

Lloyds Banking Group plc

Q1 2019 Interim Pillar 3 Report

2 May 2019

BASIS OF PRESENTATION

This report presents the interim Pillar 3 disclosures of Lloyds Banking Group plc ('the Group') as at 31 March 2019 and should be read in conjunction with the Group's Q1 2019 Interim Management Statement.

The disclosures have been prepared in accordance with 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.

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 2019 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

This Report contains certain forward looking statements with respect to the business, strategy, plans and/or results of Lloyds Banking Group and its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about Lloyds Banking 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. 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. Examples of such forward looking statements include, but are not limited to: projections or expectations of the 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 Group's future financial performance; the level and extent of future impairments and write-downs; statements of plans, objectives or goals of Lloyds Banking 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. 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 or 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. 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 Report are made as of the date hereof, and Lloyds Banking Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statements contained in This Report to reflect any change in Lloyds Banking 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 Report 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

	Q1 2019 ²	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Available capital (amounts)					
Common Equity Tier 1 (CET1) (£m)	28,883	30,167	30,167	29,794	29,638
CET1 capital as if IFRS 9 transitional arrangements had not been applied (£m)	28,375	29,592	29,593	29,216	29,066
Tier 1 (£m)	35,703	37,539	36,365	35,973	35,807
Tier 1 capital as if IFRS 9 transitional arrangements had not been applied (£m)	35,196	36,964	35,791	35,395	35,235
Total capital (£m)	45,379	47,234	45,149	45,584	45,436
Total capital as if IFRS 9 transitional arrangements had not been applied (£m)	45,351	47,195	45,111	45,343	45,397
Risk-weighted assets (amounts)					
Total risk-weighted assets (£m)	207,664	206,366	206,884	210,689	210,570
Total risk-weighted assets as if IFRS 9 transitional arrangements had not been applied (£m)	207,903	206,614	207,364	211,165	210,821
Risk-based capital ratios as a percentage of RWA					
Common Equity Tier 1 ratio (%) ³	13.9%	14.6%	14.6%	14.1%	14.1%
CET1 ratio as if IFRS 9 transitional arrangements had not been applied (%)	13.6%	14.3%	14.3%	13.8%	13.8%
Tier 1 ratio (%)	17.2%	18.2%	17.6%	17.1%	17.0%
Tier 1 ratio as if IFRS 9 transitional arrangements had not been applied (%)	16.9%	17.9%	17.3%	16.8%	16.7%
Total capital ratio (%)	21.9%	22.9%	21.8%	21.6%	21.6%
Total capital ratio as if IFRS 9 transitional arrangements had not been applied (%)	21.8%	22.8%	21.8%	21.5%	21.5%
Additional CET1 buffer requirements % of RWA					
Capital conservation buffer requirement	2.5%	1.875%	1.875%	1.875%	1.875%
Countercyclical buffer requirement (%)	0.883%	0.884%	0.444%	0.443%	0.003%
Bank G-SIB and/or D-SIB additional requirements (%) ⁴	–	–	–	–	–
Total of bank CET1 specific buffer requirements (%)	3.383%	2.759%	2.319%	2.318%	1.878%
CET1 available after meeting the bank's minimum capital requirements (%)	9.4%	10.1%	10.1%	9.6%	9.6%
UK leverage ratio⁵					
UK leverage ratio exposure measure (£m)	668,264	663,277	671,885	670,312	656,305
UK leverage ratio (%)	5.3%	5.5%	5.3%	5.2%	5.3%
UK leverage ratio as if IFRS 9 transitional arrangements had not been applied (%)	5.2%	5.4%	5.2%	5.2%	5.2%
Average Liquidity Coverage Ratio (weighted) (LCR)					
Total High Quality Liquid Assets (HQLA) (£m)	128,501	125,731	123,498	121,001	121,552
Total net cash outflow (£m)	99,242	98,489	97,081	96,817	97,623
LCR ratio (%)	129%	128%	127%	125%	125%

¹ 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 expected credit loss provisions (net of regulatory expected losses) during the transition period. As at 31 March 2019 no additional capital relief has been recognised.

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 2019 is 14.2 per cent prior to the accrual for foreseeable dividends. At 31 December 2018 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 2019, net of the full share buy back.

⁴ An additional requirement of 1.7 per cent will apply from 1 August 2019 being equivalent to the systemic risk buffer of 2.0 per cent applied to the Group's ring-fenced bank

⁵ At 31 December 2018 the leverage ratio was 5.6 per cent on a pro forma basis, reflecting the dividend paid by the Insurance business in February 2019. The CRD IV leverage ratio at 31 March 2019 is 4.9 per cent (31 December 2018: 5.1 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 31 Mar 2019	At 31 Dec 2018	At 31 Mar 2019	At 31 Dec 2018
	£m	£m	£m	£m
Capital resources				
Common equity tier ¹				
Shareholders' equity per balance sheet	43,835	43,434	43,835	43,434
Deconsolidation adjustments ¹	2,460	2,273	2,460	2,273
Other adjustments	(4,852)	(2,873)	(4,852)	(2,873)
Deductions from common equity tier ¹	(12,560)	(12,667)	(12,560)	(12,667)
Common equity tier 1 capital	28,883	30,167	28,883	30,167
Additional tier 1 instruments	8,120	8,670	6,466	6,466
Deductions from tier ¹	(1,300)	(1,298)	-	-
Total tier 1 capital	35,703	37,539	35,349	36,633
Tier 2 instruments and eligible provisions	10,643	10,668	7,338	7,898
Deductions from tier ²	(967)	(973)	(2,266)	(2,271)
Total capital resources	45,379	47,234	40,421	42,260
Total risk-weighted assets	207,664	206,366	207,664	206,366
Leverage²				
Statutory balance sheet assets			818,327	797,598
Deconsolidation, qualifying central bank claims and other adjustments ¹			(205,095)	(190,714)
Off-balance sheet items			55,032	56,393
Total exposure measure			668,264	663,277
Average exposure measure⁶			662,106	
CRD IV exposure measure³			723,590	713,382
Ratios				
Common equity tier 1 capital ratio ⁴	13.9%	14.6%	13.9%	14.6%
Tier 1 capital ratio	17.2%	18.2%	17.0%	17.8%
Total capital ratio	21.9%	22.9%	19.5%	20.5%
UK leverage ratio ⁵			5.3%	5.5%
Average UK leverage ratio ⁶			5.4%	
CRD IV leverage ratio			4.9%	5.1%

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 31 March 2019 is 14.2 per cent prior to the accrual for foreseeable dividends. At 31 December 2018 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 2019, net of the full share buy back.

⁵ The countercyclical leverage buffer is currently 0.3 per cent. At 31 December 2018 the leverage ratio was 5.6 per cent on a pro forma basis, reflecting the dividend paid by the Insurance business in February 2019.

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 January 2019 to 31 March 2019). The average 5.4 per cent compares to 5.5 per cent at the start and 5.3 per cent at the end of the quarter, with the ratio reducing across the quarter largely as a result of the reduction in tier 1 capital.

Overview of risk-weighted assets (OV1)

	At 31 Mar 2019 RWA £m	At 31 Dec 2018 RWA £m
Credit risk (excluding counterparty credit risk)	159,124	157,239
Of which standardised approach	25,956	25,548
Of which the foundation rating-based (FIRB) approach	47,622	48,747
Of which the retail IRB (RIRB) approach	59,978	59,522
Of which corporates – specialised lending	12,080	11,808
Of which non-credit obligation assets ¹	7,466	5,866
Of which equity IRB under the simple risk-weight or the internal models approach	6,022	5,749
Counterparty credit risk	7,254	7,250
Of which marked to market	5,312	4,917
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)	421	471
Of which exposures to central counterparties (including trades, default fund contributions and initial margin)	801	1,160
Of which credit valuation adjustment (CVA)	720	702
Settlement risk	-	-
Securitisation exposures in banking book²	4,265	4,262
Of which IRB ratings-based approach (RBA)	3,061	3,159
Of which IRB supervisory formula approach (SFA)	66	72
Of which internal assessment approach (IAA)	692	820
Of which standardised approach	203	209
Of which Revised Framework: IRBA	-	-
Of which Revised Framework: Sec-SA	135	-
Of which Revised Framework: ERBA	109	-
Market risk	1,947	2,085
Of which: standardised approach	402	416
Of which: internal model approaches	1,545	1,669
Large exposures	-	-
Operational risk	25,161	25,505
Of which: basic indicator approach	-	-
Of which: standardised approach	25,161	25,505
Of which: advanced measurement approach	-	-
Amounts below the thresholds for deduction (subject to 250% risk weight)	9,912	10,026
Floor adjustment	-	-
Total	207,664	206,366
Pillar 1 capital requirement ³	16,613	16,509
Pillar 2A capital requirement ⁴	9,858	9,615
Total capital requirement	26,471	26,124

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 8 per cent of aggregated risk-weighted assets.

⁴ The Pillar 2A capital requirement is currently c.4.7 per cent of aggregated risk-weighted assets, of which c.2.7 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 total¹ £m	Counterparty credit risk² £m	Market risk £m	Operational Risk £m	Total £m
Total risk-weighted assets at 31 December 2018							206,366
Less threshold risk-weighted assets ³							(10,026)
Risk-weighted assets at 31 December 2018	135,743	25,757	161,500	7,250	2,085	25,505	196,340
Asset size	(353)	907	554	(61)	(110)	–	383
Asset quality	755	(52)	703	47	–	–	750
Model updates	(124)	–	(124)	–	(56)	–	(180)
Methodology and policy	1,693	(418)	1,275	–	4	–	1,279
Acquisitions and disposals	–	–	–	–	–	–	–
Movements in risk levels (market risk only)	–	–	–	–	24	–	24
Foreign exchange movements	(483)	(35)	(518)	18	–	–	(500)
Other	–	–	–	–	–	(344)	(344)
Risk-weighted assets at 31 March 2019	137,231	26,159	163,390	7,254	1,947	25,161	197,752
Threshold risk-weighted assets ³							9,912
Total risk-weighted assets at 31 March 2019							207,664

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 movements of £554m include growth in certain targeted segments
- Asset quality increase of £703m captures movements due to changes in borrower risk, including changes in the economic environment
- Methodology and policy changes increased risk-weighted assets by £1,275m primarily as a result of the introduction of IFRS 16
- Sterling foreign exchange movements, principally with Euro and US Dollar, contributed to a reduction of £518m in risk-weighted assets

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

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