Lloyds Bank Group

Q1 2019 Interim Pillar 3 Report

2 May 2019

BASIS OF PRESENTATION

On 1 January 2019 the UK implemented its ring-fencing regime requiring banks to legally separate core retail banking activity from more sophisticated banking activities. In order to comply with the legislation, Lloyds Banking Group undertook a group-wide restructuring programme to create the ring-fenced banking group. This report presents the consolidated interim Pillar 3 disclosures for Lloyds Bank Group plc ('the Group' or 'the ring-fenced banking group').

The disclosures have been prepared in accordance with the European Banking Authority's revised guidelines:

- on materiality,proprietary and confidentiality and on disclosure frequency;
- on Pillar 3 disclosure formats and frequency that were published in December 2016 and;
- on uniform disclosures regarding the transitional period for mitigating the impact of the introduction of IFRS 9 on own funds that were published in January 2018.

In addition to summary capital and leverage disclosures, the guidelines require specific templates to be disclosed on a quarterly basis and these are included within this report with the following exceptions:

- Disclosures required by Template CR8 (RWA flow statements of credit risk exposures under the IRB approach) have been covered through the analysis of risk-weighted asset movements by key driver.
- Template CCR7 (RWA flow statements of CCR exposures under the IMM) is not applicable to the Lloyds Bank Group.
- Template MR2-B (RWA flow statements of market risk exposures under the IMA) has been omitted on the grounds of materiality.

The information presented in this Pillar 3 report is not required to be, and has not been, subject to external audit.

Capital and leverage ratios reported as at 31 March 2019 incorporate profits for the quarter, less foreseeable dividends, that remain subject to formal verification in accordance with the Capital Requirements Regulation (CRR).

FORWARD LOOKING STATEMENTS

This report contains certain forward looking statements with respect to the business, strategy, plans and/or results of the Lloyds Bank Group and its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about the Lloyds Bank Group's or its directors' and/or management's beliefs and expectations, are forward looking statements. Words such as 'believes', 'anticipates', 'estimates', 'expects', 'intends', 'aims', 'potential', 'will', 'would', 'could', 'considered', 'likely', 'estimate' and variations of these words and similar future or conditional expressions are intended to identify forward looking statements but are not the exclusive means of identifying such statements. 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. Examples of such forward looking statements include, but are not limited to: projections or expectations of the Lloyds Bank Group's future financial position including profit attributable to shareholders, provisions, economic profit, dividends, capital structure, portfolios, net interest margin, capital ratios, liquidity, risk-weighted assets (RWAs), expenditures or any other financial items or ratios; litigation, regulatory and governmental investigations; the Lloyds Bank Group's future financial performance; the level and extent of future impairments and write-downs; statements of plans, objectives or goals of the Lloyds Bank Group or its management including in respect of statements about the future business and economic environments in the UK and elsewhere including, but not limited to, future trends in interest rates, foreign exchange rates, credit and equity market levels and demographic developments; statements about competition, regulation, disposals and consolidation or technological developments in the financial services industry; and statements of assumptions underlying such statements. Factors that could cause actual business, strategy, plans and/or results (including but not limited to the payment of dividends) to differ materially from forward looking statements made by the Lloyds Bank Group or on its behalf include, but are not limited to: general economic and business conditions in the UK and internationally; market related trends and developments; fluctuations in interest rates, inflation, exchange rates, stock markets and currencies; the ability to access sufficient sources of capital, liquidity and funding when required; changes to the Lloyds Bank Group's or Lloyds Banking Group plc's credit ratings; the ability to derive cost savings and other benefits including, but without limitation as a result of any acquisitions, disposals and other strategic transactions; changing customer behaviour including consumer spending, saving and borrowing habits; changes to borrower or counterparty credit quality; instability in the global financial markets, including Eurozone instability, instability as a result of the exit by the UK from the European Union (EU) 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; technological changes and risks to the security of IT and operational infrastructure, systems, data and information resulting from increased threat of cyber and other attacks; natural, pandemic and other disasters, adverse weather and similar contingencies outside the Lloyds Bank Group's or Lloyds Banking Group plc's control; inadequate or failed internal or external processes or systems; acts of war, other acts of hostility, terrorist acts and responses to those acts, geopolitical, pandemic or other such events; changes in laws, regulations, accounting standards or taxation, including as a result of the exit by the UK from the EU, or a further possible referendum on Scottish independence; changes to regulatory capital or liquidity requirements and similar contingencies outside the Lloyds Bank Group's or Lloyds Banking Group plc's control; the policies, decisions and actions of governmental or regulatory authorities or courts in the UK, the EU, the US or elsewhere including the implementation and interpretation of key legislation and regulation together with any resulting impact on the future structure of the Lloyds Bank Group; the ability to attract and retain senior management and other employees and meet its diversity objectives; actions or omissions by the Lloyds Bank Group's directors, management or employees including industrial action; changes to the Lloyds Bank Group's post-retirement defined benefit scheme obligations; the extent of any future impairment charges or write-downs caused by, but not limited to, depressed asset valuations, market disruptions and illiquid markets; the value and effectiveness of any credit protection purchased by the Lloyds Bank Group; the inability to hedge certain risks economically; the adequacy of loss reserves; the actions of competitors, including non-bank financial services, lending companies and digital innovators and disruptive technologies; and exposure to regulatory or competition scrutiny, legal, regulatory or competition proceedings, investigations or complaints. Please refer to the latest Annual Report on Form 20-F filed by Lloyds Banking Group plc with the US Securities and Exchange Commission for a discussion of certain factors together with examples of forward looking statements.

Lloyds Banking Group may also make or disclose written and/or oral forward looking statements in reports filed with or furnished to the US Securities and Exchange Commission, Lloyds Banking Group annual reviews, half-year announcements, proxy statements, offering circulars, prospectuses, press releases and other written materials and in oral statements made by the directors, officers or employees of Lloyds Banking Group to third parties, including financial analysts. Except as required by any applicable law or regulation, the forward looking statements contained in this report are made as of the date hereof, and Lloyds Bank Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statements contained in this report to reflect any change in the Lloyds Bank Group's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. The information, statements and opinions contained in this report 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.

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]

	Q1 2019[2]	Q4 2018
Available capital (amounts)		
Common Equity Tier 1 (CET1) (£m)	**25,611**	26,060
CET1 capital as if IFRS 9 transitional arrangements had not been applied (£m)	**25,150**	25,541
Tier 1 (£m)	**30,868**	31,997
Tier 1 capital as if IFRS 9 transitional arrangements had not been applied (£m)	**30,407**	31,478
Total capital (£m)	**37,044**	39,084
Total capital as if IFRS 9 transitional arrangements had not been applied (£m)	**37,063**	39,101
Risk-weighted assets (amounts)		
Total risk-weighted assets (£m)	**176,261**	174,391
Total risk-weighted assets as if IFRS 9 transitional arrangements had not been applied (£m)	**176,618**	174,780
Risk-based capital ratios as a percentage of RWA		
Common Equity Tier 1 ratio (%)	**14.5%**	14.9%
CET1 ratio as if IFRS 9 transitional arrangements had not been applied (%)	**14.2%**	14.6%
Tier 1 ratio (%)	**17.5%**	18.3%
Tier 1 ratio as if IFRS 9 transitional arrangements had not been applied (%)	**17.2%**	18.0%
Total capital ratio (%)	**21.0%**	22.4%
Total capital ratio as if IFRS 9 transitional arrangements had not been applied (%)	**21.0%**	22.4%
Additional CET1 buffer requirements as a percentage of RWA		
Capital conservation buffer requirement	**2.500%**	1.875%
Countercyclical buffer requirement (%)	**0.929%**	0.927%
Bank G-SIB and/or D-SIB additional requirements (%)[3]	**-**	-
Total of bank CET1 specific buffer requirements (%)	**3.429%**	2.802%
CET1 available after meeting the bank's minimum capital requirements (%)	**10.0%**	10.4%
UK leverage ratio		
UK leverage ratio exposure measure (£m)	**592,506**	591,391
UK leverage ratio (%)	**4.9%**	5.0%
UK leverage ratio as if IFRS 9 transitional arrangements had not been applied (%)	**4.8%**	4.9%
Average Liquidity Coverage Ratio (Weighted) (LCR) [4]		
Total High Quality Liquid Assets (HQLA) (£m)	**111,884**	
Total net cash outflow (£m)	**88,781**	
LCR ratio (%)[4]	**126%**	

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

[2] Incorporating profits, net of foreseeable dividends, for the period that remain subject to formal verification in accordance with the Capital Requirements Regulation.

[3] A systemic risk buffer of 2.0 per cent will apply from 1 August 2019

[4] The LCR uses the simple average of the preceding 3 months

CAPITAL AND LEVERAGE DISCLOSURES

The capital and leverage information disclosed in the table below, together with the overview of risk-weighted assets disclosed on the subsequent page, are reflective of the application of IFRS 9 transitional arrangements.

	Transitional		Fully loaded	
	At 31 Mar 2019	At 31 Dec 2018	**At 31 Mar 2019**	At 31 Dec 2018
Capital resources	**£m**	£m	**£m**	£m
Common equity tier 1				
Shareholders' equity per balance sheet	**37,554**	37,063	**37,554**	37,063
Other adjustments	**(4,252)**	(3,022)	**(4,252)**	(3,022)
Deductions from common equity tier 1	**(7,691)**	(7,981)	**(7,691)**	(7,981)
Common equity tier 1 capital	**25,611**	26,060	**25,611**	26,060
Additional tier 1 instruments	**5,257**	5,937	**3,217**	3,217
Total tier 1 capital	**30,868**	31,997	**28,828**	29,277
Tier 2 instruments and eligible provisions	**6,176**	7,087	**4,189**	4,844
Total capital resources	**37,044**	39,084	**33,017**	34,121
Total risk-weighted assets	**176,261**	174,391	**176,261**	174,391
Leverage[1]				
Statutory balance sheet assets			**601,082**	593,486
Deconsolidation, qualifying central bank claims and other adjustments			**(54,853)**	(49,958)
Off-balance sheet items			**46,277**	47,863
Total exposure measure			**592,506**	591,391
Average exposure measure[4]			**589,499**	
CRD IV exposure measure[2]			**636,877**	626,903
Ratios				
Common equity tier 1 capital ratio	**14.5%**	14.9%	**14.5%**	14.9%
Tier 1 capital ratio	**17.5%**	18.3%	**16.4%**	16.8%
Total capital ratio	**21.0%**	22.4%	**18.7%**	19.6%
UK leverage ratio[3]			**4.9%**	5.0%
Average UK leverage ratio[4]			**5.0%**	
CRD IV leverage ratio			**4.5%**	4.7%

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

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

[3] The countercyclical leverage buffer is currently 0.3 per cent.

[4] The average UK leverage ratio is based on the average month end tier 1 capital position and average exposure measure over the quarter (1 January 2019 to 31 March 2019). The average of 5.0 per cent compares to 5.0 per cent at the start and 4.9 per cent at the end of the quarter.

Overview of risk-weighted assets (OV1)

	At 31 Mar 2019 RWA £m	At 31 Dec 2018 RWA £m
Credit risk (excluding counterparty credit risk)	**142,696**	**140,815**
Of which standardised approach	**23,530**	23,065
Of which the foundation rating-based (FIRB) approach	**39,988**	40,820
Of which the retail IRB (RIRB) approach	**59,955**	59,500
Of which corporates – specialised lending	**11,763**	11,448
Of which non-credit obligation assets[1]	**7,461**	5,983
Of which equity IRB under the simple risk-weight or the internal models approach	**-**	-
Counterparty credit risk	**3,884**	3,270
Of which marked to market	**2,224**	1,696
Of which original exposure	-	-
Of which standardised approach	-	-
Of which internal ratings-based model method (IMM)	-	-
Of which comprehensive approach for credit risk mitigation (for SFTs)	**376**	438
Of which exposures to central counterparties (including trades, default fund contributions and initial margin)	**512**	831
Of which credit valuation adjustment (CVA)	**771**	305
Settlement risk	-	-
Securitisation exposures in banking book[2]	**3,694**	3,835
Of which IRB ratings-based approach (RBA)	**2,622**	2,733
Of which IRB supervisory formula approach (SFA)	**66**	72
Of which internal assessment approach (IAA)	**692**	820
Of which standardised approach	**203**	209
Of which Revised Framework: IRBA	**-**	-
Of which Revised Framework: Sec-SA	**60**	-
Of which Revised Framework: ERBA	**52**	-
Market risk	**297**	470
Of which: standardised approach	**156**	149
Of which: internal model approaches	**141**	320
Large exposures	-	-
Operational risk	**24,096**	24,558
Of which: basic indicator approach	-	-
Of which: standardised approach	**24,096**	24,558
Of which: advanced measurement approach	-	-
Amounts below the thresholds for deduction (subject to 250% risk weight)	**1,593**	1,442
Floor adjustment	-	-
Total	**176,261**	174,391
Pillar 1 capital requirement[3]	**14,101**	13,951
Pillar 2A capital requirement[4]	**9,151**	8,729
Total capital requirement	**23,252**	22,680

[1] Non-credit obligation assets (IRB approach) predominately relate to other balance sheet assets that have no associated credit risk.

[2] Securitisations are shown separately in the table but are included within credit risk in the movements by key driver analysis.

[3] The Pillar 1 capital requirement is 8 per cent of aggregated risk-weighted assets.

[4] The Pillar 2A capital requirement is currently c.5.2 per cent of aggregated risk-weighted assets, of which c.2.9 per cent must be met with CET1 capital.

Risk-weighted asset movements by key driver

	Credit risk IRB £m	Credit risk SA £m	Credit risk total[1] £m	Counterparty credit risk[2] £m	Market risk £m	Operational Risk £m	Total £m
Total risk-weighted assets at 31 December 2018							174,391
Less threshold risk-weighted assets[3]							(1,442)
Risk-weighted assets at 31 December 2018	121,377	23,274	144,651	3,270	470	24,558	172,949
Asset size	**(560)**	**756**	**196**	**146**	**(110)**	**–**	**232**
Asset quality	**607**	**(78)**	**529**	**165**	**–**	**–**	**694**
Model updates	**(124)**	**–**	**(124)**	**–**	**16**	**–**	**(108)**
Methodology and policy	**1,651**	**(194)**	**1,457**	**306**	**–**	**–**	**1,763**
Acquisitions and disposals	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Movements in risk levels (market risk only)	**–**	**–**	**–**	**–**	**(77)**	**–**	**(77)**
Foreign exchange movements	**(293)**	**(25)**	**(318)**	**(3)**	**(2)**	**–**	**(323)**
Other	**–**	**–**	**–**	**–**	**–**	**(462)**	**(462)**
Risk-weighted assets at 31 March 2019	**122,658**	**23,733**	**146,391**	**3,884**	**297**	**24,096**	**174,668**
Threshold risk-weighted assets[3]							**1,593**
Total risk-weighted assets at 31 March 2019							**176,261**

[1] Credit risk includes movements in securitisation risk-weighted assets.

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

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

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

Credit risk, risk weighted assets:

- Asset size includes changes in book size (both drawn and undrawn balances) and composition, excluding acquisitions and disposals
- Asset quality increase of £529m captures movements due to changes in borrower risk, including changes in the economic environment
- Methodology and policy changes increased risk-weighted assets by £1,457m primarily as a result of the introduction of IFRS16
- Sterling foreign exchange movements, principally with Euro and US Dollar, contributed to the decrease of £318m in risk-weighted assets

Counterparty credit risk and CVA risk weighted assets increase mainly driven by the introduction of the new ring-fencing legislation from January 2019 impacting intra-group exposures.

Operational risk, risk-weighted assets decreased following the actualisation of calculation inputs.

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