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

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 ratio[5]					
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
Capital resources	**£m**	£m	**£m**	£m
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
Leverage[2]				
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 measure[6]			**662,106**	
CRD IV exposure measure[3]			**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 book[2]	**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 total[1] £m	Counterparty credit risk[2] £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)**	**1275**	**–**	**4**	**–**	**1279**
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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