–	167	–	–	95	–	–	262	95
11	**Total – Standardised Approach**	**9,466**	**11,519**	**694**	**–**	**8**	**179**	**–**	**–**	**96**	**–**	**–**	**21,962**	**21,759**

	2018													
	Exposure Classes	0% £m	2% £m	4% £m	10% £m	20% £m	50% £m	70% £m	75% £m	100% £m	150% £m	Others £m	Total £m	of which: Unrated £m
1	Central governments or central banks	13,961	–	–	–	–	–	–	–	–	–	–	13,961	13,961
4	Multilateral development banks	28	–	–	–	–	–	–	–	–	–	–	28	28
5	International organisations	41	–	–	–	–	–	–	–	–	–	–	41	41
6	Institutions	–	15,488	516	–	5	3	–	–	–	–	–	16,012	16,010
7	Corporates	–	–	–	–	6	759	–	–	113	–	–	878	113
11	**Total – Standardised Approach**	14,031	15,488	516	–	11	762	–	–	113	–	–	30,921	30,154

Key movements

– Exposures to Central governments or central banks subject to the standardised approach decreased by £4.6bn mainly due to the Term Funding Scheme which decreased by £4.7bn.

– Exposures to Institutions subject to the standardised approach decreased by £3.8bn due to variation margin movements and the adoption of the Settle to Market approach with LCH SwapClear for LBCM.

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 66: CCR: analysis by contract type

	2019 EAD post CRM £m	2018 EAD post CRM £m
Interest rate and inflation contracts	17,235	21,509
Foreign exchange contracts	2,998	3,278
Equity contracts	1	3
Credit derivatives	418	435
Commodity contracts	212	249
Securities financing transactions	12,161	15,989
Contributions to the default fund of a Central Counterparty	267	404
Total	33,292	41,867
of which: central counterparty	12,213	16,004

Key movements

- Interest rate and inflation contracts decreased by £4.3bn mainly due to variation margin movements and the adoption of the Settle to Market approach with LCH SwapClear for LBCM.
- Securities financing transactions decreased by £3.8bn mainly due to the Term Funding Scheme which decreased by £4.7bn.
- Contributions to the default fund of a central counterparty decreased by £0.1bn due to LCH optimisation and asset quality movements.

NET DERIVATIVES CREDIT EXPOSURE

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

Table 67A: Impact of netting and collateral held on exposure values (CCR5-A)

		2019				
		Gross positive fair value exposure amount £m	Netting benefits credit £m	Netted current credit exposure £m	Collateral held[1] £m	Net credit exposure[2] £m
		a	b	c	d	e
1	Derivatives	76,791	63,033	13,757	8,477	5,281
2	SFTs	162,561	–	162,561	155,175	7,386
4	**Total**	239,352	63,033	176,319	163,652	12,667

		2018				
		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	79,270	66,642	12,629	5,778	6,851
2	SFTs	159,059	–	159,059	148,130	10,929
4	**Total**	238,329	66,642	171,688	153,908	17,780

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 57: Analysis of CCR exposure by approach (CCR1), due to the other parameters for the calculation of the regulatory exposure values not being disclosed in this table.

Pillar 1 Capital requirements: Counterparty credit risk continued

Table 67B: Composition of collateral for exposures to CCR (CCR5-B)

	December 2019			
	Collateral Used in Derivatives		Collateral Used in SFTs	
	Fair Value of Collateral Received	Fair Value of Collateral Posted	Fair Value of Collateral Received	Fair Value of Collateral Posted
	£m	£m	£m	£m
Collateral Types				
Cash - Domestic currency	3,127	1,984	50,315	80,081
Cash - Other currencies	4,816	3,720	7,945	5,583
Domestic sovereign debt	2,114	5,470	85,935	41,221
Other sovereign debt	21	76	10,368	6,809
Government agency debt	–	–	–	–
Corporate bonds	14	–	732	19
Equity securities	–	–	–	–
Other collateral	–	–	543	33,623
TOTAL	10,092	11,251	155,839	167,336

NOTIONAL VALUE OF CREDIT DERIVATIVE TRANSACTIONS

The notional value of credit derivative transactions outstanding at 31 December 2019 was £19.4bn (2018: £18.0bn). 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 68: Credit derivatives exposures (CCR6)

	2019			2018		
	Credit derivative hedges			Credit derivative hedges		
	Protection bought £m	Protection sold £m	Other credit derivatives £m	Protection bought £m	Protection sold £m	Other credit derivatives £m
	a	b	c	a	b	c
Notionals						
Single-name credit default swaps	3,078	289	–	2,246	362	–
Index credit default swaps	812	119	–	861	94	–
Total return swaps	2,735	6,766	–	1,455	6,966	–
Credit options	–	–	–	–	–	–
Other credit derivatives	–	5,636	–	–	5,989	–
Total notionals	6,625	12,809	–	4,562	13,412	–
Fair values						
Positive fair value (asset)	34	150	–	32	65	–
Negative fair value (liability)	(198)	(219)	–	(73)	(145)	–

Pillar 1 Capital requirements: Market risk

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

- Market risk represents a small proportion (0.9%) (2018: 1.0%) of the Group's total risk-weighted assets.
- Details of market value sensitivity and net interest income sensitivity measures provided in respect of banking activities (non-trading book) can be found in the 2019 Lloyds Banking Group plc Annual Report and Accounts on pages 182 to 187.

Table 69: Market risk own funds requirements

	2019 Risk-weighted assets £m	**2019 Capital requirements £m**	2018 Risk-weighted assets £m	2018 Capital requirements £m
Internal models approach	**1,511**	**121**	1,669	134
VaR	**227**	**18**	220	18
SVaR	**707**	**57**	739	59
Incremental risk charge	**138**	**11**	150	12
Comprehensive risk measure	**–**	**–**	–	–
Risks not in VaR	**439**	**35**	561	45
Standardised approach	**279**	**22**	416	33
Interest rate risk (general and specific)	**191**	**15**	253	20
Equity risk (general and specific)	**–**	**–**	–	–
Foreign exchange risk	**82**	**7**	155	12
Commodity risk	**2**	**–**	4	–
Specific interest rate risk of securitisation position	**3**	**–**	3	–
Total	**1,790**	**143**	2,085	167

Key movements

- Market risk risk-weighted assets reductions of £0.3bn were primarily driven by refinements to internal model, change in the business model following Ring Fencing and reductions in Standardised Approach RWAs.

Pillar 1 Capital requirements: Market risk continued

DEFINITION

Market risk is defined as the risk that unfavourable market moves (including changes in and increased volatility of interest rates, market-implied inflation rates, credit spreads and prices for bonds, foreign exchange rates, equity, property and commodity prices and other instruments) lead to reductions in earnings and/or value. Details of risk appetite, measurement, mitigation and monitoring can be found in the Risk Management section of the 2019 Lloyds Banking Group plc Annual Report and Accounts (Market Risk section, pages 182 to 187.

EXPOSURES

Market risk balance sheet linkages

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

The table below presents relevant balance sheet items relating to banking and trading activities. The trading book VaR sensitivity inputs are separately identified. As Insurance undertakings are excluded from the scope of the Group's regulatory consolidation, market risks in respect of the assets and liabilities relating to the Group's insurance operations are covered in more detail in the Market Risk section of the 2019 Lloyds Banking Group plc Annual Report and Accounts.

Table 70: Market risk linkages to the balance sheet

		Banking			
31 December 2018	Balance sheet total £m	Trading book only £m	Non-trading £m	Insurance £m	Primary risk factor
Assets					
Cash and balances at central banks	55,130	–	55,130	–	Interest rate
Financial assets at fair value through profit or loss	160,189	17,982	5,352	136,855	Interest rate, foreign exchange, credit spread
Derivative financial instruments	26,369	18,885	5,119	2,365	Interest rate, foreign exchange, credit spread
Financial assets at amortised cost:					
Loans and advances to bank	9,775	–	9,710	65	Interest rate
Loans and advances to customers	494,988	–	494,948	40	Interest rate
Debt securities	5,544	–	5,544	–	Interest rate, credit spread
	510,307	–	510,202	105	
Financial assets at fair value through other comprehensive income	25,092	–	25,092	–	Interest rate, foreign exchange, credit spread
Value of in-force business	5,558	–	–	5,558	Equity
Other assets	51,248	–	22,410	28,838	Interest rate
Total assets	833,893	36,867	623,305	173,721	
Liabilities					
Deposits from banks	28,179	–	28,179	–	Interest rate
Customer deposits	421,320	–	421,320	–	Interest rate
Financial liabilities at fair value through profit or loss	21,486	13,955	7,531	–	Interest rate, foreign exchange
Derivative financial instruments	25,779	15,654	7,719	2,406	Interest rate, foreign exchange, credit spread
Debt securities in issue	97,689	–	97,689	–	Interest rate, credit spread
Liabilities arising from insurance and investment contracts	148,908	–	–	148,908	Credit spread
Subordinated liabilities	17,130	–	15,335	1,795	Interest rate, foreign exchange
Other liabilities	25,596	–	10,678	14,918	Interest rate
Total liabilities	786,087	29,609	588,451	168,027	

Pillar 1 Capital requirements: Market risk continued

The Group's trading book assets and liabilities are originated within the Commercial Banking division. Within the Group's balance sheet these fall under the trading assets and liabilities and derivative financial instruments. The assets and liabilities are classified as trading books if they meet the requirement as set out in the Capital Requirements Regulation, Article 104.

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

The Group ensures that it has adequate cash and balances at central banks and stocks of high-quality liquid assets (e.g. Gilts or US Treasury Securities) that can be converted easily into cash to meet liquidity requirements. The majority of these assets are asset swapped and held at fair value through other comprehensive income with the remainder held as financial assets at fair value through profit and loss. Further information on these balances can be found under the Risk Management section – Funding and Liquidity risk, pages 175 to 180 of the Lloyds Banking Group plc Annual Report and Accounts.

The majority of debt issuance originates from the Group's capital and funding activities and the interest rate risk of the debt issued is hedged by swapping them into a floating rate.

Trading portfolios

The Group's trading activity is small relative to its peers and the Group does not engage in any proprietary trading activities. The Group's trading activity is undertaken solely to meet the financial requirements of commercial and retail customers for foreign exchange, credit and interest rate products. These activities support customer flow and market making activities.

All trading activities are performed within the Commercial Banking division. While the trading positions taken are generally small, any extreme moves in the main risk factors and other related risk factors could cause significant losses in the trading book depending on the positions at the time.

Trading market risk measures are applied to all the Group's regulatory trading books and they include daily VaR, sensitivity based measures, and stress testing calculations.

Structure and organisation

Market risk follows the Group's Risk Management Framework. For further information refer to 'The Group's Approach to Risk' section on pages 130 to 132 of the 2019 Lloyds Banking Group plc Annual Report and Accounts.

Banking activities

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

Further details of the Group's risks in the banking book, including market value sensitivity and net interest income sensitivity measures provided in respect of banking activities (non-trading book) are presented in the Market Risk section of the 2019 Lloyds Banking Group plc Annual Report and Accounts.

For further information on the key market risks by defined benefit pension schemes and Insurance portfolios refer to pages 185 and 186 of the 2019 Lloyds Banking Group plc Annual Report and Accounts.

Pillar 1 Capital requirements: Market risk continued

Review of internal models

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

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

Stressed VaR uses historical market data from a continuous one year period of significant financial stress which is relevant to the trading book positions. The one year dataset is taken from any period since the beginning of 2007 and therefore potentially includes the market movements experienced during the financial crisis. Stressed VaR is calibrated at least quarterly to the period of stress which generates the highest Stressed VaR with the current exposures in the Group's trading books.

The IRC measures the risks arising from both default and loss-inducing rating migrations in the trading book. The IRC model simulates the impact of ratings transitions by estimating the improvement or deterioration in credit spreads resulting from these transitions. The ratings transition matrices are comprised of historical transitions collated over many decades and are updated annually for both corporates and sovereigns. A Monte Carlo approach is used to simulate the profit and loss changes arising from migration and default for each portfolio position in turn. The profit and loss changes from each position contribute to the overall loss distribution. Correlations between obligors are based on an existing LBG factor model, which consists of industry sectors and geographical regions. The model also allows for idiosyncratic behaviour at obligor level. The asset returns for obligors are computed using a multi-factor Gaussian Copula model framework for which the factor model provides the correlation basis.

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

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

Validation of the risk models uses a number of methods including but not limited to stress tests, sensitivity analyses and scenarios analyses. The risk models, including the RNIVs, are reviewed independently of the development team and model adequacy and conservatism is re-assessed should the portfolio change over time. Model performance, including backtesting analysis, is regularly reviewed by the Model Governance Committee.

Key characteristics of market risk models

Component modelled	Significant models and associated capital requirement	Model description and methodology	Number of days of market data	Applicable regulatory thresholds for the industry
VaR	1Model: (£18m)	Historical simulation to create a distribution of potential daily P&Ls from market moves. P&Ls are calculated from a grid of full revaluation based sensitivities to approximate/ estimate full revaluation.	300 daily P&Ls, Simple weighting.	Regulatory VaR is computed with 10 day holding period and 99% confidence level. The 10-day VaR is based on rolling 10-day periods.
SVaR	1Model: (£57m)	Same as VaR model.	250 day period of significant stress. Simple weighting. VaR calibration updated quarterly.	Same as VaR model.
IRC	1Model: (£11m)	Monte Carlo approach is used to simulate the profit and loss changes arising from rating migration and default.	Credit Ratings data (1983 – current), CDS long term average data (2006 – current), CDS bond basis data (2006 – current), LGD data (1990 – current).	IRC is computed with a 1 year holding period and 99.9% confidence level.

Pillar 1 Capital requirements: Market risk continued

Stress testing

The Group has a comprehensive trading book stress testing programme. Economic scenarios representing extreme but plausible stressed market events are applied to the trading book. These scenarios stress numerous risk factors including interest rates, interest rate spreads, interest rate volatilities, inflation swap rates, inflation volatilities, FX rates, FX volatilities and credit spreads.

There are two sets of stress-testing applied to the trading book: macro-economic and asset class specific. The macro-economic scenarios apply a set of historical events such as the Lehmans default, possible economic events such as what might happen if the Euro breaks up and also regulator provided scenarios such as the EBA stress tests. The macro-economic scenarios are intended to be severe but holistic and plausible. The asset class specific scenarios, also known as desk specific, are intended to apply extreme events to individual risk factors with stresses being applied in groups and to identify points of weakness at both asset class and trading book level.

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

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

Backtesting of VaR models

The Group compares both hypothetical and clean profit or loss with the VaR calculated at a 1-day 99 per cent confidence level on a daily basis. The purpose of this analysis is to provide an indication of how well the VaR model's output, a VaR forecast, has described the corresponding trading outcome. Analysis is performed at the aggregate trading book level, and the business unit level. Hypothetical profit or loss is the change in the valuation of the portfolio due to market moves that would have resulted assuming that the portfolio remains unchanged. Clean profit or loss is hypothetical profit or loss with the additional profit or loss from the change in the portfolio's value due to time and any profit or loss arising from intraday activity. Fees and commissions do not feed into either profit and loss measure.

A backtesting overshoot is generated when loss is greater than the 1-day 99 per cent VaR for a given day. Please see commentary below Table 72 for information on backtesting performance.

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

Table 71: Backtesting results (VaR models)

2019 backtesting results		Number of reported overshoots	
	Multiplier	Hypothetical	Clean
Entity Level			
Lloyds Bank	**3.00**	**4**	**3**
BoS	**3.00**	**2**	**3**
RFB sub-group	**3.00**	**4**	**2**
LBCM	**3.00**	**–**	**–**

Key movements

– Statistically the Group would expect to see losses in excess of VaR two to three times over a one year period. Details of loss overshoots within the Group for the RFB sub-group and LBCM are provided in the backtesting charts comparing VaR to hypothetical and clean profit and loss (Table 72).

– All significant profit and loss events are investigated as part of normal business. In addition, all backtesting overshoots are reported to senior management, internal auditors and the PRA.

Pillar 1 Capital requirements: Market risk continued

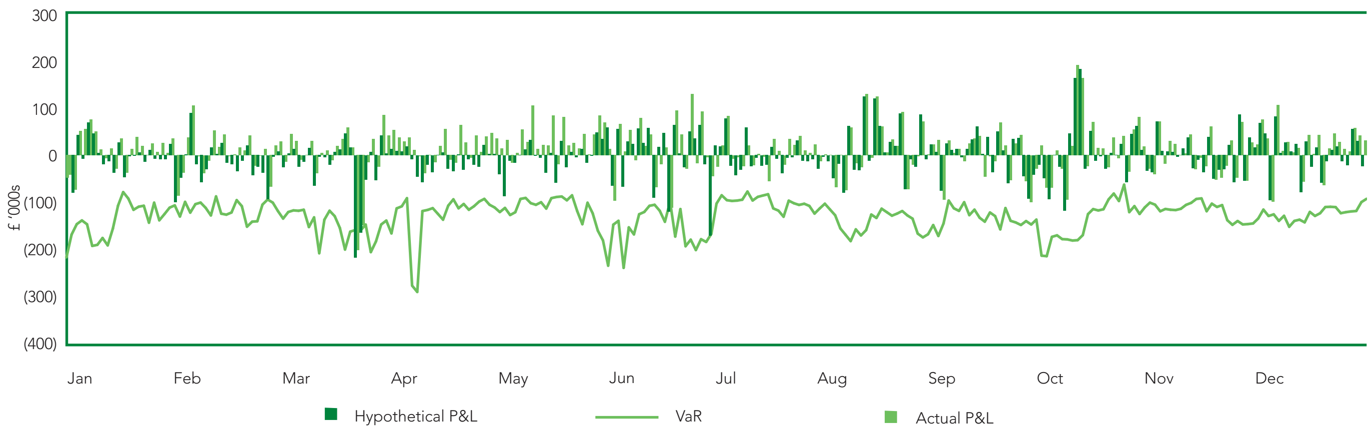
COMPARISON OF VAR TO HYPOTHETICAL AND CLEAN PROFIT AND LOSS

The following charts provide comparisons of VaR (1-day 99 percent confidence level) to the hypothetical and clean profit and loss on a daily basis over the course of 2019 for both the RFB sub-group and LBCM.

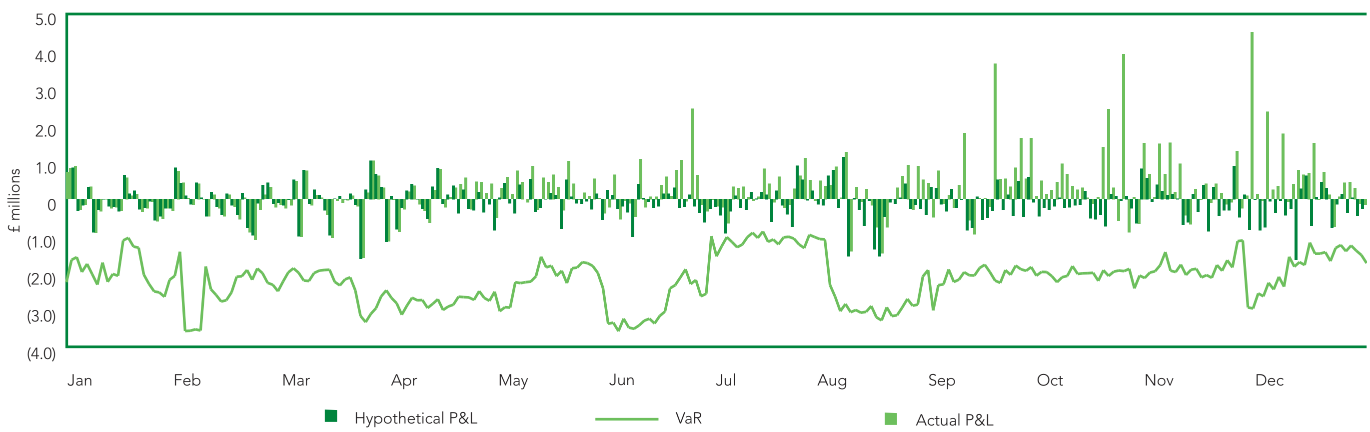
Note that the profit and loss used in back-testing represents gains and losses based on the change in valuation of the portfolio due to market moves and is not reflective of the total profit and loss from the business.

Table 72: Comparison of VaR estimates with gains/losses (MR4)

LLOYDS BANK GROUP (RFB sub-group)



LLOYDS BANK CORPORATE MARKETS PLC (LBCM)



There were four overshoots for Lloyds Bank Group driven by the movements in interest rates, predominantly GBP interest rates.

Valuation principles

Trading securities, other financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income and derivatives are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is a measure as at a specific date and may be significantly different from the amount which will actually be paid or received on maturity or settlement date.

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

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

Model validation covers both qualitative and quantitative elements relating to new models. In respect of new products, a product implementation review is conducted pre- and post-trading. Pre-trade testing ensures that the new model is integrated into the Group's systems and that the profit and loss and risk reporting are consistent throughout the trade life cycle. Post-trade testing examines the explanatory power of the implemented model, actively monitoring model parameters and comparing in-house pricing to external sources. Independent price verification procedures cover financial instruments carried at fair value. The frequency of the review is matched to the availability of independent data, monthly being the minimum. Valuation differences in breach of established thresholds are escalated to senior management. The results from independent pricing and valuation reserves are reviewed monthly by senior management.

Pillar 1 Capital requirements: Market risk continued

Formal committees, consisting of senior risk, finance and business management, meet at least quarterly to discuss and approve valuations in more judgemental areas, in particular for unquoted equities, structured credit, over-the-counter options and the Credit Valuation Adjustment (CVA) reserve.

Full details on the use of valuation models and related adjustments are provided in Note 50 (Financial Instruments) of the 2019 Lloyds Banking Group plc Annual Report and Accounts.

Trading portfolios

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

The table below provides relevant statistics for the Group's 10-day 99 per cent confidence level VaR that are based on 300 historical consecutive business days to year end 2019 and year end 2018. Also included are statistics for the Incremental Risk Change for 2019 and 2018.

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

Table 73: IMA values for trading portfolios (MR3)

	2019 £m	2018 £m
VaR (10 day 99%)		
Maximum value	**12.9**	14.9
Average value	**6.8**	5.4
Minimum value	**3.4**	2.3
Period end	**7.3**	6.0
Stressed VaR (10 day 99%)		
Maximum value	**31.9**	49.3
Average value	**21.0**	23.5
Minimum value	**12.0**	10.4
Period end	**19.0**	19.3
Incremental Risk Charge (99.9%)		
Maximum value	**24.1**	33.7
Average value	**12.2**	14.9
Minimum value	**7.6**	7.4
Period end	**11.1**	9.0
Comprehensive Risk capital charge (99.9%)		
Maximum value	**–**	–
Average value	**–**	–
Minimum value	**–**	–
Period end	**–**	–

Key movements

– The market risk for the trading book continues to be low with respect to the size of the Group.

Pillar 1 Capital requirements: Market risk continued

Table 74: Market risk under internal models approach (MR2-A)

		2019 RWA £m	2019 Capital requirements £m	2018 RWA £m	2018 Capital requirements £m
1	**VaR** (higher of values a and b)	**227**	**18**	220	18
(a)	Previous day's VaR (Article 365(1) (VaRt-1))		**8**		6
(b)	Average of the daily VaR (Article 365(1)) on each of the preceding sixty business days (VaRavg) x multiplication factor ((mc) in accordance with Article 366)		**18**		18
2	**SVaR** (higher of values a and b)	**707**	**57**	739	59
(a)	Latest SVaR (Article 365(2) (sVaRt-1))		**19**		19
(b)	Average of the SVaR (Article 365(2) during the preceding sixty business days (sVaRavg) x multiplication factor (ms) (Article 366)		**57**		59
3	Incremental risk charge – **IRC** (higher of values a and b)	**138**	**11**	150	12
(a)	Most recent IRC value (incremental default and migration risks section 3 calculated in accordance with Section 3 articles 370/371)		**11**		9
(b)	Average of the IRC number over the preceding 12 weeks		**11**		12
4	Comprehensive Risk Measure – **CRM** (higher of values a, b and c)	**–**	**–**	–	–
(a)	Most recent risk number for the correlation trading portfolio (article 377)		**–**		–
(b)	Average of the risk number for the correlation trading portfolio over the preceding 12-weeks		**–**		–
(c)	8% of the own funds requirement in STA on most recent risk number for the correlation trading portfolio (Article 338(4))		**–**		–
5	**RNIV**	**439**	**35**	561	45
6	**Total**	**1,511**	**121**	1,669	134

Table 75: Risk-weighted assets flow statements of market risk exposures under an IMA (MR2-B)

	VaR £m	SVaR £m	IRC £m	CRM £m	RNIV £m	Total RWA[1] £m	Total capital requirements £m
Risk-weighted assets as at 31 December 2018	**220**	**739**	**150**	**–**	**561**	**1,669**	**134**
Asset Size	**(16)**	**(95)**	**–**	**–**	**–**	**(110)**	**(9)**
Movement in risk levels	**22**	**63**	**(12)**	**–**	**(11)**	**62**	**5**
Model updates/changes	**–**	**–**	**–**	**–**	**(110)**	**(110)**	**(9)**
Methodology and policy	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Acquisitions and disposals	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Other	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Risk weighted assets at 31 December 2019	**227**	**707**	**138**	**–**	**439**	**1,511**	**121**

1 The table above relates solely to movement in exposures under an IMA approach. Total Market risk risk-weighted assets are disclosed by key driver in Table 8.

Key movements

– The internal models approach risk-weighted assets reduction of £0.16bn was driven by refinements to internal models and change in the business model following Ring Fencing.

Pillar 1 Capital requirements: Market risk continued

Table 76: Market risk under standardised approach (MR1)

	2019 Risk-weighted assets £m	2019 Capital requirements £m	2018 Risk-weighted assets £m	2018 Capital requirements £m
Outright Products				
Interest rate risk (general and specific)	172	14	231	19
Equity risk (general and specific)	–	–	–	–
Foreign exchange risk	82	7	155	12
Commodity Risk	2	–	4	–
Securitisation (specific risk)	3	–	3	–
Options	–	–	–	–
Simplified approach	–	–	–	–
Delta-plus method	19	2	22	2
Scenario approach	–	–	–	–
Total	279	22	416	33

Key movements

– Standardised Approach risk-weighted assets reduction was driven by reduced FX exposures in the banking book and a reduction in general interest rate risk from inflation products.

Pillar 1 Capital requirements: Operational risk

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

- Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.
- Operational risk is managed across the Group through an operational risk framework and operational risk policies. Details of the Group's Operational Risk profile and Risk Management Framework can be found in the Risk Management section of the 2019 Lloyds Banking Group plc Annual Report and Accounts (pages 163 and 165).
- Monitoring and reporting of operational risk is undertaken at Board, Group, entity and divisional committees.
- The Group calculates its operational risk capital requirements using the Standardised Approach. As at 31 December 2019, operational risk-weighted assets were £25.5bn (2018: £25.5bn).

Liquidity Risk

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

- Liquidity risk is defined as the risk that the Group has insufficient financial resources to meet its commitments as they fall due. Liquidity exposure represents the potential stressed outflows in any future period less expected inflows.
- Liquidity risk is managed through a series of measures, tests and reports that are primarily based on contractual maturities with behavioural overlays as appropriate. Additionally, the Group undertakes quantitative and qualitative analysis of behavioural aspects of its assets and liabilities in order to reflect their expected behaviour.
- The Group manages and monitors liquidity risks and ensures that liquidity risk management systems and arrangements are adequate with regard to the internal risk appetite, Group strategy and regulatory requirements.
- Daily monitoring and control processes are in place to address internal and regulatory requirements. In addition, the Group carries out internal stress testing of its liquidity and maintains a Contingency Funding Plan, which is designed to identify emerging liquidity concerns at an early stage.
- The Group's liquidity surplus continues to exceed the regulatory minimum and internal risk appetite, with a weighted average Liquidity Coverage Ratio of 137 per cent at 31 December 2019 (128 per cent at 31 December 2018).

Liquidity Risk continued

LIQUIDITY COVERAGE RATIO (LCR)

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

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

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

Further details on the Group's liquidity portfolio can be found in the Risk Management section of the 2019 Lloyds Banking Group plc Annual Report and Accounts (Funding and Liquidity section, pages 175 to 180).

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 77: Liquidity Coverage Ratio (LIQ1)

		2019							
		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					128,501	129,483	130,554	130,262
	Cash outflows								
2	**Retail deposits and deposits from small business customers, of which:**	275,908	277,196	278,404	279,753	18,388	18,651	18,875	19,086
3	Stable deposits	216,888	216,369	215,951	215,699	10,844	10,818	10,798	10,785
4	Less stable deposits	59,020	60,827	62,453	64,054	7,543	7,832	8,077	8,301
5	**Unsecured wholesale funding:**	97,805	96,996	95,297	93,177	54,556	53,427	51,823	49,776
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	23,645	23,754	23,666	23,471	5,911	5,939	5,917	5,868
7	Non-operational deposits (all counterparties)	71,175	70,007	68,527	66,767	45,660	44,253	42,803	40,969
8	Unsecured debt	2,986	3,235	3,104	2,939	2,986	3,235	3,104	2,939
9	**Secured wholesale funding**					128	130	92	67
10	**Additional requirements:**	73,197	72,643	71,725	70,622	29,245	29,250	29,094	28,763
11	Outflows related to derivative exposures and other collateral requirements	17,418	17,500	17,538	17,299	17,418	17,500	17,538	17,299
12	Outflows related to loss of funding on debt products	898	980	996	934	898	980	996	934
13	Credit and liquidity facilities	54,880	54,162	53,192	52,389	10,928	10,769	10,560	10,530
14	**Other contractual funding obligations**	1,656	1,407	1,367	1,284	964	747	774	759
15	**Other contingent funding obligations**	78,369	82,189	83,368	83,931	3,760	3,904	4,059	4,081
16	**TOTAL CASH OUTFLOWS**					107,040	106,108	104,717	102,532
	Cash inflows								
17	**Secured lending (eg: reverse repos)**	26,641	28,978	30,691	31,400	481	368	232	230
18	**Inflows from fully performing exposures**	5,421	5,120	5,015	5,146	3,490	3,144	3,001	3,169
19	Other cash inflows	4,599	4,702	4,218	4,443	4,429	4,522	4,006	4,167
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countires where there are transfer restrictions or which are denominated in non-convertible currencies)					–	–	–	–
EU-19b	(Excess inflows from a related specialised credit institution)					–	–	–	–
20	**TOTAL CASH INFLOWS**	36,662	38,800	39,924	40,989	8,400	8,034	7,239	7,566
EU-20a	**Fully exempt flows**	–	–	–	–	–	–	–	–
EU-20b	**Inflows subject to 90% cap**	–	–	–	–	–	–	–	–
EU-20c	**Inflows subject to 75% cap**	30,877	34,148	35,544	36,410	8,400	8,034	7,239	7,566
									Total adjusted value £m
21	**Liquidity buffer**					128,501	129,483	130,554	130,262
22	**Total net cash outflows**					98,641	98,075	97,478	94,966
23	**Liquidity Coverage Ratio (%)**[1]					130.38%	132.12%	134.01%	137.20%

1 Average LCR values for prior quarters of 2019 have been restated.

Liquidity Risk continued

		2018							
		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					121,552	121,001	123,498	125,731
	Cash outflows								
2	**Retail deposits and deposits from small business customers, of which:**	274,700	274,674	274,691	274,674	18,013	17,996	18,041	18,100
3	Stable deposits	217,743	218,515	218,328	217,705	10,887	10,926	10,916	10,885
4	Less stable deposits	56,956	56,159	56,364	56,969	7,125	7,071	7,124	7,215
5	**Unsecured wholesale funding:**	96,232	96,402	97,761	98,610	53,983	54,004	54,954	55,566
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	22,816	23,060	23,107	23,184	5,704	5,765	5,777	5,796
7	Non-operational deposits (all counterparties)	71,411	71,330	72,219	72,590	46,273	46,228	46,741	46,934
8	Unsecured debt	2,006	2,011	2,436	2,836	2,006	2,011	2,436	2,836
9	**Secured wholesale funding**					35	47	87	107
10	**Additional requirements:**	75,879	74,668	74,160	73,627	30,963	30,408	29,775	29,210
11	Outflows related to derivative exposures and other collateral requirements	18,773	18,276	17,707	17,261	18,763	18,272	17,707	17,261
12	Outflows related to loss of funding on debt products	1,308	1,217	1,080	1,004	1,308	1,217	1,080	1,004
13	Credit and liquidity facilities	55,798	55,175	55,373	55,361	10,892	10,919	10,988	10,944
14	**Other contractual funding obligations**	3,011	2,836	2,732	2,103	2,251	2,084	1,999	1,389
15	**Other contingent funding obligations**	62,007	63,636	68,352	73,406	3,585	3,628	3,655	3,710
16	**TOTAL CASH OUTFLOWS**					108,829	108,168	108,510	108,082
	Cash inflows								
17	**Secured lending (eg: reverse repos)**	22,039	23,333	25,397	26,001	519	590	655	604
18	**Inflows from fully performing exposures**	8,080	7,598	6,999	6,235	6,129	5,726	5,136	4,335
19	Other cash inflows	4,724	5,202	5,798	4,824	4,558	5,034	5,629	4,654
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countires where there are transfer restrictions or which are denominated in non-convertible currencies)					–	–	–	–
EU-19b	(Excess inflows from a related specialised credit institution)					–	–	–	–
20	**TOTAL CASH INFLOWS**	34,843	36,133	38,194	37,060	11,206	11,351	11,420	9,593
EU-20a	**Fully exempt flows**	–	–	–	–	–	–	–	–
EU-20b	**Inflows subject to 90% cap**	–	–	–	–	–	–	–	–
EU-20c	**Inflows subject to 75% cap**	26,914	27,731	29,908	30,140	11,206	11,351	11,420	9,593
									Total adjusted value £m
21	**Liquidity buffer**					121,552	121,001	123,498	125,731
22	**Total net cash outflows**					97,623	96,817	97,091	98,489
23	**Liquidity Coverage Ratio (%)**					125%	125%	127%	128%

Appendices

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

OWN FUNDS DISCLOSURE TEMPLATE

Table 78: Own funds template

	Transitional rules		Fully loaded rules	
	At 31 Dec 2019 £m	At 31 Dec 2018 £m	**At 31 Dec 2019 £m**	At 31 Dec 2018 £m
Common equity tier 1 (CET1) capital: instruments and reserves				
Capital instruments and related share premium accounts	24,756	24,835	24,756	24,835
of which: called up share capital	7,005	7,116	7,005	7,116
of which: share premium	17,751	17,719	17,751	17,719
Retained earnings	9,237	10,055	9,237	10,055
Accumulated other comprehensive income and other reserves (including unrealised gains and losses)	10,310	10,859	10,310	10,859
Foreseeable dividend	(1,586)	(1,523)	(1,586)	(1,523)
Common equity tier 1 (CET1) capital before regulatory adjustments	42,717	44,226	42,717	44,226
Common equity tier 1 (CET1) capital: regulatory adjustments				
Additional value adjustments	(509)	(529)	(509)	(529)
Intangible assets (net of related tax liability)	(4,179)	(3,667)	(4,179)	(3,667)
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)	(3,200)	(3,037)	(3,200)	(3,037)
Fair value reserves related to gains or losses on cash flow hedges	(1,504)	(1,051)	(1,504)	(1,051)
Negative amounts resulting from the calculation of expected loss amounts	(243)	(27)	(243)	(27)
Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	8	(337)	8	(337)
Defined benefit pension fund assets	(531)	(994)	(531)	(994)
Direct and indirect holdings by the Group of own CET1 instruments	(4)	(4)	(4)	(4)
Direct, indirect and synthetic holdings by the Group of the CET1 instruments of financial sector entities where the Group has a significant investment in those entities (amount above 10% threshold and net of eligible short positions)[1]	(4,626)	(4,222)	(4,626)	(4,222)
Exposure amount of the following items which qualify for a risk weight of 1,250%, where the Group has opted for the deduction alternative	(185)	(191)	(185)	(191)
of which: securitisation positions	(185)	(191)	(185)	(191)
Amount exceeding the 15% threshold	–	–	–	–
of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	–	–	–	–
of which: deferred tax assets arising from temporary differences	–	–	–	–
Total regulatory adjustments applied to common equity tier 1 (CET1)	(14,973)	(14,059)	(14,973)	(14,059)
Common equity tier 1 (CET1) capital	27,744	30,167	27,744	30,167
Additional tier 1 (AT1) capital: instruments				
Capital instruments and related share premium accounts	5,881	6,466	5,881	6,466
of which: classified as equity under applicable accounting standards	5,881	6,466	5,881	6,466
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	364	450	–	–
Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in CET1) issued by subsidiaries and held by third parties	1,289	1,754	–	–
of which: instruments issued by subsidiaries subject to phase out	1,289	1,754	–	–
Additional tier 1 (AT1) capital before regulatory adjustments	7,534	8,670	5,881	6,466
Additional tier 1 (AT1) capital: regulatory adjustments				
Residual amounts deducted from AT1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to Article 475 of the CRR	(1,286)	(1,298)	–	–
of which: significant investments in Tier 2 instruments of other financial sector entities	(1,286)	(1,298)	–	–
Total regulatory adjustments applied to additional tier 1 (AT1) capital	(1,286)	(1,298)	–	–
Additional tier 1 (AT1) capital	6,248	7,372	5,881	6,466
Tier 1 capital	33,992	37,539	33,625	36,633

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

	Transitional rules		Fully loaded rules	
	At 31 Dec 2019 £m	At 31 Dec 2018 £m	**At 31 Dec 2019 £m**	At 31 Dec 2018 £m
Tier 2 (T2) capital: Instruments and provisions				
Capital instruments and related share premium accounts	5,931	5,486	5,412	5,935
Amount of qualifying items referred to in Article 484 (5) of the CRR and the related share premium accounts subject to phase out from T2	–	10	–	–
Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in CET1 or AT1) issued by subsidiaries and held by third parties	4,933	5,202	970	1,993
of which: instruments issued by subsidiaries subject to phase out	3,914	3,160	–	–
Credit risk adjustments	–	–	–	–
Tier 2 (T2) capital before regulatory adjustments	10,864	10,698	6,382	7,928
Tier (T2) capital: regulatory adjustments				
Direct and indirect holdings by the Group of the T2 instruments and subordinated loans of financial sector entities where the Group has a significant investment in those entities (net of eligible short positions)	(960)	(973)	(2,246)	(2,271)
IFRS 9 transitional adjustments	(480)	(30)	(480)	(30)
Total regulatory adjustments applied to tier 2 (T2) capital	(1,440)	(1,003)	(2,726)	(2,301)
Tier 2 (T2) capital	9,424	9,695	3,656	5,627
Total capital	43,416	47,234	37,281	42,260
Total risk-weighted assets	203,431	206,366	203,431	206,366
Capital ratios and buffers				
Common Equity Tier 1 (as a percentage of risk exposure amount)	13.6%	14.6%	13.6%	14.6%
Tier 1 (as a percentage of risk exposure amount)	16.7%	18.2%	16.5%	17.8%
Total capital (as a percentage of risk exposure amount)	21.3%	22.9%	18.3%	20.5%
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)	3.402%	2.759%	3.402%	2.759%
of which: capital conservation buffer requirement	2.500%	1.875%	2.500%	1.875%
of which: countercyclical buffer requirement	0.902%	0.884%	0.902%	0.884%
Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)[1]	9.1%	10.1%	9.1%	10.1%
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)	630	493	630	493
Direct and indirect holdings by the Group of the CET1 instruments of financial sector entities where the Group has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	3,237	3,439	3,237	3,439
Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in 38 (3) are met)	870	572	870	572
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	844	844	844	844
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	1,653	2,204	–	–
Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	2,353	1,636	–	–
Current cap on T2 instruments subject to phase out arrangements	4,300	5,734	–	–

1 Of which 2.6 percent 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 8 and 9), for the year ended 31 December 2019, that are used to calculate own funds. Where necessary, the balance sheet components under the regulatory scope of consolidation have been expanded such that the components of the transitional own funds disclosure template appear separately.

Table 79: Items extracted from the consolidated regulatory balance sheet and reconciliation of own funds items to audited financial statements

			Adjustments								
Lloyds Banking Group balance sheet category	**Own funds description**	**Items extracted from the consolidated regulatory balance sheet (1) £m**	**Deferred tax £m**	**Threshold adjustments £m**	**Non-eligible instruments (13) £m**	**Amounts excluded from AT1 due to Cap (13) £m**	**Regulatory and other adjustments £m**	**Transitional own funds £m**	**Notes**	**Reversal of IFRS 9 Transitional arrangements £m**	**Transitional own funds (IFRS 9 full impact) (15) £m**
	Common equity tier 1 (CET1) capital: instruments and reserves										
	Capital instruments and related share premium accounts	24,756						24,756			24,756
Share capital	of which: called up share capital	7,005						7,005			7,005
Share premium account	of which: share premium	17,751						17,751			17,751
Retained profits	Retained earnings	8,800					437	9,237	2	(428)	8,809
Other reserves	Accumulated other comprehensive income and other reserves (including unrealised gains and losses)	10,473					(163)	10,310	2		10,310
	Common equity tier 1 (CET1) capital: regulatory adjustments										
	Additional value adjustments						(509)	(509)	3		(509)
Goodwill and other intangible assets	Intangible assets (net of related tax liability)	(4,384)	205					(4,179)	4		(4,179)
Deferred tax assets	Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability where conditions in Article 38(3) of the CRR are met)	(3,481)	(846)	870			257	(3,200)	5	(21)	(3,221)
	Fair value reserves related to gains or losses on cash flow hedges						(1,504)	(1,504)	6		(1,504)
	Negative amounts resulting from the calculation of expected loss amounts						(243)	(243)	7		(243)
	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing						8	8	8		8
Retirement benefit assets	Defined benefit pension fund assets	(681)	150					(531)	5		(531)
	Direct and indirect holdings by the Group of own CET1 instruments						(4)	(4)	9		(4)
Investment in group undertakings	Direct and indirect holdings by the Group of CET1 instruments in financial sector entities where the Group has a significant investment in those entities (amounts above 10% threshold and net of eligible short positions)	(8,739)		3,237			1,078	(4,424)	10	(45)	(4,469)
Financial assets held at FVOCI	Direct and indirect holdings by the Group of CET1 instruments in financial sector entities where the Group has a significant investment in those entities (amounts above 10% threshold and net of eligible short positions)	(202)						(202)			(202)
	Exposures amount of the following items which qualify for a risk weight of 1250%, where the Group has opted for the deduction alternative (securitisation positions)						(185)	(185)	11		(185)
	Foreseeable dividend						(1,586)	(1,586)	12		(1,586)
	Amount exceeding the 15% threshold									(248)	(248)
	Common Equity Tier 1 (CET1) capital	26,542	(491)	4,107	–	–	(2,414)	27,744		(742)	27,002
	Additional Tier 1 (AT1) capital: instruments										
Other equity instruments	Capital instruments and the related share premium accounts	5,906					(25)	5,881			5,881
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	902				(519)	(19)	364	13		364
Subordinated liabilities	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in CET1) issued by subsidiaries and held by third parties	3,252				(1,835)	(128)	1,289	13		1,289
	Additional Tier 1 (AT1) capital: regulatory adjustments										
Financial assets at fair value through profit or loss	Residual amounts deducted from AT1 capital with regard to deduction from T2 capital during the transitional period pursuant to article 475 of the CRR (significant investments)	(569)					(717)	(1,286)	14		(1,286)
	Additional Tier 1 (AT1) capital	9,491				(2,354)	(889)	6,248			6,248
	Tier 1 capital	36,033	(491)	4,107	–	(2,354)	(3,303)	33,992		(742)	33,249
	Tier 2 (T2) capital: instruments and provisions										
Subordinated liabilities	Capital instruments and related share premium accounts	5,498			(10)	519	(76)	5,931	13		5,931
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	5,756			(65)	1,835	(2,593)	4,933	13		4,933
	Tier 2 (T2) capital: regulatory adjustments										
Debt securities	Direct and indirect holdings by the Group of the T2 instruments and subordinated loans of financial sector entities where the Group has a significant investment in those entities (net of eligible short positions)	(84)						(84)	14		(84)
Financial assets at fair value through profit or loss	Direct and indirect holdings by the Group of the T2 instruments and subordinated loans of financial sector entities where the Group has a significant investment in those entities (net of eligible short positions)	(570)					(306)	(876)	14		(876)
	IFRS 9 transitional arrangements						(480)	(480)		480	
	Tier 2 (T2) capital	10,600			(75)	2,354	(3,455)	9,424		480	9,904
	Total capital	46,633	(491)	4,107	(75)	–	(6,758)	43,416		(263)	43,153

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 15.
3. The additional value adjustments of £509m reflect the prudent valuation adjustment for all assets measured at fair value in accordance with Articles 34 and 105 of the CRR. Table 80 on page 120 provides a breakdown of the constituent elements of the Group's prudent valuation adjustment.
4. Own funds intangible assets of £4,384m extracted from the consolidated regulatory balance sheet representing £537m of goodwill and £3,847m of other intangible assets. CRD IV rules require the amount to be deducted from own funds to be reduced by the amount of associated deferred tax liabilities.
5. The own funds deduction of £3,200m 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. £870m of the deferred tax asset relating to temporary differences may be risk weighted instead of deducted from capital as presented in the threshold adjustments column. The deferred tax assets that relate to temporary differences include an adjustment to reflect the application of the IFRS 9 transitional arrangements.
6. Cash flow hedge reserve forms part of other reserves in the consolidated regulatory balance sheet. Please refer to note 42 Other Reserves in the 2019 Lloyds Banking Group plc Annual Report and Accounts.
7. In accordance with Articles 36,62,158 and 159 of the CRR the excess of expected losses over specific credit risk adjustments (SCRAs) and additional value adjustments are are deducted from CET1. A comparison of regulatory expected losses to SCRAs on loans and receivables, in respect of credit risk exposures subject to the IRB Approach is presented on page 77.
8. CRD IV requires the removal of the impact of any gains or losses recorded as liabilities held at fair value through profit and loss or derivative liabilities due to changes in the credit spreads of Lloyds Bank plc and Lloyds Bank Corporate Markets plc.
9. The £4m deduction of holdings of its own CET1 instruments represents the regulatory adjustment required to remove the Group's investment in its own shares, excluding holdings through Open Ended Investment Companies (OEIC's) as these shareholdings are held for third party investors through the Group's Insurance operations.
10. The investment in group undertakings of £8,739m extracted from the consolidated regulatory balance sheet represents the Group's total equity investment in Insurance subsidiaries as well as joint ventures and associates. The majority of the investment relates to the Group's investment in its Insurance operations headed by Scottish Widows Group Limited. The own funds deduction of £4,424m reflects the regulatory requirement to deduct a portion of the Group's significant investment from CET1, above certain thresholds. In accordance with the CRD IV rules the cost of the Group's investment in the equity of the Insurance business is risk-weighted up to a limit based on the size of the Group's CET1 capital (as presented in the threshold adjustments column) with the remainder deducted from CET1.
11. The £185m deduction for securitisation positions reflects those positions that were rated below BB- or that are unrated.
12. The £1,586m foreseeable dividend is that recommended by the Board of Directors in respect of 2019 earnings.
13. A reconciliation of subordinated liabilities from the Lloyds Bank Group consolidated balance sheet to the amount recognised against each own funds description is presented in the table below.

Own funds description	Consolidated 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	902
Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in CET1) issued by subsidiaries and held by third parties	3,252
Capital instruments and related share premium accounts	5,498
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	–
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	5,756
Total subordinated liabilities as presented on the consolidated regulatory balance sheet, page 9	**15,408**

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

Additional Tier 1 instruments presented in own funds reflect instruments issued by either Lloyds Banking Group plc or its subsidiaries and held by third parties that qualified as Tier 1 under regulation that preceded CRD IV, subject to certain restrictions, including a cap set at 30% of the value of such instruments that were in issue at 31 December 2012 and net of interest. Any excess over the cap is included in Tier 2 instruments which have been issued in the same manner as Additional Tier 1 instruments and are net of interest and in some instances regulatory amortisation.

14. The £569m and £570m (£1,139m in total) extracted from the regulatory consolidated reflects the Group's investment in the subordinated debt of Scottish Widows held at fair value through profit or loss. The £84m extracted from the regulatory consolidated reflects the Group's investment in the subordinated debt of Scottish Widows held at amortised cost and classified as a debt security. In addition, for regulatory capital purposes, a further £305m categorised as an 'other equity' investment in Scottish Widows from an accounting perspective is treated as an investment in subordinated debt.
15. 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 £428m, predominantly reflecting 85 per cent of the tax adjusted add-back for the increase in non-defaulted impairment provisions at 1 January 2018 that either could not be absorbed by regulatory expected losses (IRB portfolio) or that were netted against gross credit risk exposures (Standardised portfolio)
    - A resultant movement in threshold and DTA deductions of £66m
    - A consequential adjustment to reduce tier 2 capital by £480m

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

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

PRUDENT VALUATION ADJUSTMENTS

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

Table 80: Prudent valuation adjustment (PV1)

2019	Equity £m	Interest rates £m	FX £m	Credit £m	Commodities £m	Total £m	of which: In the trading book £m	of which: In the banking book £m
	a	b	b	d	e	f	g	h
Closeout uncertainty, of which:	263	253	2	105	–	623	250	372
Mid-market value	263	91	1	39	–	394	87	307
Closeout cost	–	154	1	9	–	165	156	9
Concentration	–	7	–	57	–	64	8	57
Early termination	–	–	–	–	–	–	–	–
Model risk	16	12	5	21	–	54	20	34
Operational risk	26	25	–	5	–	56	24	32
Investing and funding costs						20	–	20
Unearned credit spreads						44	–	44
Future administrative costs	–	14	–	5	–	18	9	9
Other[1]	(140)	(129)	(3)	(34)	–	(306)	(131)	(175)
Total adjustment						509		

2018	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	b	d	e	f	g	h
Closeout uncertainty, of which:	224	289	15	125	–	652	306	346
Mid-market value	224	125	15	20	–	384	133	251
Closeout cost	–	128	–	51	–	179	136	43
Concentration	–	36	–	53	–	90	37	53
Early termination	–	–	–	–	–	–	–	–
Model risk	–	12	5	30	–	47	17	30
Operational risk	22	25	1	7	–	56	27	29
Investing and funding costs						24	–	24
Unearned credit spreads						37	–	37
Future administrative costs	–	14	–	5	–	18	9	9
Other[1]	(112)	(132)	(10)	(51)	–	(305)	(143)	(162)
Total adjustment						529		

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 RATIO (CRD IV)

Description of the processes used to manage the risk of excessive leverage

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

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

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

Further details on the process by which the Group manages its capital position in respect of both risk-based capital and leverage requirements is discussed in the Capital Risk section on pages 166 to 175 of the 2019 Lloyds Banking Group plc Annual Report and Accounts.

Table 81: Leverage ratio common disclosure

	At 31 Dec 2019 Fully loaded £m	At 31 Dec 2018 Fully loaded £m
On-balance sheet exposures (excluding derivatives and SFTs)		
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	**572,690**	574,654
Asset amounts deducted in determining Tier 1 capital	**(8,180)**	(8,163)
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	**564,510**	566,491
Derivative exposures		
Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	**4,797**	5,967
Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	**16,337**	18,250
Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	**1,984**	2,645
Deductions of receivables assets for cash variation margin provided in derivatives transactions	**(5,553)**	(5,757)
Adjusted effective notional amount of written credit derivatives	**720**	841
Adjusted effective notional offsets and add-on deductions for written credit derivatives	**(262)**	(302)
Total derivative exposures	**18,023**	21,644
Securities financing transaction exposures		
Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	**84,345**	76,526
Netted amounts of cash payables and cash receivables of gross SFT assets	**(17,256)**	(10,754)
Counterparty credit risk exposure for SFT assets	**1,164**	3,082
Total securities financing transaction exposures	**68,253**	68,854
Other off-balance sheet exposures		
Off-balance sheet exposures at gross notional amount	**140,009**	145,444
Adjustments for conversion to credit equivalent amounts	**(86,818)**	(89,051)
Other off-balance sheet exposures	**53,191**	56,393
Capital and total exposures		
Tier 1 capital	**33,625**	36,633
Total leverage ratio exposures	**703,977**	713,382
Leverage ratio		
Leverage ratio	**4.8%**	5.1%

A description of the factors that had an impact on the leverage ratio during the year is discussed on page 25.

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

Table 82: Summary reconciliation of accounting assets and leverage ratio exposures

	At 31 Dec 2019 Fully loaded £m	At 31 Dec 2018 Fully loaded £m
Total assets as per published financial statements	**833,893**	797,598
Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	**(169,037)**	(131,911)
Adjustments for derivative financial instruments	**(7,054)**	(575)
Adjustments for securities financing transactions (SFTs)	**1,164**	40
Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	**53,191**	56,393
Other adjustments	**(8,180)**	(8,163)
Total leverage ratio exposure	**703,977**	713,382

Table 83: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

	At 31 Dec 2019 Fully loaded £m	At 31 Dec 2018 Fully loaded £m
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	**572,690**	574,654
Trading book exposures	**7,048**	7,513
Banking book exposures, of which:	**565,642**	567,141
Covered bonds	**2,253**	769
Exposures treated as sovereigns	**72,698**	77,123
Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	**4,645**	6
Institutions	**4,926**	4,438
Secured by mortgages of immovable properties	**315,989**	316,580
Retail exposures	**44,969**	43,487
Corporates	**63,490**	73,460
Exposures in default	**6,720**	7,554
Other exposures (eg equity, securitisations, and other non-credit obligation assets)	**49,952**	43,724

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

Table 84: Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

Breakdown by Country	2019 General credit exposures[2,3] Exposure Value for SA	Exposure Value for IRB	2019 Trading book exposures[2] Sum of long and short positions of trading book exposures for SA	Value of trading book exposures for internal models	2019 Securitisation exposures[3] Exposure Value for SA	Exposure Value for IRB	2019 Own funds requirements 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	28,978	466,776	1	18	4,872	17,146	11,286	3	319	11,608	89.33%	1.000%
Hong Kong	136	172	–	–	–	–	6	–	–	6	0.04%	2.000%
Norway	20	79	1	13	–	–	10	2	–	12	0.09%	2.500%
Sweden	29	33	–	–	–	–	4	–	–	4	0.03%	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	31	–	–	–	–	3	–	–	3	0.02%	1.000%
France	49	1,078	2	22	114	140	23	4	3	30	0.23%	0.250%
Ireland	103	731	–	–	–	90	44	–	1	45	0.35%	1.000%
i) Total[1]	29,350	468,900	4	53	4,986	17,376	11,378	9	323	11,710	90.11%	
United States of America	1,489	9,462	2	25	2,951	2,388	451	4	62	517	3.98%	–
Netherlands	756	8,532	–	4	47	360	146	1	3	150	1.15%	–
ii) Total[1]	2,245	17,994	2	29	2,998	2,748	597	5	65	667	5.13%	
iii) Rest of the World[1]	2,901	11,425	5	57	621	258	590	10	18	618	4.76%	
Total	34,496	498,319	11	139	8,605	20,382	12,565	24	406	12,995	100.00%	

Breakdown by Country	2018 General credit exposures[2,3] Exposure Value for SA	Exposure Value for IRB	2018 Trading book exposures[2] Sum of long and short positions of trading book exposures for SA	Value of trading book exposures for internal models	2018 Securitisation exposures[3] Exposure Value for SA	Exposure Value for IRB	2018 Own funds requirements of which: General credit exposures[2,3]	of which: Trading book exposures[2]	of which: Securitisation exposures[3]	Total	2018 Own funds requirement weights	2018 Countercyclical capital buffer rate
United Kingdom	28,031	477,862	3	63	937	18,478	11,349	7	278	11,634	88.11%	1.000%
Hong Kong	156	103	–	–	–	–	6	–	–	6	0.04%	1.875%
Norway	3	46	–	1	–	–	6	–	–	6	0.04%	2.000%
Sweden	30	39	–	–	–	–	5	–	–	5	0.04%	2.000%
Czech Republic	–	–	–	–	–	–	–	–	–	–	0.00%	1.000%
Iceland	–	–	–	–	–	–	–	–	–	–	0.00%	1.250%
Slovakia	–	–	–	–	–	–	–	–	–	–	0.00%	1.250%
Lithuania	–	–	–	–	–	–	–	–	–	–	0.00%	0.500%
i) Total[1]	28,220	478,050	3	64	937	18,478	11,366	7	278	11,651	88.23%	
United States of America	1,791	10,342	4	100	–	6,423	525	10	44	579	4.39%	–
Netherlands	985	7,663	–	8	–	547	160	1	3	164	1.25%	–
ii) Total[1]	2,776	18,005	4	108	–	6,970	685	11	47	743	5.64%	
iii) Rest of the World[1]	3,611	14,645	3	70	–	1,053	780	7	21	808	6.13%	
Total	34,607	510,700	10	242	937	26,501	12,831	25	346	13,202	100.00%	

Amount of institution specific countercyclical capital buffer	2019	2018
Total risk exposure amount	£203,431m	£206,366m
Institution specific countercyclical buffer rate	0.902%	0.884%
Institution specific countercyclical buffer requirement	£1,835m	£1,821m

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 85: Asset Encumbrance

2019

Encumbered and unencumbered assets	Carrying amount of encumbered assets £m	Carrying amount of encumbered assets: of which notionally eligible EHQLA and HQLA, £m	Fair value of encumbered assets £m	Fair value of encumbered assets: of which notionally eligible EHQLA and HQLA, £m	Carrying amount of unencumbered assets £m	Carrying amount of unencumbered assets: of which notionally eligible EHQLA and HQLA, £m	Fair value of unencumbered assets £m	Fair value of unencumbered assets: of which notionally eligible EHQLA and HQLA, £m
Total assets	109,649	15,567			569,946	75,476		
Equity instruments	–	–			1,732	–		
Debt securities[1]	13,348	11,052	13,348	11,052	30,601	22,687	30,601	22,687
of which: covered bonds	11	9	11	9	2,009	2,003	2,009	2,003
of which: asset-backed securities	2,377	–	2,377	–	752	–	752	–
of which: issued by general governments	10,548	10,397	10,548	10,397	12,235	12,235	12,235	12,235
of which: issued by financial corporations	2,943	314	2,943	314	16,439	10,234	16,439	10,234
of which: issued by non-financial corporations	8	0	8	0	2,534	768	2,534	768
Other assets[2]	95,586	4,650			537,612	51,861		

2018

Encumbered and unencumbered assets	Carrying amount of encumbered assets £m	Carrying amount of encumbered assets: of which notionally eligible EHQLA and HQLA, £m	Fair value of encumbered assets £m	Fair value of encumbered assets: of which notionally eligible EHQLA and HQLA, £m	Carrying amount of unencumbered assets £m	Carrying amount of unencumbered assets: of which notionally eligible EHQLA and HQLA, £m	Fair value of unencumbered assets £m	Fair value of unencumbered assets: of which notionally eligible EHQLA and HQLA, £m
Total assets	121,137	20,004			560,885	84,559		
Equity instruments	–	–			2,204	–		
Debt securities[1]	17,822	15,529	17,822	15,529	32,575	24,014	32,575	24,014
of which: covered bonds	–	–	–	–	798	795	798	795
of which: asset-backed securities	2,167	–	2,167	–	2,000	1,926	2,000	1,926
of which: issued by general governments	15,335	15,335	15,335	15,335	17,319	17,319	17,319	17,319
of which: issued by financial corporations	2,463	96	2,463	96	12,945	6,659	12,945	6,659
of which: issued by non-financial corporations	1	–	1	–	1,901	39	1,901	39
Other assets[2]	105,415	4,475			526,846	58,938		

Collateral received	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 Fair value of collateral received or own debt securities issued available for encumbrance £m	2019 Fair value of collateral received or own debt securities issued available for encumbrance: of which notionally eligible EHQLA and HQLA, £m	2018 Fair value of encumbered collateral received or own debt securities issued £m	2018 Fair value of encumbered collateral received or own debt securities issued: of which notionally eligible EHQLA and HQLA, £m	2018 Fair value of collateral received or own debt securities issued available for encumbrance £m	2018 Fair value of collateral received or own debt securities issued available for encumbrance: of which notionally eligible EHQLA and HQLA, £m
Collateral received	44,560	43,888	64,804	60,736	47,016	46,897	51,410	47,642
Loans on demand	–	–	–	–	–	–	–	–
Equity Instruments	–	–	–	–	–	–	–	–
Debt securities[1]	44,560	43,888	60,801	60,736	47,016	46,733	48,367	47,642
of which: covered bonds	1	1	242	240	–	–	13	7
of which: asset-backed securities	–	–	100	75	1	–	285	9
of which: issued by general governments	44,261	43,715	60,368	60,368	46,864	46,709	47,354	47,354
of which: issued by financial corporations	102	100	405	383	8	–	567	86
of which: issued by non-financial corporations	102	98	30	14	123	10	203	141
Loans and advances other than loans on demand	–	–	3,944	–	–	–	3,269	–
Other collateral received	–	–	–	–	–	–	–	–
Own debt securities issued other than own covered bonds or asset-backed securities	–	–	–	–	–	–	–	–
Own covered bonds and asset-backed securities issued and not yet pledged			9,310	–			10,507	–
Total assets, collateral received and own debt securities issued	154,045	59,737			169,979	65,958		

Sources of Encumbrance	2019 Matching liabilities, contingent liabilities or securities lent £m	2019 Assets, collateral received and own debt securities issued than covered bonds and ABSs encumbered £m	2018 Matching liabilities, contingent liabilities or securities lent £m	2018 Assets, collateral received and debt securities issued other than covered bonds and ABSs encumbered £m
Carrying amount of selected financial liabilities[3]	109,971	104,982	121,529	99,070

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

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

3 Consists of derivatives, deposits and debt securities issued.

Asset encumbrance

The Board and Group Asset and Liability Committee monitor and manage total balance sheet encumbrance via a number of risk appetite metrics. The amount of encumbered assets has fallen during 2019. The vast majority of assets encumbered are in the UK banking entities, with the Group primarily encumbering mortgages, unsecured lending and credit card receivables through the issuance programmes (covered bonds and securitisation) and tradable securities through securities financing activity (repo and stock lending). In some transactions (i.e. covered bonds and securitisations) the Group will encumber assets in excess of the matching liabilities to provide greater security for investors. The Group also separately identifies unencumbered assets which are available to meet any future possible funding requirements, further details are included on pages 179 and 180 of the 2019 Lloyds Banking Group plc Annual Report and Accounts.

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

Appendix 3: Total loss absorbing capacity

The following table is based on the Basel Committee Pillar 3 template "TLAC 1" and presents the composition of the Group's MREL resources as at 31 December 2019.

Table 86: Total loss absorbing capital composition (TLAC 1)

		At 31 December 2019 Resolution Group £m
	Regulatory capital elements of TLAC and adjustments	
1	Common equity tier 1 (CET1) capital	27,744
2	Additional tier 1 (AT1) capital before TLAC adjustments	6,248
3	AT1 ineligible as TLAC as issued out of subsidiaries to third parties[1]	–
4	Other adjustments	–
5	**AT1 instruments eligible under the TLAC framework**	6,248
6	Tier 2 (T2) capital before TLAC adjustments	9,424
7	Amortised portion of T2 instruments where remaining maturity > 1 year	24
8	T2 capital ineligible as TLAC as issued out of subsidiaries to third parties[1]	–
9	Other adjustments[2]	(874)
10	**Tier 2 instruments eligible under the TLAC framework**	8,574
11	**TLAC arising from regulatory capital**	42,566
	Non-regulatory capital elements of TLAC	
12	External TLAC instruments issued directly by the bank and subordinated to excluded liabilities	23,554
13	External TLAC instruments issued directly by the bank which are not subordinated to excluded liabilities but meet all other TLAC Term Sheet requirements	–
14	Of which: amount eligible as TLAC after application of the caps	–
15	External TLAC instruments issued by funding vehicles prior to 1 January 2022	–
16	Eligible ex ante commitments to recapitalise a G-SIB in resolution	–
17	**TLAC arising from non-regulatory capital instruments before adjustments**	23,554
	Non-regulatory capital elements of TLAC: adjustments	
18	**TLAC before deductions**	66,120
19	Deductions of exposures between MPE resolution groups that correspond to items eligible for TLAC (not applicable to single point of entry G-SIBs)	–
20	Deduction of investments in own other TLAC liabilities	–
21	Other adjustments to TLAC	–
22	**TLAC after deductions**	66,120
	Risk-weighted assets (RWA) and leverage exposure measure for TLAC purposes	
23	Total RWA adjusted as permitted under the TLAC regime	203,431
24	UK leverage exposure measure	654,387
	TLAC ratios and buffers	
25	**TLAC (as a percentage of RWA adjusted as permitted under the TLAC regime)**	32.5%
26	**TLAC (as a percentage of UK leverage exposure)**	10.1%
27	**CET1 (as a percentage of RWA) available after meeting the resolution group's minimum total capital and TLAC requirements[3]**	6.5%
28	Institution-specific buffer requirement (capital conservation buffer plus countercyclical buffer requirements plus higher loss absorbency requirement, expressed as a percentage of RWA)	3.4%
29	Of which: capital conservation buffer requirement	2.5%
30	Of which: bank specific countercyclical buffer requirement	0.9%
31	Of which: higher loss absorbency requirement[4]	–

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

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

3 Defined as CET1 remaining after meeting the total capital requirement i.e Pillar 1 and Pillar 2A

4 Although the Group does not have a Systemic Risk Buffer (SRB), it is required to hold additional CET1 to meet its Ring-Fenced Bank's SRB of 2.0%, which equates to 1.7% of Group risk-weighted assets.

Appendix 3: Total loss absorbing capacity continued

The following disclosures, based on the Basel Committee Pillar 3 template "TLAC 2", provide information on the creditor hierarchy for each material entity within the resolution group, including Lloyds Bank plc, Bank of Scotland plc and Lloyds Bank Corporate Markets plc. The disclosures include information on the nominal value of all MREL eligible instruments and other liabilities to the extent that they are subordinate to or rank pari passu with the most senior MREL eligible claim. Where the instrument is denominated in foreign currency, the nominal value is converted into sterling using the rate as at 31 December 2019. For ordinary shares, this excludes the value of share premium and reserves attributable to ordinary shareholders.

Table 87: Material sub-group entity - creditor ranking at the entity level (TLAC 2)

Lloyds Bank plc

		Creditor ranking							
		£m	£m		£m	£m		£m	£m
		(Most junior)							
1	Is the resolution entity the creditor/investor?	Y	Y	N	N	Y	N	Y	
2	Description of creditor ranking	Ordinary shares (£1.00 each)	Preference shares, preferred securities and AT1 equity instruments		Undated subordinated liabilities	Dated subordinated liabilities		Senior non-preferred liabilities	Total
3	Total capital and liabilities net of credit risk mitigation	1,574	4,917	2,105	422	3,565	3,400	10,919	26,902
4	Subset of row 3 that are excluded liabilities	–	–	–	–	–	–	–	–
5	Total capital and liabilities less excluded liabilities	1,574	4,917	2,105	422	3,565	3,400	10,919	26,902
6	Subset of row 5 that are eligible as TLAC	1,574	4,917	2,105	422	3,565	1,050	10,919	24,552
7	Subset of row 6 with 1 year ≤ residual maturity < 2 years	–	–	–	–	–	–	1,687	1,687
8	Subset of row 6 with 2 years ≤ residual maturity < 5 years	–	–	–	–	–	300	6,564	6,864
9	Subset of row 6 with 5 years ≤ residual maturity < 10 years	–	–	–	–	710	750	2,628	4,088
10	Subset of row 6 with residual maturity ≥ 10 years, but excluding perpetual securities	–	–	–	–	2,855	–	40	2,895
11	Subset of row 6 that are perpetual securities	1,574	4,917	2,105	422	–	–	–	9,018

Bank of Scotland plc

		Creditor ranking				
		£m	£m	£m	£m	£m
		(Most junior)				
1	Is the resolution entity the creditor/investor?	N	N	N	N	
2	Description of creditor ranking	Ordinary shares (£0.25 each)	Preference shares, preferred securities and AT1 equity instruments	Undated subordinated liabilities	Dated subordinated liabilities	Total
3	Total capital and liabilities net of credit risk mitigation	5,847	2,850	4,711	1,183	14,591
4	Subset of row 3 that are excluded liabilities	–	–	–	–	–
5	Total capital and liabilities less excluded liabilities	5,847	2,850	4,711	1,183	14,591
6	Subset of row 5 that are eligible as TLAC	5,847	2,850	2,629	183	11,509
7	Subset of row 6 with 1 year ≤ residual maturity < 2 years	–	–	–	183	183
8	Subset of row 6 with 2 years ≤ residual maturity < 5 years	–	–	–	–	–
9	Subset of row 6 with 5 years ≤ residual maturity < 10 years	–	–	–	–	–
10	Subset of row 6 with residual maturity ≥ 10 years, but excluding perpetual securities	–	–	–	–	–
11	Subset of row 6 that are perpetual securities	5,847	2,850	2,629	–	11,326

Lloyds Bank Corporate Markets plc

		Creditor ranking				
		£m	£m	£m	£m	£m
		(Most junior)				
1	Is the resolution entity the creditor/investor?	Y	Y	Y	Y	
2	Description of creditor ranking	Ordinary shares (£1.00 each)	AT1 equity instruments	Subordinated liabilities	Senior non-preferred liabilities	Total
3	Total capital and liabilities net of credit risk mitigation	120	780	695	3,549	5,144
4	Subset of row 3 that are excluded liabilities	–	–	–	–	–
5	Total capital and liabilities less excluded liabilities	120	780	695	3,549	5,144
6	Subset of row 5 that are eligible as TLAC	120	780	695	807	2,402
7	Subset of row 6 with 1 year ≤ residual maturity < 2 years	–	–	–	–	–
8	Subset of row 6 with 2 years ≤ residual maturity < 5 years	–	–	–	807	807
9	Subset of row 6 with 5 years ≤ residual maturity < 10 years	–	–	265	–	265
10	Subset of row 6 with residual maturity ≥ 10 years, but excluding perpetual securities	–	–	430	–	430
11	Subset of row 6 that are perpetual securities	120	780	–	–	900

During H2 2019 the Group restructured a number of existing internal senior and senior non-preferred liabilities to meet internal MREL requirements for Lloyds Bank plc and Lloyds Bank Corporate Markets plc.

Appendix 3: Total loss absorbing capacity continued

The following disclosure, based on the Basel Committee Pillar 3 template "TLAC 3", provides information on the creditor hierarchy for the resolution entity (Lloyds Banking Group plc).

The disclosure includes information on the nominal value of all MREL eligible instruments and other liabilities to the extent that they are subordinate to or rank pari passu with the most senior MREL eligible claim. Where the instrument is denominated in foreign currency, the nominal value is converted into sterling using the rate as at 31 December 2019.

For ordinary shares, this excludes the value of share premium and reserves attributable to ordinary shareholders.

Table 88: Resolution entity - creditor ranking at the legal entity level (TLAC 3)

Lloyds Banking Group plc		Creditor ranking					
		£m	£m	£m	£m	£m	£m
		(Most junior)					
1.	Description of creditor ranking	Ordinary shares (£0.10 each)	Preference shares and AT1 equity instruments	Undated subordinated liabilities	Dated subordinated liabilities	Senior liabilities	Total
2.	Total capital and liabilities net of credit risk mitigation	7,005	7,189	10	5,315	23,144	42,663
3.	Subset of row 2 that are excluded liabilities	–	–	–	–	110	110
4.	Total capital and liabilities less excluded liabilities	7,005	7,189	10	5,315	23,034	42,553
5.	Subset of row 4 that are potentially eligible as TLAC	7,005	7,189	10	5,315	23,034	42,553
6.	Subset of row 5 with 1 year ≤ residual maturity < 2 years	–	–	–	–	1,970	1,970
7.	Subset of row 5 with 2 years ≤ residual maturity < 5 years	–	–	–	757	11,291	12,048
8.	Subset of row 5 with 5 years ≤ residual maturity < 10 years	–	–	–	2,798	9,663	12,461
9.	Subset of row 5 with residual maturity ≥ 10 years, but excluding perpetual securities	–	–	–	1,760	110	1,870
10.	Subset of row 5 that are perpetual securities	7,005	7,189	10	–	–	14,204

Appendix 4: Differences in the accounting and regulatory scopes of consolidation

Table 89: Outline of the differences between the accounting and regulatory scopes of consolidation (LI3)[1,2]

2019

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation: Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	Description of entity
	a	b	c	d	e	f
Associates[3]						
MOTABILITY OPERATIONS GROUP PLC	Equity				x	Rental and leasing activities
THOUGHT MACHINE GROUP LIMITED	Equity				x	Business and domestic software development
SCOTTISH WIDOWS SCHRODER PERSONAL WEALTH LIMITED	Equity		x			Financial management
SCOTTISH WIDOWS SCHRODER PERSONAL WEALTH (ACD) LIMITED	Equity		x			Financial intermediation not elsewhere classified
SCOTTISH WIDOWS SCHRODER WEALTH HOLDINGS LIMITED	Equity		x			Activities of financial services holding companies
Securitisation SPEs[4]						
CANCARA ASSET SECURITISATION LTD	Full Consolidation			x		Special Purpose Entity
CHELTENHAM SECURITIES 2017 LIMITED	Full Consolidation			x		Special Purpose Entity
CHELTENHAM II SECURITIES 2020 DAC	Full Consolidation			x		Special Purpose Entity
FONTWELL SECURITIES 2016 LIMITED	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 1) LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 3) LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 10) LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO.11) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 12) LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO.13) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO.14) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 15) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO.16) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 19) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 20) LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 21) LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 22) LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 23) LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 24) LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 25) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 26) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 27) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 28) LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 29) LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 30) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 31) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 32) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 33) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 34) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 35) LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 36) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 37) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 38) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 39) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 40) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 41) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 42) LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 44) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 45) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 46) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 47) UK LIMITED	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 48) UK LIMITED	Full Consolidation			x		Special Purpose Entity
HOUSING ASSOCIATION RISK TRANSFER 2019 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

Appendix 4: Differences in the accounting and regulatory scopes of consolidation

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation: Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	Description of entity
	a	b	c	d	e	f
WETHERBY III SECURITIES 2019 DAC	Full Consolidation			x		Special Purpose Entity
Insurance subsidiaries[5]						
SCOTTISH WIDOWS GROUP LTD	Full Consolidation				x	Activities of head offices; management consultancy activities
SCOTTISH WIDOWS LTD	Full Consolidation				x	Insurance, reinsurance and pension funding, except compulsory social security
CLERICAL MEDICAL (DARTFORD NUMBER 2) LTD	Full Consolidation				x	Non-Trading Company
CLERICAL MEDICAL (DARTFORD NUMBER 3) LTD	Full Consolidation				x	Non-Trading Company
CLERICAL MEDICAL FORESTRY LTD	Full Consolidation				x	Financial service activities, except insurance and pension funding
CLERICAL MEDICAL INTERNATIONAL HOLDINGS B.V.	Full Consolidation				x	Insurance, reinsurance and pension funding, except compulsory social security
CLERICAL MEDICAL MANAGED FUNDS LTD	Full Consolidation				x	Insurance, reinsurance and pension funding, except compulsory social security
CLERICAL MEDICAL NON STERLING PROPERTY COMPANY SARL	Full Consolidation				x	Financial service activities, except insurance and pension funding
CLERICAL MEDICAL PROPERTIES LTD	Full Consolidation				x	Real estate activities
CM VENTURE INVESTMENTS LTD	Full Consolidation				x	Financial service activities, except insurance and pension funding
CMI INSURANCE (LUXEMBOURG) S.A.	Full Consolidation				x	Insurance, reinsurance and pension funding, except compulsory social security
DALKEITH CORPORATION	Full Consolidation				x	Financial service activities, except insurance and pension funding
FRANCE INDUSTRIAL PREMISES HOLDING COMPANY	Full Consolidation				x	Financial service activities, except insurance and pension funding
HALIFAX EQUITABLE LTD	Full Consolidation				x	Non-Trading Company
HALIFAX GENERAL INSURANCE SERVICES LTD	Full Consolidation				x	Financial service activities, except insurance and pension funding
HALIFAX LIFE LTD	Full Consolidation				x	Insurance, reinsurance and pension funding, except compulsory social security
HBOS INTERNATIONAL FINANCIAL SERVICES HOLDINGS LTD	Full Consolidation				x	Activities of head offices; management consultancy activities
INDUSTRIAL REAL ESTATE (GENERAL PARTNER) LTD	Full Consolidation				x	Financial service activities, except insurance and pension funding
INDUSTRIAL REAL ESTATE (NOMINEE) LTD	Full Consolidation				x	Financial service activities, except insurance and pension funding
LLOYDS BANK GENERAL INSURANCE HOLDINGS LTD	Full Consolidation				x	Activities of head offices; management consultancy activities
LLOYDS BANK GENERAL INSURANCE LTD	Full Consolidation				x	Insurance, reinsurance and pension funding, except compulsory social security
LLOYDS BANK INSURANCE SERVICES (DIRECT) LTD	Full Consolidation				x	Insurance, reinsurance and pension funding, except compulsory social security
LLOYDS BANK INSURANCE SERVICES LTD	Full Consolidation				x	Insurance, reinsurance and pension funding, except compulsory social security
OYSTERCATCHER NOMINEES LTD	Full Consolidation				X	Office administrative, office support and other business support activities
OYSTERCATCHER RESIDENTIAL LTD	Full Consolidation				X	Office administrative, office support and other business support activities
PENSIONS MANAGEMENT (S.W.F.) LTD	Full Consolidation				x	Insurance, reinsurance and pension funding, except compulsory social security
SAINT MICHEL HOLDING COMPANY NO1	Full Consolidation				x	Financial service activities, except insurance and pension funding
SAINT MICHEL INVESTMENT PROPERTY	Full Consolidation				x	Financial service activities, except insurance and pension funding
SAINT WITZ 2 HOLDING COMPANY NO1	Full Consolidation				x	Financial service activities, except insurance and pension funding
SAINT WITZ 2 INVESTMENT PROPERTY	Full Consolidation				x	Financial service activities, except insurance and pension funding
SCOTTISH WIDOWS (PORT HAMILTON) LTD	Full Consolidation				x	Real estate activities
SCOTTISH WIDOWS ADMINISTRATION SERVICES (NOMINEES) LTD	Full Consolidation				x	Non-Trading Company
SCOTTISH WIDOWS ANNUITIES LTD	Full Consolidation				x	Insurance, reinsurance and pension funding, except compulsory social security
SCOTTISH WIDOWS AUTO ENROLMENT SERVICES LTD	Full Consolidation				x	Office administrative, office support and other business support activities
SCOTTISH WIDOWS EUROPE	Full Consolidation				x	Insurance, reinsurance and pension funding, except compulsory social security
SCOTTISH WIDOWS FINANCIAL SERVICES HOLDINGS	Full Consolidation				x	Activities of head offices; management consultancy activities
SCOTTISH WIDOWS' FUND AND LIFE ASSURANCE SOCIETY	Full Consolidation				x	Insurance, reinsurance and pension funding, except compulsory social security
SCOTTISH WIDOWS INDUSTRIAL PROPERTIES EUROPE B.V.	Full Consolidation				x	Real estate activities
SCOTTISH WIDOWS PROPERTY MANAGEMENT LTD	Full Consolidation				x	Real estate activities

Appendix 4: Differences in the accounting and regulatory scopes of consolidation continued

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation: Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	Description of entity
	a	b	c	d	e	f
SCOTTISH WIDOWS TRUSTEES LTD	Full Consolidation				x	Office administrative, office support and other business support activities
SCOTTISH WIDOWS UNIT FUNDS LTD	Full Consolidation				x	Insurance, reinsurance and pension funding, except compulsory social security
ST ANDREW'S GROUP LTD	Full Consolidation				x	Financial service activities, except insurance and pension funding
ST ANDREW'S INSURANCE PLC	Full Consolidation				x	Insurance, reinsurance and pension funding, except compulsory social security
ST ANDREW'S LIFE ASSURANCE PLC	Full Consolidation				x	Insurance, reinsurance and pension funding, except compulsory social security
SW FUNDING PLC	Full Consolidation				x	Insurance, reinsurance and pension funding, except compulsory social security
SW NO.1 LTD	Full Consolidation				x	Financial service activities, except insurance and pension funding
SWAMF (GP) LTD	Full Consolidation				x	Office administrative, office support and other business support activities
SWAMF NOMINEE (1) LTD	Full Consolidation				x	Office administrative, office support and other business support activities
SWAMF NOMINEE (2) LTD	Full Consolidation				x	Office administrative, office support and other business support activities
UNIVERSE, THE CMI GLOBAL NETWORK FUND	Full Consolidation				x	Financial service activities, except insurance and pension funding
WAVERLEY - FUND II INVESTOR LLC	Full Consolidation				x	Financial service activities, except insurance and pension funding
WAVERLEY - FUND III INVESTOR LLC	Full Consolidation				x	Financial service activities, except insurance and pension funding
CELSIUS EUROPEAN LUX 2 SARL	Full Consolidation				x	Special Purpose Entity
CLERICAL MEDICAL NON STERLING GUADALIX HOLD CO BV	Full Consolidation				x	Special Purpose Entity
CLERICAL MEDICAL NON STERLING GUADALIX SPANISH PROP CO SL	Full Consolidation				x	Special Purpose Entity
CLERICAL MEDICAL NON STERLING MEGAPARK HOLD CO BV	Full Consolidation				x	Special Purpose Entity
CLERICAL MEDICAL NON STERLING MEGAPARK PROP CO SA	Full Consolidation				x	Special Purpose Entity
SARL COLISEUM	Full Consolidation				x	Special Purpose Entity
SARL HIRAM	Full Consolidation				x	Special Purpose Entity
SAS COMPAGNIE FONCIERE DE FRANCE	Full Consolidation				x	Special Purpose Entity
SCI ASTORIA INVEST	Full Consolidation				x	Special Purpose Entity
SCI DE L'HORLOGE	Full Consolidation				x	Special Purpose Entity
SCI EQUINOXE	Full Consolidation				x	Special Purpose Entity
SCI RAMBUTEAU CFF	Full Consolidation				x	Special Purpose Entity
THISTLE INVESTMENTS (AMC) LTD	Full Consolidation				x	Special Purpose Entity
THISTLE INVESTMENTS (ERM) LTD	Full Consolidation				x	Special Purpose Entity

1 The regulatory treatment of all entities listed as subsidiaries in the 2019 Lloyds Banking Group plc Annual Report and Accounts, pages 332 to 333, follows the accounting treatment unless otherwise stated in the table below.

2 Collective Investment Vehicles, as listed in the 2019 Lloyds Banking Group plc Annual Report and Accounts, pages 336 to 337 are excluded from the regulatory scope of consolidation.

3 Associated undertakings, as listed in the 2019 Lloyds Banking Group plc Annual Report and Accounts, pages 334 to 335, are, unless otherwise stated in the list above, predominantly a mix of private equity investments, to which the venture capital exemption applies, and associates and joint ventures that are excluded from the regulatory scope of consolidation. The private equity investments are accounted for as FVTPL for accounting purposes and are equity risk weighted for regulatory purposes.

4 The Group's capital-efficient securitisations and conduit vehicles are fully consolidated for accounting purposes. The underlying assets of the capital-efficient securitisations have been de-recognised from the regulatory balance sheet and replaced with the retained securitisation positions, risk weighted in line with the securitisation framework. The conduit vehicles are deconsolidated for regulatory purposes and the corresponding liquidity lines are risk-weighted, as further described in the Securitisation section, pages 79 to 89.

5 All Insurance subsidiaries, other than those identified as investment firms or asset management companies, are excluded from the regulatory scope of consolidation and are classified as 'deducted', as they form part of the Insurance Group headed by Scottish Widows Group Limited. The debt and equity investments held by the Group in Scottish Widows Group Limited are deducted from capital, subject to thresholds, as described on page 119, Note 10.

Appendix 5: 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	KM2	Key Metrics - TLAC Requirements
3	LI1	Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories
4	LI2	Main sources of differences between regulatory exposure amounts and carrying values in financial statements
9	OV1	Overview of risk-weighted assets
10	CR8	Risk-weighted assets flow statements of credit risk exposures
12	CR3	CRM techniques – Overview
15-21	CR9	Backtesting of PD per portfolio
22	CRB-B	Total and average net amount of exposures
23-28; 30-32	CR6	IRB – Credit risk exposures by portfolio and PD range
33A; 33B	CR10	IRB - specialised lending and equities
35	CR4	Standardised approach – Credit risk exposure and Credit Mitigation (CRM) effects
36	CR5	Standardised approach - Exposure by asset class
37	CRB-C	Geographical breakdown of exposures
39	CRB-D	Concentration of exposures by industry
40	CRB-E	Maturity of exposures
41	CR1-A	Credit quality of exposures by exposure class and instrument
42	CR1-B	Credit quality of exposures by industry types
43	CR1-C	Credit quality of exposures by geography
44	CQ1	Credit quality of forborne exposures
45	CQ3	Credit quality of performing and non-performing exposures by past due days
46	CR1	Performing and non-performing exposures and related provisions
57	CCR1	Analysis of CCR exposure by approach
58	CCR8	Exposures to CCPs
59	CCR2	Credit Valuation Adjustment (CVA) capital charge
61-63	CCR4	IRB – CCR exposure by portfolio and PD scale
65	CCR3	Standardised approach – CCR exposures by regulatory portfolio and risk
67A	CCR5-A	Impact of netting and collateral held on exposure values
67B	CCR5-B	Composition of collateral for exposures to CCR
68	CCR6	Credit derivatives exposures
72	MR4	Comparison of VaR estimates with gains/losses
73	MR3	IMA values for trading portfolios
74	MR2-A	Market risk under the Internal Models Approach
75	MR2-B	Risk-weighted assets flow statements of market risk exposures under an IMA
76	MR1	Market risk under standardised approach
77	LIQ1	Liquidity coverage ratio
80	PV1	Prudential valuation adjustment
86	TLAC1	Total loss absorbing capital composition
87	TLAC2	Material sub-group entity - creditor ranking at legal entity level
88	TLAC3	Resolution entity – creditor ranking at legal entity level
89	LI3	Outline of the differences in the scopes of consolidation (entity by entity)

Appendix 5: EBA and BCBS adopted templates continued

List of excluded EBA and BCBS templates

Abbreviation	Template name	Reasons for excluding
INS1	Non-deducted participations in insurance undertakings	Not applicable to the Group
CQ2	Quality of forbearance	Threshold for disclosure not met
CQ4	Quality of non-performing exposures by geography	Threshold for disclosure not met
CQ5	Credit quality of loans and advances by industry	Threshold for disclosure not met
CQ6	Collateral valuation – loans and advances	Threshold for disclosure not met
CR2	Changes in the stock of non-performing loans and advances	Threshold for disclosure not met
CQ7	Collateral obtained by taking possession and execution processes	No collateral taken into possesion is recognised on the balance sheet
CQ8	Collateral obtained by taking possession and execution processes – vintage breakdown	Threshold for disclosure not met
CR2-A	Changes in the stock of general and specific credit risk adjustments	Equivalent disclosures are provided in the Lloyds Banking Group plc ARA
CR2-B	Changes in the stock of defaulted and impaired loans and debt securities	Equivalent disclosures are provided in the Lloyds Banking Group plc ARA
CR7	IRB – Effect on the RWAs of credit derivatives used as CRM techniques	Excluded on materiality basis
CCR7	RWA flow statements of CCR exposures under the IMM	Not applicable to the Group
CC1	Composition of regulatory capital	Equivalent disclosure provided in Table 79
CC2	Reconciliation of regulatory capital	Equivalent disclosure provided in Table 5
IRRBB1	Quantitative information on IRRBB	Equivalent disclosures are provided in the Lloyds Banking Group plc ARA
REM1	Remuneration awarded during the financial year	Equivalent disclosures are provided in the Lloyds Banking Group plc ARA
REM2	Special payments	Equivalent disclosures are provided in the Lloyds Banking Group plc ARA
REM3	Deferred remuneration	Equivalent disclosures are provided in the Lloyds Banking Group plc ARA
SEC1	Securitisation exposures in the banking book	Pillar 1 Capital requirements : credit risk – securitisation contains equivalent disclosure
SEC2	Securitisation exposures in the trading book	Pillar 1 Capital requirements : credit risk – securitisation contains equivalent disclosure
SEC3	Securitisation exposures in the banking book and associated regulatory capital requirements – bank acting as originator or sponsor	Pillar 1 Capital requirements : credit risk – securitisation contains equivalent disclosure
SEC4	Securitisation exposures in the banking book and associated regulatory capital requirements – bank acting as investor	Pillar 1 Capital requirements : credit risk – securitisation contains equivalent disclosure

Appendix 6: CRR mapping

CRR ref	High-level summary	Pillar 3	ARA	Compliance reference
Scope of disclosure requirements				
431 (1)	Requirement to publish Pillar 3 disclosures.	x		Lloyds Banking Group publishes Pillar 3 disclosures.
431 (2)	Firms with permission to use specific operational risk methodologies must disclose operational risk information.		x	Pages 163 to 165 (Operational Risk) The Group's operational risk systems, mitigation and approach are disclosed in the Risk Management section.
431 (3)	Institution must have a policy covering frequency of disclosures, their verification, comprehensiveness and appropriateness. Institution must also have policies for assessing whether their disclosures convey their risk profile comprehensively to market participants.	x		Page 6 (Disclosure Policy) Lloyds Banking Group has a Pillar 3 Disclosure Policy. Page 11 (The Group's Approach to Risk)
431 (4)	Explanation of ratings decision upon request.			Not applicable
Non-material, proprietary or confidential information				
432 (1)	Institutions may omit information that is not material if certain conditions are respected.	x		Page 6 (Basis of Preparation) Limited disclosure on Trading Book securitisations given its relative materiality.
432 (2)	Institutions may omit information that is proprietary or confidential if certain conditions are respected.			Not applicable
432 (3)	Where 432 (2) applies this must be stated in the disclosures, and more general information must be disclosed.			Not applicable
432 (4)	Use of 432 (1), (2) or (3) is without prejudice to scope of liability for failure to disclose material information.			Not applicable
Frequency of disclosure				
433	Disclosures must be published once a year at a minimum and more frequently if necessary.	x		Page 6 (Frequency, media and location)
Means of disclosure				
434 (1)	To include all disclosures in one appropriate medium, or provide clear cross-references.	x		Page 6 (Frequency, media and location) Most disclosures are contained within this document.
434 (2)	Disclosures made under other requirements (e.g. accounting) can be used to satisfy Pillar 3 if appropriate.	x		Any cross-references to accounting or other disclosures are clearly signposted in this document where appropriate.
Risk management objectives and policies				
435 (1)	Disclose information on:			
435 (1) (a)	The strategies and processes to manage risks.		x	Pages 129 to 187 (Risk Management section)
435 (1) (b)	Structure and organisation of risk management function.		x	Pages 135 to 137 (Risk Governance)
435 (1) (c)	Risk reporting and measurement systems.		x	Pages 129 to 187 (Risk Management section)
435 (1) (d)	Hedging and mitigating risk – policies and processes.		x	Pages 129 to 187 (Risk Management section)
435 (1) (e)	A declaration of adequacy of risk management arrangements approved by the Board.		x	Page 79 (Board Responsibility).
435 (1) (f)	Concise risk statement approved by the Board.			
435 (2)	Information on governance arrangements, including information on Board composition and recruitment and risk committees.		x	Pages 70 to 93 (Corporate Governance Report) Pages 135 to 137 (Risk Governance)
435 (2) (a)	Number of directorships held by Board members.		x	Pages 66 to 67 (Board of Directors)
435 (2) (b)	Recruitment policy for selection of Board members, their actual knowledge, skills and expertise.		x	Pages 66 to 67 (Board of Directors)
435 (2) (c)	Policy on diversity of Board membership and results against targets.		x	Page 83 (Nomination and Governance Committee Report)
435 (2) (d)	Disclosure of whether a dedicated risk committee is in place, and number of meeting in the year.		x	Page 70 (Board and Committee composition and attendance at scheduled meetings in 2019) and pages 89 to 92 (Board Risk Committee Report)
435 (2) (e)	Description of information flow on risk to Board.		x	Pages 135 to 137 (Risk Governance)
Scope of application				
436 (a)	Name of institution.	x		Page 5 (Introduction)
436 (b)	Difference in basis of consolidation for accounting and prudential purposes, describing entities that are:	x		Page 7 (Scope of Consolidation) Details of the scope of consolidation applied to Lloyds Banking Group are outlined in the diagram referred to on page 7. Pages 128 to 130: Appendix 4
436 (b) (i)	Fully consolidated;			
436 (b) (ii) 436 (b) (iii)	Proportionally consolidated;			
436 (b) (iv)	Deducted from own funds;			
436 (c)	Impediments to transfer of own funds between parent and subsidiaries.			Not applicable

Appendix 6: CRR mapping continued

CRR ref	High-level summary	Pillar 3	ARA	Compliance reference
436 (d)	Capital shortfalls in any subsidiaries outside the scope of consolidation.		x	Pages 166 to 175 (Capital Risk) The Group actively manages the capital of its subsidiaries to ensure these remain appropriately capitalised.
436 (e)	Making use of articles on derogations from a) prudential requirements or b) liquidity requirements for individual subsidiaries/entities.	x		Page 7 (Scope of Consolidation) LBG makes use of these provisions according to its waiver from the PRA.
Own funds				
437 (1)	Disclose the following information regarding own funds:			
437 (1) (a)	a full reconciliation of Common Equity Tier 1 items, Additional Tier 1 items, Tier 2 items and filters and deductions applied pursuant to Articles 32 to 35, 36, 56, 66 and 79 to own funds of the institution and the balance sheet in the audited financial statements of the institution;	x		Pages 118 and 119 (Own funds reconciliation)
437 (1) (b)	a description of the main features of the Common Equity Tier 1 and Additional Tier 1 instruments and Tier 2 instruments issued by the institution;			Separately disclosed on Group website http://www.lloydsbankinggroup.com/investors/financial-performance/
437 (1) (c)	the full terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments;			Separately disclosed on Group website http://www.lloydsbankinggroup.com/investors/financial-performance/
437 (1) (d)	disclosure of the nature and amounts of the following:	x		Pages 118 and 119 (Own funds reconciliation)
437 (1) (d) (i)	each prudential filter applied pursuant to Articles 32 to 35.	x		
437 (1) (d) (ii)	each deduction made pursuant to Articles 36, 56 and 66;	x		
437 (1) (d) (iii)	items not deducted in accordance with	x		
	Articles 47, 48, 56, 66 and 79;	x		
437 (1) (e)	a description of all restrictions applied to the calculation of own funds in accordance with this Regulation and the instruments, prudential filters and deductions to which those restrictions apply;	x		
437 (1) (f)	where institutions disclose capital ratios calculated using elements of own funds determined on a different basis.			Explanations are provided where ratios are disclosed on a pro forma basis
Capital requirements				
438 (a)	Summary of institution's approach to assessing adequacy of capital levels.	x		Page 20 (The Group's approach to Capital Risk)
438 (b)	Result of ICAAP on demand from authorities.			Not applicable
438 (c)	Capital requirements for each Standardised approach credit risk exposure class.	x		Page 46 (Table 22: Total and average net amount of exposures – CRB-B)
438 (d)	Capital requirements for each Internal Ratings Based Approach credit risk exposure class.			
438 (e)	Capital requirements for market risk or settlement risk.	x		Page 102 (Table 69: Market risk own funds requirements)
438 (f)	Capital requirements for operational risk, separately for the Basic Indicator Approach, the Standardised Approach, and the Advanced Measurement Approaches as applicable.	x		Page 111 (Operational Risk)
438 (endnote)	Requirement to disclose specialised lending exposures and equity exposures in the banking book falling under the simple risk weight approach.	x		Page 59 (Table 33A: IRB – Specialised lending (CR10)) and Page 60 (Table 33B: Equity exposures subject to the simple risk weight method (CR10))
Exposure to counterparty credit risk (CCR)				
439 (a)	Description of process to assign internal capital and credit limits to CCR exposures.	x		Page 91 (Internal capital and credit limits)
439 (b)	Discussion of policies for securing collateral and establishing credit reserves.	x		Page 91 (Securing collateral and establishing credit reserves)
439 (c)	Discussion of management of wrong-way risk exposures.	x		Page 91 (Correlation (Wrong Way) Risk)
439 (d)	Disclosure of collateral to be provided (outflows) in the event of a ratings downgrade.	x		Page 91 (Collateral requirements in the event of a downgrade in credit rating)
439 (e)	Derivation of net derivative credit exposure.	x		Page 100 (Net derivatives credit exposure, including Table 67A: 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 92 (Table 57: 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 101 (Notional value of credit derivative transactions, including Table 68: Credit derivatives exposures (CCR6))
439 (h)	Notional amounts of credit derivative transactions.	x		
439 (i)	Estimate of alpha, if applicable.			Not applicable

Appendix 6: CRR mapping continued

CRR ref	High-level summary	Pillar 3	ARA	Compliance reference
Capital buffers				
440 (1) (a)	Geographical distribution of relevant credit exposures for calculation of countercyclical capital buffer.	x		Page 123 (Table 84: Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer)
440 (1) (b)	Amount of the institution specific countercyclical capital buffer.			
Indicators of global systemic importance				
441 (1)	Disclosure of the indicators of global systemic importance.			The Group's G-SIB metrics are separately disclosed on the Group's website. http://www.lloydsbankinggroup.com/investors/financial-performance/
Credit risk adjustments				
442 (a)	Disclosure of bank's definitions of past due and impaired.	x	x	Pillar 3: Page 70 (Impairment and credit quality of exposures Pillar 3: Page 74 (Analysis of past due, non-performing and forborne exposures) ARA: Pages 209 and 210 (Note 2: Accounting policies, Impairment of Financial assets)
442 (b)	Approaches for calculating specific and general credit risk adjustments.	x	x	Pillar 3: Page 78 (Comparison of expected losses to specific credit risk adjustments) ARA: Pages 214 to 216 (Note 3: Critical accounting estimates, Allowance for expected credit losses)
442 (c)	Disclosure of pre-CRM EAD by exposure class.	x		Page 46 (Table 22: Total and average net amount of exposures (CRB-B))
442 (d)	Disclosure of pre-CRM EAD by geography and exposure class.	x		Page 63 (Table 37: Geographical breakdown of exposures (CRB-C))
442 (e)	Disclosure of pre-CRM EAD by industry and exposure class.	x		Page 66 (Table 39: Concentration of exposures by industry (CRB-D))
442 (f)	Disclosure of pre-CRM EAD by residual maturity and exposure class.	x		Page 68 (Table 40: Maturity of exposures (CRB-E))
442 (g) (i), (ii), (iii)	Breakdown of impaired, past due, specific and general credit risk adjustments, and impairment charges for the period, by industry.	x		Page 72 (Table 42: 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 73 (Table 43: Credit quality of exposures by geography (CR1-C)) Page 74 (Analysis of past due, non-performing and forborne exposures)
442 (i), (ii), (iii), (iv), (v)	Reconciliation of changes in specific and general credit risk adjustments for impaired exposures.		x	Page 238 (Note 20: Allowance for impairment losses)
442 (endnote)	Specific credit risk adjustments recorded to income statement are disclosed separately.	x		Page 72 (Table 42: Credit quality of exposures by industry types (CR1-B))
Unencumbered assets				
443	Disclosures on unencumbered assets.	x		Page 124 (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 13: Capital framework: Standardised approach
444 (b)	Exposure classes associated with each ECAI.	x		Page 62 (Table 36: 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 61 (Table 35: Standardised approach – credit risk exposures and Credit Risk Mitigation (CRM) effects (CR4)) Page 62 (Table 36: Standardised approach – exposures by asset class (CR5))
Exposure to market risk				
445	Disclosure of position risk, large exposures exceeding limits, FX, settlement and commodities risk.	x		Pages 102 to 110 (Market risk)

Appendix 6: CRR mapping continued

CRR ref	High-level summary	Pillar 3	ARA	Compliance reference
Operational risk				
446	Scope of approaches used to calculate operational risk.	x		Page 14 (Pillar 1 Capital Requirements)
Exposure in equities not included in the trading book				
447 (a)	Differentiation of exposures based on objectives and an overview of accounting techniques and valuation methodologies.	x		Page 60 (Non-trading book exposures in equities) The appropriate cross referencing to the ARA is outlined in this section.
447 (b)	The balance sheet value, the fair value and, for those exchange-traded, a comparison to the market price where it is materially different from the fair value.	x		Page 60 (Table 34: Analysis of non-trading book exposures in equities)
447 (c)	The types, nature and amounts of exchange-traded exposures, private equity exposures in sufficiently diversified portfolios, and other exposures.	x		Page 60 (Analysis of equity exposures) including Table 33B: Equity exposures subject to the simple risk weight method (CR10)
447 (d)	Realised gains or losses arising from sales and liquidations in the period.	x		Page 60 (Table 34: Analysis of non-trading book exposures in equities)
447 (e)	Total unrealised gains or losses, the total latent revaluation gains or losses, and any of these amounts included in the original or additional own funds.	x		Page 60 (Table 34: Analysis of non-trading book exposures in equities)
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 183 to 185 (Banking activities)
448 (b)	Variation in earnings, economic value or other relevant measure used by the bank for upward and downward rate shocks according to the banks method for measuring the interest rate risk, broken down by currency.		x	Pages 183 to 185 (Banking activities)
Exposure to securitisation positions				
449 (a)	Objectives in relation to securitisation activity.	x		Page 80 (Banking book securitisation strategy and roles)
449 (b)	Nature of other risks in securitised assets, including liquidity.	x		Page 80 (Trading book securitisation strategy and roles) and Page 82 (Risks inherent in banking book securitised assets)
449 (c)	Risks in re-securitisation activity stemming from seniority of underlying securitisations and ultimate underlying assets.			Not applicable
449 (d)	The roles played by the institution in the securitisation process.	x		Page 80 (Banking book securitisation strategy and roles)
449 (e)	Indication of the extent of involvement in roles.	x		Page 81 (Table 48: Summary of securitisation exposures and capital requirements)
449 (f)	Processes in place to monitor changes in credit and market risks of securitisation exposures, and how the processes differ for re-securitisation exposures.	x		Page 82 (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 86 (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 81 (Table 48: Summary of securitisation exposures and capital requirements)
449 (i)	Types of SSPEs used to securitise third-party exposures as a sponsor.	x		Page 86 (Sponsored and invested securitisations)
449 (j) (i-vi)	Summary of accounting policies for securitisations.	x		Page 84 (Accounting treatment)
449 (k)	Names of ECAIs used for securitisations and type.	x		Page 83 (Originated securitisations – regulatory treatment) Page 86 (Capital assessment)
449 (l)	Full description of Internal Assessment Approach.	x		Page 86 (Capital assessment)
449 (m)	Explanation of significant changes in quantitative disclosures.	x		Key movements explained where applicable under relevant tables
449 (n)	As appropriate, separately for the Banking and trading book securitisation exposures:			
449 (n) (i)	Amount of outstanding exposures securitised;	x		Page 81 (Table 48: Summary of securitisation exposures and capital requirements)

Appendix 6: CRR mapping continued

CRR ref	High-level summary	Pillar 3	ARA	Compliance reference
449 (n) (ii)	On balance sheet securitisation retained or purchased, and off balance sheet exposures;	x		Page 83 and 84 (Table 51A: Analysis of originated positions under the RBA by risk weight category (grandfathered), Table 51B: Analysis of originated positions under the IRBA by risk weight category (revised framework) and Table 52: Analysis of originated positions under the Standardised approach (grandfathered) by risk weight category) Page 87 (Table 53A: Analysis of sponsored positions by risk weight category (grandfathered) and Table 53B: Analysis of sponsored positions by risk weight category (revised framework)) Page 88 and 89 (Table 54A: Analysis of invested positions by risk weight category (grandfathered) and Table 54B: Analysis of invested positions by risk weight category (revised framework))
449 (n) (iii)	Amount of assets awaiting securitisation;	x		Not applicable
449 (n) (iv)	Early amortisation treatment; aggregate drawn exposures, capital requirements.			Not applicable
449 (n) (v)	Deducted or 1,250%-weighted securitisation positions.	x		Page 81 (Table 48: Summary of securitisation exposures and capital requirements)
449 (n) (vi)	Securitisation activity including the amount of exposures securitised and recognised gains or losses on sales;	x		Page 81 (Securitisation programmes and activity)
449 (o) (i)	Retained and purchased positions and associated capital requirements, broken down by risk-weight bands.	x		Pages 83 (Table 51A: Analysis of originated positions under the RBA by risk weight category (grandfathered), Table 51B: Analysis of originated positions under the IRBA by risk weight category (revised framework) and Table 52: Analysis of originated positions under the Standardised approach (grandfathered) by risk weight category) Page 87 (Table 53A: Analysis of sponsored positions by risk weight category (grandfathered) and Table 53B: Analysis of sponsored positions by risk weight category (revised framework)) Page 88 and 89 (Table 54A: Analysis of invested positions by risk weight category (grandfathered) and Table 54B: Analysis of invested positions by risk weight category (revised framework))
449 (o) (ii)	Retained and purchased re-securitisation positions before and after hedging and insurance; exposure to financial guarantors broken down by guarantor credit worthiness.			Not applicable
449 (p)	Impaired assets and recognised losses related to banking book securitisations, by exposure type.	x		Page 83 (Table 50: Analysis of gross securitised exposures on a regulatory basis)
449 (q)	Exposure and capital requirements for trading book securitisations, separated into traditional and synthetic.	x		Page 82 (Table 49: Value of exposures of retained and purchased positions in the banking and trading book by exposure type)
449 (r)	Whether the institution has provided non-contractual financial support to securitisation vehicles.			Not applicable
Remuneration disclosure				
450	Remuneration disclosures (Material Risk Takers).		x	Pages 115 to 123 (2020 Remuneration policy) and pages 124 to 128 (Other remuneration disclosures)
Leverage				
451 (1) (a) 451 (1) (b) 451 (1) (c)	Leverage ratio, and breakdown of total exposure measure, including reconciliation to financial statements, and derecognised fiduciary items.	x		Page 25 (Table 7: Leverage ratio) Page 121 (Table 81: Leverage ratio common disclosure and Table 82: Summary reconciliation of accounting assets and leverage ratio exposures) Page 122 (Table 83: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures))
451 (1) (d) 451 (1) (e)	Description of the processes used to manage the risk of excessive leverage, and factors that impacted the leverage ratio during the year.	x		Page 121 (Description of the processes used to manage the risk of excessive leverage)
Use of the IRB approach to credit risk				
452 (a)	Permission for use of the IRB approach from the competent authority.	x		Page 35 (Scope of the IRB permission)
452 (b)	Explanation of:			
452 (b) (i)	Internal rating scales, mapped to external ratings;	x		Page 34 (Internal Ratings Scales)
452 (b) (ii)	Use of internal ratings for purposes other than capital requirement calculations;	x		Page 37 (Other application of IRB model outputs)

Appendix 6: CRR mapping continued

CRR ref	High-level summary	Pillar 3	ARA	Compliance reference
452 (b) (iii)	Management and recognition of credit risk mitigation;	x		Pages 30 to 33 (Credit risk mitigation)
452 (b) (iv)	Controls around ratings systems.	x		Page 36 (Internal development and monitoring of IRB models)
452 (c) (i)-(v)	Description of ratings processes for each IRB asset class, provided separately.	x		Page 35 (Scope of the IRB permission) and Page 36 (Internal development and monitoring of IRB models)
452 (d)	Exposure values by IRB exposure class, separately for Advanced and Foundation IRB.	x		Page 35 (Distribution of exposures by approach). Page 46 (Table 22: Total and average net amount of exposures (CRB-B)). This is also shown in other tables throughout the document.
452 (e)-(f)	For each exposure class, disclosed separately by obligor grade:	x		Pages 49 to 59 (Analysis of Credit Risk Exposures subject to the Foundation IRB approach including Tables 23-28 (CR6) and 30-33A (CR6))
	Total exposure, separating loans and undrawn exposures where applicable, and exposure-weighted average risk weight.			
452 (g)	Actual specific risk adjustments for the period and explanation of changes.	x		Page 78 (Comparison of expected losses to Specific credit risk adjustments)
452 (h)	Commentary on drivers of losses in preceding period.	x		Page 77 (Table 47: 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 38 to 45 (Model performance, including Table 21: Model performance and Tables 15-20: Back-testing of PD per portfolio for different asset classes (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 65 (Table 38: Exposures subject to the IRB approach analysed by geographical region)
Use of credit risk mitigation techniques				
453 (a)	Use of on and off-balance sheet netting.	x		Pages 30 to 33 (Credit risk mitigation)
453 (b)	How collateral valuation is managed.	x		Please note additional information with regards to balance sheet netting and derivatives is included in Counterparty Credit Risk section of Pillar 3 (Pages 90 to 101)
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 142 (Credit Risk)
453 (f)	Standardised or Foundation IRB Approach, exposure value covered by eligible collateral.	x		Page 32 (Table 12: CRM Techniques – Overview (CR3))
453 (g)	Exposures covered by guarantees or credit derivatives.			
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.	x		Page 105 (Key characteristics of market risk models)
455 (a) (ii)	Disclosure of the methodologies used to measure incremental default and migration risk.	x		Page 105 (Review of internal models)
455 (a) (iii)	Descriptions of stress tests applied to the portfolios.	x		Page 106 (Stress Testing)
455 (a) (iv)	Methodology for back-testing and validating the models.	x		Page 106 (Back testing of VaR models, including Table 71: Backtesting results (VaR models))
455 (b)	Scope of permission for use of the models.	x		Page 105 (Review of internal models)
455 (c)	Policies and processes to determine trading book classification, and to comply with prudential valuation requirements.	x		Page 107 (Valuation principles)
455 (d) (i)-(iii)	High/Low/Mean values over the year of VaR, SVaR and incremental risk charge.	x	x	Annual Report: Page 187 (Table 1.59: Trading portfolios: VaR (1-day 95 per cent confidence level)) Pillar 3: Page 108 (Table 73: IMA values for trading portfolios (MR3))
455 (e)	The elements of the own fund calculation.	x		Page 102 (Table 69: Market risk own funds requirements)
455 (f)	Weighted average liquidity horizons of portfolios covered by models.	x		Page 105 (Review of internal models)
455 (g)	Comparison of end-of-day VaR measures compared with one-day changes in the portfolio's value.	x		Page 107 (Comparison of VaR estimates to hypothetical and clean profit and loss)

Abbreviations

Abbreviation	Brief description
A	
ABCP	Asset-backed commercial paper
ABS	Asset-backed securities
AIRB	Advanced Internal Ratings-Based Approach
ALRB	Additional Leverage Ratio Buffer
AMA	Advanced Measurement Approach
ARA	Annual Report and Accounts
AT1	Additional Tier 1 capital
B	
BCBS	Basel Committee on Banking Supervision
BEEL	Best estimate of expected losses
BoE	Bank of England
BRC	Board Risk Committee
C	
CCB	Capital Conservation Buffer
CCF	Credit conversion factor
CCLB	Countercyclical Leverage Buffer
CCP	Central counterparty
CCR	Counterparty credit risk
CCyB	Countercyclical Capital Buffer
CDS	Credit default swap
CET1	Common equity tier 1 capital
CLN	Credit linked notes
CP	Commercial paper
CRD IV	Capital Requirements Directive & Regulation
CRM	Credit risk mitigation
CRR	Capital Requirements Regulation
CSA	Credit support annex
CVA	Credit valuation adjustment
D	
DVA	Debit valuation adjustment
E	
EAD	Exposure at default
EBA	European Banking Authority
ECAI	External Credit Assessment Institutions
EEL	Excess expected loss
EL	Expected loss
EU	European Union
F	
FCCM	Financial Collateral Comprehensive Method
FII	Financial Institutions Interconnectedness
FIRB	Foundation Internal Ratings-Based Approach
Fitch	Fitch Ratings
FPC	Financial Policy Committee (UK)
FRTB	Fundamental review of the trading book (BCBS)
G	
GALCO	Group Asset and Liability Committee
GEC	Group Executive Committee
GRC	Group Risk Committee
Group	Lloyds Banking Group plc together with its subsidiary undertakings on a consolidated basis
G-SIB	Global Systemically Important Bank
H	
HPI	House price index
HQLA	High quality liquid assets
I	
IAA	Internal Assessment Approach
IAS	International Accounting Standard
ICAAP	Internal Capital Adequacy Assessment Process
ICG	Individual Capital Guidance
IFRS	International Financial Reporting Standards
IMM	Internal Model Method
IRB	Internal Ratings-Based Approach
IRRBB	Interest rate risk in the banking book
IRC	Incremental risk charge
ISDA	International Swaps and Derivatives Association
L	
LCR	Liquidity coverage ratio
LGD	Loss given default
LIBOR	London Interbank Offer Rate
LTV	Loan-to-value
M	
MGC	Model Governance Committee
Moody's	Moody's Investors Service
MTM	Mark-to-market
O	
OTC	Over-the-counter
P	
PD	Probability of default
PFE	Potential future exposure
PIT	Point-in-time
PRA	Prudential Regulation Authority (UK)
PRR	Position risk requirement
PVA	Prudent valuation adjustment
Q	
QCCP	Qualifying Central Counterparty
QRRE	Qualifying revolving retail exposure

Abbreviations continued

R	
RBA	Ratings Based Approach
Retail IRB	Retail Internal Ratings Based Approach
RMBS	Residential mortgage-backed security
RNIV	Risks not in VaR

S	
STA	Standardised Approach
S&P	Standard and Poor's
SCRA	Specific credit risk adjustment
SE	Structured entity
SFTs	Securities financing transactions
SME	Small and medium-sized enterprise
SRB	Systemic risk buffer
SRT	Significant risk transfer

T	
TTC	Through-the-cycle
T1	Tier 1 capital
T2	Tier 2 capital

U	
UK	United Kingdom
US	United States of America

V	
VaR	Value-at-risk

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