Lloyds Banking Group plc

2020 Year-end
Pillar 3 Disclosures
31 December 2020

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FORWARD LOOKING STATEMENTS

This document contains certain forward looking statements within the meaning of Section 21E of the US Securities Exchange Act of 1934, as amended, and section 27A of the US Securities Act of 1933, as amended, with respect to the business, strategy, plans and/or results of Lloyds 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', 'achieves', 'anticipates', 'estimates', 'expects', 'targets', 'should', 'intends', 'aims', 'projects', 'plans', 'potential', 'will', 'would', 'could', 'considered', 'likely', 'may', 'seek', 'estimate' and variations of these words and similar future or conditional expressions are intended to identify forward looking statements but are not the exclusive means of identifying such statements.

Examples of such forward looking statements include, but are not limited to, statements or guidance relating to: projections or expectations of the 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; the Group's ESG targets and/or commitments; changing customer behaviour including consumer spending, saving and borrowing habits; changes to borrower or counterparty credit quality impacting the recoverability and value of balance sheet assets; concentration of financial exposure; management and monitoring of conduct risk; exposure to counterparty risk (including but not limited to third parties conducting illegal activities without the Group's knowledge); instability in the global financial markets, including Eurozone instability, instability as a result of uncertainty surrounding the exit by the UK from the European Union (EU), the EU-UK Trade and Cooperation Agreement, and as a result of such exit and the potential for other countries to exit the EU or the Eurozone and the impact of any sovereign credit rating downgrade or other sovereign financial issues; political instability including as a result of any UK general election and any further possible referendum on Scottish independence; technological changes and risks to the security of IT and operational infrastructure, systems, data and information resulting from increased threat of cyber and other attacks; natural, pandemic (including but not limited to the COVID-19 pandemic) and other disasters, adverse weather and similar contingencies outside the 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, or other such events; geopolitical unpredictability; risks relating to climate change; changes in laws, regulations, practices and accounting standards or taxation, including as a result of the UK's exit from the EU; changes to regulatory capital or liquidity requirements (including regulatory measures to restrict distributions to address potential capital and liquidity stress) and similar contingencies outside the 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 laws, 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 on Form 20-F filed by Lloyds Banking Group plc with the US Securities and Exchange Commission for a discussion of certain factors and risks.

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

COMMON EQUITY TIER 1 RATIO

The Group's capital position remains strong with a CET1 capital ratio of 16.2 per cent after accruing for ordinary dividends, ahead of the Board's ongoing target of c.12.5 per cent plus a management buffer of c.1 per cent. The increase in the ratio from 13.6 per cent (13.8 per cent on a pro forma[1] basis) reflects banking business profits, with the impairment charge for the year partially mitigated through IFRS 9 transitional relief, reductions in underlying risk-weighted assets and other movements, offset in part by additional pension contributions. In addition the ratio benefited from the reversal of the full year 2019 ordinary dividend accrual and the impact of the revised capital treatment for intangible software assets.

TOTAL CAPITAL RATIO

TOTAL CAPITAL RATIO

The Group's total capital ratio increased to 23.3 per cent from 21.3 per cent (21.5 per cent on a pro forma[1] basis), largely reflecting the increase in common equity tier 1 capital, offset in part by the reduction in tier 2 capital, the latter reflecting instrument calls, regulatory amortisation and other movements, partially offset by the net outcome of subordinated liability exchange exercises undertaken during the year.

UK LEVERAGE RATIO

UK LEVERAGE RATIO

The Group's UK leverage ratio increased to 5.8 per cent from 5.1 per cent (5.2 per cent on a pro forma[1] basis), largely reflecting the increase in the fully loaded tier 1 capital position, partially offset by the increase in the leverage exposure measure reflecting movements in securities financing transactions and off-balance sheet items.

RISK-WEIGHTED ASSETS

RISK-WEIGHTED ASSETS

Risk weighted assets reduced from £203.4 billion to £202.7 billion during the year. Ongoing portfolio optimisation and reductions in lending balances outside of government loan schemes have more than offset the impact of credit migrations, model calibrations, regulatory changes (including the revised capital treatment for intangible software assets) and other movements.

AVERAGE LIQUIDITY COVERAGE RATIO (WEIGHTED)

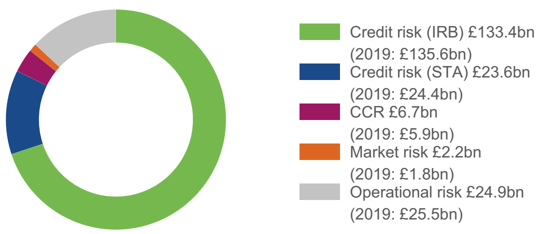
AVERAGE LIQUIDITY COVERAGE RATIO

The Group's liquidity position is strong with an average LCR of 136 per cent as at 31 December 2020.

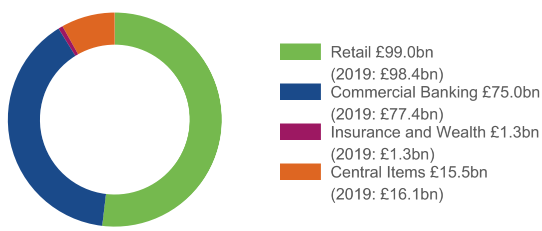
1 Prior year comparatives on a pro forma basis reflect the dividend paid up by the Insurance business in the subsequent first quarter period.

SPLIT OF RISK WEIGHTED ASSETS

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



Split of Risk-weighted assets by division[1]



1 Numbers do not include threshold risk-weighted assets.

2 Descriptions of credit risk approaches are detailed on page 15.

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

Key metrics

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

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

		a	b	c	d	e
		T	T-1	T-2	T-3	T-4
		Q4	Q3	Q2	Q1	Q4
		2020	2020	2020	2020	2019
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1) (£m)	**32,822**	31,237	30,189	29,674	27,744
2	CET1 capital as if IFRS 9 transitional arrangements had not been applied (£m)	**30,341**	28,568	27,583	28,861	27,002
3	Tier 1 (£m)	**38,666**	37,081	36,031	35,388	33,992
4	Tier 1 capital as if IFRS 9 transitional arrangements had not been applied (£m)	**36,185**	34,412	33,425	34,575	33,238
5	Total capital (£m)	**47,168**	46,491	46,146	45,695	43,416
6	Total capital as if IFRS 9 transitional arrangements had not been applied (£m)	**46,052**	45,077	44,691	45,421	43,153
	Risk-weighted assets (amounts)					
7	Total risk-weighted assets (£m)	**202,747**	205,296	207,052	208,715	203,431
8	Total risk-weighted assets as if IFRS 9 transitional arrangements had not been applied (£m)	**201,800**	203,941	205,595	208,212	203,083
	Risk-based capital ratios as a percentage of RWA					
9	Common Equity Tier 1 ratio (%)	**16.2%**	15.2%	14.6%	14.2%	13.6%
10	CET1 ratio as if IFRS 9 transitional arrangements had not been applied (%)	**15.0%**	14.0%	13.4%	13.9%	13.3%
11	Tier 1 ratio (%)	**19.1%**	18.1%	17.4%	17.0%	16.7%
12	Tier 1 ratio as if IFRS 9 transitional arrangements had not been applied (%)	**17.9%**	16.9%	16.3%	16.6%	16.4%
13	Total capital ratio (%)	**23.3%**	22.6%	22.3%	21.9%	21.3%
14	Total capital ratio as if IFRS 9 transitional arrangements had not been applied (%)	**22.8%**	22.1%	21.7%	21.8%	21.2%
	Additional CET1 buffer requirements as a percentage of RWA					
	Capital conservation buffer requirement	**2.500%**	2.500%	2.500%	2.500%	2.500%
	Countercyclical buffer requirement	**0.002%**	0.002%	0.003%	0.007%	0.900%
	Bank G-SIB and/or D-SIB additional requirements[2]	**—**	—	—	—	—
	Total of bank CET1 specific buffer requirements	**2.502%**	2.502%	2.503%	2.507%	3.400%
	CET1 available after meeting the bank's minimum capital requirements	**11.7%**	10.7%	10.1%	9.7%	9.1%
	UK leverage ratio[3]					
15	UK leverage ratio exposure measure (£m)	**666,070**	667,024	665,789	669,541	654,387
16	UK leverage ratio	**5.8%**	5.6%	5.4%	5.3%	5.1%
17	UK leverage ratio as if IFRS 9 transitional arrangements had not been applied	**5.5%**	5.2%	5.0%	5.2%	5.0%
	Average Liquidity Coverage Ratio (weighted) (LCR)					
	Total High Quality Liquid Assets (HQLA) (£m)	**141,747**	138,512	136,961	131,079	130,262
	Total net cash outflow (£m)	**104,553**	100,553	98,131	95,354	94,966
	LCR ratio (%)	**136%**	138%	140%	138%	137%

1 The Group applies the full extent of the IFRS9 transitional arrangements for capital as set out under CRR Article 473a (as amended via the CRR 'Quick Fix' revisions published in June 2020). Specifically, the Group has opted to apply both paragraphs 2 and 4 of CRR Article 473a (static and dynamic relief) and in addition to apply a 100% risk weight to the consequential Standardised credit risk exposure add-back as permitted under paragraph 7a of the revisions. As at 31 December 2020, static relief under the transitional arrangements amounted to £616 million (31 December 2019: £742 million) and dynamic relief under the transitional arrangements amounted to £1,865 million (31 December 2019: nil) through CET1 capital.

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

3 The CRD IV leverage ratio at 31 December 2020 is 5.3 per cent (31 December 2019 4.8 per cent).

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

Table 2: Key Metrics – TLAC requirements (KM2)

		December 2020 Resolution Group [1] £m	September 2020 Resolution Group [1] £m	June 2020 Resolution Group [1] £m	March 2020 Resolution Group [1] £m	December 2019 Resolution Group [1] £m
1	Total loss absorbing capacity (TLAC) available	**73,726**	74,998	76,275	71,904	66,120
1a	Fully loaded ECL accounting model TLAC available	**72,610**	73,584	74,820	71,630	65,857
2	Total RWA at the level of the resolution group	**202,747**	205,296	207,052	208,715	203,431
3	TLAC as a percentage of RWA	**36.4%**	36.5%	36.8%	34.5%	32.5%
3a	Fully loaded ECL accounting model TLAC as a percentage of fully loaded ECL accounting model RWA	**36.0%**	36.1%	36.4%	34.4%	32.4%
4	UK leverage ratio exposure measure at the level of the resolution group	**666,070**	667,024	665,789	669,541	654,387
5	TLAC as a percentage of UK leverage ratio exposure measure	**11.1%**	11.2%	11.5%	10.7%	10.1%
5a	Fully loaded ECL accounting model TLAC as a percentage of fully loaded ECL accounting model UK leverage ratio exposure measure	**10.9 %**	11.1%	11.3%	10.7%	10.1%
6a	Does the subordination exemption in the antepenultimate paragraph of Section 11 of the FSB TLAC Term Sheet apply?	**No**	No	No	No	No
6b	Does the subordination exemption in the penultimate paragraph of Section 11 of the FSB TLAC Term Sheet apply?	**No**	No	No	No	No
6c	If the capped subordination exemption applies, the amount of funding issued that ranks pari passu with excluded liabilities and that is recognised as external TLAC, divided by funding issued that ranks pari passu with excluded liabilities and that would be recognised as external TLAC if no cap was applied (%)	**N/a**	N/a	N/a	N/a	N/a

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

Introduction

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

Pillar 3 requirements are predominantly set out under the Capital Requirements Directive & Regulation (CRD IV) and are designed to promote market discipline through the disclosure of key information around capital, risk exposures and risk management. The Group's year end disclosures comply with the requirements of CRD IV and associated European Banking Authority (EBA) guidelines and technical standards in force as at 31 December 2020.

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

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

In satisfaction of certain disclosure requirements, reference has been made to the 2020 Lloyds Banking Group plc Annual Report and Accounts (ARA). As such, this document should be read in conjunction with the Annual Report and Accounts, as highlighted throughout the remainder of the document.

INTERNAL CONTROL

The effectiveness of the risk management and internal control systems is reviewed regularly by the Board and the Audit Committee, which also receives reports of reviews undertaken by the Risk Division and Group Internal Audit. A statement from the Board is included within the Governance section of the 2020 Lloyds Banking Group plc Annual Report and Accounts (page 95) confirming that the Board concluded that the Group's risk management arrangements were adequate to provide assurance that the risk management systems put in place are suitable with regard to the Group's profile and strategy.

The Chief Finance Officer (CFO) and the Chief Risk Officer (CRO) have also attested in writing that the 2020 Pillar 3 disclosures have been prepared in accordance with the internal control processes agreed upon at the management body level.

PILLAR 3 REQUIREMENTS NOT INCLUDED IN EITHER THE ANNUAL REPORT AND ACCOUNTS OR THE LLOYDS 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 Capital Requirements Regulation (CRR).

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

LARGE SUBSIDIARY DISCLOSURES (CRR II ARTICLE 13)

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

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

The Group is not currently classified as a Global Systemically Important Bank (G-SIB), however, by virtue of 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 2020 Basel G-SIBs annual exercise will be disclosed from April 2021 and the results are expected to be made available by the Basel Committee later this year.

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

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

Disclosure policy

The Group maintains a Pillar 3 Disclosure Policy to support compliance with Articles 431- 455 of the CRR and associated EBA guidelines and technical standards. 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 2020, prepared in accordance with the requirements of CRR Part Eight (Disclosure by Institutions) and associated EBA guidelines and technical standards in force at 31 December 2020. A CRR mapping table has been included in Appendix 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 (£10m exposure, £2m risk-weighted assets) in the context of both the overall trading book and the Group's banking book securitisation positions, the Group has elected to provide only limited disclosure around its trading book securitisation positions.

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

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

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

BASIS OF CREDIT RISK EXPOSURES

To ensure compliance with both CRR requirements and subsequent EBA guidelines, credit risk exposures are presented on different bases throughout the document. Information on the exposure basis is given either in column headings or supporting narrative within the Pillar 3 Credit risk section (pages 30 to 85).

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

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

FREQUENCY, MEDIA AND LOCATION

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

The EBA guidelines on Pillar 3 disclosure frequency that were formally adopted by the Group from October 2015 define key information that institutions should consider disclosing on a more frequent than annual basis under Pillar 3. The Group's assessment of these guidelines has resulted in the disclosure of specific capital and leverage information at the interim quarter ends with further detailed analysis provided at half-year. The additional EBA guidelines issued in December 2016 that applied in full from 31 December 2017 also define specific templates that banks are required to disclose on a quarterly and semi-annual basis. These templates relate mainly to credit risk, counterparty credit risk and market risk.

VERIFICATION

The disclosures presented within this document are not required to be subject to an external audit. Instead, the disclosures have been verified and approved through internal governance procedures in line with the 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 2020 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 2020 Lloyds Banking Group plc Annual Report and Accounts.

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

- Risk overview, pages 56 to 59;
- Emerging risks, page 147;
- Risk categories, page 153.

Scope of consolidation

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

INTRODUCTION

Lloyds Banking Group is required to calculate consolidated capital requirements and consolidated capital resources based on the prudential consolidation provisions applicable to banks under the CRR (Part One, Title II, Chapter 2), as amended by CRR II revisions on prudential consolidation that came into force in December 2020.

REGULATORY CONSOLIDATION

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

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

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

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

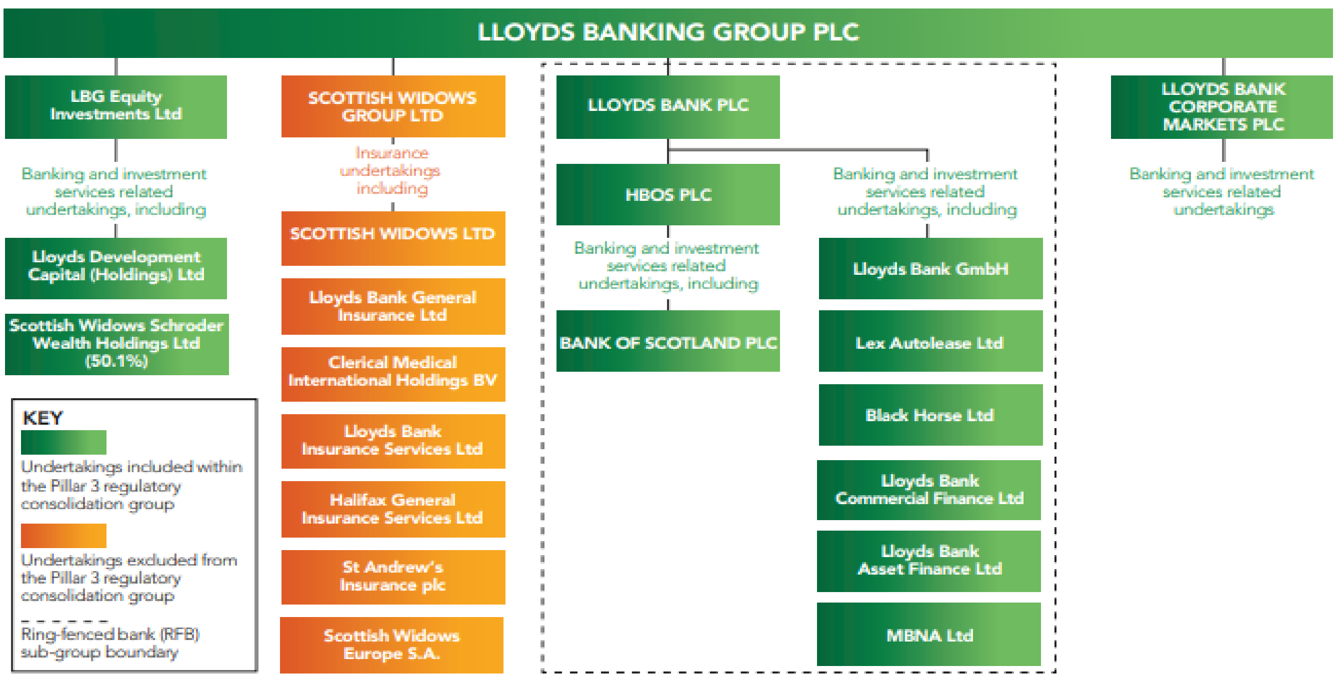
The full list of undertakings where the regulatory method of consolidation or treatment differs from the accounting method of consolidation or treatment is provided in Appendix 4, Table 90.

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 2020) of the regulatory consolidation group upon which the disclosures presented within this document are based is provided below.



Scope of consolidation continued

CONSOLIDATED BALANCE SHEET UNDER THE REGULATORY SCOPE OF CONSOLIDATION

The following table provides a reconciliation of the Group's consolidated balance sheet as at 31 December 2020 on an accounting consolidation basis (as presented on pages 217 and 218 of the 2020 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)

	2020						
			Carrying values of items:				
	Carrying values as reported in published financial statements	Carrying values under regulatory scope of consolidation	subject to credit risk framework	subject to counterparty credit risk framework	subject to securitisation framework	subject to market risk framework	not subject to capital requirements or subject to deduction from capital
	£m	£m	£m	£m	£m	£m	£m
	a	b	c	d	e	f	g
Assets							
Cash and balances at central banks	73,257	72,433	72,433	—	—	—	—
Items in the course of collection fro	299	—	—	—	—	—	—
Financial assets at fair value through profit or loss	171,626	26,196	4,751	12,999	—	20,234	561
Derivative financial instruments	29,613	28,062	—	28,041	—	21,773	—
Financial assets at amortised cost	514,994	516,531	427,126	67,896	21,434	—	76
Loans and advances to banks	10,746	11,753	5,924	5,830	—	—	—
Loans and advances to customers	498,843	498,921	416,654	62,066	20,201	—	—
Debt securities	5,405	5,857	4,548	—	1,233	—	76
Financial assets at fair value through other comprehensive income	27,603	27,603	27,451	—	—	—	152
Investment in group undertakings	296	9,149	3,693	—	—	—	5,456
Value of in-force business	5,617	—	—	—	—	—	—
Goodwill	2,320	539	—	—	—	—	539
Other intangible assets	4,140	4,177	1,291	—	—	—	2,886
Property, plant and equipment	11,754	8,450	8,450	—	—	—	—
Current tax recoverable	660	553	553	—	—	—	—
Deferred tax assets	2,741	3,597	1,076	—	—	—	2,520
Retirement benefit assets	1,714	1,714	1,714	—	—	—	1,714
Other assets	24,635	3,641	3,641	—	—	—	—
Total Assets	871,269	702,645	552,179	108,936	21,434	42,007	13,904

	2020						
			Carrying values of items:				
	Carrying values as reported in published financial statements	Carrying values under regulatory scope of consolidation	subject to credit risk framework	subject to counterparty credit risk framework	subject to securitisation framework	subject to market risk framework	not subject to capital requirements or subject to deduction from capital
	£m	£m	£m	£m	£m	£m	£m
	a	b	c	d	e	f	g
Liabilities							
Deposits from banks	31,465	—	—	—	—	—	—
Customer deposits	460,068	492,829	—	35,411	—	—	457,418
Items in course of transmission to banks	306	—	—	—	—	—	—
Financial assets at fair value through profit or loss	22,646	22,646	—	14,997	—	15,818	—
Derivative financial instruments	27,313	26,361	—	23,936	—	17,429	—
Notes in circulation	1,305	—	—	—	—	—	—
Debt securities in issue	87,397	85,895	—	—	—	—	85,895
Liabilities arising from insurance contracts and participating investment contracts	116,060	—	—	—	—	—	—
Liabilities arising from non-participating investment contracts	38,452	—	—	—	—	—	—
Other liabilities	20,347	8,694	—	—	—	—	8,694
Retirement benefit obligations	245	244	—	—	—	—	244
Current tax liabilities	31	31	—	—	—	—	31
Deferred tax liabilities	45	45	—	—	—	—	45
Other provisions	1,915	1,738	—	—	—	—	1,738
Subordinated liabilities	14,261	12,422	—	—	—	—	12,422
Total Liabilities	821,856	650,905	—	74,344	—	33,247	566,487

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

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

Market risk framework: Refer to 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 80: 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)	552,179	108,936	21,434
Off balance sheet amounts	92,532	114,609	7,080
Differences due to specific regulatory adjustments	7,284	—	(1,233)
Differences due to consideration of provisions	5,457	—	—
Differences due to consideration of collateral, haircuts and netting	—	(202,194)	—
Regulatory Potential Future Exposures	—	12,535	—
Exposure amounts considered for regulatory purposes	657,452	33,886	27,281

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.

Risk Management

THE GROUP'S APPROACH TO RISK

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

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

Risk culture

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

Risk appetite

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

Group strategy and risk appetite are developed in tandem. Business planning aims to optimise value within the Group's risk appetite parameters and deliver on its 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 the Group's control framework and is embedded into its policies, authorities and limits, to guide decision-making and risk management. The Board is responsible for approving the Group's risk appetite statement at least annually. Group Board-level metrics are cascaded into more detailed business appetite metrics and limits.

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

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

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

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

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

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

Risk decision making and reporting

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

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

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

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

The most significant risks the Group faces which could impact delivery of its strategy together with key mitigating actions, in line with the Risk Management framework, are outlined in the Risk Overview section of the 2020 Lloyds Banking Group plc Annual Report and Accounts, pages 56 to 59.

Details of the Group's application of stress testing, the methodologies applied, use of reverse stress testing and governance are presented in the Risk Management section of the 2020 Lloyds Banking Group plc Annual Report and Accounts, page 152.

Further details on the Group's risk governance are presented in the Risk Management section of the 2020 Lloyds Banking Group plc Annual Report and Accounts, pages 150 to 152.

Further details on the Group's risk management processes in relation to the key risk drivers that do not fall under the scope of the Group's Pillar 3 disclosures are presented in the Risk Management section of the 2020 Lloyds Banking Group plc Annual Report and Accounts, as follows:
Climate risk page 154; Funding and liquidity risk, page 183; Insurance underwriting risk, page 196; Change / execution risk page 197; Conduct Risk page 197; Data Risk page 199; Governance Risk page 199; People risk, page 200; Operational resilience risk page 200; Regulatory & Legal risk page 203 and Strategic risk page 204.

The regulatory capital framework

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

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 have been applied. The most significant of these for the Group are the deduction of part of the Group's equity investment in its Insurance business and the deductions applied for goodwill and other intangible assets and a large part of the Group's deferred tax assets. Other significant deductions and adjustments consist of the deconsolidation of Insurance reserves, the elimination of the cash flow hedging reserve and the removal of defined benefit pension scheme surpluses. In addition reserves are adjusted to reflect the application of the IFRS 9 transitional arrangements for capital.

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 through the application of regulatory amortisation.

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 T2 capital instruments of the Group will cease to qualify as regulatory capital after June 2025 in accordance with the revised transitional rules.

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

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

T1 and T2 together form Total Capital.

REGULATORY CAPITAL REQUIREMENTS AND BUFFERS

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

PILLAR 1 – MINIMUM CAPITAL REQUIREMENTS

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

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

A range of approaches, varying in sophistication, are available under the regulatory framework to use in measuring risk-weighted assets and thereby determine the minimum level of capital required under Pillar 1. The Group's risk-weighted assets are predominantly calculated using internal models that are prudently calibrated based on loss experience and are subject to a number of internal controls and external approval from the PRA. A brief summary of the different approaches for the different risk types and their application by the Group is disclosed on pages 15 and 16, 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 2020, 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 (a variation of AIRB). In each case a prescribed regulatory formula is used to calculate risk-weighted assets which incorporates probability of default (PD), loss given default (LGD) and 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. *Foundation IRB Approach* The FIRB Approach uses internal assessments of a counterparty's PD (subject to certain floors) together with regulatory defined assessments for LGD and EAD. *Advanced IRB Approach* The AIRB Approach uses internal assessments of PD, EAD and LGD (subject to certain floors). *Retail IRB Approach* The Retail IRB Approach is a version of the AIRB Approach tailored to retail exposures.	Information on the comparison of EL and SCRAs, which form the basis of the calculation of Excess EL can be found on page 84. The FIRB Approach is used for the majority of the Group's commercial exposures as the Group does not have permission to utilise the AIRB Approach for these portfolios. The Group has permission to utilise the AIRB Approach for retail portfolios only and it therefore applies the Retail IRB Approach for its modelled retail exposures. For more information on IRB models refer to the Model Performance section on pages 40 to 48.
	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 commercial real estate portfolios. The Simple Risk Weight Method is applied to the Group's equity exposures. Securitisation positions are predominantly risk weighted under the Securitisation External Ratings Based Approach (SEC-ERBA), with the remainder subject to the Securitisation Internal Ratings Based Approach (SEC-IRBA) and revised Securitisation Standardised Approach (SEC-SA). From 1 January 2020 all positions became subject to the revised framework.

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

PILLAR 2 – SUPERVISORY REVIEW PROCESS

The Pillar 1 minimum requirement for capital is supplemented by a Pillar 2A 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 Individual Capital Requirement (ICR). This reflects a point-in-time estimate by the PRA, which may change over time, of the minimum amount of capital to cover risks that are not fully covered by Pillar 1, such as credit concentration and operational risk, and those risks not covered at all by Pillar 1, such as pensions and interest rate risk in the banking book (IRRBB).

During the year the PRA reduced the Group's total Pillar 2A capital requirement from c.4.6 per cent to c.3.8 per cent of risk-weighted assets at 31 December 2020, of which c.2.1 per cent of risk-weighted assets must be met by CET1 capital. This comprised of both the initial reduction applied in the first half of 2020 and a second reduction applied in December 2020 which is designed to reflect the additional resilience from the higher UK countercyclical capital buffer rate which in normal conditions will be set at 2 per cent (currently set at 0 per cent). The latter reduction is currently fully offset at CET1 level by other regulatory capital requirements as at 31 December 2020.

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:

The regulatory capital framework continued

Risks not fully captured under Pillar 1

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

Risks not covered at all by Pillar 1

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

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

REGULATORY CAPITAL BUFFERS

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

Systemic buffers

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

- Although the Group is not currently classified as a global systemically important institution (G-SII) under the Capital Requirements Directive, it has been classified as an 'other' systemically important institution (O-SII) by the PRA.
- The O-SII buffer (formerly referred to as the systemic risk buffer) applies to the Group's RFB sub-group and is currently set at 2.0 per cent of the RFB sub-group's risk- weighted assets. The size of the buffer applied to the RFB sub-group is dependent upon the level of its total assets. The O-SII buffer equates to 1.7 per cent of risk-weighted assets at Group level, with the difference reflecting the risk-weighted assets of the Group that are not in the RFB sub-group and for which the O-SII buffer does not therefore apply. It is the PRA's policy to include this in the Group's PRA Buffer.

Capital conservation buffer

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

Countercyclical capital buffer

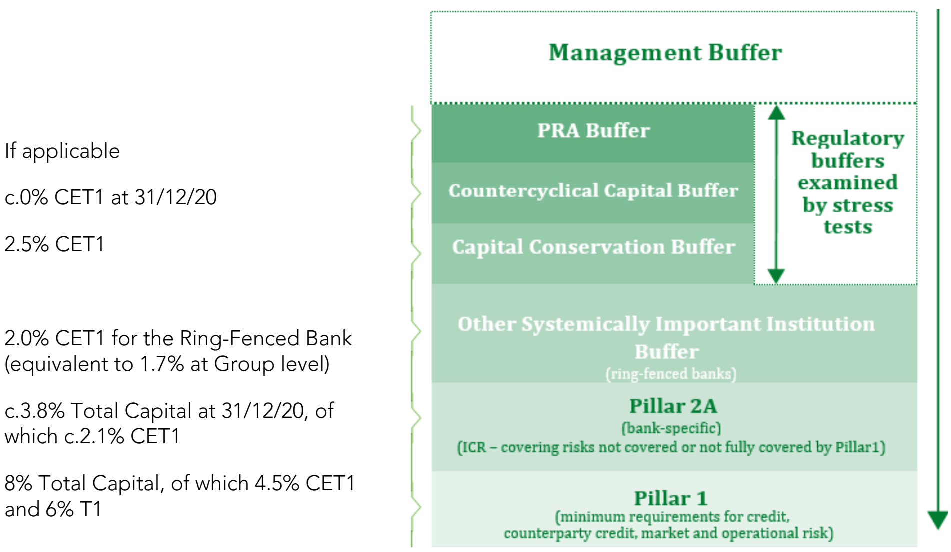
The countercyclical capital buffer (CCYB) is time-varying and is designed to require banks to hold additional capital to remove or reduce the build-up of systemic risk in times of credit boom, providing additional loss absorbing capacity and acting as an incentive for banks to constrain further credit growth. The amount of the buffer is determined by reference to buffer rates applied by the Bank of England's Financial Policy Committee (FPC) for the individual countries where the Group has relevant credit exposures. The CCYB rate for the UK is currently set at 0 per cent as a result of the measures introduced by UK regulators during the first half of 2020 in response to the coronavirus pandemic. Given the Group's UK focused business model, the overall countercyclical capital buffer at 31 December 2020 for the Group was around 0 per cent of risk-weighted assets. In December 2020, the FPC confirmed that it expects the UK CCYB rate to remain at 0 per cent until at least Q4 2021 and due to the usual 12-month implementation lag, any subsequent increase would not take effect until Q4 2022 at the earliest. The FPC also noted that the eventual pace of return to a standard 2 per cent UK CCYB rate will depend on banks' ability to rebuild capital while continuing to support households and businesses. Additional disclosures around the geographical distribution of credit exposures relevant to the calculation of the countercyclical capital buffer have been included in Appendix 1.

PRA buffer

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

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

Further details on the Group's stress testing processes are included on page 152 of the 2020 Lloyds Banking Group plc Annual Report and Accounts.



The Group's Pillar 2A CET1 requirement reduced during the year from 2.6 per cent at 1 January 2020 to 2.1 per cent at 31 December 2020. The countercyclical capital buffer reduced to around 0 per cent following the FPC's decision to set the UK countercyclical capital buffer rate to 0 per cent during the first half of 2020 in response to the coronavirus pandemic.

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

The regulatory capital framework continued

All buffers

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

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 regulator. This includes the implementation of ongoing revisions to the Basel Pillar 3 framework, designed in part to enhance consistency and comparability.

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

LEVERAGE FRAMEWORK

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

The minimum leverage ratio requirement under the UK Leverage Ratio Framework is 3.25 per cent. This is supplemented by a time-varying countercyclical leverage buffer (CCLB) which is determined by multiplying the leverage exposure measure by 35 per cent of the countercyclical capital buffer (CCYB) rate. As at 31 December 2020 the CCLB for the Group was 0 per cent. An additional leverage ratio buffer (ALRB) of 0.7 per cent applies to the RFB sub-group and is determined by multiplying the RFB sub-group leverage exposure measure by 35 per cent of the O-SII buffer. This equates to 0.6 per cent of the total leverage exposure measure at Group level.

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

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

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

RING-FENCING

The 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 has been relatively limited, with minimal impact for the majority of the Group's retail and commercial customers.

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

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

IFRS 9 TRANSITIONAL ARRANGEMENTS

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

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

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

- The initial net impact on CET1 capital continues to be phased in over 5 years from the original 1 January 2018 implementation date - this is referred to as 'static' relief. During 2020 the arrangements allowed 70 per cent of the initial net impact to be added back to CET1 capital. This will reduce down to 50 per cent in 2021 and 25 per cent in 2022, with full recognition of the initial net impact on CET1 capital from 2023.
- The start point for measuring subsequent increases in Stage 1 and Stage 2 ECLs (net of movements in regulatory expected losses) has been changed from 1 January 2018 to 1 January 2020. During 2020 and 2021 the revised arrangements allow 100 per cent of any resultant net increase to be added back to CET 1 capital - this is referred to as 'dynamic' relief. The factor reduces down to 75 per cent in 2022, 50 per cent in 2023 and 25 per cent in 2024, with no relief available thereafter. Increases in Stage 3 ECLs are not covered by the arrangements and therefore impact CET1 capital in full.

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

FUTURE REGULATORY DEVELOPMENTS

Introduction

The regulatory framework within which the Group operates continues to evolve.

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

The impact of the coronavirus pandemic during 2020 saw regulators introducing an extensive series of supportive measures which included the acceleration of certain CRR II revisions that were originally due to be implemented in June 2021 and amendments made (some temporary) to existing requirements. A number of these revisions and amendments were implemented via the CRR 'Quick Fix' proposals in June 2020.

The regulatory capital framework continued

In addition implementation dates for previously finalised revisions to regulatory requirements have generally been delayed by a year, including the final Basel III reforms and the introduction of the PRA's revisions to IRB models.

The Group continues to monitor ongoing regulatory 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.

Some of the key areas of development are discussed in the sections below.

Final Basel III reforms

The Basel Committee published its final reforms on Basel III in December 2017 with the original intention that these be implemented by 1 January 2022. However, in response to the impact of the coronavirus pandemic, the Basel Committee has now proposed that the final reforms should be implemented by 1 January 2023 (i.e. a one year delay to the original timetable), with the capital floors (output) requirement continuing to be phased in over a five year period, commencing 1 January 2023 with a 50 per cent floor and thereafter building towards the full floor of 72.5 per cent by 1 January 2028. It is expected that UK regulators will consult on the implementation of the final reforms during 2021.

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

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

The purpose of the new 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 such an exemption and recalibration, but on a permanent basis.

The Basel Committee originally issued final standards for market risk on the Fundamental Review of the Trading Book (FRTB) in January 2019. The standard includes a move away from VaR based metrics under the internal models approach to a new expected shortfall measure of risk under stress, a revised Standardised approach for calculating market risk capital to a more risk-sensitive approach, incorporation of the risk of market illiquidity and a revised boundary between the banking book and the trading book. The implementation date for FRTB has been delayed to 1 January 2023 in line with the other final reforms.

Remaining UK implementation of CRR II

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 standards, including market risk, standardised counterparty credit risk (SA-CCR), leverage, the net stable funding ratio (NSFR) and Pillar 3.

Certain revisions under CRR II were brought forward and implemented in June 2020 as part of the CRR 'Quick Fix' proposals. This included extensions to the SME scalar, the introduction of the new infrastructure scalar and the ability to net regular-way purchases and sales awaiting settlement for leverage purposes. In addition European authorities accelerated the implementation of the revised capital treatment for intangible software assets, enabling part of these assets to be risk-weighted rather than deducted from CET1 capital, with the final standard coming into force in December 2020.

CRD V was implemented in the UK in December 2020. The PRA began consultations on the UK implementation of the remaining majority of CRR II in February 2021, with the final rules coming into effect on 1 January 2022. The key areas of change are as follows:

- **Standardised counterparty credit risk framework (SA-CCR)** – The proposals set out a new standardised approach for measuring counterparty credit risk exposures and a revised framework for exposures to central counterparties.
- **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. 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 PRA's proposals include the NSFR standard, albeit with a number of specific variations from the original Basel NSFR standard.
- **Software assets** - The PRA is consulting on a proposal to reverse the revised capital treatment for intangible software assets that originally came into force in December 2020. Should the PRA proceed with their proposal then the reinstatement of the original requirement to deduct these assets in full from capital will take effect during 2021.
- **Large Exposures** - The PRA proposes to implement the Basel Committee framework for measuring and controlling large exposures, with the objective of protecting firms from losses as a result of a sudden default of a counterparty or group of connected counterparties.
- **Pillar 3** – The PRA will bring together the first and second phases of the revised Basel Pillar 3 framework into a single set of requirements, aligned to the other changes to prudential requirements proposed via the consultation. As such the PRA proposes to largely apply the related EBA technical standard on public disclosures.

The regulatory capital framework continued

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.

- **IRB Mortgage models changes** – There are a number of regulatory requirements that will impact IRB mortgage models. These include the change in definition of default from 180 days to 90 days and other definitional changes linked to the EBA IRB Repair Programme including changes to PD and downturn LGD calculations. Further PRA specific rules on a 'hybrid' PD approach and peak to trough HPI assumptions in downturn LGD estimation will also be introduced. As part of the response to the coronavirus pandemic, implementation of these changes has been delayed to 1 January 2022.
- **UK Mortgage floors** – In September 2020 the PRA published a consultation paper in which they have proposed both a 10 per cent aggregate output floor and a 7 per cent exposure floor for UK Mortgages. The proposals are not yet finalised and the PRA are currently considering industry feedback to the consultation. The proposed implementation is 1 January 2022.
- **Other IRB models changes** are also impacted by changes linked to the EBA IRB Repair Programme. As part of the response to the coronavirus pandemic, implementation of these changes has been delayed to 1 January 2022.
- **Leverage ratio** – The Financial Policy Committee (FPC) and Prudential Regulation Committee (PRC) will conduct a review of the UK leverage ratio framework which is expected to be completed in Summer 2021. This will consider the application of CRR II revisions to the leverage ratio framework, including the introduction of SA-CCR for the measurement of derivative exposures. The UK leverage ratio framework already applies a permanent exemption for central bank claims in contrast to the temporary and exceptional treatment available under CRR II.

Minimum requirement for own funds and eligible liabilities (MREL)

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

G-SIBs are subject to the framework for the minimum requirements for own funds and eligible liabilities (MREL) that came into force in June 2019 following the implementation of 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 a bank whilst in resolution. MREL can be satisfied by a combination of regulatory capital and certain unsecured liabilities (which must be subordinate to a firm's operating liabilities).

As the Group is not classified as a G-SIB it is not directly subject to the CRR II MREL.

In the UK the Bank of England has implemented MREL through the Banking Act and a statement of policy on MREL (MREL SoP). The Group is subject to these requirements and must therefore maintain a minimum level of MREL resources. 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 MREL from 1 January 2020, excluding regulatory capital and leverage buffers, is the higher of 2 times Pillar 1 plus Pillar 2A, equivalent to 19.8 per cent of risk-weighted assets, or 6.5 per cent of the UK leverage ratio exposure measure.

From 1 January 2022 the Group's indicative MREL, excluding regulatory capital and leverage buffers, will increase to the higher of 2 times Pillar 1 plus 2 times Pillar 2A, equivalent to 23.6 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 and capital or leverage buffers.

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

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

An analysis of the Group's current MREL position is provided on page 25.

CAPITAL MANAGEMENT

This section details Lloyd's 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.

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, or through a significant increase in risk-weighted assets as a result of rule changes or economic deterioration. Alternatively a shortage of capital could arise from an increase in the minimum requirements for capital, leverage or MREL either at Group, Ring-Fenced Bank (RFB) sub-group or regulated entity level. The Group's capital management approach is focused on maintaining sufficient and appropriate capital resources across all regulated levels of its structure in order to prevent such exposures while optimising value for shareholders.

MEASUREMENT

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

Further information on the Group's approach to measuring both capital requirements and the amount of capital resources it holds to meet those requirements can be found on pages 14 to 20 (*The regulatory capital framework*).

MITIGATION

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

The Group monitors early warning indicators and maintains a Capital Contingency Framework as part of a Recovery Plan which are designed to identify emerging capital concerns at an early stage, so that mitigating actions can be taken, if needed. The Recovery Plan sets out a range of potential mitigating actions that could be taken in response to a stress. For example, the Group is able to accumulate additional capital through the retention of profits over time, which can be enhanced through reducing or cancelling proposed dividend payments and share buybacks, by raising new equity via, for example, a rights issue or debt exchange and by raising additional tier 1 or tier 2 capital securities. The cost and availability of additional capital is dependent upon market conditions and perceptions at the time. This type of activity was demonstrated in Q3 2019 with the cancellation of the remaining share buy-back programme and more recently in Q1 2020 with the announcement to cancel the planned 2019 year-end dividend.

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

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

MONITORING

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

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

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

Capital management continued

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 around 12.5 per cent plus a management buffer of around 1 per cent.

This takes into account, amongst other things:

- the minimum Pillar 1 CET1 capital requirement of 4.5 per cent of risk-weighted assets
- the Group's Pillar 2A requirement set by the PRA. During the year the PRA reduced the Group's CET1 Pillar 2A capital requirement from c.2.6 per cent to c.2.1 per cent of risk-weighted assets at 31 December 2020
- the CCB requirement of 2.5 per cent of risk-weighted assets
- the Group's current CCYB requirement which is around 0 per cent of risk-weighted assets
- the RFB sub-group's O-SII buffer of 2.0 per cent of risk-weighted assets, which equates to 1.7 per cent of risk-weighted assets at Group level
- the Group's PRA Buffer

ANALYSIS OF CAPITAL POSITION

The Group's CET1 capital ratio increased to 16.2 per cent after the accrual for ordinary dividends (31 December 2019: 13.8 per cent on a pro forma basis), amounting to a capital build for the year of 242 basis points (263 basis points prior to the accrual for the full year ordinary dividend).

Excluding the impact of the revised capital treatment for intangible software assets of 51 basis points and the reversal of the full year 2019 ordinary dividend accrual of 83 basis points, the capital build for the year prior to the accrual for the current full year ordinary dividend was 129 basis points, reflecting the following:

- banking business capital build before impairment charge of 192 basis points, which was largely offset by the impairment charge for the year of 174 basis points
- the application of IFRS 9 transitional arrangements for capital, which have provided an in-year benefit amounting to 83 basis points in the form of relief against the impact of the increase in the impairment charge
- a net increase of 28 basis points resulting from the reduction in underlying risk-weighted assets and excess expected losses as well as favourable market and other movements, partially offset by pension contributions (equivalent to 46 basis points) made during the year

The accrual for foreseeable dividends reflects the recommended final ordinary dividend of 0.57 pence per share.

Excluding the application of the IFRS 9 transitional arrangements for capital the Group's CET1 capital ratio after ordinary dividends would be 15.0 per cent (31 December 2019: 13.4 per cent on a pro forma basis).

The PRA is consulting on a proposal to reverse the revised capital treatment of intangible software assets (which currently follows EU capital regulations), thereby reinstating the original requirement to deduct in full. Excluding the impact of the revised capital treatment the Group's CET1 capital ratio after ordinary dividends would be 15.7 per cent.

The transitional total capital ratio, after ordinary dividends, increased to 23.3 per cent (31 December 2019: 21.5 per cent on a pro forma basis), largely reflecting the increase in CET1 capital, offset in part by the reduction in tier 2 capital, the latter reflecting instrument calls, regulatory amortisation and other movements, partially offset by the net outcome of subordinated liability exchange exercises undertaken during the year.

The Group's transitional minimum requirement for own funds and eligible liabilities (MREL), after ordinary dividends, increased to 36.4 per cent (31 December 2019: 32.6 per cent on a pro forma basis), reflecting the increase in transitional total capital and an increase in senior unsecured securities driven by net new issuance.

The UK leverage ratio, after ordinary dividends, increased from 5.2 per cent on a pro forma basis to 5.8 per cent, largely reflecting the increase in the fully loaded tier 1 capital position, partially offset by the increase in the leverage exposure measure reflecting movements in securities financing transactions and off-balance sheet items.

TOTAL CAPITAL REQUIREMENT

The Group's total capital requirement (TCR) as at 31 December 2020, being the aggregate of the Group's Pillar 1 and current Pillar 2A capital requirements, was £23,918 million (31 December 2019: £25,608 million).

CAPITAL RESOURCES

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

Capital management continued

CAPITAL RESOURCES

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

Table 5 Capital resources

	Transitional		Fully loaded	
	2020	2019	2020	2019
	£m	£m	£m	£m
Common equity tier 1				
Shareholders' equity per balance sheet	43,278	41,697	43,278	41,697
Adjustment to retained earnings for foreseeable dividends	(404)	(1,586)	(404)	(1,586)
Deconsolidation adjustments[1]	2,333	2,337	2,333	2,337
Adjustment for own credit	81	26	81	26
Cash flow hedging reserve	(1,629)	(1,504)	(1,629)	(1,504)
Other adjustments[3]	1,721	247	1,721	247
	45,380	41,217	45,380	41,217
Less: deductions from common equity tier 1				
Goodwill and other intangible assets	(3,120)	(4,179)	(3,120)	(4,179)
Prudent valuation adjustment	(445)	(509)	(445)	(509)
Excess of expected losses over impairment provisions and value adjustments	—	(243)	—	(243)
Removal of defined benefit pension surplus	(1,322)	(531)	(1,322)	(531)
Securitisation deductions	—	(185)	—	(185)
Significant investments[1]	(4,109)	(4,626)	(4,109)	(4,626)
Deferred tax assets	(3,562)	(3,200)	(3,562)	(3,200)
Common equity tier 1 capital	32,822	27,744	32,822	27,744
Additional tier 1				
Other equity instruments	5,881	5,881	5,881	5,881
Preference shares and preferred securities[2]	2,705	4,127	—	—
Transitional limit and other adjustments	(1,604)	(2,474)	—	—
	6,982	7,534	5,881	5,881
Less: deductions from tier 1				
Significant investments[1]	(1,138)	(1,286)	—	—
Total tier 1 capital	38,666	33,992	38,703	33,625
Tier 2				
Other subordinated liabilities[2]	11,556	13,003	11,556	13,003
Deconsolidation of instruments issued by insurance entities[1]	(1,892)	(1,796)	(1,892)	(1,796)
Adjustments for transitional limit and non-eligible instruments	1,474	2,278	(1,346)	(2,204)
Amortisation and other adjustments	(1,694)	(3,101)	(1,694)	(3,101)
	9,444	10,384	6,624	5,902
Less: deductions from tier 2				
Significant investments[1]	(942)	(960)	(2,080)	(2,246)
Total Capital Resources	47,168	43,416	43,247	37,281
Risk-weighted assets	202,747	203,431	202,747	203,431
Common equity tier 1 capital ratio (%)	16.2%	13.6%	16.2%	13.6%
Tier 1 capital ratio (%)	19.1%	16.7%	19.1%	16.5%
Total capital ratio (%)	23.3%	21.3%	21.3%	18.3%

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

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

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

Capital management continued

Movements in capital resources

The key difference between the transitional capital calculation as at 31 December 2020 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, and 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 2019	**27,744**	**6,248**	**9,424**	**43,416**
Banking business profits[1]	1,538	—	—	1,538
Movement in foreseeable dividends[2]	1,182	—	—	1,182
Dividends received from the Insurance business[1]	250	—	—	250
IFRS 9 transitional adjustment to retained earnings	1,529	—	—	1,529
Pension movements:				
Removal of defined benefit pension surplus	(791)	—	—	(791)
Movement through other comprehensive income	113	—	—	113
Fair value through other comprehensive income reserve	(90)	—	—	(90)
Prudent valuation adjustment	64	—	—	64
Deferred tax asset	(362)	—	—	(362)
Goodwill and other intangible assets	1,059	—	—	1,059
Securitisation deductions	185	—	—	185
Excess of expected losses over impairment provisions and value adjustments	243	—	—	243
Significant investments	517	148	18	683
Movements in other equity, subordinated liabilities, other tier 2 items and related adjustments	—	(552)	(940)	(1,492)
Other movements[3]	(359)	—	—	(359)
At 31 December 2020	**32,822**	**5,844**	**8,502**	**47,168**

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.

2 Reflects the accrual for the 2020 full year ordinary dividend and the reversal of the accrual for the 2019 full year ordinary dividend which was cancelled.

3 Includes distributions on other equity instruments.

CET1 capital resources have increased by £5,078 million over the year, primarily reflecting:

- underlying banking business profits (pre impairment charge) with the impairment charge partially offset through the increase in IFRS 9 transitional relief
- the reversal of the brought forward foreseeable dividend accrual following the cancellation of the 2019 full year ordinary dividend
- dividends received from the Insurance business following payment of their 2019 full year ordinary dividend
- the introduction of the revised capital treatment of intangible software assets
- the reduction in excess expected losses following the increase in offsetting IFRS 9 expected credit losses
- a reduction in the amount of significant investments deducted from capital as a result of the increase in the underlying capital base
- offset in part by pensions contributions made during the year, an increase in deferred tax assets and other movements

AT1 capital resources have reduced by £404 million over the year, primarily reflecting the annual reduction in the transitional limit applied to grandfathered AT1 capital instruments, offset in part by a reduction in the significant investments deduction.

Tier 2 capital resources have reduced by £922 million over the year, largely reflecting instrument calls, regulatory amortisation and other movements, partially offset by the net outcome of subordinated liability exchange exercises undertaken during the year.

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[1]	
	31 Dec 2020	31 Dec 2019
	£m	£m
Total capital resources (transitional basis)	47,168	43,416
Ineligible AT1 and tier 2 instruments[2]	(582)	(874)
Amortised portion of eligible tier 2 instruments issued by Lloyds Banking Group plc	194	24
Other eligible liabilities issued by Lloyds Banking Group plc[3]	26,946	23,554
Total MREL resources[1]	73,726	66,120
Risk-weighted assets	202,747	203,431
MREL ratio	36.4%	32.5%
Leverage exposure measure	666,070	654,387
MREL leverage ratio	11.1%	10.1%

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

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

3 Includes senior unsecured debt.

During 2020 the Group issued externally £4.9 billion (sterling equivalent at point of issuance) of senior unsecured securities from Lloyds Banking Group plc which, while not included in total capital, are eligible to meet MREL.

Total MREL resources increased by £7.6 billion, largely reflecting the increase in total capital resources and the increase in senior unsecured securities driven by net new issuance.

CAPITAL INSTRUMENTS AND ELIGIBLE MREL LIABILITIES

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

Summary information on movements in subordinated liabilities and share capital and the terms and conditions applying to these instruments is presented in the Notes to the Consolidated Financial Statements of the 2020 Lloyds Banking Group plc Annual Report and Accounts on page 286.

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

The recognition, classification and valuation of these instruments within the Group's regulatory capital resources are subject to the requirements of the current capital regulations. This can lead to a different treatment from the IFRS accounting approach upon which the disclosures within the 2020 Lloyds Banking Group plc Annual Report and Accounts are based. Not all subordinated liabilities qualify as regulatory capital, and for those that do, differences between the accounting and the regulatory value can arise in relation to fair value hedge accounting adjustments, accrued interest and regulatory amortisation.

Capital management continued

LEVERAGE RATIO

Table 7: Leverage ratio

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

	Fully loaded 2020 £m	2019 £m
Total tier 1 capital for leverage ratio		
Common equity tier 1 capital	32,822	27,744
Additional tier 1 capital	5,881	5,881
Total tier 1 capital	38,703	33,625
Exposure measure		
Statutory balance sheet assets		
Derivative financial instruments	29,613	26,369
Securities financing transactions	74,322	67,424
Loans and advances and other assets	767,334	740,100
Total assets	871,269	833,893
Qualifying central bank claims	(67,093)	(49,590)
Deconsolidation adjustments[1]		
Derivatives financial instruments	(1,549)	(1,293)
Securities financing transactions	—	(334)
Loans and advances and other assets	(171,183)	(167,410)
Total deconsolidation adjustments	(172,732)	(169,037)
Derivatives adjustments		
Adjustment for regulatory netting	(12,444)	(11,298)
Adjustment for cash collateral	(12,679)	(12,551)
Net written credit protection	455	458
Regulatory potential future exposure	12,535	16,337
Total derivatives adjustments	(12,133)	(7,054)
Securities financing transactions adjustments	1,713	1,164
Off-balance sheet items	60,882	53,191
Regulatory deductions and other adjustments[5]	(15,836)	(8,180)
Total exposure measure[2]	666,070	654,387
Average leverage exposure measure[3]	680,067	667,433
UK leverage ratio[2]	5.8%	5.1%
Average UK leverage ratio[3]	5.6%	5.0%
CRD IV leverage exposure measure[4]	733,163	703,977
CRD IV leverage ratio[4]	5.3%	4.8%

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 2020 to 31 December 2020). The average of 5.6 per cent compares to 5.6 per cent at the start and 5.8 per cent at the end of the quarter.

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

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

Key movements

- The Group's fully loaded UK leverage ratio increased to 5.8 per cent during the period, primarily driven by the increase in tier 1 capital. The leverage exposure measure increased by £11.7 billion during the period, largely reflecting the increase in the SFT and off-balance sheet exposure measures. Following a direction received from the PRA the Group is permitted to exclude lending under the UK Government's Bounce Back Loan Scheme (BBLS) from the leverage exposure measure.
- The derivatives exposure measure, representing derivative financial instruments per the balance sheet net of deconsolidation and derivatives adjustments, reduced by £2.1 billion during the period, largely as a result of a reduction in the regulatory potential future exposure add-on following trade compressions through central counterparties.
- The SFT exposure measure, representing SFT assets per the balance sheet net of deconsolidation and other SFT adjustments, increased by £7.8 billion during the period, primarily reflecting an increase in volumes.
- Off-balance sheet items increased by £7.7 billion during the period, largely reflecting new residential mortgage offers placed and an increase in corporate facilities.
- The average UK leverage ratio was 5.6 per cent over the quarter, with the actual ratio increasing to 5.8 per cent in the final month of the quarter which largely reflected the increase in tier 1 capital in December following the introduction of the revised capital treatment of intangible software assets.

PILLAR 1 CAPITAL REQUIREMENTS: OVERVIEW OF RISK WEIGHTED ASSETS

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

Table 8: Risk-weighted assets movement by key driver - 3 months to 31 December 2020

	Credit Risk IRB £m	Credit Risk STA £m	Credit Risk Total[1] £m	Counterparty Credit Risk[2] £m	Market Risk £m	Operational Risk £m	Total £m
Total risk-weighted assets as at 30 September 2020							205,296
Less: total threshold risk-weighted assets[3]							11,522
Risk-weighted assets at 30 September 2020	136,584	22,967	159,551	6,684	2,102	25,437	193,774
Asset size	(4,338)	815	(3,523)	100	—	—	(3,423)
Asset quality	(1,606)	(132)	(1,738)	(322)	—	—	(2,060)
Model updates	1,807	—	1,807	—	(348)	—	1,459
Methodology and policy	1,357	23	1,380	—	322	—	1,702
Acquisitions and disposals	—	—	—	—	—	—	—
Movement in risk levels (Market risk only)	—	—	—	—	131	—	131
Foreign exchange movements	(397)	(77)	(474)	283	—	—	(191)
Other	—	—	—	—	—	(572)	(572)
Risk-weighted assets at 31 December 2020	133,407	23,596	157,003	6,745	2,207	24,865	190,820
Threshold risk-weighted assets[3]							11,927
Total risk-weighted assets as at 31 December 2020							202,747

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 £3.5 billion includes lower levels of drawn retail unsecured lending and reductions in non-government related commercial lending together with continued optimisation in Commercial Banking and the exit of equity investments.
- **Asset quality** reduction of £1.7 billion with increases caused by credit migration more than offset by the benefit from House Price Index increases and retail model calibrations.
- **Model updates** increase of £1.8 billion relates to changes to the Retail mortgage models.
- **Methodology and policy** increase of £1.4 billion predominantly relates to the recognition of the revised capital treatment of intangible software assets.

Counterparty credit risk, risk weighted assets increased by £0.1 billion due to movements in market rates during the quarter.

Market risk, risk weighted assets increased over the quarter driven by increased volatility entering the VaR model and an increase in interest rate risk and credit spread risk in the trading books. The PRA Covid-19 RNIV offset no longer applied from 1st October, however LBG received approval from the PRA to disregard all Covid related overshoots.

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

Table 8A: Risk-weighted assets movement by key driver - year to 31 December 2020

	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 2019							203,431
Less: total threshold risk-weighted assets[3]							(10,268)
Risk-weighted assets as at 31 December 2019	135,594	24,420	160,014	5,877	1,790	25,482	193,163
Asset size	(8,004)	(1,253)	(9,257)	754	—	—	(8,503)
Asset quality	2,665	126	2,791	(232)	—	—	2,559
Model updates	1,770	—	1,770	—	—	—	1,770
Methodology and policy	1,445	248	1,693	—	—	—	1,693
Acquisitions and disposals	—	—	—	—	—	—	—
Movement in risk levels (Market risk only)	—	—	—	—	417	—	417
Foreign exchange movements	(63)	55	(8)	346	—	—	338
Other	—	—	—	—	—	(617)	(617)
Risk-weighted assets as at 31 December 2020	133,407	23,596	157,003	6,745	2,207	24,865	190,820
Threshold risk-weighted assets[3]							11,927
Risk-weighted assets as at 31 December 2020							202,747

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 £9.3 billion includes lower levels of retail unsecured lending and reductions in non-government related commercial lending, together with continued optimisation in Commercial Banking and the exit of equity investments
- **Asset quality** increase of £2.8 billion includes the impact of credit migration and model calibrations, partially offset by the benefit from House Price Index increases during 2020
- **Model updates** increase of £1.8 billion relates to changes to Retail mortgage models
- **Methodology and policy** increase of £1.7 billion reflects the full implementation of the new securitisation framework on 1 January 2020 and the recognition of the revised capital treatment of intangible software assets, partially offset by the impact of revisions to the SME scalar

Counterparty credit risk, risk weighted assets increased by £0.9 billion due to movements in market rates during the year.

Market risk, risk weighted assets £0.4bn driven by a modest increase in interest rate risk exposure from a low risk base and COVID-19 related volatility entering the VaR model.

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

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

		December 2020 RWA £m	Dec 2019 RWA £m	December 2020 Minimum capital Requirements £m	Dec 2019 Minimum capital Requirements £m
		T	T-1	T	T-1
1	**Credit risk (excluding counterparty credit risk)**	**151,330**	155,013	**12,106**	12,401
2	of which: standardised approach	**22,248**	23,853	**1,780**	1,908
3	of which: the foundation rating-based (FIRB) approach	**41,200**	44,769	**3,296**	3,581
4	of which: the retail IRB (RIRB) approach	**65,225**	63,208	**5,218**	5,057
	of which: corporates – specialised lending	**9,235**	9,074	**739**	726
	of which: non-credit obligation assets	**7,881**	7,443	**630**	595
5	of which: equity IRB under the simple risk-weight	**5,541**	6,666	**443**	533
6	**Counterparty credit risk**	**6,745**	5,877	**540**	470
7	of which: marked to market	**5,064**	4,539	**405**	363
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)	**372**	286	**30**	23
11	of which: exposures to central counterparties (including trades, default fund contributions and initial margin)	**630**	468	**50**	37
12	of which: credit valuation adjustment (CVA)	**679**	584	**54**	47
13	**Settlement risk**	**—**	—	**—**	—
14	**Securitisation exposures in banking book**	**5,673**	5,002	**454**	400
15	of which: IRB ratings-based approach (RBA)	**—**	1,880	**—**	150
16	of which: IRB supervisory formula approach (SFA)	**—**	—	**—**	—
17	of which: internal assessment approach (IAA)	**—**	234	**—**	19
18	of which: standardised approach	**—**	177	**—**	14
	of which: revised framework internal ratings based approach	**1,951**	1,214	**156**	97
	of which: revised framework standardised approach	**1,348**	391	**108**	31
	of which: revised framework external ratings based approach	**2,374**	1,107	**190**	89
19	**Market risk**	**2,207**	1,790	**177**	143
20	of which: standardised approach	**252**	279	**20**	22
21	of which: internal model approaches	**1,955**	1,511	**156**	121
22	**Large exposures**	**—**	—	**—**	—
23	**Operational risk**	**24,865**	25,482	**1,989**	2,039
24	of which: basic indicator approach	**—**	—	**—**	—
25	of which: standardised approach	**24,865**	25,482	**1,989**	2,039
26	of which: advanced measurement approach	**—**	—	**—**	—
27	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	**11,927**	10,268	**954**	821
	of which: Significant investment	**9,233**	8,093	**739**	647
	of which: Deferred tax asset	**2,694**	2,175	**216**	174
28	**Floor adjustment**	**—**	—	**—**	—
29	**Total**	**202,747**	203,431	**16,220**	16,274
	Pillar 2A capital requirement			**7,698**	9,334
	Total capital requirement			**23,918**	25,608

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

PILLAR 1 CAPITAL REQUIREMENTS: CREDIT RISK

OVERVIEW

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

		Credit Risk IRB RWA amount Total	Credit Risk IRB Capital requirements Total	Credit Risk STA RWA amount Total	Credit Risk STA Capital requirements Total
		£m	£m	£m	£m
		a	b	a	b
1	**Risk-weighted assets at 31 December 2019[1]**	135,594	10,848	24,420	1,954
2	Asset size	(8,004)	(640)	(1,253)	(100)
3	Asset quality	2,665	213	126	10
4	Model updates	1,770	142	—	—
5	Methodology and policy	1,445	116	248	20
6	Acquisitions and disposals	—	—	—	—
7	Foreign exchange movements	(63)	(5)	55	4
8	Other	—	—	—	—
9	**Risk-weighted assets at 31 December 2020[1]**	133,407	10,673	23,596	1,888

1 Credit risk, risk-weighted assets and capital requirements are inclusive of securitisations. At 31 December 2020 IRB securitisation risk-weighted assets were £4,325m (2019: £4,435m) and standardised securitisation risk-weighted assets were £1,348m (2019: £568m).

DEFINITION

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

EXPOSURES

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

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

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

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

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

Pillar 1 Capital requirements: Credit risk continued

Table 11: Divisional credit risk exposures and risk-weighted assets[1]

Division	Risk Weight approach	2020 EAD pre CRM post CCF £m	2020 Risk-weighted assets £m	2020 Average risk weight %	2019 EAD pre CRM post CCF £m	2019 Risk-weighted assets[1] £m	2019 Average risk weight %
Retail	IRB	410,570	69,189	17 %	387,972	67,399	17 %
	Standardised	17,265	10,463	61 %	18,316	11,274	62 %
Commercial Banking	IRB	97,064	48,014	49 %	101,410	51,422	51 %
	Standardised	13,323	9,180	69 %	12,404	9,849	79 %
Insurance and Wealth	IRB	6	6	100 %	2	2	95 %
	Standardised	1,127	864	77 %	1,010	735	73 %
Central Items	IRB	20,188	11,872	59 %	20,805	12,337	59 %
	Standardised	93,239	1,741	2 %	70,673	1,995	3 %
Total		652,782	151,329	23 %	612,591	155,013	25 %
	Total IRB	527,828	129,081	24 %	510,189	131,160	26 %
	Total Standardised	124,954	22,248	18 %	102,402	23,853	23 %

1 Excludes securitisation.

Key movements

Retail credit risk-weighted assets increased by £1.0bn mainly due to credit migration and model calibrations (net of the benefit of House Price Index movements) and model updates offset by lower unsecured lending. The increase in IRB exposure is due to growth in mortgage lending.

Commercial Banking exposure decreased by £3.4bn with higher lending in SME driven by government loan schemes, more than offset by lower Corporate and Institutional lending due to the continued optimisation of the asset portfolio. Credit risk-weighted assets decreased by £4.1bn due to the optimisation activity offset by credit migration and regulatory changes.

Central Items exposure increased by £21.9bn due to increase deposits with central banks. Risk-weighted assets decreased by £0.7bn as the impact of regulatory changes for software assets was offset by the disposal of equity investments and reductions in other assets.

MEASUREMENT

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

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

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

Measures such as 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 15 and 16.

MONITORING

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

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

The performance of all rating models is monitored on a regular basis, as outlined on pages 40 to 48.

Further details are provided on page 144 of the Risk Management section of the 2020 Lloyds Banking Group plc Annual Report and Accounts.

Pillar 1 Capital requirements: Credit risk continued

CREDIT RISK MITIGATION

The Group uses a range of approaches to mitigate credit risk. For detailed information on approaches to mitigate credit risk, including details of the Group's policies and principles, see pages 144 to 146 of the 2020 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 161 to 162 of the 2020 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 144 of the Risk Management section and Note 51 (Financial Risk Management) of the 2020 Lloyds Banking Group plc Annual Report and Accounts for further information on collateral.

Other credit risk transfers

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

- Credit derivatives are a method of transferring credit risk from one counterparty (the protection buyer) to another (the protection seller). Capital relief under regulatory requirements is restricted to the following types of credit derivative: credit default swaps (CDS); total return swaps; and credit linked notes (CLN) (to the extent of their cash funding).
- The Group makes limited use of credit derivatives as credit risk mitigation from a capital perspective.
- Further details on the application within the Group are included within the Counterparty credit risk section on page 96.

Guarantees

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

Pillar 1 Capital requirements: Credit risk continued

Application of Credit Risk Mitigation

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

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

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

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

Application under the Standardised Approach

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

For unfunded credit protection, 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)

	December 2020				
	Exposures unsecured – carrying amount £m	Exposures to be secured[1] £m	Exposures secured by collateral[2] £m	Exposures secured by financial guarantees £m	Exposures secured by credit derivatives £m
Exposures subject to the IRB approach					
Central governments or central banks	7,919	647	—	647	—
Institutions[3]	6,271	3,443	3,406	—	37
Corporates	61,548	37,711	35,234	1,790	687
of which: Specialised lending	—	13,257	13,257	—	—
of which: SMEs	3,851	7,438	6,441	996	—
Retail	62,763	344,741	336,462	8,279	—
Secured by real estate property	93	325,026	324,835	190	—
SMEs	93	7,564	7,374	190	—
Non-SMEs	—	317,462	317,462	—	—
Qualifying revolving	52,941	—	—	—	—
Other retail	9,729	19,715	11,627	8,088	—
SMEs	1,783	8,097	9	8,088	—
Non-SMEs	7,946	11,618	11,618	—	—
Equity	2,772	—	—	—	—
Non-credit obligation assets	10,698	—	—	—	—
Total – IRB approach	151,971	386,542	375,102	10,716	724
Exposures subject to the standardised approach					
Central governments and central banks	78,692	—	—	—	—
Regional governments or local authorities	425	1	—	1	—
Public sector entities	4,274	—	—	—	—
Multilateral development banks	7,158	—	—	—	—
International organisations	—	—	—	—	—
Institutions	108	—	—	—	—
Corporates	12,312	922	413	463	46
Retail	33,411	1,193	270	923	—
Secured by mortgages on immovable property	13	6,984	6,984	—	—
Exposures in default	771	358	356	2	—
Items associated with particularly high risk	—	—	—	—	—
Covered bonds	—	—	—	—	—
Claims on institutions and corporates with a short term credit assessment	—	—	—	—	—
Collective investment undertakings (CIUs)	582	—	—	—	—
Equity exposures	—	—	—	—	—
Other exposures	3,034	—	—	—	—
Total – standardised approach	140,781	9,457	8,023	1,388	46
Total exposures	292,752	395,999	383,125	12,104	770
of which: defaulted (IRB and STA)	2,348	3,857	3,855	2	—

Further details on collateral held as security for financial assets, collateral pledged as security and collateral repossessed can be found in Note 51 (Financial Risk Management) of the 2020 Lloyds Banking Group plc Annual Report and Accounts.

Pillar 1 Capital requirements: Credit risk continued

Table 12: CRM techniques – Overview (CR3) (continued)

	December 2019				
	Exposures unsecured – carrying amount £m	Exposures to be secured[1] £m	Exposures secured by collateral[2] £m	Exposures secured by financial guarantees £m	Exposures secured by credit derivatives £m
Exposures subject to the IRB approach					
Central governments or central banks	8,482	679	—	679	—
Institutions[3]	6,376	3,103	3,063	—	40
Corporates	67,281	38,268	37,178	247	842
of which: Specialised Lending	—	13,197	13,197	—	—
of which: SME	4,399	6,697	6,697	—	—
Retail	64,370	322,574	322,574	—	—
Secured by real estate property	—	310,760	310,760	—	—
SME	—	8,263	8,263	—	—
Non-SME	—	302,497	302,497	—	—
Qualifying Revolving	53,717	—	—	—	—
Other Retail	10,653	11,814	11,814	—	—
SME	2,154	27	27	—	—
Non-SME	8,499	11,787	11,787	—	—
Equity	3,085	—	—	—	—
Non-credit obligation assets	11,167	—	—	—	—
Total – IRB approach	160,762	364,624	362,816	926	882
Exposures subject to the standardised approach					
Central governments and central banks	56,825	—	—	—	—
Regional governments or local authorities	476	—	—	—	—
Public sector entities	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 (CIUs)	711	—	—	—	—
Equity exposures	—	—	—	—	—
Other exposures	3,185	—	—	—	—
Total – standardised approach	117,891	9,067	8,637	363	67
Total exposures	278,653	373,691	371,453	1,289	949
of which: defaulted (IRB & STA)	2,362	3,386	3,386	—	—

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

2 At 30 December 2020 the value of exposures secured by eligible financial collateral is £3.9bn (Dec 2019: £4.6bn) and the value of exposures secured by other eligible collateral is £379.2bn (Dec 2019: £366.8bn).

3 Exposures to Institutions secured by collateral includes £2,395m (Dec 2019: £2,253m) of exposures in the form of covered bonds.

Key movements

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

Pillar 1 Capital requirements: Credit risk continued

INTERNAL RATING SCALES

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

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

Table 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 Standardised (not modelled) approaches across the different Basel asset classes. Securitisation exposure values are excluded. Exposures presented in the table below are in line with Table 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	—	7,826	—	90,024
Regional governments or local authorities	—	—	—	425
Public sector entities	—	—	—	4,274
Multilateral development banks	—	—	—	7,158
Institutions	—	8,653	—	834
Corporates[1]	—	71,369	12,640	9,361
Retail – Secured by property	339,547	—	—	6,980
Retail – Qualifying revolving	40,745	—	—	—
Retail – Other	23,206	—	—	10,805
Other[2]			13,870	4,682
Total	403,498	87,848	26,510	134,543
% coverage	62%	13%	4%	21%

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

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

SCOPE OF THE IRB PERMISSION

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

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

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

Further details on other areas such as the Supervisory Slotting Approach for Corporate Specialised Lending exposures, 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 rating system which is excluded from PD backtesting due to the low level of defaults.

Approach	Basel asset class	Ratings system	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	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
- BDCS, PELF and UK Motor Finance (Commercial) models use data dating back to 2008

When default volumes are sufficient, the Group's PD models are built using logistic regression. Where historical default volumes are low, alternative approaches are used; in the case of the Publicly Quoted model, a ratings replication approach has been taken, while the PELF model is designed to align to the rank-order assessment of default risk by portfolio experts, 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.

Pillar 1 Capital requirements: Credit risk continued

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

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

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

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

Further information on model risk, including details on measurement, mitigation and monitoring can be found in the Risk Management section of the 2020 Lloyds Banking Group plc Annual Report and Accounts (page 203).

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

Backtesting of PD models

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

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 36.
- 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 volume of defaults.

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

Summary of Performance

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

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

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

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

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

The above significant rating systems provide only a very small volume of obligors to Institutions and Central Governments or Banks and hence no backtesting results are shown for these asset classes. Where material changes to rating systems are necessary, pre-notification to the PRA is required and their approval obtained before the change can be implemented. During 2020, there have been no model changes (PD, LGD or EAD) requiring pre-notification to the PRA.

Pillar 1 Capital requirements: Credit risk continued

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

RWA coverage: 95-99%

2020

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

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

Key observations

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

Pillar 1 Capital requirements: Credit risk continued

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

RWA coverage: 100%

2020

PD Range	Weighted average PD	Arithmetic average PD by obligors	Number of obligors: End of previous year	Number of obligors: End of the year	Defaulted obligors in the year	of which: new defaulted obligors in the year	Average historical annual default rate
B	d	e	f		g	h	i
0.00 - 0.10%	0.07%	0.07%	5,906,346	5,768,592	933	N/a	0.02%
0.10 - 0.40%	0.22%	0.22%	11,181,057	11,803,726	9,277	N/a	0.10%
0.40 - 0.80%	0.58%	0.58%	5,628,122	5,241,828	21,863	N/a	0.35%
0.80 - 1.20%	0.98%	0.98%	2,157,844	2,426,222	20,466	N/a	0.79%
1.20 - 2.50%	1.73%	1.72%	2,363,264	2,340,035	47,800	N/a	1.67%
2.50 - 4.50%	3.33%	3.29%	986,888	976,035	42,897	N/a	3.72%
4.40 - 7.50%	5.69%	5.64%	496,659	464,576	32,593	N/a	5.88%
7.50 - 10.00%	8.63%	8.64%	147,760	145,333	14,245	N/a	8.46%
10.00 - 14.00%	11.71%	11.79%	119,924	112,589	13,629	N/a	11.00%
14.00 - 20.00%	16.62%	16.73%	100,820	85,606	15,053	N/a	14.62%
20.00 - 30.00%	24.58%	24.78%	110,902	93,383	21,541	N/a	20.99%
30.00 - 45.00%	37.06%	36.79%	112,932	118,781	29,304	N/a	29.91%
45.00 - 99.99%	62.83%	61.43%	101,643	93,201	47,192	N/a	50.06%
In Default	100.00%	100.00%	1,100,814	328,626	N/a	N/a	N/a
New to Book	N/a	N/a	N/a	1,520,627	N/a	11962	N/a

2019

PD Range	Weighted average PD	Arithmetic average PD by obligors	Number of obligors: End of previous year	Number of obligors: End of the year	Defaulted obligors in the year	of which: new defaulted obligors in the year	Average historical annual default rate
B	d	e	f		g	h	i
0.00 - 0.10%	0.07%	0.07%	4,562,408	5,906,346	523	N/a	0.03%
0.10 - 0.40%	0.23%	0.23%	10,178,453	11,181,057	5,995	N/a	0.11%
0.40 - 0.80%	0.58%	0.58%	5,106,492	5,628,122	14,289	N/a	0.36%
0.80 - 1.20%	0.99%	1.00%	2,830,700	2,157,844	17,625	N/a	0.76%
1.20 - 2.50%	1.72%	1.67%	3,514,252	2,363,264	52,350	N/a	1.53%
2.50 - 4.50%	3.29%	3.29%	1,203,053	986,888	47,389	N/a	3.38%
4.40 - 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

Key observations

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

Pillar 1 Capital requirements: Credit risk continued

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

RWA coverage: 100%

	2020						
			Number of obligors				
PD Range	Weighted average PD	Arithmetic average PD by obligors	End of previous year	End of the year	Defaulted obligors in the year	of which: new defaulted obligors in the year	Average historical annual default rate
B	d	e	f		g	h	i
0.00 - 0.10%	0.08%	0.08%	27,879	27,726	86	N/a	0.14%
0.10 - 0.40%	0.36%	0.36%	477,725	480,963	6,479	N/a	0.82%
0.40 - 0.80%	0.70%	0.67%	343,588	326,491	4,451	N/a	0.90%
0.80 - 1.20%	1.01%	1.01%	171,444	163,881	1,242	N/a	0.68%
1.20 - 2.50%	1.70%	1.72%	524,366	499,014	11,402	N/a	1.72%
2.50 - 4.50%	3.29%	3.32%	264,208	240,735	11,967	N/a	3.80%
4.40 - 7.50%	5.91%	5.87%	134,882	123,232	11,680	N/a	7.56%
7.50 - 10.00%	8.93%	8.69%	33,917	29,800	3,773	N/a	10.12%
10.00 - 14.00%	11.24%	11.38%	26,517	27,478	3,989	N/a	13.21%
14.00 - 20.00%	16.36%	16.43%	11,120	10,044	1,873	N/a	14.50%
20.00 - 30.00%	21.66%	22.11%	17,473	20,155	3,756	N/a	19.09%
30.00 - 45.00%	35.06%	35.28%	17,029	15,520	6,391	N/a	32.66%
45.00 - 99.99%	71.69%	71.79%	19,921	16,908	12,517	N/a	64.47%
In Default	100.00%	100.00%	136,403	75,038	N/a	N/a	N/a
New to Book	N/a	N/a	N/a	498,495	N/a	2,906	N/a

	2019						
			Number of obligors				
PD Range	Weighted average PD	Arithmetic average PD by obligors	End of previous year	End of the year	Defaulted obligors in the year	of which: new defaulted obligors in the year	Average historical annual default rate
B	d	e	f		g	h	i
0.00 - 0.10%	0.08%	0.08%	21,487	27,872	26	N/a	0.09%
0.10 - 0.40%	0.36%	0.36%	418,535	477,731	3,855	N/a	0.63%
0.40 - 0.80%	0.69%	0.66%	365,794	343,607	3,289	N/a	0.76%
0.80 - 1.20%	1.00%	0.99%	182,181	171,476	1,075	N/a	0.68%
1.20 - 2.50%	1.67%	1.69%	593,807	524,485	10,848	N/a	1.52%
2.50 - 4.50%	3.27%	3.30%	237,337	264,381	10,282	N/a	3.35%
4.40 - 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%
20.0 0 - 30.00%	21.60%	21.98%	13,958	17,539	2,606	N/a	17.77%
30.00 - 45.00%	35.03%	35.23%	16,828	17,170	5,262	N/a	30.56%
45.00 - 99.99%	70.30%	70.09%	19,766	22,295	12,209	N/a	64.63%
In Default	100.00%	100.00%	142,173	133,094	N/a	N/a	N/a
New to Book	N/a	N/a	N/a	637,686	N/a	3,821	N/a

Key observations

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

Pillar 1 Capital requirements: Credit risk continued

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

RWA coverage: 100%

2020

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

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

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

Key observations

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

Pillar 1 Capital requirements: Credit risk continued

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

RWA coverage: 70-75%

2020

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

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		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

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

Key observations

- Population volume has decreased during 2020 as a result of reduced levels of new business in Motor Finance (Commercial).
- Relatively low default volumes lead to year on year volatility in default rates within a given PD band.
- A small decrease to the overall average default rate can be observed in 2020. This arises mainly due to an inflated 2019 default rate for UK Motor Finance (Commercial) (delayed recognition of 2018 defaults). An increase in the default rate within the higher risk bands is primarily driven by COVID-19 related stress to specific entities within the Unquoted portfolio.
- There is noticeable migration to the PD range 3.2% - 5.2% during 2020, driven by a policy processing issue in Motor Finance (Commercial). The automated policy process was not updated in time to reflect extensions granted to firms filing financials with Companies House in response to COVID-19.
- A reporting error has been identified in UK Motor Finance (Commercial), whereby certain 90 days-past-due defaults have been under-reported. This is mitigated through a post model adjustment pending full investigation and process/system remediation.

Pillar 1 Capital requirements: Credit risk continued

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

RWA coverage: 65-70%

2020

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

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		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

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

Key observations

- Overall population volume has increased slightly during 2020.
- An increase to the average default rate over the course of the year can be observed. The historical average default rate remains conservative relative to the PD bandings, albeit with some movement compared to 2019 due to low default volumes.

Pillar 1 Capital requirements: Credit risk continued

Performance summary of EAD and LGD models

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

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

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

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

Table 21: Model performance

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

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

	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 – Mortgages	12.02%	5.75%	103%
Retail – SME	81.83%	78.15%	105%
Retail – Qualifying revolving	78.09%	59.03%	113%
Retail – Other (non-SME)	59.72%	50.95%	116%

1 A minor enhancement to more accurately capture loss information on the BDCS model has been made which impacts the Retail - SME and Retail – Mortgages exposure classes and has also been applied to prior years for consistency. The impact of this change is insignificant.

2 A 2020 enhancement to data used in Motor Finance calculation of Actual LGD has been retrospectively applied to the 2019 submission to ensure consistency when comparing with the 2020 submission.

Pillar 1 Capital requirements: Credit risk continued

Key observations

Retail Mortgages:

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

Retail SME:

- Predicted LGD and EAD continue to exceed actual LGD and EAD.

Retail – Qualifying revolving:

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

Retail – Other (non-SME):

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

Pillar 1 Capital requirements: Credit risk continued

ANALYSIS OF CREDIT RISK EXPOSURES BY ASSET CLASS CREDIT

RISK EXPOSURES

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

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

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

Pillar 1 Capital requirements: Credit risk continued

		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 £	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	56,824	57,509	62,962	—	—	—
17	Regional governments or local authorities	476	476	96	28	2	6%
18	Public sector entities	4,169	4,169	839	1	—	—
19	Multilateral development banks	6,243	6,243	5,249	—	—	—
20	International organisations	—	—	—	—	—	—
21	Institutions	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%

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

Pillar 1 Capital requirements: Credit risk continued

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

Exposures subject to the IRB approach – key movements

Corporates

– Corporate exposure, including Specialised Lending and Corporate SME, reduced by £6.3bn, with RWA reducing £3.2bn, as a result of targeted balance sheet optimisation activity and the impact of SME scalar revisions. The SME scalar revisions drive the reduction in Average Risk Weight in Corporate SME.

Retail – Secured by real estate property

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

Retail – Qualifying revolving

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

Retail – Other SME

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

Equity

– Exposures reduced by £0.3bn and risk-weighted assets decreased by £1.1bn due to the sale of equity investments.

Exposures subject to the Standardised approach – key movements

Central governments and central banks

– Exposures increased by £32.5bn due to increased deposits placed with the Bank of England and the recognition of guarantees on COVID-19 government lending schemes.

Multilateral development banks

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

Retail

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

Pillar 1 Capital requirements: Credit risk continued

ANALYSIS OF CREDIT RISK EXPOSURES SUBJECT TO THE FOUNDATION IRB APPROACH

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

The EBA guidelines include a single prescribed scale for presenting the credit quality of all IRB portfolios by asset class. The tables that follow present the prescribed scale. This does not map directly to the internal scales per tables 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)

	December 2020											
PD Scale	Original on-balance sheet gross exposure £m	Off balance sheet exposures pre CCF £m	Average CCF %	EAD post CRM and post CCF £m	Average PD %	Number of Obligors	Average LGD %	Average Maturity (years)	RWA £m	RWA density %	EL £m	Value adjustments and provisions £m
	a	b	c	d	e	f	g	h	i	j	k	l
0.00 to <0.15	8,105	462	75.00%	7,825	0.01%	11	45.00%	2.0	499	6.38%	—	
0.15 to <0.25	—	—	—	—	—	—	—	—	—	—	—	
0.25 to <0.50	—	—	—	—	—	—	—	—	—	—	—	
0.50 to <0.75	—	—	—	—	—	—	—	—	—	—	—	
0.75 to <2.50	—	—	—	—	—	—	—	—	—	—	—	
2.50 to <10.00	—	—	—	1	6.20%	2	45.00%	4.9	1	201.66%	—	
10.00 to <100.00	—	—	—	—	—	—	—	—	—	—	—	
100.00 (Default)	—	—	—	—	—	—	—	—	—	—	—	
Sub-total	8,105	462	75.00%	7,826	0.01%	13	45.00%	2.0	501	6.40%	—	1

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

Pillar 1 Capital requirements: Credit risk continued

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

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

	December 2019											
PD Scale	Original on-balance sheet gross exposure £m	Off balance sheet exposures pre CCF £m	Average CCF %	EAD post CRM and post CCF £m	Average PD %	Number of Obligors	Average LGD %	Average Maturity (years)	RWA £m	RWA density %	EL £m	Value adjustments and provisions £m
	a	b	c	d	e	f	g	h	i	j	k	l
0.00 to <0.15	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	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)	—	—	—	—	100.00%	6	45.00%	1.7	—	—	—	
Sub-total	7,487	1,993	66.67%	8,682	0.09%	1,615	34.69%	1.3	1,224	14.10%	3	1

Pillar 1 Capital requirements: Credit risk continued

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

	December 2020											
PD Scale	Original on-balance sheet gross exposure £m	Off balance sheet exposures pre CCF £m	Average CCF %	EAD post CRM and post CCF £m	Average PD %	Number of Obligors	Average LGD %	Average Maturity (years)	RWA £m	RWA density %	EL £m	Value adjustments and provisions £m
	a	b	c	d	e	f	g	h	i	j	k	l
0.00 to <0.15	11,824	18,108	75.46%	25,382	0.08%	1,222	42.73%	2.3	6,468	25.48%	10	
0.15 to <0.25	3,985	5,657	72.92%	7,694	0.18%	2,378	44.60%	2.0	3,192	41.48%	7	
0.25 to <0.50	6,085	8,396	72.92%	10,789	0.34%	4,342	43.30%	2.2	6,274	58.15%	18	
0.50 to <0.75	2,600	2,410	67.57%	3,760	0.62%	6,197	43.57%	2.2	2,906	77.29%	11	
0.75 to <2.50	4,361	4,413	70.37%	7,154	1.29%	10,111	43.35%	2.0	6,959	97.28%	44	
2.50 to <10.00	3,643	1,889	72.61%	4,626	4.55%	6,584	43.56%	2.0	6,807	147.15%	98	
10.00 to <100.00	293	223	73.11%	439	23.81%	412	44.44%	1.8	1,041	237.06%	45	
100.00 (Default)	1,434	326	79.71%	1,677	100.00%	1,255	42.63%	1.6	—	—	715	
Sub-total	**34,224**	**41,422**	**73.51%**	**61,522**	**3.54%**	**32,500**	**43.26%**	**2.2**	**33,647**	**54.69%**	**948**	**934**

	December 2019											
PD Scale	Original on-balance sheet gross exposure £m	Off balance sheet exposures pre CCF £m	Average CCF %	EAD post CRM and post CCF £m	Average PD %	Number of Obligors	Average LGD %	Average Maturity (years)	RWA £m	RWA density %	EL £m	Value adjustments and provisions £m
	a	b	c	d	e	f	g	h	i	j	k	l
0.00 to <0.15	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	—	—	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

Key movements

– Exposure at default decreased £5.7bn and RWA decreased by £2.0bn, principally, as a result of optimisation activity.
– Average PD increased from 2.42% to 3.54% largely as a result credit migration and a 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)

	December 2020											
PD Scale	Original on-balance sheet gross exposure £m	Off balance sheet exposures pre CCF £m	Average CCF %	EAD post CRM and post CCF £m	Average PD %	Number of Obligors	Average LGD %	Average Maturity (years)	RWA £m	RWA density %	EL £m	Value adjustments and provisions £m
	a	b	c	d	e	f	g	h	i	j	k	l
0.00 to <0.15	608	242	78.90%	728	0.08%	1,015	42.06%	3.3	151	20.72%	—	
0.15 to <0.25	195	197	74.67%	342	0.18%	477	39.78%	3.0	111	32.49%	—	
0.25 to <0.50	502	410	73.30%	720	0.36%	1,086	40.90%	2.2	291	40.45%	1	
0.50 to <0.75	1,655	437	69.26%	1,794	0.57%	4,344	38.81%	3.4	946	52.71%	4	
0.75 to <2.50	2,951	897	73.82%	3,202	1.26%	7,831	38.70%	3.1	2,096	65.45%	16	
2.50 to <10.00	2,232	489	78.26%	2,391	4.18%	4,663	38.84%	2.9	2,094	87.62%	39	
10.00 to <100.00	235	36	72.73%	238	20.47%	1,101	37.42%	2.4	294	123.16%	18	
100.00 (Default)	407	53	71.52%	432	100.00%	742	38.71%	2.3	—	—	167	
Sub-total	**8,784**	**2,760**	**74.26%**	**9,847**	**6.45%**	**21,259**	**39.17%**	**3.0**	**5,983**	**60.76%**	**247**	**256**

	December 2019											
PD Scale	Original on-balance sheet gross exposure £m	Off balance sheet exposures pre CCF £m	Average CCF %	EAD post CRM and post CCF £m	Average PD %	Number of Obligors	Average LGD %	Average Maturity (years)	RWA £m	RWA density %	EL £m	Value adjustments and provisions £m
	a	b	c	d	e	f	g	h	i	j	k	l
0.00 to <0.15	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	—	—	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

Key movements

– RWA density decreases from 69.92% to 60.76% due to the revision to the SME scalar.
– Average PD increased from 5.34% to 6.45% largely as a result credit migration and a rise in defaulted assets.

Pillar 1 Capital requirements: Credit risk continued

ANALYSIS OF CREDIT RISK EXPOSURES SUBJECT TO THE RETAIL IRB APPROACH

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

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

The Basel guidelines include a single prescribed scale for presenting the credit quality of all IRB portfolios by asset class. The tables that follow present the prescribed scale. This does not map directly to the internal scales per tables 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)

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

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

Pillar 1 Capital requirements: Credit risk continued

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

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

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

Key movements

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

Pillar 1 Capital requirements: Credit risk continued

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

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

1 The 10 per cent LGD floor that applies to residential mortgage exposures is not applied in alignment with the portfolios in the table above, rather at aggregated portfolio levels. This leads to the self-certified portfolio having an average LGD lower than 10 per cent in 2019 and 2020.

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

Pillar 1 Capital requirements: Credit risk continued

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

	December 2020												
PD Scale Qualifying revolving retail exposures	Original on-balance sheet gross exposure £m	Off balance sheet exposures pre CCF £m	Average CCF %	EAD post CRM and post CCF £m	Average PD %	Number of Obligors	Average LGD %	RWA £m	RWA density %	EL £m	Value adjustments and Provisions £m	Undrawn commitments (post CCF) £m
	a	b	c	d	e	f	g	i	j	k	l	m
0.00 to <0.15	756	17,784	69.26%	13,073	0.09%	9,172,244	54.10%	450	3.44 %	7		12,317
0.15 to <0.25	517	7,798	69.76%	5,957	0.20%	4,424,429	57.48%	420	7.05 %	7		5,440
0.25 to <0.50	1,100	9,243	68.98%	7,476	0.36%	5,774,965	61.53%	901	12.05 %	18		6,376
0.50 to <0.75	897	3,745	71.00%	3,556	0.62%	3,150,988	68.63%	736	20.70 %	16		2,659
0.75 to <2.50	2,967	4,748	76.39%	6,595	1.35%	5,330,245	73.82%	2,681	40.65 %	72		3,627
2.50 to <10.00	2,037	1,216	85.74%	3,081	5.38%	1,587,290	76.35%	3,033	98.44 %	136		1,043
10.00 to <100.00	593	118	95.83%	721	30.50%	493,611	75.65%	1,662	230.51 %	188		113
100.00 (Default)	286	—	—	286	100.03%	311,836	71.13%	748	261.54 %	178		—
Sub-total	9,153	44,652	70.71%	40,745	2.04%	30,245,608	62.60%	10,631	26.09 %	622	866	31,575

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

Key movements

- EAD post CRM post CCF increase of £1.6bn due to a model calibration increasing CCFs.
- RWA decreases by £0.8bn due to lower PDs and LGDs as a result of higher undrawn balances and improved credit quality partly due to COVID-19 customer support measures.
- A revised approach to valuing Unsecured accounts in Recoveries has resulted in a number of long-term, non-performing Recoveries assets being de-recognised. As such, the volume of accounts in default has reduced significantly over the period (see Table 16). However due to the nature of these accounts there is no material impact on EAD or RWA.

Pillar 1 Capital requirements: Credit risk continued

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

	December 2020											
PD Scale	Original on-balance sheet gross exposure £m	Off balance sheet exposures pre CCF £m	Average CCF %	EAD post CRM and post CCF £m	Average PD %	Number of Obligors	Average LGD %	RWA £m	RWA density %	EL £m	Value adjustments and provisions £m	Undrawn commitments (post CCF) £m
	a	b	c	d	e	f	g	i	j	k	l	m
0.00 to <0.15	—	—	—	—	—	—	—	—	—	—		—
0.15 to <0.25	—	—	—	—	—	—	—	—	—	—		—
0.25 to <0.50	—	—	—	—	—	—	—	—	—	—		—
0.50 to <0.75	1,677	411	99.61%	806	0.54%	63,060	76.85%	380	47.13%	3		409
0.75 to <2.50	3,257	422	99.42%	1,060	1.15%	64,568	76.25%	690	65.15%	9		420
2.50 to <10.00	2,439	171	99.28%	518	4.20%	34,043	72.10%	429	82.80%	16		169
10.00 to <100.00	1,383	35	99.17%	157	23.19%	29,338	70.96%	172	109.55%	26		35
100.00 (Default)	203	5	99.84%	177	100.00%	9,633	7.95%	63	35.85%	14		5
Sub-total	8,959	1,044	99.47%	2,716	9.24%	200,642	70.89%	1,734	63.82%	68	123	1,038

	December 2019											
PD Scale	Original on-balance sheet gross exposure £m	Off balance sheet exposures pre CCF £m	Average CCF %	EAD post CRM and post CCF £m	Average PD %	Number of Obligors	Average LGD %	RWA £m	RWA density %	EL £m	Value adjustments and provisions £m	Undrawn commitments (post CCF) £m
	a	b	c	d	e	f	g	i	j	k	l	m
0.00 to <0.15	—	—	—	—	—	—	—	—	—	—		—
0.15 to <0.25	—	—	—	—	—	—	—	—	—	—		—
0.25 to <0.50	—	—	—	—	—	—	—	—	—	—		—
0.50 to <0.75	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

Key movements

– Increase in gross exposure is due to customers utilising government lending schemes which has limited impact on EAD.

– At year end the government secured portion of certain COVID-19 lending schemes had not been moved to Standardised Central Governments as intended. If this had been completed EAD and RWA density would be flat with prior year, PD would still have improved but by a lower amount than shown, and LGD would have shown a small increase compared to prior year.

Pillar 1 Capital requirements: Credit risk continued

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

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

	December 2019											
PD Scale	Original on-balance sheet gross exposure £m	Off balance sheet exposures pre CCF £m	Average CCF %	EAD post CRM and post CCF £m	Average PD %	Number of Obligors	Average LGD %	RWA £m	RWA density %	EL £m	Value adjustments and provisions £m	Undrawn commitments (post CCF) £m
	a	b	c	d	e	f	g	i	j	k	l	m
0.00 to <0.15	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

Key movements

– EAD post CRM and post CCF has decreased by £0.5bn due to lower unsecured balances.

– Average PD increased during 2020 due to a higher level of defaulted balances.

Pillar 1 Capital requirements: Credit risk continued

ANALYSIS OF CREDIT RISK EXPOSURES SUBJECT TO OTHER IRB APPROACHES

Corporate specialised lending exposures subject to supervisory slotting

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

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

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

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

As at 31 December 2020, corporate specialised lending exposures subject to supervisory slotting amounted to £12.6bn (2019: £12.6bn). Risk-weighted assets arising from this amounted to £9.2bn (2019: £9.1bn) as analysed in the table below.

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)

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

		December 2019					
		Specialised lending					
		On-balance sheet amount	Off-balance sheet amount	RW	Exposure amount	RWA	Expected losses
Regulatory Categories	Remaining maturity	£m	£m	%	£m	£m	£m
1) Strong	Less than 2.5 years	2,458	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

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 2020, total credit risk exposures in respect of equities subject to the Simple Risk Weight Method amounted to £2.7bn (2019: £3.1bn). Risk-weighted assets arising from this amounted to £5.5bn (2019: £6.7bn).

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

2020						
	Equities under the simple risk-weight approach					
	On-balance sheet amount	Off-balance sheet amount	RW	EAD post CRM and post CC	RWA	Capital requirements
Categories	£m	£m	%	£m	£m	£m
Exchange-traded equity exposures	—	—	290%	—	—	—
Private equity exposures[1]	2,504	117	190%	2,621	4,980	398
Other equity exposures	152	—	370%	152	561	45
Total	2,656	117		2,773	5,541	443

2019						
	Equities under the simple risk-weight approach					
	On-balance sheet amount	Off-balance sheet amount	RW	EAD post CRM and post CC	RWA	Capital requirements
Categories	£m	£m	%	£m	£m	£m
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

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.

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

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

- Financial assets at fair value through other comprehensive income, Note 2 (Accounting Policies) of the 2020 Lloyds Banking Group plc Annual Report and Accounts.
- Equity investments (including venture capital), Note 48 (Financial Instruments) of the 2020 Lloyds Banking Group plc Annual Report and Accounts.

The balance sheet value of non-trading book exposures in equities, as at 31 December 2020, 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	2020 Balance sheet value £m	2019 Balance sheet value £m
Publicly quoted equities	1	27
Privately held equities	1,738	2,171
Total	1,739	2,198

There were £2.5m realised gain (2019: £nil) recognised in the year to 31 December 2020 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 2020, there were £50.1m of unrealised losses on equity investments at fair value through other comprehensive income (2019: £0.3m).

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 2020, credit risk exposures risk-weighted under the Standardised Approach post-CCF and CRM, amounted to £134.5bn (2019: £103.7bn), generating risk-weighted assets of £22.2bn (2019: £23.9bn).

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

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

		December 2019					
		Exposures before CCF and CRM		Exposures post CCF and CRM		RWA and RWA density	
		On-balance sheet amount £m	Off-balance sheet amount £m	On-balance sheet amount £m	Off-balance sheet amount £m	RWA £m	RWA density[1] %
		a	b	c	d	e	f
1	Central governments or central banks	56,823	1	57,103	406	—	—
2	Regional governments or local authorities	476	—	476	—	28	6%
3	Public sector entities	4,169	—	4,169	—	1	—
4	Multilateral development banks	6,243	—	6,243	—	—	—
5	International organisations	—	—	—	—	—	—
6	Institutions	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	assessment	—	—	—	—	—	—
14	Collective investment undertakings (CIUs)	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%

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

Key movements

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

Pillar 1 Capital requirements: Credit risk continued

Table 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.

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

Table 36: Standardised approach – exposures by asset classes and risk weights (post CCF and post CRM) (CR5) (Continued)

		December 2019																
		Risk Weight																
		0 %	2 %	4 %	10 %	20 %	35 %	50 %	70 %	75 %	100 %	150 %	250 %	370 %	1250 %	Others	Total	Of which: Unrated
	Exposure Classes	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
1	Central governments or central banks	57,509	—	—	—	—	—	—	—	—	—	—	—	—	—	—	57,509	57,184
2	Regional government or local authorities	335	—	—	—	141	—	—	—	—	—	—	—	—	—	—	476	—
3	Public sector entities	4,169	—	—	—	—	—	—	—	—	1	—	—	—	—	—	4,169	1
4	Multilateral development banks	6,243	—	—	—	—	—	—	—	—	—	—	—	—	—	—	6,243	6,243
5	International organisations	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
6	Institutions	—	—	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	Institutions and corporations 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

Pillar 1 Capital requirements: Credit risk continued

ANALYSIS OF CREDIT RISK EXPOSURES BY GEOGRAPHY

Credit risk exposures as at 31 December 2020, analysed by geographical region, based on country of residence/incorporation of the customers, are provided in the table below. Exposures are presented on a pre CRM and post CCF basis.

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

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

	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 obligation 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	47,401	9,422	—	—	—	56,824
Regional governments or local authorities	—	335	—	—	141	476
Public sector entities	1	4,169	—	—	—	4,169
Multilateral development banks	—	—	—	—	6,243	6,243
International organisations	—	—	—	—	—	—
Institutions	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

Key movements

– The increase in total exposure of £40bn is predominantly in the UK and due to COVID-19 lending schemes, increased amounts deposited with the Bank of England and an increase in mortgage lending.

Pillar 1 Capital requirements: Credit risk continued

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

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

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

	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%	—		—	8,304		0.01%	—		—	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]	—		—	—		—	—		—	—		—	—		—	—		—
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%

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 64).

Key movements

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

Pillar 1 Capital requirements: Credit risk continued

ANALYSIS OF CREDIT RISK EXPOSURES BY INDUSTRY

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

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

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

Pillar 1 Capital requirements: Credit risk continued

	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 service £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 obligation 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-	—	—	—	—	—	—	—	—	—	—	—	—	—
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

ANALYSIS OF CREDIT RISK EXPOSURES BY RESIDUAL MATURITY

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

Table 40: Maturity of exposures (CRB-E)

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

Pillar 1 Capital requirements: Credit risk continued

	2019					
	Net exposure value					
	On demand £m	<= 1 year £m	> 1 year <= 5 years £m	> 5 years £m	No stated maturity £m	Total £m
Central governments or central banks	—	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	46,029	574	5,943	4,278	—	56,824
Regional governments or local authorities	—	55	280	141	—	476
Public sector entities	—	306	3,241	623	—	4,169
Multilateral development banks	—	129	4,440	1,674	—	6,243
International organisations	—	—	—	—	—	—
Institutions	74	74	24	—	—	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

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 226 and 231 respectively of the 2020 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 pre CCF and pre CRM. Net values represent gross carrying values less specific credit risk adjustments (note, the Group does not recognise any general credit risk adjustments (GCRAs) as defined by the EBA).

Table 41: Credit quality of exposures by exposure class and instrument (CR1-A)

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

Pillar 1 Capital requirements: Credit risk continued

Table 41: Credit quality of exposures by exposure class and instrument (CR1-A) (continued)

December 2019	Gross carrying values of				
	Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	Credit risk adjustment charges in the period	Net values
	£m	£m	£m	£m	£m
	a	b	c	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		56,825	—	—	56,825
Regional governments or local authorities		476	—	—	476
Public sector entities		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

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

2 The breakdown of 'exposures in default' by the exposure class that corresponds to the exposure before default, comprises Corporate £1,259m (2019: £1,288m) and Retail £636m (2019: £637m).

Pillar 1 Capital requirements: Credit risk continued

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

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

December 2019	Gross carrying values of: Defaulted exposures £m	Gross carrying values of: Non-defaulted exposures £m	Specific credit risk adjustment[1] £m	Credit risk adjustment charges in the period[1] £m	Net values £m
	a	b	c	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

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

Pillar 1 Capital requirements: Credit risk continued

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

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

	2019				
	Gross carrying values of				
	Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	Credit risk adjustment charges in the period	Net value
	£m	£m	£m	£m	£m
	a	b	c	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	—	2,202
Other	1,063	12,766	347	289	13,482
Total	7,481	648,831	3,967	1,294	652,344

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

Pillar 1 Capital requirements: Credit risk continued

ANALYSIS OF PERFORMING, NON-PERFORMING AND FORBORNE EXPOSURES

In December 2019 the EBA published guidelines on the disclosure of non-performing and forborne exposures, to be applied from December 2020. The guidelines introduce ten new reporting templates providing a uniform disclosure format for non-performing exposures, forborne exposures and foreclosed assets.

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

The remaining four templates are not subject to threshold criteria, however template CQ7 – "Collateral obtained by taking possession and execution process", is not applicable to the Group as no collateral taken into possession is recognised on the Group balance sheet. The remaining three templates are disclosed in tables 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 171 in the 2020 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)

		December 2020							
		a	b	c	d	e	f	g	h
		Gross carrying amount/nominal amount of exposures with forbearance measures £m				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions £m		Collateral received and financial guarantees received on forborne exposures £m	
		Performing Forborne	Non-performing	Of Which: Defaulted	Of Which: Impaired	On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
1	Loans and advances	2,594	7,990	5,625	6,320	(134)	(1,821)	5,893	3,808
2	Central banks	—	—	—	—	—	—	—	—
3	General governments	—	—	—	—	—	—	—	—
4	Credit institutions	—	—	—	—	—	—	—	—
5	Other financial corporations	27	37	37	13	(13)	(9)	34	2
6	Non-financial corporations	543	3,791	3,774	3,601	(38)	(1,282)	805	544
7	Households	2,024	4,162	1,813	2,706	(84)	(530)	5,054	3,261
8	Debt Securities	—	2	2	2	—	(2)	—	—
9	Loans Commitments Given	168	393	178	260	(2)	(24)	21	11
10	**Total**	2,761	8,384	5,804	6,582	(136)	(1,847)	5,914	3,819

		a	b	c	d	e	f	g	h
		Gross carrying amount/nominal amount of exposures with forbearance measures £m				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions £m		Collateral received and financial guarantees received on forborne exposures £m	
		Performing Forborne	Non-performing	Of Which: Defaulted	Of Which: Impaired	On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
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)

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

		December 2019											
		a	b	c	d	e	f	g	h	i	j	k	l
		Gross carrying amount/nominal amount £m											
		Performing Exposures			Non-performing Exposures								
			Not past due or Past due <= 30 days	Past due > 30 days <= 90 days		Unlikely to pay that are not past-due or past-due <= 90 days	Past due > 90 days <= 180 days	Past due > 180 days <= 1 year	Past due > 1 year <= 2 years	Past due > 2 years <= 5 years	Past due > 5 years <= 7 years	Past due > 7 years	Of which: defaulted
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)

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

The table above excludes loans and advances classified as held for sale, cash balances at central banks and other demand deposits to allow calculation of the NPL ratio in line with EBA definitions. Debt securities classified as fair value through profit and loss have also been excluded from reported Stage 1 and 2 balances.

		December 2019														
		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
		Gross carrying amount/nominal amount £m						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions £m						Accumulated partial write-off £m	Collateral and financial guarantees received £m	
		Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions					
			Of which stage 1	Of which stage 2		Of which stage2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		On performing exposures	On non-performing exposures
1	**Loans and advances**	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	(1)	(1)	—	(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	128,188	3,430	468	364	104	(169)	(95)	(74)	(8)	(3)	(5)	—	20,556	15
16	Central banks	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
17	General governments	95	95	—	3	3	—	—	—	—	—	—	—	—	456	—
18	Credit institutions	297	297	—	—	—	—	—	—	—	—	—	—	—	5	—
19	Other financial corporations	16,407	16,355	52	3	3	—	(2)	(2)	—	—	—	—	—	1,269	—
20	Non-financial corporations	38,863	37,807	1,057	271	266	5	(56)	(29)	(27)	(5)	—	(5)	—	6,451	15
21	Households	75,956	73,634	2,322	190	91	99	(111)	(64)	(47)	(3)	(3)	—	—	12,375	—
22	**Total**	659,321	621,155	38,166	12,258	3,787	8,471	(1,691)	(772)	(918)	(1,750)	(209)	(1,542)	(277)	353,399	7,542

Pillar 1 Capital requirements: Credit risk continued

COMPARISON OF EXPECTED LOSSES TO SPECIFIC CREDIT RISK ADJUSTMENTS

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

The treatment of regulatory ELs is covered on page 13.

Further details on accounting expected credit losses (ECLs) can be found in the 2020 Lloyds Banking Group plc Annual Report and Accounts: Note 2(H) on page 226 and Note 3 on page 231.

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

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

Table 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 or 'eligible' provision may be recognised in tier 2 capital subject to certain restrictions.

	2020 Regulatory expected losses £m	2020 Specific credit risk adjustments £m	2020 Excess expected losses £m	2019 Regulatory expected losses £m	2019 Specific credit risk adjustments £m	2019 Excess expected losses £m
CREDIT RISK						
Foundation IRB approach						
Central governments or central banks	—	—	—	—	—	—
Institutions	3	2	1	3	1	2
Corporates	1,195	1,190	5	927	571	356
Retail IRB approach						
Residential mortgages	1,050	1,692	(642)	994	1,223	(230)
QRRE	622	866	(244)	636	522	114
Other SME	68	123	(55)	77	56	22
Other non-SME	523	868	(345)	471	620	(149)
Other IRB approaches						
Corporate – specialised lending	226	316	(90)	211	115	96
Other						
Counterparty credit risk	34	—	34	43	—	43
Central impairment overlay		400	(400)			
Other adjustments[1]			(45)			(44)
Expected Loss on equity exposures[2]						32
Total	3,721	5,457	(1,781)	3,363	3,107	243

Reconciliation of SCRAs to statutory consolidated balance sheet allowance for impairment losses on loans and receivables	2020	2019
Total SCRAs applied against expected losses	5,457	3,107
SCRAs applied to Standardised Approach exposures	1,304	860
Acquisition related and other adjustments[3]	(514)	(512)
Total per statutory consolidated balance sheet	6,247	3,455

1 Other adjustments relate to prudent valuation adjustments.

2 As a result of a change in interpretation and policy during the year, expected losses arising on equity exposures subject to the simple risk weight method are fully offset against equity related prudent valuation adjustments.

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

Pillar 1 Capital requirements: Credit risk continued

Key movements (2020)

SCRAs:

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

Expected losses:

FIRB Corporates

– Whilst a reduction in exposure during the year (c£6.4bn) led to a consequential reduction in EL, a modest rise in defaulted assets, whilst only £0.6bn EAD, more than offset this to create the overall EL increase.

Retail IRB Residential Mortgages

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

QRRE

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

Retail Other – Non SME

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

Table 48: **COVID 1: Information on loans and advances subject to legislative and non-legislative moratoria [1,2,]**

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

1. Reported numbers exclude a small number of St. James Place, Intelligent Finance and Tesco mortgage portfolio repayment holidays; and a small number of Lex Autolease motor finance payment holiday.
2. For some retail customers payment holidays have been granted in respect of lending which was classified as non-performing at the time the payment holiday was granted.

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

Table 49: COVID 2: Breakdown of loans and advances subject to legislative and non-legislative moratoria by residual maturity of moratoria [1]

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

1. Reported numbers exclude a small number of St. James Place, Intelligent Finance and Tesco mortgage portfolio repayment holidays; and a small number of Lex Autolease motor finance payment holiday.

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

Table 50: COVID 3: Information on newly originated loans and advances provided under newly applicable public guarantee schemes introduced in response to COVID-19 crisis

		a	b	c	d
		Gross carrying amount		Maximum amount of the guarantee that can be considered	Gross carrying amount
	£m		of which: forborne	Public guarantees received	Inflows to non-performing exposures
1	Newly originated loans and advances subject to public guarantee schemes	11,030	116	10,568	37
2	of which: Households				—
3	of which: Collateralised by residential immovable property				—
4	of which: Non-financial corporations	10,992	116	10,538	37
5	of which: Small and Medium-sized Enterprises	10,752			28
6	of which: Collateralised by commercial immovable property	69			1

BBL's range from £2k to £50k in value (average facility size c.£29.9k) with lending for six years although customers can repay early without any fees. Over 80% of the lending is across the following main sectors: Wholesale & Retail Trade And Repair; Construction; Professional, Scientific & Technical Activities; Accommodation & Food Service Activities; Real Estate Activities; Admin & Support Service Activities; Manufacturing; and Transportation & Storage.

CBIL's range from £10k to £5m in value (average facility size c.£222k) with average term length of approved facilities being 69 months. Main sectors facilities cover being: Wholesale & Retail Trade And Repair; Manufacturing; Construction; Professional, Scientific & Technical Activities; Admin & Support Service Activities and Accommodation & Food Service.

CLBILs range from £250k to £25m in value (average facility size c£10m) with average term length of approved facilities being 31months. Main sectors facilities cover being: Wholesale & Retail Trade And Repair and Construction.

PILLAR 1 CAPITAL REQUIREMENTS - SECURITISATION

Revised Framework

The revised securitisation framework was fully implemented on 1st January 2020. On the whole, the impact of this has been to increase RWAs compared to prior period. Any positions previously under the Ratings Based Approach (RBA) have moved to the approaches under the revised framework hierarchy. The tables in this section relate to the revised framework and include an amount of CCR EAD (£303m - SEC-ERBA £170m, SEC-SA £133m) and RWAs (£163m - SEC-ERBA £144m, SEC-SA £19m).

Role

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

Banking book securitisation strategy and roles

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

As an originator the Group uses securitisation as a means of managing its balance sheet. Although primarily a funding tool, the Group also uses originated securitisations to generate capital efficiencies 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 (£10m exposure, £2m risk-weighted assets) in the context of both the overall trading book and the Group's banking book securitisation positions, the Group has elected to provide only limited disclosure around its trading book securitisation positions as permitted by CRR Article 432 and in accordance with related EBA guidelines.

Pillar 1 Capital requirements: Securitisation continued

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 29 (Securitisations and covered bonds) of the 2020 Lloyds Banking Group plc Annual Report and Accounts.

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

Simple, transparent and standardised (STS) securitisations

The revised securitisation framework permits differentiated capital treatment for positions which qualify as STS (CRR Article 242 (10)). As at 31 December 2020 the Group had a small number of STS positions in its role as an Investor and Sponsor.

Re-securitisation

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

Pillar 1 Capital requirements: Securitisation continued

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

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

Banking and trading book securitisation analysis

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

Table 51: Securitisation exposures in the non-trading book (SEC1)

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
		Institution acts as originator							Institution acts as sponsor				Institution acts as investor			
		Traditional				Synthetic		Sub-total	Traditional		Synthetic	Sub-total	Traditional		Synthetic	Sub-total
		STS		Non-STS												
			of which SRT		of which SRT		of which SRT		STS	Non-STS			STS	Non-STS		
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
1	**Total exposures**	—	—	—	—	10,950	10,950	10,950	815	4,947	—	5,762	2,309	8,563	—	10,872
2	Retail (total)	—	—	—	—	—	—	—	811	2,935	—	3,746	2,189	5,803	—	7,992
3	residential mortgage	—	—	—	—	—	—	—	—	306	—	306	—	2,787	—	2,787
4	credit card	—	—	—	—	—	—	—	—	—	—	—	—	568	—	568
5	other retail exposures	—	—	—	—	—	—	—	811	2,629	—	3,440	2,189	2,448	—	4,637
6	re-securitisation	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
7	Wholesale (total)	—	—	—	—	10,950	10,950	10,950	4	2,012	—	2,016	120	2,760	—	2,880
8	loans to corporates	—	—	—	—	7,329	7,329	7,329	—	—	—	—	—	533	—	533
9	commercial mortgage	—	—	—	—	726	726	726	—	—	—	—	—	1,039	—	1,039
10	lease and receivables	—	—	—	—	—	—	—	—	1,506	—	1,506	—	300	—	300
11	other wholesale	—	—	—	—	2,895	2,895	2,895	4	506	—	510	120	888	—	1,008
12	re-securitisation	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—

Pillar 1 Capital requirements: Securitisation continued

ORIGINATED SECURITISATIONS

Regulatory treatment

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

Capital requirements in relation to originated securitisation positions are primarily determined under the SEC-IRBA or the SEC-SA. Where appropriate, the Group utilises the ratings services of several ECAIs, including Standard & Poor's, Moody's and Fitch, to rate securitisation transactions and retained or purchased positions for risk weight allocation purposes under both the SEC-IRBA and SEC-SA. For synthetic securitisations any maturity mismatch between the credit protection and securitised exposures is treated in line with CRR Article 252.

On a regulatory basis, the gross securitised exposures in relation to originated securitisations where significant risk transfer is achieved amounted to £10.9bn (2019: £11.7bn) comprising synthetic originated securitisations. An analysis is provided in Table 51.

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

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

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

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

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

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

The SEC-ERBA approach calculates a risk weight with reference to the external rating of the securitisation, seniority of the tranche, tranche thickness and tranche maturity. As at 31 December 2020, securitisation positions arising from origination activities and risk-weighted under the SEC-ERBA amounted to £0.2bn (2019: nil) generating a capital requirement of £16m (2019: nil).

Accounting treatment

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

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

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

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

- the Group has transferred the contractual rights to receive the cash flows or assumed a contractual obligation to pay cash flows to a third party; and
- substantially all of the risks and rewards associated with the assets have been transferred in which case they are derecognised in full; or
- a significant proportion but not all of the risks and rewards have been transferred, in which case the assets are either derecognised in full where the transferee has the ability to sell the assets, or continue to be recognised by the Group but only to the extent of its continuing involvement.

A securitisation transaction is recognised as a sale or partial sale where derecognition is achieved. The difference between the carrying amount and the consideration received is recorded in the income statement. Securitisation transactions that do not achieve derecognition are treated as financing arrangements. The Group's securitised residential mortgages and commercial banking loans are not typically derecognised because the Group retains substantially all the risks and rewards associated with the underlying portfolios of assets. In addition, for many of these assets, the Group has not transferred the contractual rights to receive the cash flows or assumed a contractual obligation to pay the cash flows to a third party. 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 2020 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 2020 Lloyds Banking Group plc Annual Report and Accounts.

For those positions measured at fair value, further details on the valuation methodologies applied are outlined in Note 48(2) (Financial Instruments: Fair Value measurement) of the 2020 Lloyds Banking Group plc Annual Report and Accounts.

Pillar 1 Capital requirements: Securitisation continued

Use of credit derivatives and guarantees

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

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

SPONSORED SECURITISATIONS

Cancara – summary of activity

Cancara

General description	Cancara was established in 2002 by Lloyds Bank. It provides financing facilities to the Group's core corporate and financial institution clients, funded by ABCP.
Programme limit/CP outstanding as at 31 December 2020	\$20bn/\$4bn £14.7bn/£2.9bn
Conduit structure	Fully supported multi-seller
Credit enhancement	Full support liquidity
Liquidity provider	Lloyds Bank Plc and Bank of Scotland Plc

Structure and liquidity facilities

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

Assets purchased relate to pools of third party receivables.

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

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

Cancara Assets

All the external assets in the conduit are consolidated for accounting purposes in the Group's financial statements, following similar accounting policies to those established for originated securitisations. The total consolidated assets in the conduits are set out in Note 47 (Structured entities) of the 2020 Lloyds Banking Group plc Annual Report and Accounts.

Capital assessment

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

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

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

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

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

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

Pillar 1 Capital requirements: Securitisation continued

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

Table 52: Securitisation exposures in the non-trading book and associated regulatory capital requirements - institution acting as originator or as sponsor (SEC3)

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

Pillar 1 Capital requirements: Securitisation continued

Table 53:Exposures securitised by the institution - Exposures in default and specific credit risk adjustments (SEC5)

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

INVESTED SECURITISATIONS

Direct investments and liquidity facilities

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

The majority of these direct investments are accounted for as loans and receivables on the balance sheet and held at amortised cost, with the remainder held at fair value through other comprehensive income or at fair value through profit or loss. Further details on the Group's holding of ABS are presented on in Note 51(c) (Financial Risk Management: Credit Quality of Assets) of the 2020 Lloyds Banking Group plc Annual Report and Accounts.

Pillar 1 Capital requirements: Securitisation continued

Invested securitisations

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

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

Table 54: Securitisation exposures in the non-trading book and associated regulatory capital requirements - institution acting as investor (SEC4)

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q
		Exposure values (by RW bands/deductions)					Exposure values (by regulatory approach)				RWEA (by regulatory approach)				Capital charge after cap			
		≤20% RW	>20% to 50% RW	>50% to 100% RW	>100% to <1250 % RW	1250% RW/ deductions	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250%/ deductions	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250%/ deductions	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250%/ deductions
1	**Total exposures**	9,993	484	225	171	—	—	2,524	8,347	—	—	753	1,217	—	—	60	98	—
2	Traditional securitisation	9,993	484	225	171	—	—	2,524	8,347	—	—	753	1,217	—	—	60	98	—
3	Securitisation	9,993	484	225	171	—	—	2,524	8,347	—	—	753	1,217	—	—	60	98	—
4	Retail underlying	7,614	378	—	—	—	—	2,092	5,899	—	—	310	847	—	—	25	68	—
5	Of which STS	2,189	—	—	—	—	—	1,137	1,051	—	—	114	105	—	—	9	8	—
6	Wholesale	2,379	106	225	171	—	—	432	2,448	—	—	443	370	—	—	35	30	—
7	Of which STS	120	—	—	—	—	—	6	114	—	—	1	11	—	—	—	1	—
8	Re-securitisation	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
9	Synthetic securitisation	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
10	Securitisation	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
11	Retail underlying	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
12	Wholesale	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
13	Re-securitisation	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—

PILLAR 1 CAPITAL REQUIREMENTS - COUNTERPARTY CREDIT RISK

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

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

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

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

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

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

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

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

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

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

MASTER NETTING AGREEMENTS

It is credit policy that a Group approved master netting agreement must be used for all derivative and traded product transactions and must be in place prior to trading, with separate documentation required for each Group entity providing facilities. This requirement extends to trades with clients and the counterparties used for the Bank's own hedging activities, which may also include clearing trades with Central Counterparties (CCPs). 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 the Group's repurchase (repo) policy, the issuer of the collateral and the repo counterparty should be neither the same nor connected. The same rule applies for derivatives. Risk division has the necessary discretion to extend this rule to other cases where there is significant correlation. Countries with a rating equivalent to AA- or better may be considered to have no adverse correlation between the counterparty domiciled in that country and the country of risk (issuer of securities).

DERIVATIVE VALUATION ADJUSTMENTS
Details on the application of derivative valuation adjustments, including Credit and Debit Valuation Adjustments (CVA and DVA), are provided in Note 48 (Financial Instruments) of the 2020 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 2020 was £33.9bn (2019: £33.3bn). An analysis by measurement approach is presented in the table below.

Table 55: CCR: analysis by measurement approach

	2020	2019
	EAD post CR	EAD post CR
	£m	£m
CCR standardised approach	—	—
CCR mark-to-market method	9,702	8,936
CCR internal model method	—	—
SFT comprehensive approach	14,759	11,877
CCR central counterparty	8,992	12,213
Contributions to the default fund of a central counterparty	432	267
Total	33,885	33,292

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

Key movements

- CCR central counterparty exposure decreased by £3.2bn mainly due to trade optimisation.
- SFT exposure increased by £2.9bn mainly due to the funding from Bank of England, under the Term Funding Scheme with additional incentives for SMEs (TFSME), which increased by £1.7bn and also other smaller movements across various counterparties.
- Contributions to the default fund of a central counterparty increased by £0.2bn due to increase default fund requirements from LCH SwapClear.

Table 56: Analysis of CCR exposure by approach (CCR1)[3]

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

		December 2020						
		Notional	Replacement cost/current market value[1]	Potential future credit exposure[1]	Effective expected positive exposure (EEPE)	Multiplier	EAD Post CRM[2]	RWAs
		£m	£m	£m	£m	x	£m	£m
		a	b	c	d	e	f	g
1	Mark to Market		6,386	3,985			9,702	5,064
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)						14,759	372
10	VaR for SFTs						—	—
11	**Total**	—	6,386	3,985	—	—	24,461	5,436

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

2 Exposure values of £2.7bn (2019: £2.8bn) 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 58.

3 CCP exposures and charges are excluded from this table. For CCP balances please refer to Table 57: Exposures to CCPs (CCR8).

Key movements

- Financial collateral comprehensive method (for SFTs) increased by £2.9bn mainly due to the funding from Bank of England, under the Term Funding Scheme with additional incentives for SMEs (TFSME), which increased by £1.7bn and also other smaller movements across various counterparties.

Pillar 1 Capital requirements: Counterparty credit risk continued

		December 2019						
		Notional	Replacement cost/current market value[1]	Potential future credit exposure[1]	Effective expected positive exposure (EEPE)	Multiplier	EAD Post CRM[2]	RWAs
		£m	£m	£m	£m	x	£m	£m
		a	b	c	d	e	f	g
1	Mark to Market		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

Table 57: Exposures to CCPs (CCR8)

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

		December 2020		December 2019	
		EAD post CRM	RWA	EAD post CRM	RWA
		£m	£m	£m	£m
		a	b	a	b
1	**Exposures to QCCPs (total)**	**9,425**	**630**	12,480	468
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	**8,741**	**189**	12,001	254
3	(i) OTC derivatives	**7,700**	**154**	10,997	220
4	(ii) Exchange-traded derivatives	**1,008**	**34**	931	33
5	(iii) SFTs	**33**	**1**	72	1
6	(iv) Netting sets where cross-product netting has been approved	**—**	**—**	—	—
7	Segregated initial margin	**—**	**—**	—	—
8	Non-segregated initial margin	**252**	**5**	212	4
9	Prefunded default fund contributions	**432**	**436**	267	210
10	Alternative calculation of own funds requirements for exposures	**—**	**—**	—	—
11	**Exposures to non-QCCPs (total)**	**—**	**—**	—	—
12	Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions); of which	**—**	**—**	—	—
13	(i) OTC derivatives	**—**	**—**	—	—
14	(ii) Exchange-traded derivatives	**—**	**—**	—	—
15	(iii) SFTs	**—**	**—**	—	—
16	(iv) Netting sets where cross-product netting has been approved	**—**	**—**	—	—
17	Segregated initial margin	**—**	**—**	—	—
18	Non-segregated initial margin	**—**	**—**	—	—
19	Prefunded default fund contributions	**—**	**—**	—	—
20	Unfunded default fund contributions	**—**	**—**	—	—

Key movements

- Exposure for trades at QCCPs decreased by £3.3bn due to trade optimisation.
- Prefunded default fund contributions increased by £0.2bn due to increase default fund requirements from LCH SwapClear.

Pillar 1 Capital requirements: Counterparty credit risk continued

Table 58: Credit valuation adjustment (CVA) capital charge (CCR2)[1]

		December 2020		December 2019	
		EAD post CRM	RWA	EAD post CRM	RWA
		£m	£m	£m	£m
		a	b-a	a	b
1	Total portfolios subject to the Advanced CVA capital charge	—	—	—	—
2	(i) VaR component (including the 3×multiplier)	—	—	—	—
3	(ii) Stressed VaR component (including the 3×multiplier)	—	—	—	—
4	All portfolios subject to the Standardised Method	2,658	679	2,809	584
EU4	Based on Original Exposure Method	—	—	—	—
5	**Total subject to the CVA capital charge**	2,658	679	2,809	584

1 The CVA exposures disclosed in this table are embedded in the exposures reported in Table 56: 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 59: CCR: analysis by exposure class

	December 2020		December 2019	
	EAD post CRM	RWA	EAD post CRM	RWA
	£m	£m	£m	£m
Foundation IRB approach				
Corporate – main	6,060	2,644	4,728	2,112
Corporate – SME	2	2	2	2
Central governments or central banks	2,084	125	1,197	55
Institutions	2,406	857	2,954	988
Other IRB approach				
Corporate – specialised lending[1]	1,959	1,381	1,969	1,402
Securitisation positions[2]	170	144	213	79
Total IRB approach	12,681	5,153	11,063	4,638
Exposures subject to the standardised approach				
Central governments or central banks	10,998	—	9,343	—
Public sector entities	44	—	—	—
Multilateral development banks	35	—	47	—
International organisations	177	—	75	—
Institutions	9,072	233	12,235	267
Corporates	313	224	262	178
Securitisation positions	133	19	—	—
Total standardised approach	20,772	476	21,962	445
Contributions to the default fund of a Central Counterparty	432	436	267	210
Credit valuation adjustment[3]		679		584
Total	33,885	6,744	33,292	5,877

1 Exposures subject to the IRB Supervisory Slotting Approach.

2 No positions relating to counterparty credit risk securitisation positions were deducted from capital (2019: £nil).

3 CVA exposure values of £2.7bn (2019: £2.8bn) are embedded in the exposure class analysis above.

Key movements

– Exposures to Institutions subject to the Standardised approach decreased by £3.2bn mainly due to trade optimisation with QCCPs.

– Exposures to Central governments or central banks subject to the Standardised approach increased by £1.7bn mainly due to the funding from Bank of England, under the Term Funding Scheme with additional incentives for SMEs (TFSME), which increased by £1.7bn.

– Exposures to Corporate - Main subject to the IRB approach increased by £1.3bn due to smaller movement across multiple counterparties.

Pillar 1 Capital requirements: Counterparty credit risk continued

Table 60: Risk-weighted assets flow statements of CCR exposures[1,2]

	RWA amount £m	Capital requirements £m
31 December 2019	5,877	470
Asset size	754	60
Asset quality	(232)	(18)
Model updates	—	—
Methodology and policy		
Acquisitions and disposals	—	—
Foreign exchange movements	346	28
Other	—	—
31 December 2020	6,745	540

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 increased by £0.9bn due to increase in asset size, favourable FX movements offset by decrease in asset quality.

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)

	December 2020						
	EAD post CRM	Average PD	Number of obligors	Average LGD	Average Maturity (years)	RWA	RWA density
PD Scale	£m	%		%		£m	%
	a	b	c	d	e	f	g
0.00 to <0.15	3,526	0.1%	844	43.8%	3.03	1,087	30.8%
0.15 to <0.25	1,108	0.2%	284	45.0%	2.65	531	48.0%
0.25 to <0.50	814	0.3%	858	44.8%	1.59	423	51.9%
0.50 to <0.75	159	0.6%	138	45.0%	1.48	110	69.2%
0.75 to <2.50	311	1.4%	235	45.0%	2.38	335	107.7%
2.50 to <10.00	108	4.3%	121	45.0%	2.11	157	145.0%
10.00 to <100.00	—	24.8%	7	45.0%	1.30	1	236.8%
100.00 (Default)	34	100.0%	15	45.0%	1.06	—	—
Sub-total	6,060	0.9%	2,502	44.3%	2.66	2,644	43.6%

	December 2019						
	EAD post CRM	Average PD	Number of obligors	Average LGD	Average Maturity (years)	RWA	RWA density
PD Scale	£m	%		%		£m	%
	a	b	c	d	e	f	g
0.00 to <0.15	2,997	0.1%	837	44.1%	3.4	996	33.2%
0.15 to <0.25	505	0.2%	284	45.0%	2.9	245	48.4%
0.25 to <0.50	740	0.3%	835	45.1%	1.5	370	50.0%
0.50 to <0.75	115	0.6%	156	45.0%	1.6	82	70.9%
0.75 to <2.50	160	1.3%	218	45.0%	2.7	173	107.9%
2.50 to <10.00	171	4.8%	135	45.0%	1.4	243	142.1%
10.00 to <100.00	2	16.7%	11	45.0%	1.6	4	219.6%
100.00 (Default)	38	100.0%	16	45.0%	1.1	—	—
Sub-total	4,728	1.15%	2,492	44.5%	2.9	2,112	44.7%

Pillar 1 Capital requirements: Counterparty credit risk continued

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

	December 2020						
	EAD post CRM	Average PD	Number of obligors	Average LGD	Average Maturity (years)	RWA	RWA density
PD Scale	£m	%		%		£m	%
	a	b	c	d	e	f	g
0.00 to <0.15	2,081	0.05%	19	45.0 %	0.0	122	5.9 %
0.15 to <0.25	—	—	—	—	—	—	—
0.25 to <0.50	—	—	—	—	—	—	—
0.50 to <0.75	—	—	—	—	—	—	—
0.75 to <2.50	3	1.62%	1	45.0 %	1.0	3	94.2 %
2.50 to <10.00	—	—	—	—	—	—	—
10.00 to <100.00	—	—	—	—	—	—	—
100.00 (Default)	—	—	—	—	—	—	—
Sub-total	2,084	0.05%	20	45.0 %	0.0	125	6.0 %

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

Pillar 1 Capital requirements: Counterparty credit risk continued

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

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

	December 2019						
PD Scale	EAD post CRM £m	Average PD %	Number of obligors	Average LGD %	Average Maturity (years)	RWA £m	RWA density %
	a	b	c	d	e	f	g
0.00 to <0.15	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	9	93.4%
2.50 to <10.00	2	2.61%	3	45.0%	2.2	3	156.8%
10.00 to <100.00	—	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%

Pillar 1 Capital requirements: Counterparty credit risk continued

Table 64: CCR corporate exposures subject to supervisory slotting

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

December 2019 Specialised lending						
Regulatory categories	Remaining maturity	On-balance sheet amount £m	Off-balance sheet amount £m	RW %	EAD post CRM £m	RWA £m
1) Strong	Less than 2.5 years	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

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'.

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

		December 2019												
		0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others	Total	Of which: Unrated
	Exposure Classes	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
1	Central governments or central banks	9,343	—	—	—	—	—	—	—	—	—	—	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

Key movements

- EAD increase in Central governments and central banks by £1.7bn is mainly due to the funding from Bank of England, under the Term Funding Scheme with additional incentives for SMEs (TFSME), which increased by £1.7bn.
- Reduction of £3.2bn EAD in Institutions is driven by decreased central counterparty exposure due to trade optimisation.

Pillar 1 Capital requirements: Counterparty credit risk continued

COUNTERPARTY CREDIT RISK EXPOSURES: ANALYSIS BY CONTRACT TYPE

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

Table 66: CCR: analysis by contract type

	2020 EAD post CR £m	2019 EAD post CR £m
Interest rate and inflation contracts	14,433	17,235
Foreign exchange contracts	3,340	2,998
Equity contracts	—	1
Credit derivatives	420	418
Commodity contracts	216	212
Securities financing transactions	15,044	12,161
Contributions to the default fund of a Central Counterparty	432	267
Total	33,885	33,292
of which: central counterparty	8,992	12,213

Key movements

- Interest rate and inflation contracts decreased by £2.8bn mainly driven by decreased central counterparty exposure due to trade optimisation.
- SFT exposure increased by £2.9bn mainly due to the funding from Bank of England, under the Term Funding Scheme with additional incentives for SMEs (TFSME), which increased by £1.7bn and also other smaller movements across various counterparties.

NET DERIVATIVES CREDIT EXPOSURE

The gross positive fair value of contracts, netting benefits, netted current credit exposure, collateral held and resultant 'net derivatives and SFTs credit exposure', as at 31 December 2020, are presented separately in the table below.

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

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

		December 2019				
		Gross positive fair value exposure amount £m	Netting benefits credit £m	Netted current credit exposure £m	Collateral held[1] £m	Net Credit exposure[2] £m
		a	b	c	d	e
1	Derivatives	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

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 56: 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 68: Composition of collateral for exposures to CCR (CCR5-B)

	December 2020				December 2019			
	Collateral Used in Derivatives		Collateral Used in SFTs		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	Fair Value of Collateral Received	Fair Value of Collateral Posted	Fair Value of Collateral Received	Fair Value of Collateral Posted
	£m	£m	£m	£m	£m	£m	£m	£m
Collateral Types								
Cash - Domestic currency	**2,801**	**1,862**	**55,150**	**88,498**	3,127	1,984	50,315	80,081
Cash - Other currencies	**6,120**	**3,723**	**10,498**	**8,351**	4,816	3,720	7,945	5,583
Domestic sovereign debt	**2,092**	**6,049**	**96,406**	**55,759**	2,114	5,470	85,935	41,221
Other sovereign debt	**31**	**96**	**15,454**	**8,173**	21	76	10,368	6,809
Government agency debt	**—**	**—**	**—**	**—**	—	—	—	—
Corporate bonds	**23**	**8**	**1,346**	**120**	14	—	732	19
Equity securities	**—**	**—**	**—**	**—**	—	—	—	—
Other collateral	**73**	**60**	**3,098**	**35,256**	—	—	543	33,623
Total	**11,140**	**11,798**	**181,952**	**196,157**	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 2020 was £19.3bn (2019: £19.4bn). 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 69: Credit derivatives exposures (CCR6)

	December 2020			December 2019		
	Credit derivative hedges			Credit derivative hedges		
	Protection bought	Protection sold	Other credit derivatives	Protection bought	Protection sold	Other credit derivatives
	£m	£m	£m	£m	£m	£m
	a	b	c	a	b	c
Notionals						
Single-name credit default swaps	**3,090**	**322**	**—**	3,078	289	—
Index credit default swaps	**909**	**20**	**—**	812	119	—
Total return swaps	**1,429**	**8,316**	**—**	2,735	6,766	—
Credit options	**—**	**—**	**—**	—	—	—
Other credit derivatives	**—**	**5,252**	**—**	—	5,636	—
Total notionals	**5,428**	**13,910**	**—**	6,625	12,809	—
Fair values	**—**	**—**	**—**			
Positive fair value (asset)	**79**	**59**	**—**	34	150	—
Negative fair value (liability)	**(116)**	**(237)**	**—**	(198)	(219)	—

PILLAR 1 CAPITAL REQUIREMENTS - MARKET RISK

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 2020 Lloyds Banking Group plc Annual Report and Accounts (Market Risk section, pages 155 to 160.

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 2020 Lloyds Banking Group plc Annual Report and Accounts.

Table 70: Market risk linkages to the balance sheet

		Banking			
	Balance sheet total	Trading book only[1]	Non-trading	Insurance	
2020	£m	£m	£m	£m	Primary risk factor
Assets					
Cash and balances at central banks	73,257	—	73,257	—	Interest rate
Financial assets at fair value through profit or loss	171,626	20,234	5,487	145,905	Interest rate, foreign exchange, credit spread
Derivative financial instruments	29,613	21,773	4,729	3,111	Interest rate, foreign exchange, credit spread
Financial assets at amortised cost:					
Loans and advances to bank	10,746	—	10,651	95	Interest rate
Loans and advances to customers	498,843	—	498,807	36	Interest rate
Debt securities	5,405	—	5,405	—	Interest rate, credit spread
	514,994	—	514,863	131	
Financial assets at fair value through other comprehensive income	27,603	—	27,603	—	Interest rate, foreign exchange, credit spread
Value of in-force business	5,617	—	—	5,617	Equity
Other assets	48,559	—	21,837	26,722	Interest rate
Total assets	871,269	42,007	647,776	181,486	
Liabilities					
Deposits from banks	31,465	—	31,465	—	Interest rate
Customer deposits	460,068	—	460,068	—	Interest rate
Financial liabilities at fair value through profit or loss	22,646	15,818	6,828	—	Interest rate, foreign exchange
Derivative financial instruments	27,313	17,429	6,819	3,065	Interest rate, foreign exchange, credit spread
Debt securities in issue	87,397	—	87,397	—	Interest rate, credit spread
Liabilities arising from insurance and investment contracts	154,512	—	—	154,512	Credit spread
Subordinated liabilities	14,261	—	12,369	1,892	Interest rate, foreign exchange
Other liabilities	24,194	—	9,244	14,950	Interest rate
Total liabilities	821,856	33,247	614,190	174,419	

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

Pillar 1 Capital requirements: Market risk continued

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

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

The Group ensures that it has adequate cash and balances at central banks and stocks of high-quality liquid assets (e.g. Gilts or US Treasury Securities) that can be converted easily into cash to meet liquidity requirements. The majority of these assets are asset swapped and held at fair value through other comprehensive income 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 183 to 187 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 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 of the Group's regulatory trading books and they include daily VaR , sensitivity based measures, and stress testing calculations.

Structure and organisation

Market risk follows the Group's Risk Management Framework. For further information refer to 'The Group's Approach to Risk' section on pages 144 to 146 of the 2020 Lloyds Banking Group plc Annual Report and Accounts.

Banking activities

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

Further details of the Group's risks in the banking book, including market value sensitivity and net interest income sensitivity measures provided in respect of banking activities (non-trading book) are presented in the Market Risk section of the 2020 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 158 and 159 of the 2020 Lloyds Banking Group plc Annual Report and Accounts.

Table 71: Market risk own funds requirements

	December 2020		December 2019	
	RWA £m	Capital Requirements £m	RWA £m	Capital Requirements £m
Internal models approach	**1,955**	**156**	1,511	121
VaR	**408**	**33**	227	18
SVaR	**989**	**79**	707	57
Incremental risk charge	**167**	**13**	138	11
Comprehensive risk measure	**—**	**—**	—	—
Risks not in VaR	**391**	**31**	439	35
Standardised approach	**252**	**20**	279	22
Interest rate risk (general and specific)	**167**	**14**	191	15
Equity risk (general and specific)	**—**	**—**	—	—
Foreign exchange risk	**77**	**6**	82	7
Commodity risk	**6**	**—**	2	—
Specific interest rate risk of securitisation position	**2**	**—**	3	—
Total	**2,207**	**176**	1,790	143

Key movements

- Market risk risk-weighted assets increase of £0.4bn were primarily driven by a modest increase in interest rate risk exposure from a low risk base and Covid-19 related volatility entering the VaR model.

Pillar 1 Capital requirements: Market risk continued

Review of internal models

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

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

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

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

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

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

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

Key characteristics of market risk models

Component modelled	Significant models and associated capital requirement	Model description and methodology	Number of days of market data	Applicable regulatory thresholds for the industry
VaR	1Model: (£33m)	Historical simulation to create a distribution of potential daily P&Ls from market moves. P&Ls are calculated from a grid of full revaluation based sensitivities to approximate/ estimate full revaluation.	300 daily P&Ls, Simple weighting.	Regulatory VaR is computed with 10 day holding period and 99% confidence level. The 10-day VaR is based on rolling 10-day periods.
SVaR	1Model: (£79m)	Same as VaR model.	250 day period of significant stress. Simple weighting. VaR calibration updated quarterly.	Same as VaR model.
IRC	1Model: (£13m)	Monte Carlo approach is used to simulate the profit and loss changes arising from rating migration and default.	Credit Ratings data (1983 – current), CDS long term average data (2006 – current), CDS bond basis data (2006 – current), LGD data (1990 – current).	IRC is computed with a 1 year holding period and 99.9% confidence level.

Pillar 1 Capital requirements: Market risk continued

Stress testing

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

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

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

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

Backtesting of VaR models

The Group compares both hypothetical and clean profit or loss with the VaR calculated at a 1-day 99 per cent confidence level on a daily basis.

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

A backtesting overshoot is generated when loss is greater than the 1-day 99 per cent VaR for a given day. Please see commentary below Table 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 72: Backtesting results (VaR models)

2020 backtesting results		Number of reported overshoots	
	Multiplier	Hypothetical	Clean
Entity Level			
Lloyds Bank	3.00	2	2
BoS	3.00	1	—
RFB sub-group	3.00	3	2
LBCM	3.00	2	1

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.
- The Covid-related volatility resulted in an increase in backtesting overshoots across all entities, this was reversed by regulatory approval to disregard the Covid-related overshoots.

Pillar 1 Capital requirements: Market risk continued

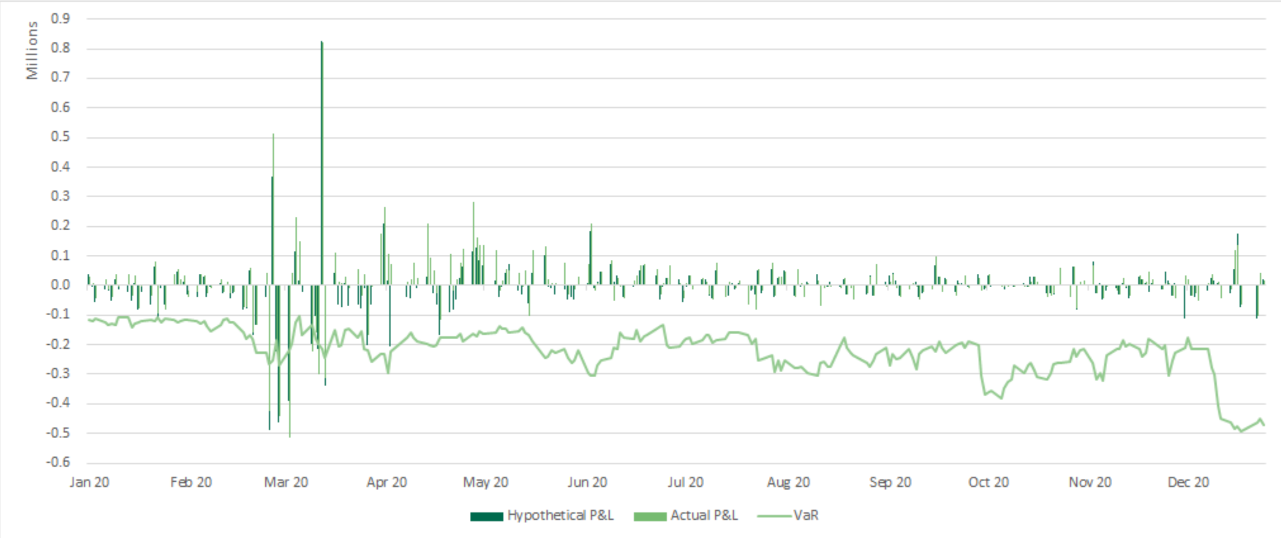
COMPARISON OF VAR TO HYPOTHETICAL AND CLEAN PROFIT AND LOSS

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 2020 for both the RFB sub-group and LBCM.

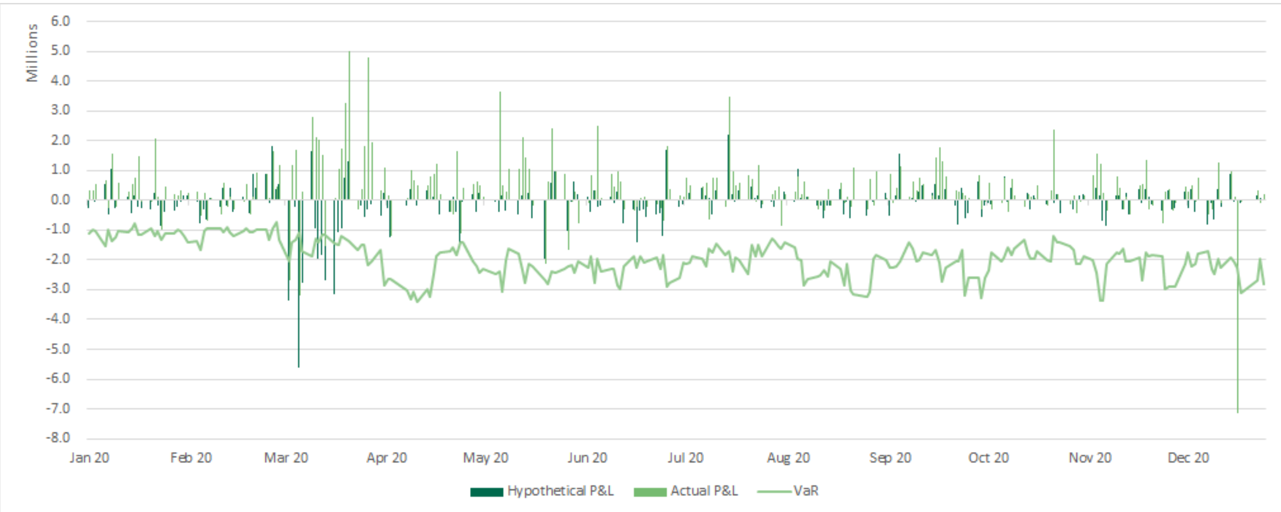
Note that the profit and loss used in back-testing represents gains and losses based on the change in valuation of the portfolio due to market moves and is not reflective of the total profit and loss from the business.

Table 73: Comparison of VaR estimates with gains/losses (MR4) LLOYDS

BANK GROUP (RFB sub group)



LLOYDS BANK CORPORATE MARKETS PLC(LBCM)



Pillar 1 Capital requirements: Market risk continued

Valuation principles

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

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

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

Model validation covers both qualitative and quantitative elements relating to new models. In respect of new products, a product implementation review is conducted pre- and post-trading. Pre-trade testing ensures that the new model is integrated into the Group's systems and that the profit and loss and risk reporting are consistent throughout the trade life cycle. Post-trade testing examines the explanatory power of the implemented model, actively monitoring model parameters and comparing in-house pricing to external sources. Independent price verification procedures cover financial instruments carried at fair value. The frequency of the review is matched to the availability of independent data, monthly being the minimum. Valuation differences in breach of established thresholds are escalated to senior management. The results from independent pricing and valuation reserves are reviewed monthly by senior management.

Formal committees, consisting of senior risk, finance and business management, meet at least quarterly to discuss and approve valuations in more judgemental areas, in particular for unquoted equities, structured credit, over-the-counter options and the Credit Valuation Adjustment (CVA) reserve.

Full details on the use of valuation models and related adjustments are provided in Note 48 (Financial Instruments) of the 2020 Lloyds Banking Group plc Annual Report and Accounts.

Pillar 1 Capital requirements: Market risk continued

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 2020 and year end 2019. Also included are statistics for the Incremental Risk Change for 2020 and 2019.

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 74: IMA values for trading portfolios (MR3)

	2020 £m	2019 £m
VaR (10 day 99%)		
Maximum value	**18.1**	12.9
Average value	**7.8**	6.8
Minimum value	**2.7**	3.4
Period end	**15.5**	7.3
Stressed VaR (10 day 99%)		
Maximum value	**38.6**	31.9
Average value	**24.9**	21.0
Minimum value	**14.1**	12.0
Period end	**29.9**	19.0
Incremental Risk Charge (99.9%)		
Maximum value	**21.6**	24.1
Average value	**10.6**	12.2
Minimum value	**5.3**	7.6
Period end	**13.3**	11.1
Comprehensive Risk capital charge (99.9%)		
Maximum value	**—**	—
Average value	**—**	—
Minimum value	**—**	—
Period end	**—**	—

Key movements

- The market risk for the trading book continues to be low with respect to the size of the Group.
- The increase in average and period end VaR and SVaR (10 day 99%) was as a result of the Covid-related volatility entering the VaR model and increased Interest Rate exposure.

Pillar 1 Capital requirements: Market risk continued

Table 75: Market risk under internal models approach (MR2-A)

		2020 RWA £m	2020 Capital requirements £m	2019 RWA £m	2019 Capital requirements £m
1	**VaR** (higher of values a and b)	408	33	227	18
(a)	Previous day's VaR (Article 365(1) (VaRt-1))		17		8
(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)		33		18
2	**SVaR** (higher of values a and b)	989	79	707	57
(a)	Latest SVaR (Article 365(2) (sVaRt-1))		31		19
(b)	Average of the SVaR (Article 365(2) during the preceding sixty business days (sVaRavg) x multiplication factor (ms) (Article 366))		79		57
3	Incremental risk charge – **IRC** (higher of values a and b)	167	13	138	11
(a)	Most recent IRC value (incremental default and migration risks section 3 calculated in accordance with Section 3 articles 370/371)		13		11
(b)	Average of the IRC number over the preceding 12 weeks		13		11
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-wee		—		—
(c)	8% of the own funds requirement in STA on most recent risk number for the correlation trading portfolio (Article 338(4))		—		—
5	**RNIV**	391	31	439	35
6	**Total**	1,955	156	1,511	121

Table 76: Risk-weighted assets flow statements of market risk exposures under an IMA (MR2-B)

		VaR £m	SVaR £m	IRC £m	CRM £m	Other £m	Total RWA £m	Total Capital Requirements £m
1	Risk-weighted assets as at 31 December 2019	227	707	138	—	439	1,511	121
2	Movement in risk levels	181	282	29	—	(48)	444	35
3	Model updates/changes	—	—	—	—	—	—	—
4	Methodology and policy	—	—	—	—	—	—	—
5	Acquisitions and disposals	—	—	—	—	—	—	—
6	Foreign exchange movements	—	—	—	—	—	—	—
7	Other	—	—	—	—	—	—	—
	Asset size	—	—	—	—	—	—	—
8	**Risk-weighted assets as at 31 December 2020**	408	989	167	—	391	1,955	156

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. Note that the asset size driver disclosed therein is encompassed in movement in risk levels above.

Key movements

– Market risk risk-weighted assets increase of £0.4bn were primarily driven by a modest increase in interest rate risk exposure from a low risk base and Covid-19 related volatility entering the VaR model.

Pillar 1 Capital requirements: Market risk continued

Table 77: Market risk under standardised approach (MR1)

	2020 Risk-weighted assets £m	2020 Capital requirements £m	2019 Risk-weighted assets £m	2019 Capital requirements £m
Outright Products				
Interest rate risk (general and specific)	**156**	**13**	172	14
Equity risk (general and specific)	**—**	**—**	—	—
Foreign exchange risk	**77**	**6**	82	7
Commodity Risk	**6**	**—**	2	—
Securitisation (specific risk)	**2**	**—**	3	—
Options				
Simplified approach	**—**	**—**	—	—
Delta-plus method	**11**	**1**	19	2
Scenario approach	**—**	**—**	—	—
Total	**252**	**20**	279	23

LIQUIDITY RISK

DEFINITION

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

EXPOSURE

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

MEASUREMENT

Liquidity risk is managed through a series of measures, tests and reports that are primarily based on contractual maturities with behavioural 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.

MITIGATION

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

MONITORING

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

LIQUIDITY COVERAGE RATIO (LCR)

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

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

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

Further details on the Group's liquidity portfolio can be found in the Risk Management section of the 2020 Lloyds Banking Group plc Annual Report and Accounts (Funding and Liquidity section, pages 183 to 187).

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 78: Liquidity Coverage Ratio (LIQ1)

		2020							
		Total unweighted value (average) £m				Total weighted value (average) £m			
		At 31 Mar	At 30 Jun	At 30 Sep	At 31 Dec	At 31 Mar	At 30 Jun	At 30 Sep	At 31 Dec
	High-quality liquid assets								
1	Total HQLA					131,079	136,961	138,512	141,747
	Cash outflows								
2	**Retail deposits and deposits from small business customers, of which:**	279,950	283,817	290,215	298,712	19,049	19,194	19,526	20,025
3	Stable deposits	216,019	219,836	225,528	232,462	10,801	10,992	11,276	11,623
4	Less stable deposits	63,931	63,982	64,687	66,250	8,248	8,202	8,250	8,402
5	**Unsecured wholesale funding:**	94,178	97,052	99,197	101,984	50,007	50,925	51,482	52,350
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	23,551	24,189	25,322	26,930	5,888	6,047	6,331	6,732
7	Non-operational deposits (all counterparties)	67,454	69,677	70,303	71,257	40,946	41,693	41,580	41,820
8	Unsecured debt	3,173	3,185	3,572	3,798	3,173	3,185	3,572	3,798
9	**Secured wholesale funding**					44	25	25	26
10	**Additional requirements:**	69,449	70,579	72,488	76,009	28,939	30,957	33,177	36,121
11	Outflows related to derivative exposures and other collateral requirements	17,258	19,068	21,124	23,773	17,258	19,138	21,191	23,839
12	Outflows related to loss of funding on debt products	1,152	1,169	1,172	1,267	1,152	1,169	1,172	1,267
13	Credit and liquidity facilities	51,039	50,343	50,193	50,969	10,528	10,650	10,815	11,016
14	**Other contractual funding obligations**	1,350	1,256	1,225	1,299	894	858	841	926
15	**Other contingent funding obligations**	85,214	85,698	86,370	88,719	4,251	4,218	4,245	4,626
16	**TOTAL CASH OUTFLOWS**					103,185	106,177	109,296	114,074
	Cash inflows								
17	**Secured lending (eg: reverse repos)**	32,631	33,372	32,848	32,249	220	224	234	169
18	**Inflows from fully performing exposures**	5,350	5,264	5,181	4,978	3,446	3,509	3,559	3,394
19	Other cash inflows	4,521	4,717	5,372	6,370	4,165	4,313	4,950	5,957
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies					—	—	—	—
EU-19b	(Excess inflows from a related specialised credit institution)					—	—	—	—
20	**TOTAL CASH INFLOWS**	42,502	43,353	43,401	43,597	7,831	8,046	8,743	9,520
EU-20a	**Fully exempt flows**	—	—	—	—	—	—	—	—
EU-20b	**Inflows subject to 90% cap**	—	—	—	—	—	—	—	—
EU-20c	**Inflows subject to 75% cap**	37,852	38,682	39,136	39,468	7,831	8,046	8,743	9,520
									Total adjusted value £m
21	**Liquidity buffer**					131,079	136,961	138,512	141,747
22	**Total net cash outflows**					95,354	98,131	100,553	104,553
23	**Liquidity Coverage Ratio (%)**					138%	140%	138%	136%

		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 countries 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%	132%	134%	137%

Appendices

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

OWN FUNDS DISCLOSURE TEMPLATE

Table 79: Own funds template

	Transitional rules		Fully loaded rules	
	At 31 December 2020 £m	At 31 December 2019 £m	At 31 December 2020 £m	At 31 December 2019 £m
Common equity tier 1 (CET1) capital: instruments and reserves				
Capital instruments and related share premium accounts	**24,947**	24,756	**24,947**	24,756
of which: called up share capital	**7,084**	7,005	**7,084**	7,005
of which: share premium	**17,863**	17,751	**17,863**	17,751
Retained earnings	**12,041**	9,237	**12,041**	9,237
Accumulated other comprehensive income and other reserves (including unrealised gains and losses)	**10,373**	10,310	**10,373**	10,310
Foreseeable dividends	**(404)**	(1,586)	**(404)**	(1,586)
Common equity tier 1 (CET1) capital before regulatory adjustments	**46,957**	42,717	**46,957**	42,717
Common equity tier 1 (CET1) capital: regulatory adjustments				
Additional value adjustments	**(445)**	(509)	**(445)**	(509)
Intangible assets (net of related tax liability)	**(3,120)**	(4,179)	**(3,120)**	(4,179)
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)	**(3,562)**	(3,200)	**(3,562)**	(3,200)
Fair value reserves related to gains or losses on cash flow hedges	**(1,629)**	(1,504)	**(1,629)**	(1,504)
Negative amounts resulting from the calculation of expected loss amounts	**—**	(243)	**—**	(243)
Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	**56**	8	**56**	8
Defined benefit pension fund assets	**(1,322)**	(531)	**(1,322)**	(531)
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)	**(4,109)**	(4,626)	**(4,109)**	(4,626)
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)	**—**	(185)
of which: securitisation positions	**—**	(185)	**—**	(185)
Amount exceeding the 15% threshold	**—**	—	**—**	—
Total regulatory adjustments applied to common equity tier 1 (CET1)	**(14,135)**	(14,973)	**(14,135)**	(14,973)
Common equity tier 1 (CET1) capital	**32,822**	27,744	**32,822**	27,744

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

	Transitional rules		Fully loaded rules	
	At 31 December 2020 £m	At 31 December 2019 £m	At 31 December 2020 £m	At 31 December 2019 £m
Additional tier 1 (AT1) capital: instruments				
Capital instruments and related share premium accounts	**5,881**	5,881	**5,881**	5,881
of which: classified as equity under applicable accounting standards	**5,881**	5,881	**5,881**	5,881
Amount of qualifying items referred to in Article 484 (4) of the CRR and the related share premium accounts subject to phase out from AT1	**392**	364	**—**	—
Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in CET1) issued by subsidiaries and held by third parties	**709**	1,289	**—**	—
of which: instruments issued by subsidiaries subject to phase out	**709**	1,289	**—**	—
Additional tier 1 (AT1) capital before regulatory adjustments	**6,982**	7,534	**5,881**	5,881
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	**(1,138)**	(1,286)	**—**	—
of which: significant investments in Tier 2 instruments of other financial sector entities	**(1,138)**	(1,286)	**—**	—
Total regulatory adjustments applied to additional tier 1 (AT1) capital	**(1,138)**	(1,286)	**—**	—
Additional tier 1 (AT1) capital	**5,844**	6,248	**5,881**	5,881
Tier 1 capital	**38,666**	33,992	**38,703**	33,625
Tier 2 (T2) capital: Instruments and provisions				
Capital instruments and related share premium accounts	**6,585**	5,412	**6,585**	5,412
Amount of qualifying items referred to in Article 484 (5) of the CRR and the related share premium accounts subject to phase out from T2[1]	**551**	519	**—**	—
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	**2,868**	4,933	**599**	970
of which: instruments issued by subsidiaries subject to phase out	**2,219**	3,914	**—**	—
Credit risk adjustments	**—**	—	**—**	—
Tier 2 (T2) capital before regulatory adjustments	**10,004**	10,864	**7,184**	6,382
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)	**(942)**	(960)	**(2,080)**	(2,246)
IFRS 9 transitional adjustments	**(560)**	(480)	**(560)**	(480)
Total regulatory adjustments applied to tier 2 (T2) capital	**(1,502)**	(1,440)	**(2,640)**	(2,726)
Tier 2 (T2) capital	**8,502**	9,424	**4,544**	3,656
Total capital	**47,168**	43,416	**43,247**	37,281
Total risk weighted assets	**202,747**	203,431	**202,747**	203,431

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

	Transitional rules		Fully loaded rules	
	At 31 December 2020 £m	At 31 December 2019 £m	At 31 December 2020 £m	At 31 December 2019 £m
Capital ratios and buffers				
Common Equity Tier 1 (as a percentage of risk exposure amount)	**16.2%**	13.6%	**16.2%**	13.6%
Tier 1 (as a percentage of risk exposure amount)	**19.1%**	16.7%	**19.1%**	16.5%
Total capital (as a percentage of risk exposure amount)	**23.3%**	21.3%	**21.3%**	18.3%
Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount)	**2.502%**	3.402%	**2.502%**	3.402%
of which: capital conservation buffer requirement	**2.500%**	2.500%	**2.500%**	2.500%
of which: countercyclical buffer requirement	**0.002%**	0.902%	**0.002%**	0.902%
Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)[2]	**11.7%**	9.1%	**11.7%**	9.1%
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)	**769**	630	**769**	630
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)	**3,693**	3,237	**3,693**	3,237
Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in 38 (3) are met)	**1,077**	870	**1,077**	870
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	**805**	844	**805**	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	**1,102**	1,653	**—**	—
Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	**1,550**	2,353	**—**	—
Current cap on T2 instruments subject to phase out arrangements	**2,867**	4,300	**—**	—
Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	**—**	—	**—**	—

1 Reflects certain grandfathered tier 1 capital instruments of the Group that have partially transitioned to tier 2 capital and will fully transition by 2022, but that will cease to qualify as regulatory capital in June 2025 in accordance with the revisions to eligibility criteria for capital instruments under CRR II.

2 Of which 2.1 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 10 and 11), for the year ended 31 December 2020, that are used to calculate own funds. Where necessary, the balance sheet components under the regulatory scope of consolidation have been expanded such that the components of the transitional own funds disclosure template appear separately.

Table 80: Items extracted from the consolidated regulatory balance sheet and reconciliation of own funds items to audited financial statements

			Adjustments								
Lloyds Banking Group balance sheet category	Own funds description	Items extracted from the consolidated regulatory balance sheet (1) £m	Deferred tax £m	Threshold adjustments £m	Non-eligible instruments (12) £m	Amounts excluded from AT1 due to Cap (12) £m	Regulatory and other adjustments £m	Transitional own funds £m	Notes	Reversal of IFRS 9 Transitional arrangements £m	Transitional own funds (IFRS 9 full impact) (14) £m
	Common equity tier 1 (CET1) capital: instruments and reserves										
	Capital instruments and related share premium accounts	24,947						24,947			24,947
Share capital	of which: called up share capital	7,084						7,084			7,084
Share premium account	of which: share premium	17,863						17,863			17,863
Retained profits	Retained earnings	10,067					1,974	12,041	2	(1,958)	10,083
Other reserves	Accumulated other comprehensive income and other reserves (including unrealised gains and losses)	10,591					(218)	10,373	2		10,373
	Common equity tier 1 (CET1) capital: regulatory adjustments										
	Additional value adjustments						(445)	(445)	3		(445)
Goodwill and other intangible assets	Intangible assets (net of related tax liability)	(4,716)	417				1,179	(3,120)	4		(3,120)
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)	(3,597)	(1,402)	1,077			360	(3,562)	5	(105)	(3,667)
	Fair value reserves related to gains or losses on cash flow hedges						(1,629)	(1,629)	6		(1,629)
	Negative amounts resulting from the calculation of expected loss amounts						—	—	7		—
	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing						56	56	8		56
Retirement benefit assets	Defined benefit pension fund assets	(1,714)	392				—	(1,322)	5		(1,322)
	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)	(9,149)		3,693			1,499	(3,957)	10	(206)	(4,163)
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)	(152)						(152)			(152)
	Foreseeable dividend						(404)	(404)	11		(404)
	Amount exceeding the 15% threshold						—	—		(212)	(212)
	Common Equity Tier 1 (CET1) capital	26,277	(593)	4,770	—	—	2,368	32,822		(2,481)	30,341

Appendix 1: Table 80 Continued

Lloyds Banking Group balance sheet category	Own funds description	Items extracted from the consolidated regulatory balance sheet (1) £m	Adjustments: Deferred tax £m	Adjustments: Threshold adjustments £m	Adjustments: Non-eligible instruments (12) £m	Adjustments: Amounts excluded from AT1 due to Cap (12) £m	Adjustments: Regulatory and other adjustments £m	Transitional own funds £m	Notes	Reversal of IFRS 9 Transitional arrangements £m	Transitional own funds (IFRS 9 full impact) (14) £m
	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	962			—	(551)	(19)	392	12		392
Subordinated liabilities	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in CET1) issued by subsidiaries and held by third parties	1,743			—	(999)	(35)	709	12		709
	Additional Tier 1 (AT1) capital: regulatory adjustments										
	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)						(1,138)	(1,138)	10		(1,138)
	Additional Tier 1 (AT1) capital	8,611	—	—	—	(1,550)	(1,217)	5,844			5,844
	Tier 1 capital	34,888	(593)	4,770	—	(1,550)	1,151	38,666		(2,481)	36,185
	Tier 2 (T2) capital: instruments and provisions										
Subordinated liabilities	Capital instruments and related share premium accounts	6,852			(10)	—	(257)	6,585	12		6,585
Subordinated liabilities	Amount of qualifying items referred to in Article 484 (5) of the CRR and the related share premium accounts subject to phase out from T2					551	—	551	12		551
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	2,865			(66)	999	(930)	2,868	12		2,868
	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)	(76)						(76)	13		(76)
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)	(561)					(305)	(866)	13		(866)
	IFRS 9 transitional arrangements						(560)	(560)		560	—
	Eligible provisions						—	—	14	805	805
	Tier 2 (T2) capital	9,080	—	—	(76)	1,550	(2,052)	8,502		1,365	9,867
	Total capital	43,968	(593)	4,770	(76)	—	(901)	47,168		(1,116)	46,052

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

1. Assets on the regulatory balance sheet are presented as negative amounts, liabilities and equity are presented as positive amounts.
2. The regulatory definition of eligible items for inclusion in retained earnings differs from the statutory reporting definition. The aggregate of retained earnings and accumulated other comprehensive income and other reserves is comparable on both bases but the allocation between categories differ. Retained earnings are further adjusted to reflect the application of the IFRS 9 transitional arrangements – refer to note 14.
3. The additional value adjustments of £445m reflect the prudent valuation adjustment for all assets measured at fair value in accordance with Articles 34 and 105 of the CRR. Table 81 on page 128 provides a breakdown of the constituent elements of the Group's prudent valuation adjustment.
4. Own funds intangible assets of £4,716m extracted from the consolidated regulatory balance sheet representing £539m of goodwill and £4,177m of other intangible assets (£3,309m relating to intangible software assets). CRD IV rules require the amount to be deducted from own funds to be reduced by the amount of associated deferred tax liabilities and adjusted to reflect the prudential amortisation of intangible software assets in accordance with the revised capital treatment implemented in December 2020. Remaining unamortised 'available for use' intangible software assets are now risk-weighted under the revised treatment rather than deducted from capital.
5. The own funds deduction of £3,562m 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. £1,077m of the deferred tax asset relating to temporary differences may be risk weighted instead of deducted from capital as presented in the threshold adjustments column. Deferred tax assets are also adjusted to reflect the application of the IFRS 9 transitional arrangements.
6. Cash flow hedge reserve forms part of other reserves in the consolidated regulatory balance sheet. Please refer to note 40 Other Reserves in the 2020 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 84.
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 £9,149m extracted from the consolidated regulatory balance sheet represents the Group's total investment in Insurance subsidiaries as well as joint ventures and associates. The majority of the investment relates to the Group's equity investment in its Insurance operations headed by Scottish Widows Group Limited. The remaining investment largely relates to other equity and debt investments in Insurance that are reallocated to tier 1 capital (£1,138m) and tier 2 capital (£305m) as full deductions for capital purposes. The CET1 deduction of £3,957m reflects the requirement to deduct a portion of the equity investment in Scottish Widows Group Limited where this exceeds a threshold limit based upon the underlying CET1 capital base, with the remaining equity investment up to the limit becoming subject to risk weight (as presented in the threshold adjustments column).
11. The £404m foreseeable dividend is that recommended by the Board of Directors in respect of 2020 earnings.
12. 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	962
Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in CET1) issued by subsidiaries and held by third parties	1,743
Capital instruments and related share premium accounts	6,852
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	2,865
Total subordinated liabilities as presented on the consolidated regulatory balance sheet, page 11	**12,422**

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

Legacy tier 1 instruments that qualified as Tier 1 capital under regulations that preceded CRD IV are subject to certain restrictions, including a cap set at 20% of the value of such instruments that were in issue at 31 December 2012. Any excess over the cap is reallocated to Tier 2 capital, with certain legacy tier 1 instruments ultimately being subject to full phase out from regulatory capital by June 2025 under CRR II eligibility requirements.

13. The £561m extracted from the regulatory consolidation reflects the Group's investment in the subordinated debt of Scottish Widows held at fair value through profit or loss. The £76m 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 (refer to note 10) is treated as an investment in subordinated debt.
14. The application of the IFRS 9 transitional arrangements for capital is reflected through the regulatory and other adjustments column. These comprise the following;
    - An increase in retained earnings of £1,958m reflecting the tax adjusted add-back (subject to the applicable factor) for the initial net increase in impairment provisions on 1 January 2018 ('static' relief) and the subsequent net increase in Stage 1 and Stage 2 ECLs from 1 January 2020 ('dynamic' relief)
    - A resultant movement in threshold and DTA deductions of £523m
    - A consequential adjustment to reduce tier 2 capital by £1,365m. Normally any excess of IFRS 9 expected credit losses over regulatory expected losses in respect of the Group's IRB portfolios is added to Tier 2 capital ('eligible provisions'), subject to a percentage cap based on IRB risk-weighted assets. However, as a consequence of applying the IFRS 9 transitional arrangements for capital, eligible provisions may be partially or fully reduced, with any resultant surplus adjustment under the arrangements subsequently deducted from tier 2 capital.

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

PRUDENT VALUATION ADJUSTMENTS

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

Table 81: Prudent valuation adjustment (PV1)

	2020							
	Equity £m	Interest rates £m	FX £m	Credit £m	Commoditi es £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:	366	294	2	82	—	744	291	453
Mid-market value	366	133	1	40	—	540	128	412
Closeout cost	—	159	1	8	—	168	161	7
Concentration	—	1	—	35	—	36	2	34
Early termination	—	—	—	—	—	—	—	—
Model risk	—	29	2	27	—	59	37	21
Operational risk	37	29	—	5	—	71	29	42
Investing and funding costs						14	—	14
Unearned credit spreads						45	—	45
Future administrative costs	—	14	—	5	—	19	9	9
Other[1]	(242)	(212)	(3)	(50)	—	(506)	(216)	(290)
Total adjustment						445		

	2019							
	Equity £m	Interest rates £m	FX £m	Credit £m	Commoditie s £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		

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 stress scenarios. Where relevant the scenarios consider the risk of excessive leverage and potential mitigating actions that could be undertaken in response.

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

Further details on the process by which the Group manages its capital position in respect of both risk-based capital and leverage requirements is discussed on page 21.

Table 82: Leverage ratio common disclosure

	At 31 Dec 2020 Fully loaded £m	At 31 Dec 2019 Fully loaded £m
On-balance sheet exposures (excluding derivatives and SFTs)		
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)[1]	**586,602**	572,690
Asset amounts deducted in determining Tier 1 capital	**(6,288)**	(8,180)
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	**580,314**	564,510
Derivative exposures		
Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	**6,462**	4,797
Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	**12,535**	16,337
Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	**1,580**	1,984
Deductions of receivables assets for cash variation margin provided in derivatives transactions	**(5,101)**	(5,553)
Adjusted effective notional amount of written credit derivatives	**639**	720
Adjusted effective notional offsets and add-on deductions for written credit derivatives	**(183)**	(262)
Total derivative exposures	**15,932**	18,023
Securities financing transaction exposures		
Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	**94,650**	84,345
Netted amounts of cash payables and cash receivables of gross SFT assets	**(20,328)**	(17,256)
Counterparty credit risk exposure for SFT assets	**1,713**	1,164
Total securities financing transaction exposures	**76,035**	68,253
Other off-balance sheet exposures		
Off-balance sheet exposures at gross notional amount	**152,273**	140,009
Adjustments for conversion to credit equivalent amounts	**(91,391)**	(86,818)
Other off-balance sheet exposures	**60,882**	53,191
Capital and total exposure measure		
Tier 1 capital	**38,703**	33,625
Leverage ratio total exposure measure	**733,163**	703,977
Leverage ratio		
Leverage ratio	**5.3 %**	4.8 %

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

A description of the factors that had an impact on the leverage ratio during the year is discussed on page 26.

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

Table 83: Summary reconciliation of accounting assets and leverage ratio exposures

	At 31 Dec 2020 Fully loaded £m	At 31 Dec 2019 Fully loaded £m
Total assets as per published financial statements	**871,269**	833,893
Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	**(172,732)**	(169,037)
Adjustment for regular-way purchases and sales of financial assets subject to trade date accounting[1]	**(828)**	—
Adjustments for derivative financial instruments	**(12,133)**	(7,054)
Adjustments for securities financing transactions (SFTs)	**1,713**	1,164
Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	**60,882**	53,191
Other adjustments[2]	**(15,008)**	(8,180)
Leverage ratio total exposure measure	**733,163**	703,977

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

Table 84: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

	At 31 Dec 2020 Fully loaded £m	At 31 Dec 2019 Fully loaded £m
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	**586,602**	572,690
Trading book exposures	**7,831**	7,048
Banking book exposures, of which:	**578,771**	565,642
Covered bonds	**2,395**	2,253
Exposures treated as sovereigns	**96,591**	72,698
Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	**4,699**	4,645
Institutions	**5,299**	4,926
Secured by mortgages of immovable properties	**322,359**	315,989
Retail exposures	**40,969**	44,969
Corporates	**55,127**	63,490
Exposures in default	**7,664**	6,720
Other exposures (eg equity, securitisations, and other non-credit obligation assets)	**43,668**	49,952

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

Table 85: Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

	2020 General credit exposures[2,3]		2020 Trading book exposures[2]		2020 Securitisation exposures[3]	2020 Own funds requirements					
Breakdown by Country (£m)	Exposure Value for SA	Exposure Value for IR	Sum of long and short positions of trading book exposures for SA	Value of trading book exposures for internal models	Exposure value for non-trading book	of which: General credit exposures[2,3]	of which: Trading book exposures[2]	of which: Securitisation exposures[3]	Total	2020 Own funds requirement weights	2020 Countercyclical capital buffer rate
Hong Kong	117	—	—	—	—	4	—	—	4	0.03%	1.00%
Norway	6	80	—	—	—	6	—	—	6	0.04%	1.00%
Czech Republic	—	—	—	—	—	—	—	—	—	0.00%	0.50%
Slovakia	45	—	—	—	—	4	—	—	4	0.03%	1.00%
Bulgaria	—	—	—	—	—	—	—	—	—	0.00%	0.50%
Luxembourg	10	2,526	—	—	64	54	—	1	55	0.42%	0.250 %
i) Total[1]	178	2,606	—	—	64	68	—	1	69	0.52%	
United Kingdom	27,309	479,264	2	32	20,677	11,218	7	338	11,563	90.01%	—
United States of America	917	7,736	1	23	5,218	317	5	101	424	3.30%	—
Netherlands	961	10,904	—	—	313	169	—	3	172	1.34%	—
ii) Total[1]	29,187	497,904	3	55	26,208	11,704	12	442	12,159	94.65%	
iii) Rest of the World[1]	2,776	9,320	5	80	1,311	577	17	24	617	4.83%	
Total	32,141	509,830	8	135	27,583	12,349	29	467	12,845	100.00%	

Breakdown by Country (£m)	2019 General credit exposures[2,3] Exposure Value for SA	Exposure Value for IR	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 %	

Amount of institution specific countercyclical capital buffer	2020	2019
Total risk exposure amount	**£202,747m**	£203,431m
Institution specific countercyclical buffer rate	**0.002 %**	0.902 %
Institution specific countercyclical buffer requirement	**£4m**	£1,835m

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 86: Asset Encumbrance

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

	2020							
	Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
		of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA
	£m	£m	£m	£m	£m	£m	£m	£m
Encumbered and unencumbered assets								
Total assets	95,076	22,310			614,750	94,938		
Equity instruments	—	—	—	—	1,987	—	1,987	—
Debt securities[1]	13,083	11,429	13,083	11,429	31,834	24,636	31,834	24,636
of which: covered bonds	27	27	27	27	2,817	2,808	2,817	2,808
of which: securitisation	1,469	—	1,469	—	544	9	544	9
of which: issued by general governments	10,825	10,674	10,825	10,674	11,767	11,767	11,767	11,767
of which: issued by financial corporations	2,350	698	2,350	698	17,177	11,865	17,177	11,865
of which: issued by non-financial corporations	—	—	—	—	2,514	848	2,514	848
Other assets[2]	81,855	10,839			581,929	70,132		

	2019							
	Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
		of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA
	£m	£m	£m	£m	£m	£m	£m	£m
Encumbered and unencumbered assets								
Total assets	109,649	15,567			569,946	75,476		
Equity instruments	—	—			1,732	—		
Debt securities[1, 3]	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	—	8	—	2,534	768	2,534	768
Other assets[2]	95,586	4,650			537,612	51,861		

Collateral received and own debt securities issued	2020 Fair value of encumbered collateral received or own debt securities issued	2020 Fair value of encumbered collateral received or own debt securities issued: of which notionally eligible EHQLA and HQLA	2020 Unencumbered: Fair value of collateral received or own debt securities issued available for encumbrance	2020 Unencumbered: Fair value of collateral received or own debt securities issued available for encumbrance: of which EHQLA and HQLA	2019 Fair value of encumbered collateral received or own debt securities issued	2019 Fair value of encumbered collateral received or own debt securities issued: of which notionally eligible EHQLA and HQLA	2019 Fair value of collateral received or own debt securities available for encumbrance	2019 Fair value of collateral received or own debt securities available for encumbrance: of which notionally eligible EHQLA and HQLA
	£m	£m	£m	£m	£m	£m	£m	£m
Collateral received	57,344	57,327	57,943	55,132	44,560	43,888	64,804	60,736
Loans on demand	—	—	—	—	—	—	—	—
Equity instruments	—	—	—	—	—	—	—	—
Debt securities[1]	57,344	57,327	55,270	55,132	44,560	43,888	60,801	60,736
of which: covered bonds	58	58	931	923	1	1	242	240
of which: securitisations	—	—	534	534	—	—	100	75
of which: issued by general governments	56,826	56,812	53,406	53,406	44,261	43,715	60,368	60,368
of which: issued by financial corporations	279	230	1,745	1,537	102	100	405	383
of which: issued by non-financial corporations	6	4	347	317	102	98	30	14
Loans and advances other than loans on demand	—	—	2,903	—	—	—	3,944	—
Other collateral received	—	—	—	—	—	—	—	—
Own debt securities issued other than own covered bonds or securitisations	—	—	—	—	—	—	—	—
Own covered bonds and asset-backed securities issued and not yet pledged			8,413	—			9,310	—
Total assets, collateral received and own debt securities issued	151,992	79,695			154,045	59,737		

Sources of Encumbrance	2020 Matching liabilities, contingent liabilities or securities lent £m	2020 Assets, collateral received and own debt securities issued other than covered bonds and securitisations encumbered £m	2019 Matching liabilities, contingent liabilities or securities lent £m	2019 Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered[4] £m
Carrying amount of selected financial liabilities[3]	**111,237**	**129,601**	109,971	132,339

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

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

3 Consists of derivatives, deposits and debt securities issued.

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

Asset encumbrance

The Board and Group Asset and Liability Committee monitor and manage total balance sheet encumbrance via a number of risk appetite metrics. The amount of encumbered assets has fallen during 2020. The vast majority of assets encumbered are in the UK banking entities, with the Group primarily encumbering mortgages and credit card receivables through the issuance programmes (covered bonds and securitisation) and tradable securities through securities financing activity (repo and stock lending). In some transactions (i.e. covered bonds and securitisations) the Group will encumber assets in excess of the matching liabilities to provide greater security for investors. The Group also separately identifies unencumbered assets which are available to meet any future possible funding requirements, further details are included on pages 186 and 187 of the 2020 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 2020.

Table 87: Total loss absorbing capital composition (TLAC 1)

		At 31 December 2020 Resolution Group £m	At 31 December 2019 Resolution Group £m
	Regulatory capital elements of TLAC and adjustments		
1	Common equity tier 1 (CET1) capital	**32,822**	27,744
2	Additional tier 1 (AT1) capital before TLAC adjustments	**5,844**	6,248
3	AT1 ineligible as TLAC as issued out of subsidiaries to third parties[1]	**—**	—
4	Other adjustments[2]	**(60)**	—
5	**AT1 instruments eligible under the TLAC framework**	**5,784**	6,248
6	Tier 2 (T2) capital before TLAC adjustments	**8,502**	9,424
7	Amortised portion of T2 instruments where remaining maturity > 1 year	**194**	24
8	T2 capital ineligible as TLAC as issued out of subsidiaries to third parties[1]	**—**	—
9	Other adjustments[2]	**(522)**	(874)
10	**Tier2 instruments eligible under the TLAC framework**	**8,174**	8,574
11	**TLAC arising from regulatory capital**	**46,780**	42,566
	Non-regulatory capital elements of TLAC		
12	External TLAC instruments issued directly by the bank and subordinated to excluded liabilities	**26,946**	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**	**26,946**	23,554
	Non-regulatory capital elements of TLAC: adjustments		
18	**TLAC before deductions**	**73,726**	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**	**73,726**	66,120
	Risk-weighted assets (RWA) and leverage exposure measure for TLAC purposes		
23	Total RWA adjusted as permitted under the TLAC regime	**202,747**	203,431
24	UK leverage exposure measure	**666,070**	654,387
	TLAC ratios and buffers		
25	**TLAC (as a percentage of RWA adjusted as permitted under the TLAC regime)**	**36.4%**	32.5%
26	**TLAC (as a percentage of UK leverage exposure)**	**11.1%**	10.1%
27	**CET1 (as a percentage of RWA) available after meeting the resolution group's minimum total capital and TLAC requirements[3]**	**9.6%**	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)	**2.5 %**	3.4 %
29	Of which: capital conservation buffer requirement	**2.5 %**	2.5 %
30	Of which: bank specific countercyclical buffer requirement	**0.0 %**	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 resources to the extent that such capital would count towards the Group's consolidated capital resources.

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

3 Defined as CET1 remaining after meeting the total capital requirement i.e Pillar 1 and Pillar 2A

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

Appendix 3: Total loss absorbing capacity continued

The following disclosures, based on the Basel Committee Pillar 3 template "TLAC 2", provide information on the creditor hierarchy for each material entity within the resolution group, including Lloyds Bank plc, Bank of Scotland plc and Lloyds Bank Corporate Markets plc. The disclosures include information on the nominal value of all MREL eligible instruments and other liabilities to the extent that they are subordinate to or rank pari passu with the most senior MREL eligible claim. Where the instrument is denominated in foreign currency, the nominal value is converted into sterling using the rate as at 31 December 2020. For ordinary shares, this excludes the value of share premium and reserves attributable to ordinary shareholders.

Table 88: Material sub-group entity - creditor ranking at the entity level (TLAC 2)

	Lloyds Bank plc	31 Dec 2020							
		Creditor ranking							
		£m	£m		£m	£m		£m	£m
		(Most junior)							
1.	Is the resolution entity the creditor/investor?	Y	Y	N	N	Y	N	Y	
2.	Description of creditor ranking	Ordinary shares (£1.00 each)	Preference shares, preferred securities and AT1 equity instruments		Undated subordinated liabilities	Dated subordinated liabilities		Senior non-preferred liabilities	Total
3.	Total capital and liabilities net of credit risk mitigation	1,574	5,919	1,500	411	5,053	842	12,484	27,783
4.	Subset of row 3 that are excluded liabilities	—	—	—	—	—	—	—	—
5.	Total capital and liabilities less excluded liabilities	1,574	5,919	1,500	411	5,053	842	12,484	27,783
6.	Subset of row 5 that are eligible as TLAC	1,574	5,919	1,500	411	5,053	842	12,484	27,783
7.	Subset of row 6 with 1 year ≤ residual maturity < 2 years	—	—	—	—	—	—	—	—
8.	Subset of row 6 with 2 years ≤ residual maturity < 5 years	—	—	—	—	—	842	11,911	12,753
9.	Subset of row 6 with 5 years ≤ residual maturity < 10 years	—	—	—	—	1,969	—	532	2,501
10.	Subset of row 6 with residual maturity ≥ 10 years, but excluding perpetual securities	—	—	—	—	3,083	—	41	3,124
11.	Subset of row 6 that are perpetual securities	1,574	5,919	1,500	411	—	—	—	9,404

Appendix 3: Total loss absorbing capacity continued

	Bank of Scotland plc	Creditor ranking					
		£m	£m	£m	£m	£m	£m
		(Most junior)					
1.	Is the resolution entity the creditor/investor?	N	N	N	N	N	
2.	Description of creditor ranking	Ordinary shares (£0.25 each)	Preference shares, preferred securities and AT1 equity instruments	Undated subordinated liabilities	Dated subordinated liabilities	Senior non-preferred liabilities	Total
3.	Total capital and liabilities net of credit risk mitigation	5,847	2,218	4,735	2,183	1,181	16,164
4.	Subset of row 3 that are excluded liabilities	—	—	—	—	—	—
5.	Total capital and liabilities less excluded liabilities	5,847	2,218	4,735	2,183	1,181	16,164
6.	Subset of row 5 that are eligible as TLAC	5,847	2,218	890	1,000	1,181	11,136
7.	Subset of row 6 with 1 year ≤ residual maturity < 2 years	—	—	—	—	—	—
8.	Subset of row 6 with 2 years ≤ residual maturity < 5 years	—	—	—	—	1,181	1,181
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	—	—	—	1,000	—	1,000
11.	Subset of row 6 that are perpetual securities	5,847	2,218	890	—	—	8,955

	Lloyds Bank Corporate Markets plc	Creditor ranking				
		£m	£m	£m	£m	£m
		(Most junior)				
1.	Is the resolution entity the creditor/investor?	Y	Y	Y	Y	
2.	Description of creditor ranking	Ordinary shares (£1.00 each)	AT1 equity instruments	Subordinated liabilities	Senior non-preferred liabilities	Total
3.	Total capital and liabilities net of credit risk mitigation	120	775	685	3,636	5,216
4.	Subset of row 3 that are excluded liabilities	—	—	—	—	—
5.	Total capital and liabilities less excluded liabilities	120	775	685	3,636	5,216
6.	Subset of row 5 that are eligible as TLAC	120	775	685	854	2,434
7.	Subset of row 6 with 1 year ≤ residual maturity < 2 years	—	—	—	—	—
8.	Subset of row 6 with 2 years ≤ residual maturity < 5 years	—	—	—	854	854
9.	Subset of row 6 with 5 years ≤ residual maturity < 10 years	—	—	550	—	550
10.	Subset of row 6 with residual maturity ≥ 10 years, but excluding perpetual securities	—	—	135	—	135
11.	Subset of row 6 that are perpetual securities	120	775	—	—	895

Appendix 3: Total loss absorbing capacity continued

	Lloyds Bank plc	31 Dec 2019							
		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

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 2020.

For ordinary shares, this excludes the value of share premium and reserves attributable to ordinary shareholders.

Table 89: Resolution entity - creditor ranking at the legal entity level (TLAC 3)

	Lloyds Banking Group plc	31 Dec 2020					
		Creditor ranking					
		£m	£m	£m	£m	£m	£m
		(Most junior)					
1.	Description of creditor ranking	Ordinary shares (£0.10 each)	Preference shares and AT1 equity instruments	Undated subordinated liabilities	Dated subordinated liabilities	Senior liabilities	Total
2.	Total capital and liabilities net of credit risk mitigation	7,084	7,118	10	6,790	28,253	49,255
3.	Subset of row 2 that are excluded liabilities	—	—	—	—	524	524
4.	Total capital and liabilities less excluded liabilities	7,084	7,118	10	6,790	27,729	48,731
5.	Subset of row 4 that are potentially eligible as TLAC	7,084	7,118	10	6,790	25,757	46,759
6.	Subset of row 5 with 1 year ≤ residual maturity < 2 years	—	—	—	—	1,100	1,100
7.	Subset of row 5 with 2 years ≤ residual maturity < 5 years	—	—	—	1,725	15,759	17,484
8.	Subset of row 5 with 5 years ≤ residual maturity < 10 years	—	—	—	2,052	8,786	10,838
9.	Subset of row 5 with residual maturity ≥ 10 years, but excluding perpetual securities	—	—	—	3,012	112	3,124
10	Subset of row 5 that are perpetual securities	7,084	7,118	10	—	—	14,212

	Lloyds Banking Group plc	31 Dec 2019					
		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 90: Outline of the differences between the accounting and regulatory scopes of consolidation (LI3)[1,2]

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation: Full consolidation	Proportional consolidation	Neither consolidation nor deducted	Deducted	Description of entity
	a	b	c	d	e	f
Associates[3]						
MOTABILITY OPERATIONS GROUP PLC	Equity				x	Rental and leasing activities
THOUGHT MACHINE GROUP LIMITED	Equity				x	Business and domestic software development
SCOTTISH WIDOWS SCHRODER PERSONAL WEALTH LIMITED	Equity		x			Financial management
SCOTTISH WIDOWS SCHRODER PERSONAL WEALTH (ACD) LIMITED	Equity		x			Financial intermediation not elsewhere classified
SCOTTISH WIDOWS SCHRODER WEALTH HOLDINGS LIMITED	Equity		x			Activities of financial services holding companies
Securitisation SPEs[4]						
CANCARA ASSET SECURITISATION LTD	Full Consolidation			x		Special Purpose Entity
CHELTENHAM SECURITIES 2017 LIMITED	Full Consolidation			x		Special Purpose Entity
CHELTENHAM III 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

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation: Full consolidation	Proportional consolidation	Neither consolidation nor deducted	Deducted	Description of entity
GRESHAM RECEIVABLES (NO. 33) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 34) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 35) LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 36) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 37) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 38) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 39) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 40) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 41) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 44) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 45) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 46) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 47) UK LIMITED	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 48) UK LIMITED	Full Consolidation			x		Special Purpose Entity
HOUSING ASSOCIATION RISK TRANSFER 2019 DAC	Full Consolidation			x		Special Purpose Entity
SALISBURY II SECURITIES 2016 LTD	Full Consolidation			x		Special Purpose Entity
SALISBURY II-A SECURITIES 2017 LIMITED	Full Consolidation			x		Special Purpose Entity
SALISBURY III Securities 2019 DAC	Full Consolidation			x		Special Purpose Entity
SALISBURY SECURITIES 2015 LTD	Full Consolidation			x		Special Purpose Entity
WETHERBY SECURITIES 2017 LIMITED	Full Consolidation			x		Special Purpose Entity
WETHERBY II SECURITIES 2018 DAC	Full Consolidation			x		Special Purpose Entity
WETHERBY III SECURITIES 2019 DAC	Full Consolidation			x		Special Purpose Entity
Insurance subsidiaries[5]						
SCOTTISH WIDOWS GROUP LTD	Full Consolidation				x	Activities of head offices; management consultancy activities
SCOTTISH WIDOWS LTD	Full Consolidation				x	Insurance, reinsurance and pension funding, except compulsory social security
CLERICAL MEDICAL INTERNATIONAL HOLDINGS B.V.	Full Consolidation				x	Insurance, reinsurance and pension funding, except compulsory social security
CLERICAL MEDICAL NON STERLING PROPERTY COMPANY SARL	Full Consolidation				x	Financial service activities, except insurance and pension funding
CM VENTURE INVESTMENTS LTD	Full Consolidation				x	Financial service activities, except insurance and pension funding
DALKEITH CORPORATION	Full Consolidation				x	Financial service activities, except insurance and pension funding
FRANCE INDUSTRIAL PREMISES HOLDING COMPANY	Full Consolidation				x	Financial service activities, except insurance and pension funding
HALIFAX GENERAL INSURANCE SERVICES LTD	Full Consolidation				x	Financial service activities, except insurance and pension funding
HALIFAX LIFE LTD	Full Consolidation				x	Insurance, reinsurance and pension funding, except compulsory social security
HBOS INTERNATIONAL FINANCIAL SERVICES HOLDINGS LTD	Full Consolidation				x	Activities of head offices; management consultancy activities
LLOYDS BANK GENERAL INSURANCE HOLDINGS LTD	Full Consolidation				x	Activities of head offices; management consultancy activities

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation: Full consolidation	Proportional consolidation	Neither consolidation nor deducted	Deducted	Description of entity
LLOYDS BANK GENERAL INSURANCE 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
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 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
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
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

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation: Full consolidation	Proportional consolidation	Neither consolidation nor deducted	Deducted	Description of 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 2020 Lloyds Banking Group plc Annual Report and Accounts, pages 349 to 350, follows the accounting treatment unless otherwise stated in the table below.

2 Collective Investment Vehicles, as listed in the 2020 Lloyds Banking Group plc Annual Report and Accounts, pages 353 to 354 are excluded from the regulatory scope of consolidation.

3 Associated undertakings, as listed in the 2020 Lloyds Banking Group plc Annual Report and Accounts, pages 351 to 352, are, unless otherwise stated in the list above, predominantly a mix of private equity investments, to which the venture capital exemption applies, and underlying investments through the Housing Growth Partnership (HGP). The private equity investments are accounted for at FVTPL for accounting purposes and are risk weighted for regulatory purposes. The HGP investments are equity accounted and are also risk weighted for regulatory purposes.

4 The Group's capital-efficient securitisations and conduit vehicles are fully consolidated for accounting purposes. The underlying assets of the capital-efficient securitisations have been de-recognised from the regulatory balance sheet and replaced with the retained securitisation positions, risk weighted in line with the securitisation framework. The conduit vehicles are deconsolidated for regulatory purposes and the corresponding liquidity lines are risk-weighted, as further described in the Securitisation section, pages 91 to 98.

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 127, 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
15-20	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
48	COVID1	Information on loans and advances subject to legislative and non-legislative moratoria
49	COVID2	Breakdown of loans and advances subject to legislative and non-legislative moratoria by residual maturity of moratoria
50	COVID3	Information on newly originated loans and advances provided under newly applicable public guarantee schemes introduced in response to COVID-19 crisis
51	SEC1	Securitisation exposures in the non-trading book
52	SEC3	Securitisation exposures in the non-trading book and associated regulatory capital requirements - institution acting as originator or as sponsor
53	SEC5	Exposures securitised by the institution - Exposures in default and specific credit risk adjustments
54	SEC4	Securitisation exposures in the non-trading book and associated regulatory capital requirements - institution acting as investor
56	CCR1	Analysis of CCR exposure by approach
57	CCR8	Exposures to CCPs
58	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
67	CCR5-A	Impact of netting and collateral held on exposure values
68	CCR5-B	Composition of collateral for exposures to CCR
69	CCR6	Credit derivatives exposures
73	MR4	Comparison of VaR estimates with gains/losses
74	MR3	IMA values for trading portfolios
75	MR2-A	Market risk under the Internal Models Approach
76	MR2-B	Risk-weighted assets flow statements of market risk exposures under an IMA
77	MR1	Market risk under standardised approach
78	LIQ1	Liquidity coverage ratio
81	PV1	Prudential valuation adjustment
87	TLAC1	Total loss absorbing capital composition
88	TLAC2	Material sub-group entity - creditor ranking at legal entity level
89	TLAC3	Resolution entity – creditor ranking at legal entity level
90	LI3	Outline of the differences in the scopes of consolidation (entity by entity)

Appendix 5: EBA and BCBS adopted templates

List of excluded EBA and BCBS templates

Abbreviation	Template name	Reasons for excluding
INS1	Non-deducted participations in insurance undertakings	Not applicable to the Group
CQ2	Quality of forbearance	Threshold for disclosure not met
CQ4	Quality of non-performing exposures by geography	Threshold for disclosure not met
CQ5	Credit quality of loans and advances by industry	Threshold for disclosure not met
CQ6	Collateral valuation – loans and advances	Threshold for disclosure not met
CR2	Changes in the stock of non-performing loans and advances	Threshold for disclosure not met
CQ7	Collateral obtained by taking possession and execution processes	No collateral taken into possession is recognised on the balance sheet
CQ8	Collateral obtained by taking possession and execution processes – vintage breakdown	Threshold for disclosure not met
CR2-A	Changes in the stock of general and specific credit risk adjustments	Equivalent disclosures are provided in the Lloyds Banking Group plc ARA
CR2-B	Changes in the stock of defaulted and impaired loans and debt securities	Equivalent disclosures are provided in the Lloyds Banking Group plc ARA
CR7	IRB – Effect on the RWAs of credit derivatives used as CRM techniques	Excluded on materiality basis
CCR7	RWA flow statements of CCR exposures under the IMM	Not applicable to the Group
CC1	Composition of regulatory capital	Equivalent disclosure provided in Table 80
CC2	Reconciliation of regulatory capital	Equivalent disclosure provided in Table 5
SEC2	Securitisation exposures in the trading book	Excluded on materiality basis
IRRBB1	Quantitative information on IRRBB	Equivalent disclosures are provided in the Lloyds Banking Group plc ARA
REM1	Remuneration awarded during the financial year	Equivalent disclosures are provided in the Lloyds Banking Group plc ARA
REM2	Special payments	Equivalent disclosures are provided in the Lloyds Banking Group plc ARA
REM3	Deferred remuneration	Equivalent disclosures are provided in the Lloyds Banking Group plc ARA

Appendix 6: CRR mapping

CRR ref	High-level summary	Pillar 3	ARA	Compliance reference
Scope of disclosure requirements				
431 (1)	Requirement to publish Pillar 3 disclosures.	x		Lloyds Banking Group publishes Pillar 3 disclosures.
431 (2)	Firms with permission to use specific operational risk methodologies must disclose operational risk information.		x	Pages 201 to 202 (Operational Risk) The Group's operational risk systems, mitigation and approach are disclosed in the Risk Management section.
431 (3)	Institution must have a policy covering frequency of disclosures, their verification, comprehensiveness and appropriateness. Institution must also have policies for assessing whether their disclosures convey their risk profile comprehensively to market participants.	x		Page 8 (Disclosure Policy) Lloyds Banking Group has a Pillar 3 Disclosure Policy. Page 13 (The Group's Approach to Risk
431 (4)	Explanation of ratings decision upon request.			Not applicable
Non-material, proprietary or confidential information				
432 (1)	Institutions may omit information that is not material if certain conditions are respected.	x		Page 8 (Basis of Preparation) Limited disclosure on Trading Book securitisations are provided on the basis of materiality.
432 (2)	Institutions may omit information that is proprietary or confidential if certain conditions are respected.			Not applicable
432 (3)	Where 432 (2) applies this must be stated in the disclosures, and more general information must be disclosed.			Not applicable
432 (4)	Use of 432 (1), (2) or (3) is without prejudice to scope of liability for failure to disclose material information.			Not applicable
Frequency of disclosure				
433	Disclosures must be published once a year at a minimum and more frequently if necessary.	x		Page 8 (Frequency, media and location)
Means of disclosure				
434 (1)	To include all disclosures in one appropriate medium, or provide clear cross-references.	x		Page 8 (Frequency, media and location) Most disclosures are contained within this document.
434 (2)	Disclosures made under other requirements (e.g. accounting) can be used to satisfy Pillar 3 if appropriate.	x		Any cross-references to accounting or other disclosures are clearly signposted in this document where appropriate.
Risk management objectives and policies				
435 (1)	Disclose information on:			
435 (1) (a)	The strategies and processes to manage risks.		x	Pages 143 to 204 (Risk Management section)
435 (1) (b)	Structure and organisation of risk management function.		x	Pages 150 to 152 (Risk Governance)
435 (1) (c)	Risk reporting and measurement systems.		x	Pages 143 to 204 (Risk Management section)
435 (1) (d)	Hedging and mitigating risk – policies and processes.		x	Pages 143 to 204 (Risk Management section)
435 (1) (e)	A declaration of adequacy of risk management arrangements approved by the Board.		x	Page 95 (Board Responsibility).

Appendix 6: CRR mapping continued

CRR ref	High-level summary	Pillar 3	ARA	Compliance reference
435 (1) (f)	Concise risk statement approved by the Board.		x	Page 56 to 59 (Risk overview)
435 (2)	Information on governance arrangements, including information on Board composition and recruitment and risk committees.		x	Pages 86 to 111 (Corporate Governance Report) Pages 150 to 152 (Risk Governance)
435 (2) (a)	Number of directorships held by Board members.		x	Pages 82 to 83 (Our Board)
435 (2) (b)	Recruitment policy for selection of Board members, their actual knowledge, skills and expertise.		x	Pages 82 to 83 (Our Board) Page 100 (The Board diversity policy)
435 (2) (c)	Policy on diversity of Board membership and results against targets.		x	Page 100 (The Board diversity policy)
435 (2) (d)	Disclosure of whether a dedicated risk committee is in place, and number of meeting in the year.		x	Page 86 (Board and Committee composition and attendance at scheduled meetings in 2020) and pages 105 to 109 (Board Risk Committee Report)
435 (2) (e)	Description of information flow on risk to Board.		x	Pages 150 to 152 (Risk Governance)
Scope of application				
436 (a)	Name of institution.	x		Page 7 (Introduction)
436 (b)	Difference in basis of consolidation for accounting and prudential purposes, describing entities that are:			Page 9 (Scope of Consolidation)
436 (b) (i) 436 (b) (ii) 436(b) (iii) 436(b) (iv)	Fully consolidated; Proportionally consolidated; Deducted from own funds; Neither consolidated nor deducted	x		Details of the scope of consolidation applied to Lloyds Banking Group are outlined in the diagram referred to on page 9. Pages 142 to 145: Appendix 4: Differences in the accounting and regulatory scopes of consolidation.
436 (c)	Impediments to transfer of own funds between parent and subsidiaries.			Not applicable
436 (d)	Capital shortfalls in any subsidiaries outside the scope of consolidation.		x	Page 188 to 196 (Capital Risk) The Group actively manages the capital of its subsidiaries to ensure these remain appropriately capitalised.
436 (e)	Making use of articles on derogations from a) prudential requirements or b) liquidity requirements for individual subsidiaries/ entities.	x		Page 9 (Scope of Consolidation) LBG makes use of these provisions according to its waiver from the PRA.
Own funds				
437 (1)	Disclose the following information regarding own funds:			
437 (1) (a)	a full reconciliation of Common Equity Tier 1 items, Additional Tier 1 items, Tier 2 items and filters and deductions applied pursuant to Articles 32 to 35, 36, 56, 66 and 79 to own funds of the institution and the balance sheet in the audited financial statements of the institution;	x		Pages 125 to 127 (Own funds reconciliation)
437 (1) (b)	a description of the main features of the Common Equity Tier 1 and Additional Tier 1 instruments and Tier 2 instruments issued by the institution;			Separately disclosed on Group website http://www.lloydsbankinggroup.com/ investors/financial-downloads.

Appendix 6: CRR mapping continued

CRR ref	High-level summary	Pillar 3	ARA	Compliance reference
437 (1) (c)	the full terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments;			Separately disclosed on Group website http://www.lloydsbankinggroup.com/investors/financial-downloads.
437 (1) (d)	disclosure of the nature and amounts of the following:	x		Pages 125 to 127 (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 21 (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 49 (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 110 (Table 71:: 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 29 (Table 9: Overview of risk-weighted assets - OV1)
438 (endnote)	Requirement to disclose specialised lending exposures and equity exposures in the banking book falling under the simple risk weight approach.	x		Page 62 (Table 33A: IRB – Specialised lending (CR10)) and Page 63 (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 97 (Internal capital and credit limits)
439 (b)	Discussion of policies for securing collateral and establishing credit reserves.	x		Page 97 (Securing collateral and establishing credit reserves)
439 (c)	Discussion of management of wrong-way risk exposures.	x		Page 97 (Correlation (Wrong Way) Risk)
439 (d)	Disclosure of collateral to be provided (outflows) in the event of a ratings downgrade.	x		Page 97 (Collateral requirements in the event of a downgrade in credit rating)

Appendix 6: CRR mapping continued

CRR ref	High-level summary	Pillar 3	ARA	Compliance reference
439 (e)	Derivation of net derivative credit exposure.	x		Page 107 (Net derivatives credit exposure, including Table 67: 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 98 (Table 56: 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 108 (Notional value of credit derivative transactions, including Table 69: Credit derivatives exposures (CCR6))
439 (h)	Notional amounts of credit derivative transactions.	x		
439 (i)	Estimate of alpha, if applicable.			Not applicable
Capital buffers				
440 (1) (a)	Geographical distribution of relevant credit exposures for calculation of countercyclical capital buffer.	x		Page 131 (Table 85: 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-downloads.
Credit risk adjustments				
442 (a)	Disclosure of bank's definitions of past due and impaired.	x	x	Pillar 3: Page 79 (Analysis of performing, non-performing and forborne exposures) ARA: Pages 226 and 227 (Note 2 (H): Accounting policies, Impairment of Financial assets)
442 (b)	Approaches for calculating specific and general credit risk adjustments	x	x	Pillar 3: Page 84 (Comparison of expected losses to specific credit risk adjustments) ARA: Page 231 (Note 3: Critical accounting estimates, Allowance for expected credit losses)
442 (c)	Disclosure of pre-CRM EAD by exposure class.	x		Page 49 (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 67 (Table 37: Geographical breakdown of exposures (CRB-C))
442 (e)	Disclosure of pre-CRM EAD by industry and exposure class.	x		Page 71 (Table 39: Concentration of exposures by industry (CRB-D))
442 (f)	Disclosure of pre-CRM EAD by residual maturity and exposure class.	x		Page 73 (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 77 (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 78 (Table 43: Credit quality of exposures by geography (CR1-C)) Page 79 (Analysis of performing, non-performing and forborne exposures)

Appendix 6: CRR mapping continued

CRR ref	High-level summary	Pillar 3	ARA	Compliance reference
442 (i), (ii), (iii), (iv), (v)	Reconciliation of changes in specific and general credit risk adjustments for impaired exposures.		x	Page 259 (Note 18: Financial assets at amortised cost)
442 (endnote)	Specific credit risk adjustments recorded to income statement are disclosed separately	x		Page 77 (Table 42: Credit quality of exposures by industry types (CR1-B))
Unencumbered assets				
443	Disclosures on unencumbered assets.	x		Page 133 (Appendix 2: Asset encumbrance)
Use of ECAIs				
444 (a)	Disclosures on unencumbered assets.	x		Page 15: Capital framework: Standardised approach
444 (b)	Exposure classes associated with each ECAI.	x		Page 65 (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		Not applicable
444 (d)	Mapping of external rating to CQS.			The Group complies with the standard association published on the EBA website
444 (e)	Exposure value pre and post-credit risk mitigation, by CQS.	x		Page 64 (Table 35: Standardised approach – credit risk exposures and Credit Risk Mitigation (CRM) effects (CR4)) Page 65 (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 109 to 117 (Market risk)
Operational risk				
446	Scope of approaches used to calculate operational risk.	x		Page 16 (Pillar 1 Capital Requirements - operational risk)
Exposure in equities not included in the trading book				
447 (a)	Differentiation of exposures based on objectives and an overview of accounting techniques and valuation methodologies.	x		Page 63 (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 63 (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 63 (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 63 (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		

Appendix 6: CRR mapping continued

CRR ref	High-level summary	Pillar 3	ARA	Compliance reference
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.			Pages 156 to 158 (Banking activities)
448 (b)	Variation in earnings, economic value or other relevant measure used by the bank for upward and downward rate shocks according to the banks method for measuring the interest rate risk, broken down by currency.		x	
Exposure to securitisation positions				
449 (a)	Objectives in relation to securitisation activity.	x		Page 89 (Banking book securitisation strategy and roles) and Page 89 (Trading book securitisation strategy and roles
449 (b)	Nature of other risks in securitised assets, including liquidity.	x		Page 90 (Risks inherent in banking book securitised assets)
449 (c)	Risks in re-securitisation activity stemming from seniority of underlying securitisations and ultimate underlying assets.			Not applicable
449 (d)	The roles played by the institution in the securitisation process.	x		Page 89 (Banking book securitisation strategy and roles) and Page 89 (Trading book securitisation strategy and roles)
449 (e)	Indication of the extent of involvement in roles.	x		Page 94 (Table 52: Securitisation exposures in the non-trading book and associated regulatory capital requirements – institution acting as originator or as sponsor (SEC3)) Page 96 (Table 54: Securitisation exposures in the non-trading book and associated regulatory capital requirements – institution acting as investor (SEC4))
449 (f)	Processes in place to monitor changes in credit and market risks of securitisation exposures, and how the processes differ for re-securitisation exposures.	x		Page 90 (Monitoring changes in the credit risk of securitised exposures and Monitoring changes in the credit risk of ABS portfolios)
449 (g)	Description of the institution's policies with respect to hedging and unfunded protection, and identification of material hedge counterparties.	x		Page 93 (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 91 (Table 51: Securitisation exposures in the non-trading book (SEC1))
449 (i)	Types of SSPEs used to securitise third-party exposures as a sponsor.	x		Page 89 (Banking book securitisation strategy and roles)
449 (j) (i-vi)	Summary of accounting policies for securitisations.	x		Page 92 (Accounting treatment)
449 (k)	Names of ECAIs used for securitisations and type.	x		Page 92 (Originated securitisations – regulatory treatment) Page 93 (Capital assessment)
449 (l)	Full description of Internal Assessment Approach.	x		Page 93 (Capital assessment)
449 (m)	Explanation of significant changes in quantitative disclosures.	x		Key movements explained where applicable under relevant tables

Appendix 6: CRR mapping continued

CRR ref	High-level summary	Pillar 3	ARA	Compliance reference
449 (n)	As appropriate, separately for the Banking and trading book securitisation exposures:	x		Limited information on trading book exposures is provided on the grounds of materiality
449 (n) (i)	Amount of outstanding exposures securitised;			Page 91 (Table 51: Securitisation exposures in the non-trading book (SEC1))
449 (n) (ii)	On balance sheet securitisation retained or purchased, and off balance sheet exposures;	x		Page 91 (Table 51: Securitisation exposures in the non-trading book (SEC1))
449 (n) (iii)	Amount of assets awaiting securitisation;	x		Not applicable
449 (n) (iv)	Early amortisation treatment; aggregate drawn exposures, capital requirements.			Not applicable
449 (n) (v)	Deducted or 1,250%-weighted securitisation positions.	x		Page 94 (Table 52: Securitisation exposures in the non-trading book and associated regulatory capital requirements – institution acting as originator or as sponsor (SEC3)) Page 96 (Table 54: Securitisation exposures in the non-trading book and associated regulatory capital requirements – institution acting as investor (SEC4))
449 (n) (vi)	Securitisation activity including the amount of exposures securitised and recognised gains or losses on sales;	x		Page 90 (Securitisation programmes and activity)
449 (o) (i)	Retained and purchased positions and associated capital requirements, broken down by risk-weight bands.	x		Page 94 (Table 52: Securitisation exposures in the non-trading book and associated regulatory capital requirements – institution acting as originator or as sponsor (SEC3)) Page 96 (Table 54: Securitisation exposures in the non-trading book and associated regulatory capital requirements – institution acting as investor (SEC4))
449 (o) (ii)	Retained and purchased re-securitisation positions before and after hedging and insurance; exposure to financial guarantors broken down by guarantor credit worthiness.			Not applicable
449 (p)	Impaired assets and recognised losses related to banking book securitisations, by exposure type.	x		Page 95 (Table 53: Exposures securitised by the institution – Exposures in default and specific credit risk adjustments (SEC5))
449 (q)	Exposure and capital requirements for trading book securitisations, separated into traditional and synthetic.			This information on trading book disclosures has not been provided on the grounds of materiality
449 (r)	Whether the institution has provided non-contractual financial support to securitisation vehicles.			Not applicable
Remuneration disclosure				
450	Remuneration disclosures (Material Risk Takers).		x	Pages 120 to 142 (2020 annual report on remuneration)

Appendix 6: CRR mapping continued

CRR ref	High-level summary	Pillar 3	ARA	Compliance reference
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 26 (Table 7: Leverage ratio) Page 129 (Table 82: Leverage ratio common disclosure) Page 130 (Table 83: Summary reconciliation of accounting assets and leverage ratio exposures and Table 84: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures))
451 (1) (d) 451 (1) (e)	Description of the processes used to manage the risk of excessive leverage, and factors that impacted the leverage ratio	x		Page 129 (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 37 (Scope of the IRB permission)
452 (b)	Explanation of:			
452 (b) (i)	Internal rating scales, mapped to external ratings;	x		Page 36 (Internal Ratings Scales)
452 (b) (ii)	Use of internal ratings for purposes other than capital requirement calculations;	x		Page 39 (Other application of IRB model outputs)
452 (b) (iii)	Management and recognition of credit risk mitigation;	x		Pages 32 to 33 (Credit risk mitigation)
452 (b) (iv)	Controls around ratings systems.	x		Page 38 (Internal development and monitoring of IRB models)
452 (c) (i)-(v)	Description of ratings processes for each IRB asset class, provided separately.	x		Page 37 (Scope of the IRB permission) and Page 38 (Internal development and monitoring of IRB models)
452 (d)	Exposure values by IRB exposure class, separately for Advanced and Foundation IRB.	x		Page 37 (Distribution of exposures by approach). Page 49 (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: Total exposure, separating loans and undrawn exposures where applicable, and exposure-weighted average risk weight.	x		Pages 52 to 55 (Analysis of Credit Risk Exposures subject to the Foundation IRB) Pages 56 to 61 (Analysis of Credit Risk Exposures subject to the Retail IRB approach) Page 62 (Analysis of Credit Risk Exposures subject to the other IRB approaches) Including Table 23-28 (CR6) and 30-33A (CR6))
452 (g)	Actual specific risk adjustments for the period and explanation of changes.	x		Page 84 (Comparison of expected losses to Specific credit risk adjustments)
452 (h)	Commentary on drivers of losses in preceding period.	x		Page 84 (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 40 to 48 (Model performance, including Table 21: Model performance and Table 15-20: Back-testing of PD per portfolio for different asset classes (CR9))
452 (j)	For all IRB exposure classes:			

Appendix 6: CRR mapping continued

CRR ref	High-level summary	Pillar 3	ARA	Compliance reference
452 (j) (i)-(ii)	Where applicable, PD and LGD by each country where the bank operates.	x		Page 69 (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 32 to 35 (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 97 to 108)
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 160 (Credit Risk)
453 (f)	Standardised or Foundation IRB Approach, exposure value covered by eligible collateral.	x		Page 34 (Table 12: CRM Techniques – Overview (CR3))
453 (g)	Exposures covered by guarantees or credit derivatives.			
Use of the Advanced Measurement Approaches to Operational Risk				
455 (a) (i)	Disclosure of the characteristics of the market risk models.	x		Page 111 (Key characteristics of market risk models)
Use of Internal Market Risk Models				
455 (a) (ii)	Disclosure of the methodologies used to measure incremental default and migration risk.	x		Page 111 (Review of internal models)
455 (a) (iii)	Descriptions of stress tests applied to the portfolios.	x		Page 112 (Stress Testing)
455 (a) (iv)	Methodology for back-testing and validating the models.	x		Page 112 (Back testing of VaR models, including Table 72: Backtesting results (VaR models))
455 (b)	Scope of permission for use of the models.	x		Page 111 (Review of internal models)
455 (c)	Policies and processes to determine trading book classification, and to comply with prudential valuation requirements.	x		Page 114 (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 159 Trading portfolios (Table: Trading portfolios: VaR (1-day 95 per cent confidence level)) Pillar 3: Page 115 (Table 74: IMA values for trading portfolios (MR3))
455 (e)	The elements of the own fund calculation.	x		Page 110 (Table 71: Market risk own funds requirements)
455 (f)	Weighted average liquidity horizons of portfolios covered by models.	x		Page 111 (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 113 (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)
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

FRTB	Fundamental review of the trading book (BCBS)

R

RBA	
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

CONTACTS

For further information please contact:

INVESTORS AND ANALYSTS

Douglas Radcliffe
Group Investor Relations Director
020 7356 1571
douglas.radcliffe@lloydsbanking.com

Edward Sands
Director of Investor Relations
020 7356 1585
edward.sands@lloydsbanking.com

Nora Thoden
Director of Investor Relations
020 7356 2334
nora.thoden@lloydsbanking.com

CORPORATE AFFAIRS

Grant Ringshaw
Director of Media Relations
020 7356 2362
grant.ringshaw@lloydsbanking.com

Matt Smith
Head of Corporate Media
020 7356 3522
matt.smith@lloydsbanking.com