Lloyds Bank Plc

Q1 2022
Pillar 3 Disclosures
31 March 2022

BASIS OF PREPARATION

This report presents the consolidated interim Pillar 3 disclosures of Lloyds Bank plc ('the Group') as at 31 March 2022 and should be read in conjunction with the Group's Q1 2022 Interim Management Statement.

The disclosures have been prepared in accordance with the Disclosure Part of the PRA Rulebook which includes revised disclosure requirements applicable from 1 January 2022 following the UK implementation of the remaining provisions of Capital Requirements Regulation II.

Specific Pillar 3 templates are required to be disclosed on a quarterly basis and these are included within this report with the following exceptions:

– Template CCR7 (RWA flow statements of CCR exposures under the IMM) is not applicable to the Group.

– Template MR2-B (RWA flow statements of Market risk exposures under an IMA) is not material inline with CRR article 432.

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

FORWARD LOOKING STATEMENTS

TABLE OF CONTENTS

Key metric and overview of risk weighted exposure amounts

KM1: Key metrics[1,4]

KM1 Ref	LR2 Ref		31 Mar 2022[2]	31 Dec 2021	30 Sep 2021	30 Jun 2021	31 Mar 2021
		Available own funds (amounts)					
1		Common Equity Tier 1 (CET1) capital (£m)	**25,399**	26,904	26,749	26,960	27,069
2		Tier 1 capital (£m)	**29,667**	31,853	31,698	31,909	33,684
3		Total capital (£m)	**35,015**	37,909	37,149	38,362	40,149
		Risk-weighted exposure amounts					
4		Total risk-weighted exposure amount (£m)	**175,416**	161,576	166,677	167,190	168,215
		Capital ratios (as a percentage of risk-weighted exposure amount)					
5		Common Equity Tier 1 ratio (%)	**14.5%**	16.7%	16.0%	16.1%	16.1%
6		Tier 1 ratio (%)	**16.9%**	19.7%	19.0%	19.1%	20.0%
7		Total capital ratio (%)	**20.0%**	23.5%	22.3%	22.9%	23.9%
		Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)					
UK 7a		Additional CET1 SREP requirements (%)	**2.1%**	2.2%	2.3%	2.3%	2.3%
UK 7b		Additional AT1 SREP requirements (%)	**0.7%**	0.8%	0.8%	0.8%	0.8%
UK 7c		Additional T2 SREP requirements (%)	**0.9%**	1.0%	1.0%	1.0%	1.0%
UK 7d		Total SREP own funds requirements (%)	**11.7%**	12.0%	12.1%	12.1%	12.1%
		Combined buffer requirement (as a percentage of risk-weighted exposure amount)					
8		Capital conservation buffer (%)	**2.500%**	2.500%	2.500%	2.500%	2.500%
9		Institution specific countercyclical capital buffer (%)	**0.003%**	0.003%	0.003%	0.001%	0.001%
UK 10a		Other Systemically Important Institution buffer (%)[3]	**2.000%**	2.000%	2.000%	2.000%	2.000%
11		Combined buffer requirement (%)	**4.503%**	4.503%	4.503%	4.501%	4.501%
UK 11a		Overall capital requirements (%)	**16.2%**	16.5%	16.6%	16.6%	16.6%
12		CET1 available after meeting minimum SREP own funds requirements (%)[5]	**7.9%**	10.0%	9.2%	9.3%	9.3%
		Leverage ratio					
13	24b	Total exposure measure excluding claims on central banks	**576,845**	584,650	591,233	587,248	584,853
14	25	Leverage ratio excluding claims on central banks (%)	**5.1%**	5.3%	5.2%	5.3%	5.6%
		Additional leverage ratio disclosure requirements					
UK 14a	UK 25a	Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)	**5.1%**	5.2%	5.1%	5.1%	5.4%
UK 14b	UK 25c	Leverage ratio including claims on central banks (%)	**4.5%**	4.9%	4.9%	4.9%	5.2%
UK 14c	UK 33	Average leverage ratio excluding claims on central banks (%)[6]	**5.1%**	5.2%	5.3%	5.5%	5.6%
UK 14d	UK 34	Average leverage ratio including claims on central banks (%)	**4.6%**	4.8%	4.9%	5.1%	5.1%
UK 14e	UK 27b	Countercyclical leverage ratio buffer (%)[7]	**0.0%**	0.0%	0.0%	0.0%	0.0%
		Average Liquidity Coverage Ratio (weighted) (LCR)[8]					
15		Total high-quality liquid assets (HQLA) (Weighted value - average) (£m)	**119,276**	114,712	111,625	111,676	113,493
UK 16a		Cash outflows - Total weighted value (£m)	**95,227**	94,665	95,429	95,058	94,859
UK 16b		Cash inflows - Total weighted value (£m)	**3,762**	3,369	3,449	3,392	3,510
16		Total net cash outflows (adjusted value) (£m)	**91,465**	91,296	91,979	91,666	91,349
17		Average liquidity coverage ratio (%)	**131%**	126%	121%	122%	124%

1 The Group applies the full extent of the IFRS9 transitional arrangements for capital as set out under CRR Article 473a (revised). Specifically, the Group has opted to apply both paragraphs 2 and 4 of CRR Article 473a (static and dynamic relief) and in addition to apply a 100% risk weight to the consequential Standardised credit risk exposure add-back as permitted under paragraph 7a of the revisions. As at 31 March 2022, static relief under the transitional arrangements amounted to £135 million (31 December 2021: £264 million) and dynamic relief under the transitional arrangements amounted to £8 million (31 December 2021: £387 million) through CET1 capital.
2 Incorporating profits for the quarter that remain subject to formal verification in accordance with capital regulations.
3 The Group is subject to an Other Systemically Important Institution (OSII) Buffer of 2.0 per cent of risk-weighted exposure amounts 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 Group has chosen not to apply the temporary treatment specified under CRR Article 468 (revised) 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.
5 Represents, as a percentage, the level of CET1 capital left available to meet buffer requirements after subtracting the minimum amount of CET1 capital required to meet total Pillar 1 plus Pillar 2A capital requirements, also referred to as total SREP own funds requirements. The minimum CET1 requirement is equivalent to 4.5 per cent (Pillar 1) plus the additional CET1 SREP requirement (56.25 per cent of Pillar 2A).
6 The average leverage exposure measure (excluding claims on central banks) for the period from 1 January 2022 to 31 March 2022 amounted to £586,198 million.
7 The countercyclical leverage ratio buffer (CCLB) is required to be rounded to the nearest tenth of a percentage. The Group's total leverage ratio buffer at 31 March 2022 was 0.7 per cent (31 December 2022: 0.7 per cent), which reflects the additional leverage ratio buffer (ALRB) applied to the Group and is based upon the OSII Buffer.
8 The liquidity balances are calculated as the simple averages of month end observations over the 12 month preceding the end of each quarter.

Key metric and overview of risk weighted exposure amounts (continued)

Common Equity Tier 1

The Group's common equity tier 1 (CET1) capital ratio reduced from 16.7 per cent at 31 December 2021 to 14.1 per cent on 1 January 2022, before increasing during the quarter to 14.5 per cent at 31 March 2022. The reduction on 1 January 2022 reflected the impact of regulatory changes, including an increase in risk-weighted assets as well as other related modelled impacts, in addition to the reinstatement of the full deduction treatment for intangible software assets and phased unwind of IFRS 9 transitional relief. The subsequent increase during the quarter reflected profits for the period and a reduction in risk-weighted assets, partly offset by accelerated pension contributions.

Total Capital

The total capital ratio reduced from 23.5 per cent at 31 December 2021 to 20.0 per cent at 31 March 2022 primarily reflecting the reduction in CET1 capital, the increase in risk-weighted assets and completion of the transition to end-point eligibility rules for regulatory capital on 1 January 2022.

Risk-Weighted Assets

Risk-weighted assets increased from £161.6 billion at 31 December 2021 to around £178 billion on 1 January 2022, before reducing during the quarter to £175.4 billion at 31 March 2022. The increase on 1 January 2022 reflected the impact of regulatory changes, including the implementation (via the application of temporary model adjustments) of new CRD IV models to meet revised regulatory standards for modelled outputs and a new standardised approach for measuring counterparty credit risk (SA-CCR) following the UK implementation of the remainder of Capital Requirements Regulation (CRR) 2. The subsequent reduction in risk-weighted assets during the quarter was largely driven by optimisation activities and model recalibrations, partially offset by the growth in balance sheet lending. The new CRD IV models remain subject to finalisation and approval by the PRA and therefore uncertainty over the final impact remains

Leverage

The UK leverage ratio reduced from 5.3 per cent at 31 December 2021 to 5.1 per cent at 31 March 2022 with the average UK leverage ratio over the same period (1 January 2022 to 31 March 2022) at 5.1 per cent. This predominantly reflected reductions in the tier 1 capital measure throughout the quarter which included the implementation of regulatory changes impacting CET1 capital on 1 January 2022 and, during the quarter, accelerated pension contributions, offset in part by profits.

Capital - IFRS 9 / Article 468-FL[1,3]

Comparison of institutions' own funds and capital and leverage ratios with and without the application of transitional arrangements for IFRS 9 or analogous ECLs

		31 Mar 2022[2]	31 Dec 2021	30 Sep 2021	30 Jun 2021	31 Mar 2021
	Available own funds (amounts)					
1	Common Equity Tier 1 (CET1) capital (£m)	**25,399**	26,904	26,749	26,960	27,069
2	CET1 capital as if IFRS 9 transitional arrangements had not been applied (£m)	**25,256**	26,253	25,696	25,628	25,471
3	Tier 1 capital (£m)	**29,667**	31,853	31,698	31,909	33,684
4	Tier 1 capital as if IFRS 9 transitional arrangements had not been applied (£m)	**29,524**	31,202	30,645	30,577	32,086
5	Total capital (£m)	**35,015**	37,909	37,149	38,362	40,149
6	Total capital as if IFRS 9 transitional arrangements had not been applied (£m)	**35,024**	38,039	37,202	38,273	39,755
	Risk-weighted exposure amounts					
7	Total risk-weighted exposure amount (£m)	**175,416**	161,576	166,677	167,190	168,215
8	Total risk-weighted exposure amount as if IFRS 9 transitional arrangements had not been applied (£m)	**175,522**	161,805	166,878	167,332	168,330
	Capital ratios (as a percentage of risk-weighted exposure amount)					
9	Common Equity Tier 1 ratio (%)	**14.5%**	16.7%	16.0%	16.1%	16.1%
10	CET1 ratio as if IFRS 9 transitional arrangements had not been applied (%)	**14.4%**	16.2%	15.4%	15.3%	15.1%
11	Tier 1 ratio (%)	**16.9%**	19.7%	19.0%	19.1%	20.0%
12	Tier 1 ratio as if IFRS 9 transitional arrangements had not been applied (%)	**16.8%**	19.3%	18.4%	18.3%	19.1%
13	Total capital ratio (%)	**20.0%**	23.5%	22.3%	22.9%	23.9%
14	Total capital ratio as if IFRS 9 transitional arrangements had not been applied (%)	**20.0%**	23.5%	22.3%	22.9%	23.6%
	Leverage ratio					
15	Total exposure measure excluding claims on central banks (£m)	**576,845**	584,650	591,233	587,248	584,853
16	Leverage ratio excluding claims on central banks (%)	**5.1%**	5.3%	5.2%	5.3%	5.6%
17	Leverage ratio excluding claims on central banks as if IFRS 9 transitional arrangements had not been applied (%)	**5.1%**	5.2%	5.1%	5.1%	5.4%

1 The Group applies the full extent of the IFRS9 transitional arrangements for capital as set out under CRR Article 473a (revised). Specifically, the Group has opted to apply both paragraphs 2 and 4 of CRR Article 473a (static and dynamic relief) and in addition to apply a 100% risk weight to the consequential Standardised credit risk exposure add-back as permitted under paragraph 7a of the revisions. As at 31 March 2022, static relief under the transitional arrangements amounted to £135 million (31 December 2021: £264 million) and dynamic relief under the transitional arrangements amounted to £8 million (31 December 2021: £387 million) through CET1 capital.

2 Incorporating profits for the quarter that remain subject to formal verification in accordance with capital regulations.

3 The Group has chosen not to apply the temporary treatment specified under CRR Article 468 (revised) 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.

Key metric and overview of risk weighted exposure amounts (continued)

OV1: Overview of risk-weighted assets

		Total RWA		Total own funds requirements
		31 Mar 2022	31 Dec 2021[1]	31 Mar 2022
		£m	£m	£m
1	**Credit risk (excluding CCR)[1]**	**145,577**	131,961	**11,646**
2	Of which the standardised approach[1]	20,363	19,861	1,629
3	Of which the foundation IRB (FIRB) approach	29,285	30,697	2,343
4	Of which slotting approach	9,205	8,852	736
5	Of which the advanced IRB (AIRB) approach	81,050	65,435	6,484
	Of which: non-credit obligation assets[2]	5,674	7,117	454
6	**Counterparty credit risk - CCR**	**1,693**	1,464	**135**
7	Of which the standardised approach	1,018	—	81
	Of which: marked to market	—	895	—
UK 8a	Of which exposures to a CCP	49	162	4
UK 8b	Of which credit valuation adjustment - CVA	431	207	34
9	Of which other CCR	195	200	16
16	**Securitisation exposures in the non-trading book (after the cap)**	**5,479**	5,373	**438**
17	Of which SEC-IRBA approach	2,120	2,188	170
18	Of which SEC-ERBA (including IAA)	1,769	1,723	141
19	Of which SEC-SA approach	1,590	1,462	127
20	**Position, foreign exchange and commodities risks (Market risk)**	**91**	203	**7**
21	Of which the standardised approach	—	78	—
22	Of which IMA	91	126	7
23	**Operational risk**	**22,575**	22,575	**1,806**
UK 23b	Of which standardised approach	22,575	22,575	1,806
24	**Amounts below the thresholds for deduction (subject to 250% risk weight) (For information)[1]**	2,022	2,318	162
29	**Total**	**175,415**	161,576	**14,032**
	Pillar 2A capital requirement			6,438
	Total capital requirement			**20,470**

1 Restated in accordance with revised OV1 template requirements: (i) threshold balances now reported through relevant underlying category.

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

IRB Approach to Credit Risk

The table below summarises the movements of risk-weighted assets for credit risk exposures under the Internal Ratings Based (IRB) Approach. The table excludes counterparty credit risk exposures, securitisation exposures, other non-credit obligation assets and equity exposures.

CR8: Risk-weighted assets flow statements of credit risk exposures - year to 31 March 2022

		Total RWA	Total own funds requirements
		£m	£m
1	**Risk weighted exposure amount as at 31 Dec 2021**	**104,985**	**8,399**
2	Asset size (+/-)	(168)	(13)
3	Asset quality (+/-)	(871)	(70)
4	Model updates (+/-)	—	—
5	Methodology and policy (+/-)	15,495	1,240
6	Acquisitions and disposals (+/-)	—	—
7	Foreign exchange movements (+/-)	101	8
8	Other (+/-)	—	—
9	**Risk weighted exposure amount as at 31 Mar 2022**	**119,542**	**9,563**

Key movements

– Asset quality decrease mainly driven by retail model calibrations.

– Methodology and policy increases in risk-weighted assets reflect the implementation (via the application of temporary model adjustments) of new CRD IV models to meet revised regulatory standards for modelled outputs partly offset by other optimisation activity.

Liquidity Requirements

LIQ1: Liquidity Coverage Ratio

The table below presents the breakdown of the Group's cash outflows and cash inflows, as well as its available high quality liquid assets, calculated as the simple averages of month end observations over the 12 months preceding the end of each quarter.

		Total unweighted value (average)				Total weighted value (average)			
		31 Mar 2022	31 Dec 2021	30 Sep 2021	30 Jun 2021	31 Mar 2022	31 Dec 2021	30 Sep 2021	30 Jun 2021
	Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
HIGH-QUALITY LIQUID ASSETS (£m)									
1	Total high-quality liquid assets (HQLA)					119,276	114,712	111,625	111,676
CASH - OUTFLOWS (£m)									
2	Retail deposits and deposits from small business customers, of which:	335,488	329,834	321,879	312,781	22,427	21,956	21,273	20,524
3	Stable deposits	259,849	257,170	253,006	247,875	12,992	12,859	12,650	12,394
4	Less stable deposits	75,639	72,663	68,873	64,906	9,435	9,098	8,622	8,130
5	Unsecured wholesale funding	100,090	98,243	97,794	96,712	48,714	47,822	48,258	48,074
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	35,012	33,618	32,045	30,477	8,753	8,405	8,011	7,619
7	Non-operational deposits (all counterparties)	61,723	61,958	62,979	63,473	36,606	36,751	37,476	37,694
8	Unsecured debt	3,355	2,666	2,771	2,761	3,355	2,666	2,771	2,761
9	Secured wholesale funding					84	116	116	94
10	Additional requirements	51,611	53,296	55,188	55,728	19,039	19,797	20,713	21,381
11	Outflows related to derivative exposures and other collateral requirements	11,925	12,359	12,916	13,635	11,926	12,359	12,916	13,635
12	Outflows related to loss of funding on debt products	936	944	1,023	1,012	936	944	1,023	1,012
13	Credit and liquidity facilities	38,750	39,993	41,249	41,082	6,177	6,494	6,774	6,734
14	Other contractual funding obligations	381	397	406	411	52	66	73	75
15	Other contingent funding obligations	88,489	88,690	89,065	88,558	4,911	4,907	4,997	4,910
16	TOTAL CASH OUTFLOWS					95,227	94,665	95,429	95,058

LIQ1: Liquidity Coverage Ratio (continued)

		Total unweighted value (average)				Total weighted value (average)			
		31 Mar 2022	31 Dec 2021	30 Sep 2021	30 Jun 2021	31 Mar 2022	31 Dec 2021	30 Sep 2021	30 Jun 2021
CASH - INFLOWS (£m)									
17	Secured lending (e.g. reverse repos)	**11,414**	10,800	10,518	11,379	**220**	210	182	154
18	Inflows from fully performing exposures	**4,058**	3,929	3,972	4,010	**2,594**	2,498	2,516	2,528
19	Other cash inflows	**1,345**	1,050	1,132	1,087	**948**	661	751	709
UK-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					**0**	0	0	0
UK-19b	(Excess inflows from a related specialised credit institution)					**0**	0	0	0
20	TOTAL CASH INFLOWS	**16,817**	15,779	15,621	16,476	**3,762**	3,369	3,449	3,392
UK-20a	Fully exempt inflows	**0**	0	0	0	**0**	0	0	0
UK-20b	Inflows subject to 90% cap	**0**	0	0	0	**0**	0	0	0
UK-20c	Inflows subject to 75% cap	**16,154**	15,104	15,072	16,046	**3,762**	3,369	3,449	3,392
TOTAL ADJUSTED VALUE									
UK-21	LIQUIDITY BUFFER (£m)					**119,276**	114,712	111,625	111,676
22	TOTAL NET CASH OUTFLOWS (£m)					**91,465**	91,296	91,979	91,666
23	LIQUIDITY COVERAGE RATIO (%)					**131 %**	126 %	121 %	122 %

LIQB: Qualitative information on LCR

The Group's Pillar 3 LCR disclosure (calculated as the simple average of month end observations over the 12 months preceding the end of each quarter) was 131% as of 31 March 2022. The 5% increase from 126% for the prior quarter is explained primarily by an increase in liquid assets.

Over time, the increase in the Pillar 3 template LCR is explained primarily by an increase in liquid assets. This results primarily from draw downs from the Bank of England's Term Funding Scheme with additional incentives for SMEs (TFSME) during 2021.

The Group's funding and liquidity position is underpinned by its significant customer deposit base, and is supported by strong relationships across customer segments. The Group has consistently observed that in aggregate the retail deposit base provides a stable source of funding. Funding concentration by counterparty, currency and tenor is monitored on an ongoing basis and where concentrations do exist, these are managed as part of the planning process and limited by the internal funding and liquidity risk monitoring framework, with analysis regularly provided to senior management.

The Group's liquidity buffer consists almost entirely of Level 1 assets. Level 1 assets are primarily held as central bank reserves, with the majority of the balance being UK government bonds.

Group derivative exposures and other collateral requirements outflows cover both modelled outflows due to a deterioration in credit rating and outflows from the impact of an adverse market scenario on derivatives transactions.

The Group's liquidity risk management framework covers currency liquidity risk and ensures the currency denomination of LCR liquid assets is consistent with the distribution of net currency liquidity outflows. Granular LCR risk appetites by significant currency are set and monitored across tenors at Group committee level i.e Group Asset and Liability Committee.