Lloyds Bank Group

Q3 2020 Interim Pillar 3 Report

BASIS OF PREPARATION

This report presents the consolidated interim Pillar 3 disclosures of Lloyds Bank plc (the Bank) together with its subsidiaries (the Lloyds Bank Group) as at 30 September 2020 and should be read in conjunction with the Lloyds Bank Group's Q3 2020 Interim Management Statement.

The disclosures have been prepared in accordance with the Capital Requirements Directive and Regulation (CRD IV) and 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 (as amended August 2020).

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 assets by key driver.
– Template CCR7 (RWA flow statements of CCR exposures under the IMM) is not applicable to 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.

FORWARD LOOKING STATEMENTS

This document contains certain forward looking statements within the meaning of Section 21E of the US Securities Exchange Act of 1934, as amended, and section 27A of the US Securities Act of 1933, as amended, with respect to the business, strategy, plans and/or results of Lloyds Bank plc together with its subsidiaries (the Lloyds Bank Group) and its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about the Lloyds Bank Group's or its directors' and/or management's beliefs and expectations, are forward looking statements. Words such as 'believes', 'anticipates', 'estimates', 'expects', 'intends', 'aims', 'potential', 'will', 'would', 'could', 'considered', 'likely', 'estimate' and variations of these words and similar future or conditional expressions are intended to identify forward looking statements but are not the exclusive means of identifying such statements.Examples of such forward looking statements include, but are not limited to: projections or expectations of the Lloyds Bank Group's future financial position including profit attributable to shareholders, provisions, economic profit, dividends, capital structure, portfolios, net interest margin, capital ratios, liquidity, risk-weighted assets (RWAs), expenditures or any other financial items or ratios; litigation, regulatory and governmental investigations; the Lloyds Bank Group's future financial performance; the level and extent of future impairments and write-downs; statements of plans, objectives or goals of the Lloyds Bank Group or its management including in respect of statements about the future business and economic environments in the UK and elsewhere including, but not limited to, future trends in interest rates, foreign exchange rates, credit and equity market levels and demographic developments; statements about competition, regulation, disposals and consolidation or technological developments in the financial services industry; and statements of assumptions underlying such statements.By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend upon circumstances that will or may occur in the future. Factors that could cause actual business, strategy, plans and/or results (including but not limited to the payment of dividends) to differ materially from forward looking statements made by the Lloyds Bank Group or on its behalf include, but are not limited to: general economic and business conditions in the UK and internationally; market related trends and developments; fluctuations in interest rates, inflation, exchange rates, stock markets and currencies; any impact of the transition from IBORs to alternative reference rates; the ability to access sufficient sources of capital, liquidity and funding when required; changes to the Lloyds Bank Group's or Lloyds Banking Group plc's credit ratings; the ability to derive cost savings and other benefits including, but without limitation as a result of any acquisitions, disposals and other strategic transactions; the ability to achieve strategic objectives; changing customer behaviour including consumer spending, saving and borrowing habits; changes to borrower or counterparty credit quality; concentration of financial exposure; management and monitoring of conduct risk; instability in the global financial markets, including Eurozone instability, instability as a result of uncertainty surrounding the exit by the UK from the European Union (EU) and as a result of such exit and the potential for other countries to exit the EU or the Eurozone and the impact of any sovereign credit rating downgrade or other sovereign financial issues; political instability including as a result of any UK general election; technological changes and risks to the security of IT and operational infrastructure, systems, data and information resulting from increased threat of cyber and other attacks; natural, pandemic (including but not limited to the coronavirus disease (COVID-19) outbreak and associated potential and/or actual UK or international lockdowns) 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; risks relating to climate change; changes in laws, regulations, practices and accounting standards or taxation, including as a result of the exit by the UK from the EU, or a further possible referendum on Scottish independence; changes to regulatory capital or liquidity requirements and similar contingencies outside the 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 Bank plc with the US Securities and Exchange Commission for a discussion of certain factors and risks together with examples of forward looking statements. Lloyds Banking Group may also make or disclose written and/or oral forward looking statements in reports filed with or furnished to the US Securities and Exchange Commission, Lloyds Banking Group annual reviews, half-year announcements, proxy statements, offering circulars, prospectuses, press releases and other written materials and in oral statements made by the directors, officers or employees of Lloyds Banking Group to third parties, including financial analysts. Except as required by any applicable law or regulation, the forward looking statements contained in this document are made as of today's date, and the Lloyds Bank Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statements contained in this document to reflect any change in the Lloyds Bank Group's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. The information, statements and opinions contained in this document do not constitute a public offer under any applicable law or an offer to sell any securities or financial instruments or any advice or recommendation with respect to such securities or financial instruments.

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]

		T Q3 2020 [2]	T-1 Q2 2020	T-2 Q1 2020	T-3 Q4 2019	T-4 Q3 2019
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1) (£m)	**25,851**	25,253	24,807	24,637	24,380
2	CET1 capital as if IFRS 9 transitional arrangements were not applied (£m)	**23,813**	23,333	24,316	24,185	23,930
3	Tier 1 (£m)	**33,146**	32,543	31,415	31,542	29,637
4	Tier 1 capital as if IFRS 9 transitional arrangements were not applied (£m)	**31,108**	30,623	30,924	31,090	29,187
5	Total capital (£m)	**39,220**	38,976	38,125	37,976	36,245
6	Total capital as if IFRS 9 transitional arrangements were not applied (£m)	**38,256**	38,059	38,142	38,004	36,275
	Risk-weighted assets (amounts)					
7	Total risk-weighted assets (£m)	**171,954**	173,311	175,612	171,940	175,631
8	Total risk-weighted assets as if IFRS 9 transitional arrangements were not applied (£m)	**171,949**	173,362	176,104	172,324	176,014
	Risk-based capital ratios as a percentage of RWA					
9	Common Equity Tier 1 ratio (%)	**15.0%**	14.6%	14.1%	14.3%	13.9%
10	CET1 ratio as if IFRS 9 transitional arrangements were not applied (%)	**13.8%**	13.5%	13.8%	14.0%	13.6%
11	Tier 1 ratio (%)	**19.3%**	18.8%	17.9%	18.3%	16.9%
12	Tier 1 ratio as if IFRS 9 transitional arrangements were not applied (%)	**18.1%**	17.7%	17.6%	18.0%	16.6%
13	Total capital ratio (%)	**22.8%**	22.5%	21.7%	22.1%	20.6%
14	Total capital ratio as if IFRS 9 transitional arrangements were not applied (%)	**22.2%**	22.0%	21.7%	22.1%	20.6%
	Additional CET1 buffer requirements as a percentage of RWA					
	Capital conservation buffer requirement	**2.5%**	2.5%	2.5%	2.5 %	2.5 %
	Countercyclical buffer requirement	**0.0%**	0.0%	0.0%	0.9%	0.9%
	Bank G-SIB and/or D-SIB additional requirements[3]	**2.0%**	2.0%	2.0%	2.0%	2.0%
	Total of bank CET1 specific buffer requirements	**4.5%**	4.5%	4.5%	5.4%	5.4%
	CET1 available after meeting the bank's minimum capital requirements	**10.5%**	10.1%	9.6%	9.8 %	9.4 %
	UK leverage ratio[4]					
15	UK leverage ratio exposure measure (£m)	**592,528**	589,861	589,261	582,921	597,876
16	UK leverage ratio	**5.4%**	5.3%	5.1%	5.1 %	4.6 %
17	UK leverage ratio as if IFRS 9 transitional arrangements were not applied	**5.0%**	5.0%	5.0%	5.0 %	4.5 %
	Average Liquidity Coverage Ratio (weighted) (LCR)					
	Total High Quality Liquid Assets (HQLA) (£m)	**112,506**	113,983	111,487	112,203	113,545
	Total net cash outflow (£m)	**87,697**	87,501	87,313	88,490	90,061
	LCR ratio (%)	**128%**	130%	128 %	127 %	126 %

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

2 Incorporating profits for the period that remain subject to formal verification in accordance with the Capital Requirements Regulation.

3 The Group is subject to a Systemic Risk Buffer (SRB) of 2.0 per cent of risk-weighted assets which is designed to hold systemically important banks to higher capital standards so that they can withstand a greater level of stress before requiring resolution.

4 The CRD IV leverage ratio at 30 September 2020 is 5.0 per cent (31 December 2019: 4.8 per cent).

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.

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 30 Sep 2020 £m	**At 30 Dec 2019 £m**	**At 30 Sep 2020 £m**	**At 30 Dec 2019** £m
Capital resources				
Common equity tier 1				
Shareholders' equity per balance sheet	**35,168**	33,973	**35,168**	33,973
Other adjustments	**449**	(1,133)	**449**	(1,133)
Deductions from common equity tier 1	**(9,766)**	(8,203)	**(9,766)**	(8,203)
Common equity tier 1 capital	**25,851**	24,637	**25,851**	24,637
Additional tier 1 instruments	**7,295**	6,905	**5,935**	4,865
Total tier 1 capital	**33,146**	31,542	**31,786**	29,502
Tier 2 instruments and eligible provisions	**6,074**	6,434	**4,583**	4,140
Total capital resources	**39,220**	37,976	**36,369**	33,642
Total risk-weighted assets	**171,954**	171,940	**171,954**	171,940
Leverage[1]				
Statutory balance sheet assets			**606,888**	581,368
Deconsolidation, qualifying central bank claims and other adjustments			**(64,956)**	(42,619)
Off-balance sheet items			**50,596**	44,172
Total exposure measure			**592,528**	582,921
Average exposure measure[4]			**602,122**	
CRD IV exposure measure[2]			**640,161**	616,329
Ratios				
Common equity tier 1 capital ratio	**15.0%**	14.3%	**15.0%**	14.3%
Tier 1 capital ratio	**19.3%**	18.3%	**18.5%**	17.2%
Total capital ratio	**22.8%**	22.1%	**21.2%**	19.6%
UK leverage ratio[3]			**5.4%**	5.1%
Average UK leverage ratio[4]			**5.2%**	
CRD IV leverage ratio			**5.0%**	4.8%

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 0.0 per cent. The additional leverage ratio buffer is 0.7 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 July 2020 to 30 September 2020). The average of 5.2 per cent compares to 5.3 per cent at the start and 5.4 per cent at the end of the quarter.

Overview of risk-weighted assets (OV1)

		September 2020 RWA £m	Dec 2019 RWA £m
		T	T-1
1	**Credit risk (excluding counterparty credit risk)**	136,941	138,990
2	of which: standardised approach	20,153	21,897
3	of which: the foundation rating-based (FIRB) approach	35,676	37,482
4	of which: the retail IRB (RIRB) approach	65,338	63,192
	of which: corporates – specialised lending	9,078	9,018
	of which: non-credit obligation assets[1]	6,695	7,401
5	of which: equity IRB under the simple risk-weight or the internal models approach	—	—
6	**Counterparty credit risk**	2,666	2,102
7	of which: marked to market	1,448	1,370
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)	351	232
11	of which: exposures to central counterparties (including trades, default fund contributions and initial margin)	308	229
12	of which: credit valuation adjustment (CVA)	559	271
13	**Settlement risk**	—	—
14	**Securitisation exposures in banking book[2]**	5,785	4,497
15	of which: IRB ratings-based approach (RBA)	—	1,525
16	of which: IRB supervisory formula approach (SFA)	—	—
17	of which: internal assessment approach (IAA)	—	234
18	of which: standardised approach	—	177
	of which: revised framework internal ratings based approach	1,967	1,214
	of which: revised framework standardised approach	861	242
	of which: revised framework external ratings based approach	2,958	1,107
19	**Market risk**	247	171
20	of which: standardised approach	49	45
21	of which: internal model approaches	197	125
22	**Large exposures**	—	—
23	**Operational risk**	24,086	24,413
24	of which: basic indicator approach	—	—
25	of which: standardised approach	24,086	24,413
26	of which: advanced measurement approach	—	—
27	Amounts below the thresholds for deduction (subject to 250% risk weight)	2,229	1,767
2[8]	Floor adjustment	—	—
29	**Total**	171,954	171,940
	Pillar 1 capital requirement[3]	13,756	13,755
	Pillar 2A capital requirement[4]	7,707	8,422
	Total capital requirement	21,463	22,177

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 within this table, however, are included within Credit Risk in Table 3: Risk-weighted assets movement by key driver (as per the reconciliation below).

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

4 The Pillar 2A capital requirement is currently c.4.5 per cent of aggregated risk-weighted assets, of which c.2.5 per cent must be met with CET1 capital.

Risk-weighted assets movement by key driver

	Credit risk IRB £m	Credit risk SA £m	Credit risk total[2] £m	Counterparty credit risk[3] £m	Market risk £m	Operational risk £m	Total £m
Total risk-weighted assets as at 30 June 2020	—	—	—	—	—	—	173,311
Less: total threshold risk-weighted assets[1]	—	—	—	—	—	—	(2,377)
Risk-weighted assets at 30 June 2020	122,659	21,596	144,255	2,334	259	24,086	170,934
Asset size	**(881)**	**(366)**	**(1,247)**	**31**	—	—	**(1,216)**
Asset quality	**7**	**36**	**43**	**317**	—	—	**360**
Model updates	**(37)**	—	**(37)**	—	—	—	**(37)**
Methodology and policy	**114**	**(221)**	**(107)**	—	—	—	**(107)**
Acquisitions and disposals	—	—	—	—	—	—	—
Movement in risk levels (Market risk only)	—	—	—	—	**(12)**	—	**(12)**
Foreign exchange movements	**(151)**	**(31)**	**(182)**	**(16)**	—	—	**(198)**
Other	—	—	—	—	—	—	—
Risk-weighted assets at 30 September 2020	**121,712**	**21,014**	**142,726**	**2,666**	**247**	**24,086**	**169,725**
Threshold risk-weighted assets[1]							**2,229**
Total risk-weighted assets as at 30 September 2020							**171,954**

1 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.

2 Credit risk includes securitisation risk-weighted assets.

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

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 reduction of £1.2bn reflects reductions in underlying lending balances (excluding Government backed lending schemes that attract limited to no risk-weighted assets) and continued optimisation in Commercial Banking.
- Asset quality increases includes movements due to changes in borrower risk. The impact of Government schemes and payment holidays has delayed the emergence of credit migration, limiting the impact seen in the quarter.

Counterparty credit risk, risk-weighted assets increased by £0.3bn due to movements in market rates during the quarter.

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