

Lloyds Bank Plc

Q3 2021 Interim Pillar 3 Report
30 September 2021

BASIS OF PREPARATION

This report presents the consolidated interim Pillar 3 disclosures of Lloyds Bank plc ('the Bank') together with its subsidiaries ('the Group') as at 30 September 2021 and should be read in conjunction with the Lloyds Bank plc Q3 2021 Interim Management Statement.

The disclosures have been prepared in accordance with the Capital Requirements Directive and Regulation (CRD IV) and associated European Banking Authority (EBA) guidelines and technical standards in force as at 31 December 2020.

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

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

From 1 January 2022, UK Pillar 3 disclosure requirements will be set out under the new Disclosure Part of the PRA Rulebook. This will include revisions to current Pillar 3 disclosure requirements that will apply from the same date and are broadly aligned to the equivalent revisions that have already come into force under the EU version of CRR II.

In addition to summary capital and leverage disclosures, specific Pillar 3 templates are required 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.

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

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. Statements that are not historical or current facts, including statements about Lloyds Bank Group's or its directors' and/or management's beliefs and expectations, are forward looking statements. Words such as, without limitation, 'believes', 'achieves', 'anticipates', 'estimates', 'expects', 'targets', 'should', 'intends', 'aims', 'projects', 'plans', 'potential', 'will', 'would', 'could', 'considered', 'likely', 'may', 'seek', 'estimate', 'probability', 'goal', 'objective', 'deliver', 'endeavour', 'prospects', 'optimistic' and similar expressions or variations on these expressions are intended to identify forward looking statements. These statements concern or may affect future matters, including but not limited to: projections or expectations of 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; Lloyds Bank Group's future financial performance; the level and extent of future impairments and write-downs; Lloyds Bank Group's ESG targets and/or commitments; statements of plans, objectives or goals of Lloyds Bank Group's or its management and other statements that are not historical fact; expectations about the impact of COVID-19; 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 include, but are not limited to: general economic and business conditions in the UK and internationally; market related risks, trends and developments; fluctuations in interest rates, inflation, exchange rates, stock markets and currencies; volatility in credit markets; 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; potential changes in dividend policy; the ability to achieve strategic objectives; management and monitoring of conduct risk; exposure to counterparty risk; credit rating risk; instability in the global financial markets, including within the Eurozone, and as a result of uncertainty surrounding the exit by the UK from the European Union (EU) and the effects of the EU-UK Trade and Cooperation Agreement; political instability including as a result of any UK general election and any further possible referendum on Scottish independence; technological changes and risks to the security of IT and operational infrastructure, systems, data and information resulting from increased threat of cyber and other attacks; natural pandemic (including but not limited to the COVID-19 pandemic) and other disasters; inadequate or failed internal or external processes or systems; acts of hostility or terrorism and responses to those acts, or other such events; geopolitical unpredictability; risks relating to sustainability and climate change (and achieving climate change ambitions), including the Lloyds Bank Group's or Lloyds Banking Group plc's ability along with the government and other stakeholders to measure, manage and mitigate the impacts of climate change effectively; changes in laws, regulations, practices and accounting standards or taxation; changes to regulatory capital or liquidity requirements and similar contingencies; the policies and actions of governmental or regulatory authorities or courts together with any resulting impact on the future structure of the Lloyds Bank Group; projected employee numbers and key person risk; the impact of competitive conditions; and exposure to legal, regulatory or competition proceedings, investigations or complaints. A number of these influences and factors are beyond Lloyds Bank Group's control. Please refer to the latest Annual Report on Form 20-F filed by Lloyds Bank plc with the US Securities and Exchange Commission (the SEC), which is available on the SEC's website at www.sec.gov, for a discussion of certain factors and risks. Lloyds Bank plc may also make or disclose written and/or oral forward-looking statements in other written materials and in oral statements made by the directors, officers or employees of Lloyds Bank plc 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 whether as a result of new information, future events or otherwise. 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

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

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)^{1,5}

	30 Sep 2021 ²	30 Jun 2021	31 Mar 2021	31 Dec 2020	30 Sep 2020
Available capital (amounts)					
1 Common Equity Tier 1 (CET1) (£m)	26,749	26,960	27,069	26,567	25,851
2 CET1 capital as if IFRS 9 transitional arrangements were not applied (£m)	25,696	25,628	25,471	24,591	23,813
3 Tier 1 (£m)	31,698	31,909	33,684	33,862	33,146
4 Tier 1 capital as if IFRS 9 transitional arrangements were not applied (£m)	30,645	30,577	32,086	31,886	31,108
5 Total capital (£m)	37,149	38,362	40,149	40,163	39,220
6 Total capital as if IFRS 9 transitional arrangements were not applied (£m)	37,202	38,273	39,755	39,422	38,256
Risk-weighted assets (amounts)					
7 Total risk-weighted assets (£m)	166,677	167,190	168,215	170,862	171,954
8 Total risk-weighted assets as if IFRS 9 transitional arrangements were not applied (£m)	166,878	167,332	168,330	171,015	171,949
Risk-based capital ratios as a percentage of RWA					
9 Common Equity Tier 1 ratio (%)	16.0%	16.1%	16.1%	15.5%	15.0%
10 CET1 ratio as if IFRS 9 transitional arrangements were not applied (%)	15.4%	15.3%	15.1%	14.4%	13.8%
11 Tier 1 ratio (%)	19.0%	19.1%	20.0%	19.8%	19.3%
12 Tier 1 ratio as if IFRS 9 transitional arrangements were not applied (%)	18.4%	18.3%	19.1%	18.6%	18.1%
13 Total capital ratio (%)	22.3%	22.9%	23.9%	23.5%	22.8%
14 Total capital ratio as if IFRS 9 transitional arrangements were not applied (%)	22.3%	22.9%	23.6%	23.1%	22.2%
Additional CET1 buffer requirements as a percentage of RWA					
Capital conservation buffer requirement	2.500%	2.500%	2.500%	2.500%	2.500%
Countercyclical buffer requirement	0.003%	0.001%	0.001%	0.001%	0.000%
Bank G-SIB and/or D-SIB additional requirements ³	2.000%	2.000%	2.000%	2.000%	2.000%
Total of bank CET1 specific buffer requirements	4.503%	4.501%	4.501%	4.501%	4.500%
CET1 available after meeting the bank's minimum capital requirements	11.5%	11.6%	11.6%	11.0%	10.5%
UK leverage ratio⁴					
15 UK leverage ratio exposure measure (£m)	591,233	587,248	584,853	593,546	592,528
16 UK leverage ratio	5.2%	5.3%	5.6%	5.5%	5.4%
17 UK leverage ratio as if IFRS 9 transitional arrangements were not applied	5.1%	5.1%	5.4%	5.2%	5.0%
Average Liquidity Coverage Ratio (weighted) (LCR)					
Total High Quality Liquid Assets (HQLA) (£m)	111,625	111,676	113,493	113,434	112,506
Total net cash outflow (£m)	91,979	91,666	91,349	89,844	87,697
LCR ratio (%)	121%	122%	124%	126%	128%

- 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 per cent risk weight to the consequential Standardised credit risk exposure add-back as permitted under paragraph 7a of the revisions. As at 30 September 2021, static relief under the transitional arrangements amounted to £262 million (31 December 2020: £370 million) and dynamic relief under the transitional arrangements amounted to £790 million (31 December 2020: £1,606 million) through CET1 capital.
- Incorporating profits for the quarter that remain subject to formal verification in accordance with the Capital Requirements Regulation.
- The Group is subject to an Other Systemically Important Institution (OSII) Buffer (previously referred to as a Systemic Risk Buffer) 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.
- The CRD IV leverage ratio at 30 September 2021 is 4.9 per cent (31 December 2020: 5.1 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 2021 £m	At 31 Dec 2020 £m	At 30 Sep 2021 £m	At 31 Dec 2020 £m
Capital resources				
Common equity tier 1				
Shareholders' equity per balance sheet	37,872	35,105	37,872	35,105
Other adjustments ¹	(758)	(532)	(758)	(532)
Deductions from common equity tier 1	(10,365)	(8,006)	(10,365)	(8,006)
Common equity tier 1 capital	26,749	26,567	26,749	26,567
Additional tier 1 instruments	4,949	7,295	4,268	5,935
Total tier 1 capital	31,698	33,862	31,017	32,502
Tier 2 instruments and eligible provisions	5,451	6,301	4,759	4,930
Total capital resources	37,149	40,163	35,776	37,432
Total risk-weighted assets	166,677	170,862	166,677	170,862
Leverage²				
Statutory balance sheet assets			603,118	599,939
Deconsolidation, qualifying central bank claims and other adjustments ¹			(61,241)	(59,743)
Off-balance sheet items			49,357	53,350
Total exposure measure			591,233	593,546
Average exposure measure⁵			596,704	
CRD IV exposure measure³			636,045	637,519
Ratios				
Common equity tier 1 capital ratio	16.0%	15.5%	16.0%	15.5%
Tier 1 capital ratio	19.0%	19.8%	18.6%	19.0%
Total capital ratio	22.3%	23.5%	21.5%	21.9%
UK leverage ratio ⁴			5.2%	5.5%
Average UK leverage ratio ⁵			5.3%	
CRD IV leverage ratio			4.9%	5.1%

1 Includes an adjustment applied to reserves to reflect the application of the IFRS 9 transitional arrangements.

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

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

4 The countercyclical leverage buffer is currently 0.0 per cent. The additional leverage ratio buffer is 0.7 per cent.

5 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 2021 to 30 September 2021). The average of 5.3 per cent compares to 5.3 per cent at the start and 5.2 per cent at the end of the quarter.

Overview of risk-weighted assets (OV1)

	30 Sep 2021 RWA £m	31 Dec 2020 RWA £m	30 Sep 2021 Minimum capital Requirements £m	31 Dec 2020 Minimum capital Requirements £m
1 Credit risk (excluding counterparty credit risk)	133,712	137,461	10,697	10,997
2 of which: standardised approach	17,974	20,684	1,438	1,655
3 of which: the foundation rating-based (FIRB) approach	32,623	34,676	2,610	2,774
4 of which: the retail IRB (RIRB) approach	66,648	65,207	5,332	5,217
of which: corporates – specialised lending	9,342	9,105	747	728
of which: non-credit obligation assets	7,125	7,788	570	623
6 Counterparty credit risk	1,633	2,488	131	199
7 of which: marked to market	949	1,436	76	115
of which: comprehensive approach for credit risk mitigation (for SFTs)	278	305	22	24
11 of which: exposures to central counterparties (including trades, default fund contributions and initial margin)	226	393	18	31
12 of which: credit valuation adjustment (CVA)	180	355	14	28
13 Settlement risk	—	—	—	—
14 Securitisation exposures in banking book	5,295	5,116	424	409
of which: internal ratings based approach	1,931	1,951	154	156
of which: standardised approach	1,420	989	114	79
of which: external ratings based approach	1,944	2,176	156	174
19 Market risk	221	210	18	17
20 of which: standardised approach	26	56	2	4
21 of which: internal model approaches	195	154	16	12
23 Operational risk	23,449	23,307	1,876	1,865
25 of which: standardised approach	23,449	23,307	1,876	1,865
27 Amounts below the thresholds for deduction (subject to 250% risk weight)	2,368	2,280	189	182
28 Floor adjustment	—	—	—	—
29 Total	166,678	170,862	13,334	13,669
Pillar 2A capital requirement			6,898	6,898
Total capital requirement			20,232	20,567

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 but are included within credit risk in the movements by key driver analysis.
3. As at 30 September 2021, the Pillar 2A capital requirement was c.4.1 per cent of aggregated risk-weighted assets, of which c.2.3 per cent was to be met with CET1 capital. The PRA has subsequently reduced the Group's nominal Pillar 2A capital requirement to the equivalent of c.3.9 per cent of aggregated risk-weighted assets (based on the position at 30 September 2021), of which c.2.2 per cent is to be met with CET1 capital.

The risk-weighted assets movement tables presented below provide 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 judgement.

Risk-weighted assets movement by key driver - 3 months to 30 September 2021

	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 as at 30 June 2021							167,190
Less: total threshold risk-weighted assets ³							(2,444)
Risk-weighted assets at 30 June 2021	119,260	19,918	139,178	1,933	186	23,449	164,746
Asset size	(491)	(401)	(892)	(131)	—	—	(1,023)
Asset quality	233	—	233	(141)	—	—	92
Model updates	—	—	—	—	9	—	9
Methodology and policy	523	(148)	375	—	—	—	375
Acquisitions and disposals	—	—	—	—	—	—	—
Movement in risk levels (Market risk only)	—	—	—	—	26	—	26
Foreign exchange movements	88	25	113	(28)	—	—	85
Other	—	—	—	—	—	—	—
Risk-weighted assets at 30 September 2021	119,613	19,394	139,007	1,633	221	23,449	164,310
Threshold risk-weighted assets ³							2,368
Total risk-weighted assets as at 30 September 2021							166,678

1 Credit risk includes securitisation risk-weighted assets.

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

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

Key movements

Credit risk, risk weighted assets:

- Asset size reduction of £0.9 billion includes continued optimisation in Commercial Banking, partially offset by increased mortgage lending.
- Asset quality increases of £0.2 billion includes model calibrations, partially offset by the benefit from House Price Index increases.
- Methodology and policy changes includes reductions through enhanced identification of SME exposures that benefit from the SME scalar more than offset by changes to risk-weighted asset calculation methodology and lower recognition of collateral.

Counterparty credit risk, risk weighted assets decreased by £0.3 billion due to movements in market rates during the period.

Risk-weighted assets movement by key driver - year to 30 September 2021

	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 as at 31 December 2020							170,862
Less: total threshold risk-weighted assets ³							(2,280)
Risk-weighted assets at 31 December 2020	120,904	21,673	142,577	2,488	210	23,307	168,582
Asset size	(3,392)	(706)	(4,098)	(478)	—	—	(4,576)
Asset quality	1,698	(142)	1,556	(337)	—	—	1,219
Model updates	—	—	—	—	27	—	27
Methodology and policy	483	(1,379)	(896)	—	1	—	(895)
Acquisitions and disposals	—	—	—	—	—	—	—
Movement in risk levels (Market risk only)	—	—	—	—	(17)	—	(17)
Foreign exchange movements	(80)	(52)	(132)	(40)	—	—	(172)
Other	—	—	—	—	—	142	142
Risk-weighted assets at 30 September 2021	119,613	19,394	139,007	1,633	221	23,449	164,310
Threshold risk-weighted assets ³							2,368
Total risk-weighted assets as at 30 September 2021							166,678

1 Credit risk includes securitisation risk-weighted assets.

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

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

Key movements

Credit risk, risk weighted assets:

- Asset size reduction of £4.1 billion predominantly reflects continued optimisation in Commercial Banking and lower unsecured balances, partially offset by increased mortgage lending.
- Asset quality increases of £1.6 billion reflects the impact of credit migration and retail model calibrations, offset by the benefit of House Price Index increases.
- Methodology and policy changes includes reductions in risk-weighted assets through securitisation activity, other optimisation activity and enhanced identification of SME exposures partially offset by changes to RWA calculation methodology and lower collateral recognition.

Counterparty credit risk, risk weighted assets reduced by £0.9 billion predominantly due to movements in market rates during the period.

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