Lloyds Banking Group plc

Q1 2018 Interim Pillar 3 Report

25 April 2018

BASIS OF PRESENTATION

This report presents the interim Pillar 3 disclosures of Lloyds Banking Group plc ('the Group') as at 31 March 2018 and should be read in conjunction with the Group's Q1 2018 Interim Management Statement.

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

- 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 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 2018 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

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 2018[2]	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Available capital (amounts)					
Common Equity Tier 1 (CET1) (£m)	**29,638**	29,647	30,519	29,320	30,588
CET1 capital as if IFRS 9 transitional arrangements had not been applied (£m)	**29,066**				
Tier 1 (£m)	**35,807**	36,329	37,303	36,103	37,371
Tier 1 capital as if IFRS 9 transitional arrangements had not been applied (£m)	**35,235**				
Total capital (£m)	**45,436**	44,659	46,010	45,203	46,763
Total capital as if IFRS 9 transitional arrangements had not been applied (£m)	**45,397**				
Risk-weighted assets (amounts)					
Total risk-weighted assets (£m)	**210,570**	210,919	217,014	217,787	213,715
Total risk-weighted assets as if IFRS 9 transitional arrangements had not been applied (£m)	**210,821**				
Risk-based capital ratios as a percentage of RWA					
Common Equity Tier 1 ratio (%)[3]	**14.1%**	14.1%	14.1%	13.5%	14.3%
CET1 ratio as if IFRS 9 transitional arrangements had not been applied (%)	**13.8%**				
Tier 1 ratio (%)	**17.0%**	17.2%	17.2%	16.6%	17.5%
Tier 1 ratio as if IFRS 9 transitional arrangements had not been applied (%)	**16.7%**				
Total capital ratio (%)	**21.6%**	21.2%	21.2%	20.8%	21.9%
Total capital ratio as if IFRS 9 transitional arrangements had not been applied (%)	**21.5%**				
Additional CET1 buffer requirements as a percentage of RWA					
Capital conservation buffer requirement (2.5% from 2019)	**1.875%**	1.250%	1.250%	1.250%	1.250%
Countercyclical buffer requirement (%)	**0.003%**	0.002%	0.002%	0.003%	0.003%
Bank G-SIB and/or D-SIB additional requirements (%)	**–**	–	–	–	–
Total of bank CET1 specific buffer requirements (%)	**1.878%**	1.252%	1.252%	1.253%	1.253%
CET1 available after meeting the bank's minimum capital requirements (%)	**9.6%**	9.6%	9.6%	9.1%	9.8%
UK leverage ratio[4]					
UK leverage ratio exposure measure (£m)	**656,305**	657,234	663,745	667,207	664,426
UK leverage ratio (%)	**5.3%**	5.3%	5.4%	5.2%	5.4%
UK leverage ratio as if IFRS 9 transitional arrangements had not been applied (%)	**5.2%**				
Average Liquidity Coverage Ratio (weighted) (LCR)[5]					
Total High Quality Liquid Assets (HQLA) (£m)	**121,552**	124,543	126,789	132,437	133,568
Total net cash outflow (£m)	**97,623**	99,703	102,817	108,156	111,106
LCR ratio (%)	**125%**	125%	123%	123%	120%

[1] Further details on the Group's adoption of the transitional arrangements for IFRS 9 can be found in the Group publication entitled 'IFRS 9 "Financial Instruments" Transition', published in March 2018 and located on the Group's website at http://www.lloydsbankinggroup.com/investors/financial-performance/. 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 provisions (net of regulatory expected losses) during the transition period.

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

[3] The common equity tier 1 ratio at 31 March 2018 is 14.4 per cent prior to the accrual for foreseeable dividends. At 31 December 2017 the common equity tier 1 ratio was 13.9 per cent on a pro forma basis, reflecting the dividend paid by the Insurance business in February 2018, net of the share buyback.

[4] At 31 December 2017 the leverage ratio was 5.4 per cent on a pro forma basis, reflecting the dividend paid by the Insurance business in February 2018. The CRD IV leverage ratio at 31 March 2018 is 4.9 per cent (31 December 2017: 4.9 per cent).

[5] In March 2017 the EBA published final guidelines which specified the public disclosure requirements on the average Liquidity Coverage Ratio (LCR). The weighted average LCR has been calculated in accordance with these guidelines.

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 2018	At 31 Dec 2017	**At 31 Mar 2018**	At 31 Dec 2017
Capital resources	**£m**	£m	**£m**	£m
Common equity tier 1				
Shareholders' equity per balance sheet[1]	**43,049**	43,551	**43,049**	43,551
Deconsolidation adjustments[2]	**1,823**	1,301	**1,823**	1,301
Other adjustments	**(3,283)**	(2,948)	**(3,283)**	(2,948)
Deductions from common equity tier 1	**(11,951)**	(12,257)	**(11,951)**	(12,257)
Common equity tier 1 capital	**29,638**	29,647	**29,638**	29,647
Additional tier 1 instruments	**7,534**	8,085	**5,330**	5,330
Deductions from tier 1	**(1,365)**	(1,403)	**–**	–
Total tier 1 capital	**35,807**	36,329	**34,968**	34,977
Tier 2 instruments and eligible provisions	**11,151**	9,846	**8,036**	6,936
Deductions from tier 2	**(1,522)**	(1,516)	**(2,887)**	(2,919)
Total capital resources	**45,436**	44,659	**40,117**	38,994
Total risk-weighted assets	**210,570**	210,919	**210,570**	210,919
Leverage[3]				
Statutory balance sheet assets			**805,064**	812,109
Deconsolidation, qualifying central bank claims and other adjustments[2]			**(207,760)**	(213,232)
Off-balance sheet items			**59,001**	58,357
Total exposure measure			**656,305**	657,234
Average exposure measure[7]			**658,305**	
CRD IV exposure measure[4]			**711,976**	711,076
Ratios				
Common equity tier 1 capital ratio[5]	**14.1%**	14.1%	**14.1%**	14.1%
Tier 1 capital ratio	**17.0%**	17.2%	**16.6%**	16.6%
Total capital ratio	**21.6%**	21.2%	**19.1%**	18.5%
UK leverage ratio[6]			**5.3%**	5.3%
Average UK leverage ratio[7]			**5.3%**	
CRD IV leverage ratio			**4.9%**	4.9%

1 Incorporating profits, net of foreseeable dividends, for the period that remain subject to formal verification in accordance with the Capital Requirements Regulation.
2 Deconsolidation adjustments relate to the deconsolidation of certain Group entities for regulatory capital and leverage purposes, being primarily the Group's Insurance business.
3 Calculated in accordance with the UK Leverage Ratio Framework which requires qualifying central bank claims to be excluded from the leverage exposure measure.
4 Calculated in accordance with CRD IV rules which include central bank claims within the leverage exposure measure.
5 The common equity tier 1 ratio at 31 March 2018 is 14.4 per cent prior to the accrual for foreseeable dividends. At 31 December 2017 the common equity tier 1 ratio was 13.9 per cent on a pro forma basis, reflecting the dividend paid by the Insurance business in February 2018, net of the share buyback.
6 The countercyclical leverage buffer is currently nil. At 31 December 2017 the leverage ratio was 5.4 per cent on a pro forma basis, reflecting the dividend paid by the Insurance business in February 2018.
7 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 2018 to 31 March 2018). The average of 5.3 per cent is broadly in line with the ratios at the start and end of the quarter.

Overview of risk-weighted assets (OV1)

	At 31 Mar 2018 £m	At 31 Dec 2017 £m
Credit risk (excluding counterparty credit risk)	**161,798**	160,301
Of which standardised approach	**25,895**	25,259
Of which the foundation rating-based (FIRB) approach	**49,371**	48,242
Of which the retail IRB (RIRB) approach	**61,454**	61,588
Of which corporates – specialised lending	**11,937**	11,965
Of which non-credit obligation assets	**5,927**	5,866
Of which equity IRB under the simple risk-weight or the internal models approach	**7,214**	7,381
Counterparty credit risk	**7,411**	7,885
Of which marked to market	**5,368**	5,481
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)	**369**	403
Of which exposures to central counterparties (including trades, default fund contributions and initial margin)	**729**	599
Of which credit valuation adjustment (CVA)	**945**	1,402
Settlement risk	**–**	–
Securitisation exposures in banking book[1]	**4,063**	4,188
Of which IRB ratings-based approach (RBA)	**3,108**	3,167
Of which IRB supervisory formula approach (SFA)	**48**	46
Of which internal assessment approach (IAA)	**670**	731
Of which standardised approach	**237**	244
Market risk	**2,220**	3,051
Of which standardised approach	**311**	395
Of which internal model approaches	**1,909**	2,656
Large exposures	**–**	–
Operational risk	**24,960**	25,326
Of which basic indicator approach	**–**	–
Of which standardised approach	**24,960**	25,326
Of which advanced measurement approach	**–**	–
Amounts below the thresholds for deduction (subject to 250% risk weight)	**10,118**	10,168
Floor adjustment	**–**	–
Total risk-weighted assets	**210,570**	210,919

Total capital requirement

Pillar 1 capital requirement[2]	**16,846**	16,874
Pillar 2A capital requirement[3]	**11,294**	11,306
Total capital requirement	**28,140**	28,180

[1] Securitisations are shown separately in the table but are included within credit risk in the movements by key driver analysis.
[2] The Pillar 1 capital requirement is calculated as 8 per cent of aggregated risk-weighted assets.
[3] The Pillar 2A capital requirement is currently calculated as 5.4 per cent of aggregated risk-weighted assets, of which 3.0 per cent must be met with CET1 capital.

Risk-weighted asset movements by key driver

	Credit risk IRB £m	Credit risk STA £m	Credit risk[1] £m	Counterparty credit risk[2] £m	Market risk £m	Operational risk £m	Total £m
Total risk-weighted assets as at 31 December 2017							210,919
Less total threshold risk-weighted assets[3]							(10,168)
Risk-weighted assets as at 31 December 2017	138,986	25,503	164,489	7,885	3,051	25,326	200,751
Asset size	1,383	447	**1,830**	**105**	**–**	**–**	**1,935**
Asset quality	(393)	27	**(366)**	**(650)**	**–**	**–**	**(1,016)**
Model updates	462	–	**462**	**–**	**(719)**	**–**	**(257)**
Methodology and policy	(14)	195	**181**	**–**	**–**	**–**	**181**
Acquisitions and disposals	(53)	–	**(53)**	**–**	**–**	**–**	**(53)**
Movements in risk levels (market risk only)	–	–	**–**	**–**	**(112)**	**–**	**(112)**
Foreign exchange movements	(642)	(40)	**(682)**	**71**	**–**	**–**	**(611)**
Other	–	–	**–**	**–**	**–**	**(366)**	**(366)**
Risk-weighted assets as at 31 March 2018	139,729	26,132	**165,861**	**7,411**	**2,220**	**24,960**	**200,452**
Threshold risk-weighted assets[3]							**10,118**
Total risk-weighted assets as at 31 March 2018							**210,570**

[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 significant investments and deferred tax assets that are permitted to be risk-weighted instead of being deducted from CET1 capital. Significant investments primarily arise from investments in the Group's Insurance business.

The risk-weighted assets movement table provides analysis of the reduction 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.

There has been a modest reduction in risk-weighted assets in the quarter largely driven by foreign exchange and yield curve movements.

- Asset size includes changes in book size (both drawn and undrawn balances) and composition, excluding acquisitions and disposals.
- Asset quality captures movements due to changes in borrower risk, including changes in the economic environment.
- Model updates reflect changes due to model implementation or scope.
- Methodology and policy movements are driven by methodological changes in calculations.
- Movements in risk levels reflect position changes (market risk only).
- Foreign exchange movements arise from foreign currency translation movements.

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