

Lloyds Banking Group plc

Q3 2019 Interim Pillar 3 Report

31 October 2019

BASIS OF PRESENTATION

This report presents the interim Pillar 3 disclosures of Lloyds Banking Group plc ('the Group') as at 30 September 2019 and should be read in conjunction with the Group's Q3 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.

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; any impact of the transition from IBORs to alternative reference rates; 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; the ability to achieve strategic objectives; changing customer behaviour including consumer spending, saving and borrowing habits; changes to borrower or counterparty credit quality; concentration of financial exposure; management and monitoring of conduct risk; instability in the global financial markets, including Eurozone instability, instability as a result of uncertainty surrounding the exit by the UK from the European Union (EU) and as a result of such exit 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; political instability including as a result of any UK general election; 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; risks relating to climate change; 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 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018
Available capital (amounts)					
1 Common Equity Tier 1 (CET1) (£m)	28,238	28,767	28,883	30,167	30,167
2 CET1 capital as if IFRS 9 transitional arrangements had not been applied (£m)	27,470	28,272	28,375	29,592	29,593
3 Tier 1 (£m)	33,982	34,506	35,703	37,539	36,365
4 Tier 1 capital as if IFRS 9 transitional arrangements had not been applied (£m)	33,214	34,011	35,196	36,964	35,791
5 Total capital (£m)	44,678	44,708	45,379	47,234	45,149
6 Total capital as if IFRS 9 transitional arrangements had not been applied (£m)	44,389	44,688	45,351	47,195	45,111
Risk-weighted assets (amounts)					
7 Total risk-weighted assets (£m)	209,070	206,520	207,664	206,366	206,884
8 Total risk-weighted assets as if IFRS 9 transitional arrangements had not been applied (£m)	208,658	206,789	207,903	206,614	207,364
Risk-based capital ratios as a percentage of RWA					
9 Common Equity Tier 1 ratio (%) ²	13.5%	13.9%	13.9%	14.6%	14.6%
10 CET1 ratio as if IFRS 9 transitional arrangements had not been applied (%)	13.2%	13.7%	13.6%	14.3%	14.3%
11 Tier 1 ratio (%)	16.3%	16.7%	17.2%	18.2%	17.6%
12 Tier 1 ratio as if IFRS 9 transitional arrangements had not been applied (%)	15.9%	16.4%	16.9%	17.9%	17.3%
13 Total capital ratio (%)	21.4%	21.6%	21.9%	22.9%	21.8%
14 Total capital ratio as if IFRS 9 transitional arrangements had not been applied (%)	21.3%	21.6%	21.8%	22.8%	21.8%
Additional CET1 buffer requirements % of RWA					
Capital conservation buffer requirement	2.500%	2.500%	2.500%	1.875%	1.875%
Countercyclical buffer requirement (%)	0.899%	0.883%	0.883%	0.884%	0.444%
Bank G-SIB and/or D-SIB additional requirements (%) ³	—	—	—	—	—
Total of bank CET1 specific buffer requirements (%)	3.399%	3.383%	3.383%	2.759%	2.319%
CET1 available after meeting the bank's minimum capital requirements (%)	9.0%	9.4%	9.4%	10.1%	10.1%
UK leverage ratio⁴					
15 UK leverage ratio exposure measure (£m)	683,562	668,207	668,264	663,277	671,885
16 UK leverage ratio (%)	4.9%	5.1%	5.3%	5.5%	5.3%
17 UK leverage ratio as if IFRS 9 transitional arrangements had not been applied (%)	4.8%	5.0%	5.2%	5.4%	5.2%
Average Liquidity Coverage Ratio (weighted) (LCR)⁵					
Total High Quality Liquid Assets (HQLA) (£m)	130,554	129,483	128,501	125,731	123,498
Total net cash outflow (£m)	99,297	99,281	99,242	98,489	97,091
LCR ratio (%)	131%	130%	129%	128%	127%

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 30 September 2019 no additional capital relief has been recognised.

² The common equity tier 1 ratio at 30 September 2019 is 14.4 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 up by the Insurance business in February 2019 and incorporating the effects of the share buy back announced in February 2019.

³ The Group's ring-fenced bank (RFB) is subject to a systemic risk buffer of 2.0 per cent, which is the equivalent of 1.7 per cent at Group level.

⁴ At 31 December 2018 the leverage ratio was 5.6 per cent on a pro forma basis, reflecting the dividend paid up by the Insurance business in February 2019. The CRD IV leverage ratio at 30 September 2019 is 4.6 per cent (31 December 2018: 5.1 per cent).

⁵ Following the implementation of structural reform, liquidity is managed at a legal entity level with the Group LCR representing the composite of the ring-fenced bank and non-ring fenced bank entities.

Key metrics - TLAC requirements (KM2)

	At 30 Sept 2019 Resolution Group ¹ £m	At 30 June 2019 Resolution Group ¹ £m
1 Total loss absorbing capacity (TLAC) available	67,988	66,415
1a Fully loaded ECL accounting model TLAC available	67,699	66,395
2 Total RWA at the level of the resolution group	209,070	206,520
3 TLAC as a percentage of RWA ²	32.5%	32.2%
Fully loaded ECL accounting model TLAC as a percentage of fully loaded ECL		
3a accounting model RWA	32.4%	32.1%
4 UK leverage ratio exposure measure at the level of the resolution group	683,562	668,207
5 TLAC as a percentage of UK leverage ratio exposure measure	9.9%	9.9%
Fully loaded ECL accounting model TLAC as a percentage of fully loaded ECL		
5a accounting model UK leverage ratio exposure measure	9.9%	9.9%
6a Does the subordination exemption in the antepenultimate paragraph of Section 11 of the FSB TLAC Term Sheet apply?	No	No
6b Does the subordination exemption in the penultimate paragraph of Section 11 of the FSB TLAC Term Sheet apply?	No	No
If the capped subordination exemption applies, the amount of funding issued that ranks pari passu with excluded liabilities and that is recognised as external TLAC, divided by funding issued that ranks pari passu with excluded liabilities and that		
6c would be recognised as external TLAC if no cap was applied (%)	N/a	N/a

¹ The consolidated position of Lloyds Banking Group plc (the resolution entity).

² At 31 December 2018 the TLAC (MREL) ratio was 32.6 per cent on a pro forma basis reflecting the dividend paid up by the Insurance business in February 2019.

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 2019	At 31 Dec 2018	At 30 Sept 2019	At 31 Dec 2018
	£m	£m	£m	£m
Capital resources				
Common equity tier 1				
Shareholders' equity per balance sheet	42,530	43,434	42,530	43,434
Deconsolidation adjustments ¹	2,310	2,273	2,310	2,273
Other adjustments	(2,754)	(2,873)	(2,754)	(2,873)
Deductions from common equity tier 1	(13,848)	(12,667)	(13,848)	(12,667)
Common equity tier 1 capital	28,238	30,167	28,238	30,167
Additional tier 1 instruments	7,034	8,670	5,381	6,466
Deductions from tier 1	(1,290)	(1,298)	-	-
Total tier 1 capital	33,982	37,539	33,619	36,633
Tier 2 instruments and eligible provisions	11,658	10,668	6,697	7,898
Deductions from tier 2	(962)	(973)	(2,252)	(2,271)
Total capital resources	44,678	47,234	38,064	42,260
Total risk-weighted assets	209,070	206,366	209,070	206,366
Leverage²				
Statutory balance sheet assets			858,543	797,598
Deconsolidation, qualifying central bank claims and other adjustments ¹			(231,694)	(190,714)
Off-balance sheet items			56,713	56,393
Total exposure measure			683,562	663,277
Average exposure measure⁶			679,308	
CRD IV exposure measure³			731,041	713,382
Ratios				
Common equity tier 1 capital ratio ⁴	13.5%	14.6%	13.5%	14.6%
Tier 1 capital ratio	16.3%	18.2%	16.1%	17.8%
Total capital ratio	21.4%	22.9%	18.2%	20.5%
UK leverage ratio ⁵			4.9%	5.5%
Average UK leverage ratio ⁶			5.0%	
CRD IV leverage ratio			4.6%	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 30 September 2019 is 14.4 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 up by the Insurance business in February 2019 and incorporating the effects of the share buy back announced in February 2019.

⁵ The countercyclical leverage buffer is currently 0.3 per cent. The Group's ring-fenced bank (RFB) is subject to an additional leverage ratio buffer of 0.7 per cent, which is the equivalent of 0.6 per cent at Group level. At 31 December 2018 the leverage ratio was 5.6 per cent on a pro forma basis, reflecting the dividend paid up 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 July 2019 to 30 September 2019). The average of 5.0 per cent compares to 5.1 per cent at the start and 4.9 per cent at the end of the quarter, with the ratio reducing across the quarter largely as a result of both the reduction in tier 1 capital and balance sheet movements.

Overview of risk-weighted assets (OV1)

	At 30 Sept 2019 RWA £m	At 31 Dec 2018 RWA £m
Credit risk (excluding counterparty credit risk)	159,065	157,239
Of which standardised approach	25,333	25,548
Of which the foundation rating-based (FIRB) approach	45,837	48,747
Of which the retail IRB (RIRB) approach	63,661	59,522
Of which corporates – specialised lending	10,351	11,808
Of which non-credit obligation assets ¹	7,341	5,866
Of which equity IRB under the simple risk-weight or the internal models approach	6,542	5,749
Counterparty credit risk	7,394	7,250
Of which marked to market	5,452	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)	558	471
Of which exposures to central counterparties (including trades, default fund contributions and initial margin)	526	1,160
Of which credit valuation adjustment (CVA)	858	702
Settlement risk	-	-
Securitisation exposures in banking book²	4,787	4,262
Of which IRB ratings-based approach (RBA)	2,941	3,159
Of which IRB supervisory formula approach (SFA)	72	72
Of which internal assessment approach (IAA)	644	820
Of which standardised approach	192	209
Of which Revised Framework: IRBA	594	-
Of which Revised Framework: Sec-SA	270	-
Of which Revised Framework: ERBA	75	-
Market risk	2,156	2,085
Of which: standardised approach	484	416
Of which: internal model approaches	1,673	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)	10,507	10,026
Of which: Significant investment	8,159	8,597
Of which: Deferred tax asset	2,348	1,429
Floor adjustment	-	-
Total	209,070	206,366
Pillar 1 capital requirement ³	16,725	16,509
Pillar 2A capital requirement ⁴	9,500	9,615
Total capital requirement	26,225	26,124

¹ Non-credit obligation assets (IRB approach) predominately relate to other balance sheet assets including fixed assets, prepayments, cash and sundry debtors.

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.4.6 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 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	(183)	(88)	(271)	9	(110)		(372)
Asset quality	1,498	(718)	780	435	-		1,215
Model updates	1,765	-	1,765	-	(110)		1,655
Methodology and policy	(905)	(585)	(1,490)	(276)	4		(1,762)
Acquisitions and disposals	-	1,326	1,326	-	-		1,326
Movements in risk levels (market risk only)	-	-	-	-	287		287
Foreign exchange movements	138	102	240	(24)	-		216
Other	-	-	-	-	-	(344)	(344)
Risk-weighted assets at 30 September 2019	138,057	25,795	163,852	7,394	2,156	25,161	198,563
Threshold risk-weighted assets ³							10,507
Total risk-weighted assets at 30 September 2019							209,070

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 reduction of £0.3bn includes changes in book size (both drawn and undrawn balances) and composition, excluding acquisitions and disposals.
- Asset quality increase of £0.8bn captures movements due to changes in borrower risk, including changes in the macro economic environment.
- Model updates increase in risk-weighted assets of £1.8bn principally as a result of changes to mortgage models.
- Methodology and policy changes reduced risk-weighted assets by £1.5bn principally as a result of securitisation activity, partially offset by the introduction of IFRS 16.
- Acquisitions and disposals increase of £1.3bn reflects the purchase of the Tesco Bank UK prime residential mortgage portfolio.

Counterparty credit risk, risk-weighted assets increased by £0.1bn due to movements in yield curves, partially offset by reduced contributions to default funds.

Market risk, risk-weighted assets increased by £0.1bn due to small risk and model changes.

Operational risk, risk-weighted assets decreased by £0.3bn following the actualisation of calculation inputs.

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