TAXATION

	2020 £m	2019 £m
UK corporation tax:		
Current tax on profit for the year	**(480)**	(1,389)
Adjustments in respect of prior years	**355**	96
	(125)	(1,293)
Foreign tax:		
Current tax on profit for the year	**(27)**	(70)
Adjustments in respect of prior years	**25**	2
	(2)	(68)
Current tax expense	**(127)**	(1,361)
Deferred tax credit (expense)	**288**	(26)
Tax credit (expense)	**161**	(1,387)

In 2020, a tax credit of £161 million arose on the profit before tax of £1,226 million and in 2019 a tax expense of £1,387 million arose on the profit before tax of £4,393 million.

The tax credit in 2020 arose primarily as a result of a credit of £350 million on remeasurement of the Group’s deferred tax balances following the UK Government’s decision to maintain the corporation tax rate at 19 per cent, which was substantively enacted on 17 March 2020.

Excluding this remeasurement, the tax expense for 2020 represents an effective tax rate of 15.4 per cent compared to 31.6 per cent in 2019 and compared to a statutory corporation tax rate of 19.0 per cent in both 2019 and 2020. The decrease in effective tax rate compared to 2019 was largely due to a decrease in non-deductible conduct provision charges in relation to PPI, and the benefit of re-recognition of policyholder deferred tax assets that had been written down in 2019.

DIVISIONAL INFORMATION

The requirements for IFRS segmental reporting are set out in IFRS 8, Operating Segments which mandates that an entity’s segmental reporting should reflect the way in which its operations are viewed and judged by its chief operating decision maker. As a consequence, the Group’s statutory segmental reporting follows the underlying basis as explained below (see also note 4 to the financial statements).

The Group Executive Committee, which is the chief operating decision maker for the Group, reviews the Group’s internal reporting based around these segments (which reflect the Group’s organisational and management structures) in order to assess performance and allocate resources. The segments are differentiated by the type of products provided and by whether the customers are individuals or corporate entities and the performance assessment includes a consideration of each segment’s net interest revenue; consequently the total interest income and expense for all reportable segments is presented on a net basis. The internal reporting is on an underlying profit before tax basis. The Group Executive Committee believes that this basis better represents the underlying performance of the Group. IFRS 8 requires that the Group presents its segmental profit before tax on the basis reviewed by the chief operating decision maker that is most consistent with the measurement principles used in measuring the Group’s statutory profit before tax. Accordingly, the Group presents its segmental underlying basis profit before tax in note 4 to the financial statements.

The aggregate total of the underlying basis segmental results constitutes a non-GAAP measure as defined in the United States Securities and Exchange Commission’s Regulation G. Management uses aggregate underlying profit before tax, a non-GAAP measure, as a measure of performance and believes that it provides important information for investors because it is a comparable representation of the Group’s performance. Profit before tax is the comparable GAAP measure to aggregate underlying profit before tax. The table below sets out the reconciliation of this non-GAAP measure to its comparable GAAP measure.

The Group’s activities are organised into three financial reporting segments: Retail; Commercial Banking; and Insurance and Wealth.

During 2020, the Group migrated certain customer relationships from the SME business within Commercial Banking to Business Banking within Retail; the Group has also revised its approach to internal funding charges, including the adoption of the Sterling Overnight Index Average (SONIA) interest rate benchmark in place of LIBOR. Comparatives have been restated accordingly.

Comparisons of results on a historical consolidated statutory basis are impacted by a number of items. In order to provide more meaningful and relevant comparatives, the results of the Group and divisions are presented on an ‘underlying’ basis. The following items are excluded in arriving at underlying profit:

- restructuring, including severance-related costs, property transformation, technology research and development, regulatory programmes and merger, acquisition and integration costs;
- volatility and other items, which includes the effects of certain asset sales, the volatility relating to the Group’s hedging arrangements and that arising in the insurance businesses, insurance gross up, the unwind of acquisition-related fair value adjustments and the amortisation of purchased intangible assets; and
- payment protection insurance provisions.

The results of the businesses are set out below on the underlying basis:

	2020	2019
	£m	£m
Retail	**1,991**	4,213
Commercial Banking	**96**	1,754
Insurance and Wealth	**338**	1,066
Other	**(232)**	498
Underlying profit before tax	**2,193**	7,531

Reconciliation of statutory profit to underlying profit before tax for the year

	Note	2020 £m	2019 £m
Statutory profit before tax		**1,226**	4,393
Market volatility and asset sales	1	**59**	(126)
Amortisation of purchased intangibles	2	**69**	68
Restructuring costs	3	**521**	471
Fair value unwind	4	**233**	275
Payment protection insurance provision	5	**85**	2,450
Underlying profit before tax		**2,193**	7,531

1. Market volatility and asset sales

Market volatility and asset sales of £59 million included favourable movements in banking volatility, primarily reflecting exchange rate and interest rate movements, partly offset by losses on liability management (2019 included a gain on establishment of the Schroders Personal Wealth joint venture as well as the one-off charge for exiting the Standard Life Aberdeen investment management agreement). Also included in 2020 was negative insurance and policyholder interests volatility, which is an addition to statutory profit before tax in the reconciliation above, totalling £222 million, driven mainly by falling equity markets, compared to positive volatility of £76 million in 2019.

Management believes that excluding volatility from underlying profit before tax provides useful information for investors on the performance of the business as it excludes amounts included within profit before tax which do not accrue to the Group's equity holders and excludes volatility relating to the Group's own debt and hedging arrangements and that arising in the insurance business.

Insurance and policyholder interests volatility comprises the following:

	2020 £m	2019 £m
Insurance volatility	**(220)**	230
Policyholder interests volatility	**(74)**	193
Insurance hedging arrangements	**72**	(347)
Total	**(222)**	76

The most significant limitations associated with excluding insurance volatility from the underlying basis results are:

(i) Insurance volatility requires an assumption to be made for the normalised return on equities and other investments; and

(ii) Insurance volatility impacts on the Group's regulatory capital position, even though it is not included within underlying profit before tax.

Management compensates for the limitations above by:

(i) Monitoring closely the assumptions used to calculate the normalised return used within the calculation of insurance volatility; these assumptions are disclosed below; and

(ii) Producing separate reports on the Group's current and forecast capital ratios.

Insurance volatility

The Group's insurance business has policyholder liabilities that are supported by substantial holdings of investments. IFRS requires that the changes in both the value of the liabilities and investments are reflected within the income statement. The value of the liabilities does not move exactly in line with changes in the value of the investments. As the investments are substantial, movements in their value can have a significant impact on the profitability of the Group. Management believes that it is appropriate to disclose the division's results on the basis of an expected return in addition to results based on the actual return. The impact of the actual return on these investments differing from the expected return is included within insurance volatility.

The expected gross investment returns used to determine the underlying profit of the business are based on prevailing market rates and published research into historical investment return differentials for the range of assets held. The basis for calculating these expected returns reflects an average of the 15 year swap rate over the preceding 12 months updated throughout the year to reflect changing market conditions. Insurance volatility movements in 2020 were largely driven by significant movements in global equity markets, credit spreads and interest rate movements. Although the Group manages its exposures to equity, interest rate, foreign currency exchange rate, inflation and market movements within the Insurance division, it does so by balancing the importance of managing the impacts on both capital and earnings volatility. For example, equity market movements are hedged within Insurance on a Solvency II capital basis and whilst this also reduces the IFRS earnings exposure to equity market movements, the hedge works to a lesser extent from an IFRS earnings perspective.

Policyholder interests volatility

The application of accounting standards results in the introduction of other sources of significant volatility into the pre-tax profits of the life, pensions and investments business. In order to provide a clearer representation of the performance of the business, and consistent with the way in which it is managed, adjustments are made to remove this volatility from underlying profits. The effect of these adjustments is separately disclosed as policyholder interests volatility.

Accounting standards require that tax on policyholder investment returns relating to life products should be included in the Group's tax charge rather than being offset against the related income. The result is, therefore, to either increase or decrease profit before tax with a related change in the tax charge. Timing and measurement differences exist between provisions for tax and charges made to policyholders. Consistent with the expected approach taken in respect of insurance volatility, differences in the expected levels of the policyholder tax provision and policyholder charges are adjusted through policyholder interests volatility. In 2020, the statutory results before tax included a charge to other income which relates to policyholder interests volatility totalling £74 million reflecting movements in equity, bond and gilt returns relating to life products.

Insurance hedging arrangements

The Group actively manages its exposures to interest rate, foreign currency exchange rate, inflation and market movements within the banking book through a comprehensive hedging strategy. This helps to mitigate earnings volatility and reduces the impact of market movements on the capital position.

2. Amortisation of purchased intangibles

The Group incurred a charge for the amortisation of intangible assets, principally those recognised on the acquisition of HBOS, of £69 million (2019: £68 million).

3. Restructuring costs

Restructuring costs were £521 million (2019: £471 million) and included severance costs, property transformation, technology research and development, regulatory programmes and merger, acquisition and integration costs.

4. Fair value unwind

The statutory results include the impact of the acquisition-related fair value adjustments, arising from the acquisition of HBOS and MBNA. In 2020 the principal financial effect of the fair value unwind is to reflect the effective interest rates applicable at the date of acquisition, on liabilities that were acquired at values that differed from their original book value.

5. Payment protection insurance (PPI) provision

The PPI charge of £85 million was recognised in the final quarter of the year ended 31 December 2020 was driven by the impact of coronavirus delaying operational activities during 2020, the final stages of work to ensure operational completeness and final validation of information requests and complaints with third parties that resulted in a limited number of additional complaints to be handled. Of the approximately six million enquiries received pre-deadline, more than 99 per cent have now been processed. A small part of the costs incurred during the year also reflect the costs associated with litigation activity to date. The unutilised provision at 31 December 2020 was £201 million.

DIVISIONAL RESULTS

RETAIL

Retail offers a broad range of financial service products to personal and business banking customers, including current accounts, savings, mortgages, credit cards, unsecured loans, motor finance and leasing solutions. Its aim is to be the preferred financial partner for personal customers, by building deep and enduring relationships that meet more of its customers' financial needs and improve their financial resilience throughout their lifetime, with personalised products and services that are increasingly relevant to them. Retail operates a multi-brand and multi-channel strategy. It continues to simplify its business and provide more transparent products, helping to improve service levels and reduce conduct risk, whilst working within a prudent risk appetite.

	2020	2019[1]
	£m	£m
Net interest income	**8,384**	9,184
Other income	**1,733**	2,019
Operating lease depreciation	**(856)**	(946)
Net income	**9,261**	10,257
Operating costs	**(4,761)**	(4,768)
Remediation	**(125)**	(238)
Total costs	**(4,886)**	(5,006)
Impairment	**(2,384)**	(1,038)
Underlying profit	**1,991**	4,213

1 Restated, as explained on page F-30.

Underlying profit reduced by £2,222 million, or 53 per cent, to £1,991 million in 2020 compared to £4,213 million in 2019.

Net interest income reduced by £800 million, or 9 per cent, to £8,384 million in 2020 compared to £9,184 million in 2019, reflecting the low rate environment, actions to support customers and lower unsecured balances with reduced levels of activity and demand during the pandemic.

Other income decreased £286 million, or 14 per cent, to £1,733 million in 2020 compared to £2,019 million in 2019, with reduced levels of customer activity and spending and the continued impact of a smaller Lex fleet size.

Operating lease depreciation decreased £90 million, or 10 per cent, to £856 million in 2020 compared to £946 million in 2019, reflecting a smaller Lex fleet size.

Operating expenses reduced by £7 million, to £4,761 million in 2020 compared to £4,768 million in 2019 as efficiency savings offset an increase in costs relating to response of the Covid pandemic.

Remediation costs decreased by £113 million, or 47 per cent to £125 million in 2020 compared to £238 million in 2019.

Impairment increased by £1,346 million to £2,384 million in 2020 compared to £1,038 million in 2019, primarily driven by the charge in the first half of the year reflecting a material deterioration in the economic outlook following the Covid pandemic.

COMMERCIAL BANKING

Commercial Banking has a client-led, low risk, capital efficient strategy and is committed to becoming the best bank for business. Through its segmented client coverage model, it provides clients with a range of products and services such as lending, transaction banking, working capital management, risk management and debt capital markets. Continued investment in capabilities and digital propositions will enable the business to build a leading digital SME proposition and a disciplined and strengthened Corporate and Institutional client franchise.

	2020	2019[1]
	£m	£m
Net interest income	**2,357**	2,892
Other income	**1,292**	1,417
Operating lease depreciation	**(28)**	(21)
Net income	**3,621**	4,288
Operating costs	**(1,851)**	(2,073)
Remediation	**(210)**	(155)
Total costs	**(2,061)**	(2,228)
Impairment	**(1,464)**	(306)
Underlying profit	**96**	1,754

1 Restated, as explained on page F-30.

Commercial Banking underlying profit decreased by £1,658 million, or 95 percent to £96 million in 2020 compared to £1,754 million in 2019 reflecting higher impairments and lower income partially offset by lower expenses.

Net interest income decreased by £535 million, or 18 per cent, to £2,357 million in 2020 compared to £2,892 million in 2019 with both the net interest margin and average interest earning assets being lower.

Other income decreased by £125 million to £1,292 million in 2020 compared to £1,417 million in 2019 primarily driven by lower transaction banking income as a consequence of coronavirus-related impacts on volumes.

Operating costs decreased by £222 million to £1,851 million in 2020 compared to £2,073 million in 2019 reflecting continued investment in efficiency initiatives.

Remediation costs increased by £55 million to £210 million in 2020 compared to £155 million in 2019.

Impairments increased by £1,158 million, to £1,464 million in 2020 compared to £306 million in 2019 reflecting a significant deterioration in the Group’s economic outlook, as well as a small number of single name charges.

INSURANCE AND WEALTH

Insurance and Wealth offers insurance, investment and wealth management products and services. It supports over 10 million customers with assets under administration of £172 billion and annualised annuity payments of over £1.1 billion. The Group continues to invest significantly in the development of the business, with the aims of capturing the considerable opportunities in pensions and financial planning, whilst meeting more of customers’ financial needs and improving their financial resilience throughout their lifetime.

	2020	2019[1]
	£m	£m
Net interest income	**49**	77
Other income	**1,250**	2,021
Net income	**1,299**	2,098
Operating costs	**(902)**	(982)
Remediation	**(50)**	(50)
Total costs	**(952)**	(1,032)
Impairment	**(9)**	–
Underlying profit	**338**	1,066

1 Restated, as explained on page F-30.

Underlying profit from Insurance and Wealth was £728 million, or 68 per cent lower at £338 million compared to £1,066 million in 2019 as a result of a decrease of £799 million in total income, an £80 million decrease in operating costs and an £9 million increase in impairment charge.

Net interest income decreased by £28 million, or 36 per cent, to £49 million from £77 million in 2019, reflecting the low rate environment.

Other income decreased by £771 million, or 38 per cent to £1,250 million from £2,021 million in 2019, reflecting movements described below.

Operating costs were £80 million lower, c. £60 million of which reflects the transfer of business to Schroders Personal Wealth in 2019.

INCOME BY PRODUCT GROUP

	2020			2019[1]		
	New business	**Existing business**	**Total**	New business	Existing business	Total
	£m	**£m**	**£m**	£m	£m	£m
Workplace, planning and retirement	**203**	**124**	**327**	387	120	507
Individual and bulk annuities	**166**	**84**	**250**	209	68	277
Protection	**16**	**21**	**37**	21	24	45
Longstanding LP&I	**9**	**346**	**355**	11	384	395
	394	**575**	**969**	628	596	1,224
Life and pensions experience and other items			**(195)**			220
General insurance			**309**			326
			1,083			1,770
Wealth			**216**			328
Net income			**1,299**			2,098

1 Restated, as explained on page F-30.

New business income has decreased by £234 million to £394 million, mainly due to the non-recurring 2019 benefit from auto-enrolment step-ups and reduced volumes in bulk annuities.

Existing business income has decreased by £21 million from £596 million to £575 million, due to negative impact of economics and legacy products run-off.

Experience and other items contributed a net negative impact of £195 million. This was £415 million lower than 2019, driven by lower non-recurring items and adverse assumption changes in 2020 (versus net positive in 2019). Current year assumption changes reflect the macroeconomic impacts of the pandemic such as redundancies and furlough; prior year included annuitant longevity benefit from updates to the industry standard model for the projection of future mortality rates. Changes in expense assumptions reflect lower in-year new business volumes impacting average per policy administration costs, reallocation of costs between business lines and future short-term committed expenditure on specific projects; 2019 included the benefit of the change in investment management provider.

General insurance income net of claims decreased, mainly due to storms in 2020.

Reduction in Wealth income reflects the transfer of business to Schroders Personal Wealth in 2019, and lower net interest income as a result of the lower rate environment.

OTHER

Other comprises Central items which includes income and expenditure not attributed to divisions, including residual net interest income after transfer pricing (including the central recovery of the Group's distributions on other equity instruments), in period gains from gilt sales and the unwind of associated hedging costs, as well as the Group's equities business, including Lloyds Development Capital.

	2020 **£m**	2019[1] £m
Net income	**223**	499
Operating costs	**(71)**	(52)
Remediation	**6**	(2)
Total costs	**(65)**	(54)
Impairment	**(390)**	53
Underlying (loss) profit	**(232)**	498

1 Restated, as explained on page F-30.

Other underlying loss was £232 million in 2020 compared to a profit of £498 million in 2019.

Net income, which includes the central recovery of the Group's distributions on other equity instruments and gains on the sale of gilts and other liquid assets, reduced by £276 million to £223 million compared to £499 million in 2019. During 2020, net income included a gain of £149 million on the sale of gilts and other liquid assets, compared with a £185 million gain on sale of such assets in 2019. The Group's equities business, including Lloyds Development Capital, contributed net income of £150 million compared to £223 million in the prior year. In addition, the net income comparative for 2019 included a gain of £50 million relating to the sale of the Group's interest in Vocalink.

Total costs were £11 million higher at £65 million in 2020 compared to £54 million in 2019 .

There was an impairment charge of £390 million compared to a release of £53 million in 2019. The impairment charge incurred in 2020 includes a £400 million central uncertainty overlay applied in respect of uncertainty in the economic outlook not captured within the modelled divisional ECL allowances. In 2019 impairment included releases relating to the reassessment of credit risk associated with debt instruments held within the Group's equity investment business.

RESULTS OF OPERATIONS – 2018

The Group's results for the year ended 31 December 2018, and a discussion of the results for the year ended 31 December 2019 compared to those for the year ended 31 December 2018, were included in the 2019 Form 20-F, filed on 25 February 2020.

AVERAGE BALANCE SHEET AND INTEREST INCOME AND EXPENSE

	2020			2019			2018		
	Average balance £m	**Interest income £m**	**Yield %**	Average balance £m	Interest income £m	Yield %	Average balance £m	Interest income £m	Yield %
Assets[1]									
Financial assets at amortised cost:									
Loans and advances to banks	**85,937**	**203**	**0.24**	65,504	514	0.78	67,609	565	0.84
Loans and advances to customers	**504,446**	**13,704**	**2.72**	497,574	15,790	3.17	476,149	15,078	3.17
Debt securities	**5,351**	**97**	**1.81**	5,464	122	2.23	4,129	66	1.60
Financial assets at fair value through other comprehensive income	**27,346**	**302**	**1.10**	26,461	435	1.64	32,334	640	1.98
Total interest-earning assets of banking book	**623,080**	**14,306**	**2.30**	595,003	16,861	2.83	580,221	16,349	2.82
Total interest-earning financial assets at fair value through profit or loss	**71,772**	**1,366**	**1.90**	72,457	1,637	2.26	83,887	1,758	2.10
Total interest-earning assets	**694,852**	**15,672**	**2.26**	667,460	18,498	2.77	664,108	18,107	2.73
Allowance for impairment losses on financial assets held at amortised cost	**(5,499)**			(3,468)			(3,074)		
Non-interest earning assets	**177,062**			167,480			157,026		
Total average assets and interest income	**866,415**	**15,672**	**1.81**	831,472	18,498	2.22	818,060	18,107	2.21

1 The line items below are included on the face of the Group's balance sheet.

	2020			2019			2018		
	Average interest earning assets £m	**Net interest income £m**	**Net interest margin %**	Average interest earning assets £m	Net interest income £m	Net interest margin %	Average interest earning assets £m	Net interest income £m	Net interest margin %
Average interest-earning assets and net interest income:									
Banking business	**623,080**	**10,749**	**1.73**	595,003	10,180	1.71	580,221	13,396	2.31
Trading securities and other financial assets at fair value through profit or loss	**71,772**	**1,168**	**1.63**	72,457	1,356	1.87	83,887	1,191	1.42
	694,852	**11,917**	**1.72**	667,460	11,536	1.73	664,108	14,587	2.20

	2020			2019			2018		
	Average balance £m	**Interest expense £m**	**Cost %**	Average balance £m	Interest expense £m	Cost %	Average balance £m	Interest expense £m	Cost %
Liabilities and shareholders' funds[1]									
Deposits by banks	**13,412**	**113**	**0.84**	11,164	96	0.86	8,405	117	1.39
Customer deposits	**341,318**	**1,091**	**0.32**	341,254	2,015	0.59	342,929	1,812	0.53
Liabilities to banks and customers under sale and repurchase agreements	**32,170**	**117**	**0.36**	26,905	301	1.12	25,634	245	0.96
Debt securities in issue[2]	**95,745**	**1,313**	**1.37**	97,456	1,204	1.24	86,099	234	0.27
Lease liabilities	**1,717**	**41**	**2.39**	1,684	42	2.49	41	1	2.46
Unitholders' interest in consolidated Open Ended Investment Companies	**11,056**	**(175)**	**(1.58)**	13,352	1,822	13.65	13,915	(844)	(6.07)
Subordinated liabilities	**16,811**	**1,057**	**6.29**	17,682	1,201	6.79	18,193	1,388	7.63
Total interest-bearing liabilities of banking book	**512,229**	**3,557**	**0.69**	509,497	6,681	1.31	495,216	2,953	0.60
Total interest-bearing liabilities of trading book	**21,706**	**198**	**0.91**	26,101	281	1.08	44,101	567	1.29
Total interest-bearing liabilities	**533,935**	**3,755**	**0.70**	535,598	6,962	1.30	539,317	3,520	0.65
Interest-free liabilities									
Non-interest bearing customer accounts	**96,516**			74,906			72,913		
Other interest-free liabilities	**186,455**			171,611			157,072		
Non-controlling interests, other equity instruments and shareholders' funds	**49,511**			49,357			48,758		
Total average liabilities and interest expense	**866,417**	**3,755**	**0.43**	831,472	6,962	0.84	818,060	3,520	0.43

1 The line items below are included on the face of the Group's balance sheet except for liabilities to banks and customers under sale and repurchase agreements, which are disclosed in note 48; and lease liabilities and unitholders' interest in consolidated Open-Ended Investment Companies which are disclosed in note 33.

2 The impact of the Group's hedging arrangements is included on this line; excluding this impact the weighted average effective interest rate in respect of debt securities in issue would be 2.28 per cent (2019: 2.57 per cent; 2018: 2.68 per cent).

Average balances are based on daily averages for the principal areas of the Group's banking activities with monthly or less frequent averages used elsewhere. Management believes that the interest rate trends are substantially the same as they would be if all balances were averaged on the same basis.

The Group's operations are predominantly UK-based and as a result an analysis between domestic and foreign operations is not provided.

CHANGES IN NET INTEREST INCOME – VOLUME AND RATE ANALYSIS

The following table allocates changes in net interest income between volume, rate and their combined impact for 2020 compared with 2019 and for 2019 compared with 2018.

	2020 compared with 2019 increase/(decrease)				2019 compared with 2018 increase/(decrease)			
	Total change £m	**Change in volume £m**	**Change in rates £m**	**Change in rates and volume £m**	Total change £m	Change in volume £m	Change in rates £m	Change in rates and volume £m
Interest income								
At amortised cost:								
Loans and advances to banks	**(311)**	**160**	**(359)**	**(112)**	(51)	(18)	(34)	1
Loans and advances to customers	**(2,086)**	**218**	**(2,273)**	**(31)**	712	679	32	1
Debt securities	**(25)**	**(3)**	**(23)**	**1**	56	21	27	8
Financial assets at fair value through other comprehensive income	**(133)**	**15**	**(143)**	**(5)**	(205)	(117)	(108)	20
Total banking book interest income	**(2,555)**	**390**	**(2,798)**	**(147)**	512	565	(83)	30
Total interest income on financial assets at fair value through profit or loss	**(271)**	**(16)**	**(257)**	**2**	(121)	(239)	137	(19)
Total interest income	**(2,826)**	**374**	**(3,055)**	**(145)**	391	326	54	11
Interest expense								
Deposits by banks	**17**	**19**	**(2)**	**—**	(21)	38	(44)	(15)
Customer deposits	**(924)**	**—**	**(924)**	**—**	203	(9)	213	(1)
Liabilities to banks and customers under sale and repurchase agreements	**(184)**	**59**	**(203)**	**(40)**	56	12	42	2
Debt securities in issue	**109**	**(21)**	**132**	**(2)**	970	31	830	109
Lease liabilities	**(1)**	**1**	**(2)**	**—**	41	40	—	1
Amounts payable to unitholders in consolidated Open-Ended Investment Companies	**(1,997)**	**(313)**	**(2,034)**	**350**	2,666	34	2,743	(111)
Subordinated liabilities	**(144)**	**(59)**	**(89)**	**4**	(187)	(39)	(152)	4
Total banking book interest expense	**(3,124)**	**(314)**	**(3,122)**	**312**	3,728	107	3,632	(11)
Total interest expense on trading and other liabilities at fair value through profit or loss	**(83)**	**(47)**	**(43)**	**7**	(286)	(232)	(92)	38
Total interest expense	**(3,207)**	**(361)**	**(3,165)**	**319**	3,442	(125)	3,540	27

RISK OVERVIEW

EFFECTIVE RISK MANAGEMENT AND CONTROL

Our approach to risk

Risk management is at the heart of Helping Britain Recover and building the UK's preferred financial partner.

Our mission is to protect our customers, colleagues, the Group, investors and society, while enabling sustainable growth. This is achieved through informed risk decision-making and robust risk management, supported by a consistent risk-focused culture.

A prudent approach to risk is fundamental to our business model and drives our participation choices.

The risk management section from pages 42 to 51 provides an in-depth picture of how risk is managed within the Group, including the approach to stress testing, risk governance, committee structure, risk appetite and detailed analysis of the principal risk categories, the framework by which risks are identified, managed, mitigated and monitored.

Our enterprise risk management framework

Risks are identified, managed, mitigated and monitored using our comprehensive enterprise risk management framework. This is the foundation for the delivery of effective risk control.

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

The Board is responsible for approving the Group's risk appetite statement annually. Board-level metrics are cascaded into more detailed business appetite metrics and limits. Regular close monitoring and comprehensive reporting to all levels of management and the Board ensures appetite limits are maintained and subject to stress analysis at a risk type and portfolio level, as appropriate.

Governance is maintained through delegation of authority from the Board down to individuals. Senior executives are supported by a committee based structure which is designed to ensure open challenge and enable effective decision making. More information on our Risk committees can be found on pages 49 to 50.

Simplified approach to managing risks

Over the course of the year, there has been a strong focus on simplifying and enhancing the enterprise risk management framework. A One Risk and Control Self-Assessment (One RCSA) approach to managing risks across the Group has been adopted, which supports the proactive identification of risks to customers and the Group’s business objectives, as well as enabling a strong control framework. More information on One RCSA is available on page 43.

Risk culture and the customer

A transparent risk culture resonates across the organisation and is supported by the Board and its tone from the top.

Risk management requires all colleagues to play their part, with individuals taking responsibility for their actions.

Within our approach there is a strong focus on building and sustaining long-term relationships with customers through the economic cycle.

Senior Management articulate the core risk values to which the Group aspires, based on the Group's conservative business model, prudent approach to risk management and the Board's guidance.

As a Group, we are open, honest and transparent with colleagues working in collaboration with business areas to:

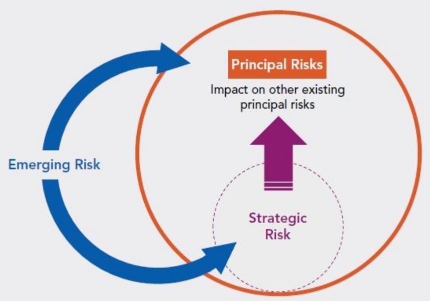
- support effective risk management and provide constructive challenge
- share lessons learned and understand root causes when things go wrong
- consider horizon risks and opportunities

Connectivity of risks and our strategic risk management framework

The unprecedented events of this year have demonstrated how individual risks in aggregate can place significant pressure on the Group's strategy, business model and performance. It is essential that we not only manage our individual risks, but understand how emerging and strategic risks are connected, and how they impact either existing principal risks or create new risks. By doing so we can ensure we continue to respond dynamically and protect our customers and support our colleagues and stakeholders.

Connectivity of risks is very much at the forefront of the Group’s thinking and additional work is being launched in 2021 to further embed this into our risk management framework.

Connectivity of risks: The impact of emerging and strategic risks on the Group's principal risks



Principal Risks
The Board-approved enterprise-wide risk categories used to monitor and report the risk exposures posing the greatest impact to the Group.

Emerging Risk
A future internal or external event or trend, which could have a material positive or adverse impact on the Group and our customers, but where the probability, timescale and/or materiality may be difficult to accurately assess.

Strategic Risk
A principal risk arising from:
- A failure to understand the potential impact of strategic responses on existing risk types
- Incorrect assumptions about internal or external operating environments
- Inappropriate strategic responses and business plans

Principal risks

2020 has been a year of significant uncertainty, including the spread of COVID-19 and its impact on global and domestic economies and the UK's exit from the European Union.

COVID-19 has had a significant impact on all risk types in 2020. Understanding and managing its impacts dynamically has been a major area of focus. The Group has responded quickly to the challenges faced, putting in place risk mitigation strategies and refining its investment and strategic plans.

All of the Group's principal risks, which are outlined on this page, are reported regularly to the Board.

The risk management section from pages 42 to 51 provides a more in-depth picture of how risk is managed within the Group.

Key focus areas in 2020

Climate - New
The Group recognises the evolving pace of Climate Risk and has adopted a comprehensive approach to embedding this risk within its enterprise risk management framework. This includes the creation of a new principal risk as well as its integration into our existing principal risks. Work has also continued to develop scenario modelling and other analytical tools and to increase the level of external disclosure to further align to the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.

Market
The Group’s structural hedge, nominal balance £186 billion (2019: £179 billion), provides protection against margin compression caused by falling interest rates. In addition, customer deposits have seen significant growth in 2020 which creates near term interest rate exposure. Customer behaviour and hedging of these balances are reviewed regularly.

The Group’s defined benefit pension schemes have seen an improvement in IAS19 accounting surplus to £1.6 billion (2019: £0.5 billion), as a result of Deficit Reduction Contributions and greater than expected asset returns partially offset by the impact of the Retail Price Index (RPI) reform announced by the Chancellor of the Exchequer in November 2020.

Credit
A range of measures have been deployed to help support customers, including around 1.3 million payment holidays, c.£12 billion of additional government support scheme lending through the Bounce Back Loan (BBLS) and Coronavirus Business Interruption Loan (CBILS) schemes, together with liquidity facilities for larger clients.

This support together with the wide array of public policy interventions, such as the job retention scheme, has limited the increase in unemployment, and helped to suppress credit defaults and business failures.

The Group has responded dynamically to mitigate and address credit risk, with specific focus on higher risk segments, sectors and counterparties, as well as undertaking extensive preparation to support the expected increase in customers who may experience financial difficulty.

The 2020 full year impairment charge of £4,155 million (2019: £1,296 million) reflects the deteriorating economic outlook, with reserves built in anticipation of an increase in losses during 2021 as unemployment increases and more business failures are seen.

Funding and liquidity
The Group maintained its strong funding and liquidity position throughout 2020, with the loan to deposit ratio decreasing to 98 per cent (2019: 107 per cent). Customer deposits increased significantly as spending reduced and customers deposited government lending scheme balances. During the year, the Group repaid all outstanding amounts of its Term Funding Scheme (TFS) and Funding for Lending Scheme (FLS) drawings and drew £13.7 billion from the Term Funding Scheme with additional incentives for SMEs (TFSME).

Total wholesale funding reduced by £14.8 billion principally as a result of the growth in customer deposits.

Capital
Underlying capital build was adversely impacted in 2020, mainly due to a significant uplift in impairment provisions, however the year-end capital position is significantly strengthened due to the earlier reversal of the 2019 full year ordinary dividend accrual and enhanced IFRS 9 transitional relief, which partially offset the increase in impairment provisions. Closing CET1 ratio of 16.2[1] per cent (15.0[1] per cent excluding transitional relief).

The Group’s capital requirements have reduced in 2020 due to lower Pillar 2A requirements and the reduction in the UK countercyclical capital buffer rate in response to the impact of COVID-19. The Group therefore has significant headroom to absorb further potential losses and to continue to support households and businesses as they recover from the COVID-19 pandemic.

Insurance underwriting
Lower market activity as a result of the pandemic and noting the one-off 2019 benefit from workplace auto-enrolment step-ups, saw Life and Pensions present value of new business premium fall to £14.5 billion in 2020 (2019: £17.5 billion). Near term underwriting risk increased, reflecting policyholder behaviour on workplace savings products. Significant amounts of life and morbidity risk continued to be re-insured. No material change to General Insurance underwriting risk in 2020, with total gross written premium falling slightly to £662 million (2019: £671 million), due to the reduction in branch footfall.

Change/execution
The Change/execution risk profile has remained stable in the year. The Group’s change portfolio was reprioritised at pace to support critical and COVID-19 related activities. Enhanced, targeted control monitoring was implemented to ensure safe delivery of change during the year.

Conduct
The Group has adapted quickly to the impacts of the pandemic, providing significant support to impacted customers. Comprehensive preparations have been undertaken to help identify and further support those customers in financial difficulty.

Data
The Group continues to improve its capabilities in the management of data risk, with an improvement seen in the regular half yearly capability assessment. Areas of improvement include delivery of a new data risk and control library, embedding data by design and ethics principles into the data science lifecycle, increasing capabilities and broader awareness.

Governance
Governance risk has remained stable, despite the need for accelerated decision-making and a significant increase in the amount of remote working, together with a number changes to GEC and Board members throughout the year. Ensuring appropriate and efficient governance remains a key priority.

People
2020 has seen increased colleague workloads and significant changes to ways of working, with up to 50,000 colleagues working from home. Improved colleague sentiment demonstrates that the extensive support measures deployed by the Group, with a continued focus on colleague wellbeing and resilience, are helping to mitigate these risks.

Operational resilience
Business continuity plans have proved resilient, with particular attention applied to heightened risks in the supply chain.

Operational
Despite anticipated heightened operational risks in cyber, fraud and technology, the volume of operational loss events has remained broadly consistent in 2020 compared to 2019.

Model
Model risk has increased due to the nature and uncertainty of the economic outlook. The effect of government led customer support initiatives have weakened established relationships between model inputs and outputs, reducing the ability to forecast using models alone. While underlying model drivers are expected to remain valid in the longer term, year-end impairment reporting contains a greater element of governed judgement to reflect current conditions.

Regulatory and legal
Regulatory risk has been impacted by a small number of instances of non-compliance, requiring forbearance from regulators. Forbearance requirements have been due to the re-prioritisation of resource to support the provision of essential services to customers and to respond to new regulatory

requirements, such as payment holidays. Legal risk has been impacted by the UK’s exit from the EU, in particular continued uncertainty of the future UK legal and regulatory financial services framework.

Strategic

Strategic risk is a significant source of risk for the Group, influencing the Group’s strategy, business model, performance and risk profile. The development of our strategic risk framework is a key priority for the Group.

Significant work has been undertaken during 2020 to understand the risk implications of the Group’s strategy and the key drivers of strategic risk. These are outlined in more detail on the following pages and will be further developed and embedded across the Group during 2021.

1 Includes a 0.5 per cent benefit following the implementation of the revised capital treatment of intangible software assets which the PRA is proposing to reverse.

Emerging risks

In addition to the principal risks, the Group takes a proactive approach to horizon scanning and assessing the potential impact of an existing or future trend which could have a material impact on the Group, where the probability, timescale and/or materiality may be difficult to accurately assess.

The Board Risk Committee approved the Group's enhanced definition for emerging risks in October 2020.

Internal working groups have been established to regularly scan the horizon and identify emerging risks. In addition the working groups have sought to analyse the impact of material events, such as COVID-19, on those trends and assess whether those have accelerated the impact of existing risks on our customers, colleagues and wider stakeholders.

The key areas of focus in 2020 are broadly unchanged from 2019. In addition, three themes have been magnified and exacerbated as a result of the pandemic:

- **Technology:** Which considers the long-term technology changes disrupting the industry, the emergence of new technology driven business models, and the likely impact of technology change on our customers.
- **Societal expectations:** Which reflects the expectations of the role the Group can play in supporting society across a range of issues such as housing, environmental sustainability and helping customers in financial difficulty.
- **People, ways of working and skills:** Trends include the significant acceleration in remote working due to COVID-19 and higher demand for workers with digital and analytical skills.

Some emerging risks, such as data, have materialised and are recognised by the Group as principal risks. However, with risks continuing to evolve there will be important aspects of these risks that will need to continue to be captured through our emerging risk framework.

The emerging risks that the Group have monitored during 2020 are outlined in more detail in pages 45 to 47 of the risk management section.

Risk view of key strategic themes

The Group's strategy plays an important role in managing our strategic risks, responding to the priorities identified by the Board, and transforming our capabilities to deliver on these priorities. Some of the key themes from our strategy represent new opportunities, while also posing corresponding risks that need to be understood.

In 2020, the Group undertook an initiative to enhance our framework and approach for identifying and understanding our strategic risks, with particular focus on the connectivity of risks.

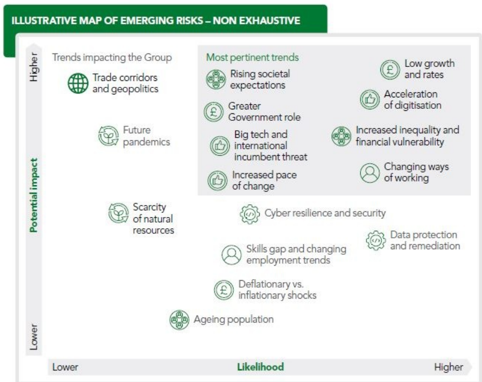
Our understanding of the relationship and impact amongst emerging risks, strategic responses and principal risks played a key role in the development of our strategy. This was supplemented with engagement across the Group's businesses and functions, to establish a strong understanding of the Group's strategic challenges.

In line with the Group's strategy to gain greater organisational value from data and advanced analytics, we are also developing a quantitative approach to further strengthen our strategic risk management framework.

The health of the UK economy and the financial health and wellbeing of our customers are core influences on the Group's principal and strategic risks. We are therefore committed to Helping Britain Prosper and placing this purpose at the heart of our strategy.

We are well-positioned to respond to potential challenges posed by increased customer financial vulnerability and societal disparity, ensuring our proposition resonates with evolving customer needs. Significant investment is planned to reimagine our customer offerings. Transforming our technology architecture, appropriately and securely using data science and upskilling our colleagues, we aim to deliver a holistic proposition, together with an excellent customer experience.

The Group's strategy aims to support a more sustainable future, while diversifying our income streams. The Group is working hard to ensure that our purpose, commitment to Helping Britain Prosper and delivery are harmonious with the expectations of our colleagues, customers and other key stakeholders, all the while adapting to changing societal expectations and customer and colleague preferences.



Emerging risks are assessed through an impact/likelihood matrix whereby the most pertinent trends are considered when shaping and refreshing our major strategic priorities and responses.

Key emerging risks are outlined in more detail in pages 45 to 47 of the risk management section.

Strategic risk

Understanding the potential risk implications of our strategy is an important area of focus. The key strategic risk drivers outlined below have been assessed as part of the development of our strategic themes and objectives.

Strategic risk drivers	Potential risk implications	Strategy and Mitigation	Strategic risk impacts
Implications of COVID-19 and our responses • Acceleration of underlying growth in economic and societal disparity • Customer and colleague resilience heading into longer term uncertain future • Impact of prolonged remote working	• Misalignment of customer proposition, product and service offerings • Potential failure to address customers' personal and financial resilience needs • Adverse impacts on productivity, creativity, customer treatment, colleague wellbeing and data security	HBR	
Sustainability initiatives responding to societal and government expectations • Desire to establish and build market share in sustainable sectors • Impact of evolving regulatory requirements • Shifting consumer and colleague expectations	• Calibration of risk appetite, pricing and model approach to achieve external commitments • Risk arising from participation choices in respect of green economy and sustainability • Recruitment and retention of customers and colleagues dependent on the Group's response to evolving societal expectations	HBR	
Implications of low long-term economic growth • Structural challenge for Group's business model and revenue streams due to low growth and low or negative interest rates	• Risk of disrupting traditional banking models, creating unfavourable customer responses • Inability to sufficiently diversify income streams to mitigate the challenges of a low growth environment		
Legacy systems and ageing technology • Managing through ageing platforms • Complex and inefficient technology architecture and systems	• Increased risk of outages and system failure impacting operational resilience risk, and inability to respond in an agile, efficient manner to growing threats from modern competitors • Greater costs and operational risks due to duplication or complexity of infrastructure and processes and the need to retain legacy skills		
Evolving challenges amid backdrop of digitisation and pace of change • Changing consumer behaviour, with customer expectations increasingly shaped by their experiences elsewhere • Larger and more diverse threat landscape • Skills requirements in response to changing environment	• Failure to keep pace with peers and competitors poses potential for loss of income • Greater volumes of data at risk, with more challenging control environment • Evolution of colleague skills to deliver and maintain new systems, processes and transitioning to the cloud		

RISK MANAGEMENT

Risk management is at the heart of Helping Britain Recover and building the UK's preferred financial partner.

Our mission is to protect our customers, shareholders, colleagues and the Group, while enabling sustainable growth in targeted segments. This is achieved through informed risk decisions and robust risk management, supported by a consistent risk-focused culture.

The risk overview (pages 37 to 41) provides a summary of risk management within the Group and the key focus areas for 2020, including the significant impact that COVID-19 has had on all principal risks faced by the Group. The risk overview also highlights the importance of the connectivity of principal, emerging and strategic risks and how they are embedded in to the Group's strategic risk management framework.

This full risk management section provides a more in-depth picture of how risk is managed within the Group, detailing the Group's emerging risks, approach to stress testing, risk governance, committee structure, appetite for risk and a full analysis of the principal risk categories (pages 51 to 99), the framework by which risks are identified, managed, mitigated and monitored.

Each principal risk category is described and managed using the following standard headings: definition, exposures, measurement, mitigation and monitoring.

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).

The Group's ERMF is structured to align with the industry-accepted internal control framework standards.

The ERMF applies to every area of the business and covers all types of risk. It is reviewed, updated and approved by the Board at least annually to reflect any changes in the nature of the Group's business and external regulations, law, corporate governance and industry best practice. The ERMF provides the Group with an effective mechanism for developing and embedding risk policies and risk management strategies which are aligned with the risks faced by its businesses. It also seeks to facilitate effective communication on these matters across the Group.

ROLE OF THE BOARD AND SENIOR MANAGEMENT

Key responsibilities of the Board and senior management include:

- approval of the ERMF and Board risk appetite
- approval of Group-wide risk principles and policies
- the cascade of delegated authority (for example to Board sub-committees and the Group Chief Executive)
- effective oversight of risk management consistent with risk appetite

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.

Group risk appetite includes the following areas:

Climate: the Group takes action to identify, manage and mitigate its climate risk and support the Group and its customers in transitioning to a low carbon economy

Market: the Group has robust controls in place to manage its inherent market risk and does not engage in any proprietary trading, reflecting the customer focused nature of the Group's activities

Credit: the Group has a conservative and well balanced credit portfolio through the economic cycle, generating an appropriate return on equity, in line with the Group's target return on equity in aggregate

Funding and liquidity: the Group maintains a prudent liquidity profile and a balance sheet structure that limits its reliance on potentially volatile sources of funding

Capital: the Group maintains capital levels commensurate with a prudent level of solvency to achieve financial resilience and market confidence

Change/execution: the Group has limited appetite for negative impacts on customers, colleagues, or the Group as a result of change activity

Conduct: the Group delivers fair outcomes for its customers

Data: the Group has zero appetite for material regulatory breaches and material legal incidents

People: the Group leads responsibly and proficiently, manages people resource effectively, supports and develops colleague talent, and meets legal and regulatory obligations related to its people

Operational resilience: the Group has a limited appetite for disruption to services to customers and stakeholders from significant unexpected events

Operational: the Group has robust controls in place to manage operational losses, reputational events and regulatory breaches. It identifies and assesses emerging risks and acts to mitigate these

Model: material models are performing in line with expectations

Regulatory and legal: the Group interprets and complies with all relevant regulation and all applicable laws (including codes of conduct which could have legal implications) and/or legal obligations

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.

The risk committee governance framework is outlined on page 48.

THREE LINES OF DEFENCE MODEL

The ERMF is implemented through a 'three lines of defence' model which defines clear responsibilities and accountabilities and ensures effective independent oversight and assurance activities take place covering key decisions.

Business lines (first line) have primary responsibility for risk decisions, identifying, measuring, monitoring and controlling risks within their areas of accountability. They are required to establish effective governance and control frameworks for their business to be compliant with Group policy requirements, to maintain appropriate risk management skills, mechanisms and toolkits, and to act within Group risk appetite parameters set and approved by the Board.

Risk division (second line) is a centralised function, headed by the Chief Risk Officer, providing oversight and independent constructive challenge to the effectiveness of risk decisions taken by business management, providing proactive advice and guidance, reviewing, challenging and reporting on the risk profile of the Group and ensuring that mitigating actions are appropriate.

It also has a key role in promoting the implementation of a strategic approach to risk management reflecting the risk appetite and ERMF agreed by the Board that encompasses:

- overseeing embedding of effective risk management processes
- transparent, focused risk monitoring and reporting
- provision of expert and high quality advice and guidance to the Board, executives and management on strategic issues and horizon scanning, including pending regulatory changes
- a constructive dialogue with the first line through provision of advice, development of common methodologies, understanding, education, training, and development of new risk management tools

The primary role of Group Internal Audit (third line) is to help the Board and executive management protect the assets, reputation and sustainability of the Group. Group Internal Audit is led by the Group Chief Internal Auditor. Group Internal Audit provides independent assurance to the Audit Committee and the Board through performing reviews and engaging with committees and executive management, providing opinion, challenge and informal advice on risk and the state of the control environment. Group Internal Audit is a single independent internal audit function, reporting to the Audit Committee of the Group and the Audit Committees of the key subsidiaries.

RISK AND CONTROL CYCLE FROM IDENTIFICATION TO REPORTING

To allow senior management to make informed risk decisions, the business follows a continuous risk management approach which includes producing appropriate, accurate and focused risk reporting. The risk and control cycle sets out how this should be approached, with the appropriate controls and processes in place. This cycle, from identification to reporting, ensures consistency and is intended to manage and mitigate the risks impacting the Group.

The process for risk identification, measurement and control is integrated into the overall framework for risk governance. Risk identification processes are forward-looking to ensure emerging risks are identified. Risks are captured and measured using robust and consistent quantification methodologies. The measurement of risks includes the application of stress testing and scenario analysis, and considers whether relevant controls are in place before risks are incurred.

Identified risks are reported on a monthly basis or as frequently as necessary to the appropriate committee. The extent of the risk is compared to the overall risk appetite as well as specific limits or triggers. When thresholds are breached, committee minutes are clear on the actions and time frames required to resolve the breach and bring risk within tolerances. There is a clear process for escalation of risks and risk events.

All key controls are recorded and assessed on a regular basis, in response to triggers or minimum annually. Control assessments consider both the adequacy of the design and operating effectiveness. Where a control is not effective, the root cause is established and action plans implemented to improve control design or performance. Control Effectiveness against all residual risks is reported and monitored via the monthly Consolidated Risk Report (CRR). The CRR is reviewed and independently challenged by the Risk Division and provided to the Risk Division Executive Committee and Group Risk Committee. On an annual basis, a point in time assessment is made for control effectiveness against each risk category and across sub-groups. The CRR data is the primary source used for this point in time assessment and a year on year comparison on control effectiveness is reported to the Board.

One Risk and Control Self-Assessment (One RCSA) is part of the Group's Risk and Control Strategy to deliver a stronger risk culture and simplified risk and control environment. The three lines of defence have worked together to identify improvements to the Group's approach to risk management. Following pilot activity, this new approach (One RCSA) is being adopted across the Group through a phased implemented plan. All aspects of the 2020 Plan for implementation of One RCSA have been delivered. The 2021 plans capture the remaining highest risks to customers and the business, and the Board will continue to review progress with embedding the cultural change and improving the risk and control environment.

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.