Lloyds Banking Group plc

Q3 2018 Interim Pillar 3 Report

25 October 2018

BASIS OF PRESENTATION

This report presents the interim Pillar 3 disclosures of Lloyds Banking Group plc ('the Group') as at 30 September 2018 and should be read in conjunction with the Group's Q3 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.

FORWARD LOOKING STATEMENTS

This document contains certain forward looking statements with respect to the business, strategy, plans and /or results of the 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 Group's or its directors' and/or management's beliefs and expectations, are forward looking 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 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 Group'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 Group'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, 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 Group'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 Group; the ability to attract and retain senior management and other employees and meet its diversity objectives; actions or omissions by the Group's directors, management or employees including industrial action; changes to the 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 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 with the US Securities and Exchange Commission for a discussion of certain factors and risks together with examples of forward looking statements. 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 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 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]

	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017
Available capital (amounts)					
Common Equity Tier 1 (CET1) (£m)	**30,167**	29,794	29,638	29,647	30,519
CET1 capital as if IFRS 9 transitional arrangements had not been applied (£m)	**29,593**	29,216	29,066		
Tier 1 (£m)	**36,365**	35,973	35,807	36,329	37,303
Tier 1 capital as if IFRS 9 transitional arrangements had not been applied (£m)	**35,791**	35,395	35,235		
Total capital (£m)	**45,149**	45,584	45,436	44,659	46,010
Total capital as if IFRS 9 transitional arrangements had not been applied (£m)	**45,111**	45,343	45,397		
Risk-weighted assets (amounts)					
Total risk-weighted assets (£m)	**206,884**	210,689	210,570	210,919	217,014
Total risk-weighted assets as if IFRS 9 transitional arrangements had not been applied (£m)	**207,364**	211,165	210,821		
Risk-based capital ratios as a percentage of RWA					
Common Equity Tier 1 ratio (%)[2]	**14.6%**	14.1%	14.1%	14.1%	14.1%
CET1 ratio as if IFRS 9 transitional arrangements had not been applied (%)	**14.3%**	13.8%	13.8%		
Tier 1 ratio (%)	**17.6%**	17.1%	17.0%	17.2%	17.2%
Tier 1 ratio as if IFRS 9 transitional arrangements had not been applied (%)	**17.3%**	16.8%	16.7%		
Total capital ratio (%)	**21.8%**	21.6%	21.6%	21.2%	21.2%
Total capital ratio as if IFRS 9 transitional arrangements had not been applied (%)	**21.8%**	21.5%	21.5%		
Additional CET1 buffer requirements as a percentage of RWA					
Capital conservation buffer requirement (2.5% from 2019)	**1.875%**	1.875%	1.875%	1.250%	1.250%
Countercyclical buffer requirement (%)	**0.444%**	0.443%	0.003%	0.002%	0.002%
Bank G-SIB and/or D-SIB additional requirements (%)	**–**	–	–	–	–
Total of bank CET1 specific buffer requirements (%)	**2.319%**	2.318%	1.878%	1.252%	1.252%
CET1 available after meeting the bank's minimum capital requirements (%)	**10.1%**	9.6%	9.6%	9.6%	9.6%
UK leverage ratio[3]					
UK leverage ratio exposure measure (£m)	**671,885**	670,312	656,305	657,234	663,745
UK leverage ratio (%)	**5.3%**	5.2%	5.3%	5.3%	5.4%
UK leverage ratio as if IFRS 9 transitional arrangements had not been applied (%)	**5.2%**	5.2%	5.2%		
Average Liquidity Coverage Ratio (weighted) (LCR)					
Total High Quality Liquid Assets (HQLA) (£m)	**123,498**	121,001	121,552	124,543	126,789
Total net cash outflow (£m)	**97,081**	96,817	97,623	99,703	102,817
LCR ratio (%)	**127%**	125%	125%	125%	123%

[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] The common equity tier 1 ratio at 30 September 2018 is 15.5 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 full share buy back.

[3] 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 30 September 2018 is 4.8 per cent (31 December 2017: 4.9 per cent).

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 Sept 2018	At 31 Dec 2017	**At 30 Sept 2018**	At 31 Dec 2017
Capital resources	**£m**	£m	**£m**	£m
Common equity tier 1				
Shareholders' equity per balance sheet	**42,034**	43,551	**42,034**	43,551
Deconsolidation adjustments[1]	**1,841**	1,301	**1,841**	1,301
Other adjustments	**(1,303)**	(2,948)	**(1,303)**	(2,948)
Deductions from common equity tier 1	**(12,405)**	(12,257)	**(12,405)**	(12,257)
Common equity tier 1 capital	**30,167**	29,647	**30,167**	29,647
Additional tier 1 instruments	**7,534**	8,085	**5,330**	5,330
Deductions from tier 1	**(1,336)**	(1,403)	**–**	–
Total tier 1 capital	**36,365**	36,329	**35,497**	34,977
Tier 2 instruments and eligible provisions	**10,308**	9,846	**7,704**	6,936
Deductions from tier 2	**(1,524)**	(1,516)	**(2,860)**	(2,919)
Total capital resources	**45,149**	44,659	**40,341**	38,994
Total risk-weighted assets	**206,884**	210,919	**206,884**	210,919
Leverage[2]				
Statutory balance sheet assets			**829,228**	812,109
Deconsolidation, qualifying central bank claims and other Adjustments[1]			**(215,104)**	(213,232)
Off-balance sheet items			**57,761**	58,357
Total exposure measure			**671,885**	657,234
Average exposure measure[6]			**676,076**	
CRD IV exposure measure[3]			**732,576**	711,076
Ratios				
Common equity tier 1 capital ratio[4]	**14.6%**	14.1%	**14.6%**	14.1%
Tier 1 capital ratio	**17.6%**	17.2%	**17.2%**	16.6%
Total capital ratio	**21.8%**	21.2%	**19.5%**	18.5%
UK leverage ratio[5]			**5.3%**	5.3%
Average UK leverage ratio[6]			**5.2%**	
CRD IV leverage ratio			**4.8%**	4.9%

1 Deconsolidation adjustments relate to the deconsolidation of certain Group entities for regulatory capital and leverage purposes, being primarily the Group's Insurance business.

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 common equity tier 1 ratio at 30 September 2018 is 15.5 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 full share buy back.

5 The countercyclical leverage buffer is currently 0.2 per cent. 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.

6 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 2018 to 30 September 2018). The average 5.2 per cent compares to 5.2 per cent at the start and 5.3 per cent at the end of the quarter, with the ratio strengthening towards the end of the quarter largely as a result of the increase in tier 1 capital.

Overview of risk-weighted assets (OV1)

	At 30 Sept 2018 £m	At 31 Dec 2017 £m
Credit risk (excluding counterparty credit risk)	**158,101**	160,301
Of which standardised approach	**25,579**	25,259
Of which the foundation rating-based (FIRB) approach	**47,968**	48,242
Of which the retail IRB (RIRB) approach	**59,476**	61,588
Of which corporates – specialised lending	**12,597**	11,965
Of which non-credit obligation assets[1]	**5,894**	5,866
Of which equity IRB under the simple risk-weight or the internal models approach	**6,587**	7,381
Counterparty credit risk	**7,203**	7,885
Of which marked to market	**5,014**	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)	**359**	403
Of which exposures to central counterparties (including trades, default fund contributions and initial margin)	**1,015**	599
Of which credit valuation adjustment (CVA)	**815**	1,402
Settlement risk		–
Securitisation exposures in banking book[2]	**4,238**	4,188
Of which IRB ratings-based approach (RBA)	**3,155**	3,167
Of which IRB supervisory formula approach (SFA)	**54**	46
Of which internal assessment approach (IAA)	**805**	731
Of which standardised approach	**224**	244
Market risk	**2,193**	3,051
Of which standardised approach	**326**	395
Of which internal model approaches	**1,867**	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)	**10,189**	10,168
Floor adjustment	**–**	–
Total risk-weighted assets	**206,884**	210,919

Total capital requirement

Pillar 1 capital requirement[3]	**16,551**	16,874
Pillar 2A capital requirement[4]	**9,629**	11,306
Total capital requirement	**26,180**	28,180

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 calculated as 8 per cent of aggregated risk-weighted assets.
4 The Pillar 2A capital requirement is currently calculated as c. 4.6 per cent of aggregated risk-weighted assets, of which c. 2.6 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 2017							210,919
Less threshold risk-weighted assets[3]							(10,168)
Risk-weighted assets at 31 December 2017	138,986	25,503	164,489	7,885	3,051	25,326	200,751
Asset size	**99**	**1,078**	**1,177**	**52**	**–**	**–**	**1,229**
Asset quality	**1,003**	**106**	**1,109**	**(400)**	**–**	**–**	**709**
Model updates	**619**	**–**	**619**	**–**	**(587)**	**–**	**32**
Methodology and policy	**(7)**	**125**	**118**	**(136)**	**–**	**–**	**(18)**
Acquisitions and disposals	**(4,674)**	**(984)**	**(5,658)**	**–**	**–**	**–**	**(5,658)**
Movements in risk levels (market risk only)	**–**	**–**	**–**	**–**	**(926)**	**–**	**(926)**
Foreign exchange movements	**365**	**(24)**	**341**	**(191)**	**–**	**–**	**150**
Other	**144**	**–**	**144**	**(7)**	**655**	**(366)**	**426**
Risk-weighted assets at 30 September 2018	**136,535**	**25,804**	**162,339**	**7,203**	**2,193**	**24,960**	**196,695**
Threshold risk-weighted assets[3]							**10,189**
Total risk-weighted assets at 30 September 2018							**206,884**

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 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 increase of £1,177m was principally due to targeted growth in key customer segments.
- Asset quality increase of £1,109m captures movements due to changes in borrower risk, including changes in the economic environment.
- Model update increases of £619m were principally due to model changes within mortgage portfolios.
- Acquisitions and disposals reflects the sale of the Irish mortgage portfolio and various strategic equity holdings.
- Sterling foreign exchange movements, principally with Euro and US Dollar, contributed to an increase of £341m in risk-weighted assets.

Counterparty credit risk and CVA risk weighted assets reduction of £682m was mainly driven by CVA, foreign exchange movements and yield movement.

Market risk, risk-weighted assets reduction of £858m was largely due to a reduction in underlying positions and refinements to internal models, partly offset by migrations to Lloyds Bank Corporate Markets.

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

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