Lloyds Banking Group plc

Q1 2020 Interim Pillar 3 Report

30 April 2020

BASIS OF PRESENTATION

This report presents the interim Pillar 3 disclosures of Lloyds Banking Group plc ('the Group') as at 31 March 2020 and should be read in conjunction with the Group's Q1 2020 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

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 2020[2]	Q4 2019	Q3 2019	Q2 2019	Q1 2019
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1) (£m)	**29,674**	27,744	28,238	28,767	28,883
2	CET1 capital as if IFRS 9 transitional arrangements had not been applied (£m)	**28,861**	27,002	27,470	28,272	28,375
3	Tier 1 (£m)	**35,388**	33,992	33,982	34,506	35,703
4	Tier 1 capital as if IFRS 9 transitional arrangements had not been applied (£m)	**34,575**	33,249	33,214	34,011	35,196
5	Total capital (£m)	**45,695**	43,416	44,678	44,708	45,379
6	Total capital as if IFRS 9 transitional arrangements had not been applied (£m)	**45,421**	43,153	44,389	44,688	45,351
	Risk-weighted assets (amounts)					
7	Total risk-weighted assets (£m)	**208,715**	203,431	209,070	206,520	207,664
8	Total risk-weighted assets as if IFRS 9 transitional arrangements had not been applied (£m)	**208,212**	203,083	208,658	206,789	207,903
	Risk-based capital ratios as a percentage of RWA					
9	Common Equity Tier 1 ratio (%)[3]	**14.2%**	13.6%	13.5%	13.9%	13.9%
10	CET1 ratio as if IFRS 9 transitional arrangements had not been applied (%)	**13.9%**	13.3%	13.2%	13.7%	13.6%
11	Tier 1 ratio (%)	**17.0%**	16.7%	16.3%	16.7%	17.2%
12	Tier 1 ratio as if IFRS 9 transitional arrangements had not been applied (%)	**16.6%**	16.4%	15.9%	16.4%	16.9%
13	Total capital ratio (%)	**21.9%**	21.3%	21.4%	21.6%	21.9%
14	Total capital ratio as if IFRS 9 transitional arrangements had not been applied (%)	**21.8%**	21.2%	21.3%	21.6%	21.8%
	Additional CET1 buffer requirements % of RWA					
	Capital conservation buffer requirement	**2.5%**	2.5%	2.5%	2.5%	2.5%
	Countercyclical buffer requirement (%)[4]	**0.0%**	0.9%	0.9%	0.9%	0.9%
	Bank G-SIB and/or D-SIB additional requirements (%)[5]	–	–	–	–	–
	Total of bank CET1 specific buffer requirements (%)	**2.5%**	3.4%	3.4%	3.4%	3.4%
	CET1 available after meeting the bank's minimum capital requirements (%)	**9.7%**	9.1%	9.0%	9.4%	9.4%
	UK leverage ratio[6]					
15	UK leverage ratio exposure measure (£m)	**669,541**	654,387	683,562	668,207	668,264
16	UK leverage ratio (%)	**5.3%**	5.1%	4.9%	5.1%	5.3%
17	UK leverage ratio as if IFRS 9 transitional arrangements had not been applied (%)	**5.2%**	5.0%	4.8%	5.0%	5.2%
	Average Liquidity Coverage Ratio (weighted) (LCR)					
	Total High Quality Liquid Assets (HQLA) (£m)	131,079	130,262	130,554	129,483	128,501
	Total net cash outflow (£m)	95,354	94,966	97,478	98,075	98,641
	LCR ratio (%)	138%	137%	134%	132%	130%

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.

2 Incorporating profits 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 2020 is 14.2 per cent. At 31 December 2019 the common equity tier 1 ratio was 13.8 per cent on a pro forma basis, reflecting the dividend paid up by the Insurance business in February 2020 in relation to its 2019 earnings.

4 The countercyclical capital buffer requirement at 31 March 2020 was less than 0.01% following the reduction in the UK countercyclical capital buffer rate to nil.

5 Although the Group does not have a Systemic Risk Buffer (SRB), it is required to hold additional CET1 capital to meet its Ring-Fenced Bank's SRB of 2.0 per cent, which equates to 1.7 per cent of Group risk-weighted assets.

6 The UK leverage ratio is 5.3 per cent. At 31 December 2019 the UK leverage ratio was 5.2 per cent on a pro forma basis upon recognition of the dividend paid up by the Insurance business in February 2020 in relation to its 2019 earnings. The CRD IV leverage ratio at 31 March 2020 is 4.8 per cent (31 December 2019: 4.8 per cent).

Key metrics - TLAC requirements (KM2)

		At 31 Mar 2020 Resolution Group[1]	At 31 Dec 2019 Resolution Group[1]	At 30 Sept 2019 Resolution Group[1]	At 30 June 2019 Resolution Group[1]
		£m	£m	£m	£m
1	Total loss absorbing capacity (TLAC) available	71,904	66,120	67,988	66,415
1a	Fully loaded ECL accounting model TLAC available	71,630	65,857	67,699	66,395
2	Total RWA at the level of the resolution group	208,715	203,431	209,070	206,520
3	TLAC as a percentage of RWA[2]	34.5%	32.5%	32.5%	32.2%
3a	Fully loaded ECL accounting model TLAC as a percentage of fully loaded ECL accounting model RWA	34.4%	32.4%	32.4%	32.1%
4	UK leverage ratio exposure measure at the level of the resolution group	669,541	654,387	683,562	668,207
5	TLAC as a percentage of UK leverage ratio exposure measure	10.7%	10.1%	9.9%	9.9%
5a	Fully loaded ECL accounting model TLAC as a percentage of fully loaded ECL accounting model UK leverage ratio exposure measure	10.7%	10.1%	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	No	No
6b	Does the subordination exemption in the penultimate paragraph of Section 11 of the FSB TLAC Term Sheet apply?	No	No	No	No
6c	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 would be recognised as external TLAC if no cap was applied (%)	N/a	N/a	N/a	N/a

1 The consolidated position of Lloyds Banking Group plc (the resolution entity).
2 At 31 December 2019 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 2020.

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 2020	At 31 Dec 2019	**At 31 Mar 2020**	At 31 Dec 2019
Capital resources	**£m**	£m	**£m**	£m
Common equity tier 1				
Shareholders' equity per balance sheet	**46,557**	41,697	**46,557**	41,697
Deconsolidation adjustments[1]	**2,588**	2,337	**2,588**	2,337
Other adjustments	**(2,061)**	(2,817)	**(2,061)**	(2,817)
Deductions from common equity tier 1	**(17,410)**	(13,473)	**(17,410)**	(13,473)
Common equity tier 1 capital	**29,674**	27,744	**29,674**	27,744
Additional tier 1 instruments	**6,982**	7,534	**5,881**	5,881
Deductions from tier 1	**(1,268)**	(1,286)	**-**	-
Total tier 1 capital	**35,388**	33,992	**35,555**	33,625
Tier 2 instruments and eligible provisions	**11,260**	10,384	**7,558**	5,902
Deductions from tier 2	**(953)**	(960)	**(2,221)**	(2,246)
Total capital resources	**45,695**	43,416	**40,892**	37,281
Total risk-weighted assets	**208,715**	203,431	**208,715**	203,431
Leverage[2]				
Statutory balance sheet assets			**861,682**	833,893
Deconsolidation, qualifying central bank claims and other adjustments[1]			**(245,061)**	(232,697)
Off-balance sheet items			**52,920**	53,191
Total exposure measure			**669,541**	654,387
Average exposure measure[6]			**664,094**	
CRD IV exposure measure[3]			**743,831**	703,977
Ratios				
Common equity tier 1 capital ratio[4]	**14.2%**	13.6%	**14.2%**	13.6%
Tier 1 capital ratio	**17.0%**	16.7%	**17.0%**	16.5%
Total capital ratio	**21.9%**	21.3%	**19.6%**	18.3%
UK leverage ratio[5]			**5.3%**	5.1%
Average UK leverage ratio[6]			**5.2%**	
CRD IV leverage ratio			**4.8%**	4.8%

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 2020 is 14.2 per cent. At 31 December 2019 the common equity tier 1 ratio was 13.8 per cent on a pro forma basis, reflecting the dividend paid up by the Insurance business in February 2020 in relation to its 2019 earnings..

5 The countercyclical leverage buffer is currently 0.0 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 2019 the leverage ratio was 5.2 per cent on a pro forma basis, reflecting the dividend paid up by the Insurance business in February 2020 in relation to its 2019 earnings.

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 2020 to 31 March 2020). The average of 5.2 per cent compares to 5.1 per cent at the start and 5.3 per cent at the end of the quarter.

Overview of risk-weighted assets (OV1)

	At 31 Mar 2020 RWA £m	At 31 Dec 2019 RWA £m
Credit risk (excluding counterparty credit risk)	**156,238**	**155,013**
Of which standardised approach	**24,120**	23,853
Of which the foundation rating-based (FIRB) approach	**45,277**	44,769
Of which the retail IRB (RIRB) approach	**64,400**	63,208
Of which corporates – specialised lending	**8,936**	9,074
Of which non-credit obligation assets[1]	**7,092**	7,443
Of which equity IRB under the simple risk-weight or the internal models approach	**6,412**	6,666
Counterparty credit risk	**7,106**	5,877
Of which marked to market	**5,186**	4,539
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)	**599**	286
Of which exposures to central counterparties (including trades, default fund contributions and initial margin)	**550**	468
Of which credit valuation adjustment (CVA)	**771**	584
Settlement risk	-	-
Securitisation exposures in banking book[2]	**7,004**	5,002
Of which IRB ratings-based approach (RBA)	**-**	1,880
Of which IRB supervisory formula approach (SFA)	**-**	-
Of which internal assessment approach (IAA)	**-**	234
Of which standardised approach	**-**	177
Of which Revised Framework: IRBA	**2,132**	1,214
Of which Revised Framework: Sec-SA	**1,063**	391
Of which Revised Framework: ERBA	**3,809**	1,107
Market risk	**1,758**	1,790
Of which: standardised approach	**283**	279
Of which: internal model approaches	**1,474**	1,511
Large exposures	-	-
Operational risk	**25,482**	25,482
Of which: basic indicator approach	-	-
Of which: standardised approach	**25,482**	25,482
Of which: advanced measurement approach	-	-
Amounts below the thresholds for deduction (subject to 250% risk weight)	**11,127**	10,268
Of which: Significant investment	**8,387**	8,093
Of which: Deferred tax asset	**2,740**	2,175
Floor adjustment	-	-
Total	**208,715**	203,431
Pillar 1 capital requirement[3]	**16,697**	16,274
Pillar 2A capital requirement[4]	**9,489**	9,334
Total capital requirement	**26,186**	25,608

[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 2019							203,431
Less threshold risk-weighted assets[3]							(10,268)
Risk-weighted assets at 31 December 2019	135,594	24,420	160,014	5,877	1,790	25,482	193,163
Asset size	**(727)**	**(107)**	**(834)**	**808**	**-**	**-**	**(26)**
Asset quality	**805**	**27**	**832**	**290**	**-**	**-**	**1,122**
Model updates	**-**	**-**	**-**	**-**	**238**	**-**	**238**
Methodology and policy	**1,818**	**695**	**2,513**	**-**	**(200)**	**-**	**2,313**
Acquisitions and disposals	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Movements in risk levels (market risk only)	**-**	**-**	**-**	**-**	**(70)**	**-**	**(70)**
Foreign exchange movements	**569**	**148**	**717**	**131**	**-**	**-**	**848**
Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Risk-weighted assets at 31 March 2020	**138,059**	**25,183**	**163,242**	**7,106**	**1,758**	**25,482**	**197,588**
Threshold risk-weighted assets[3]							**11,127**
Total risk-weighted assets at 31 March 2020							**208,715**

[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 £0.8bn predominantly reflects optimisation activity undertaken in Commercial Banking prior to the pandemic, offset by drawdowns by corporate customers towards the end of the quarter.
- Asset quality increase of £0.8bn includes movements due to changes in borrower risk, including changes in the macro-economic environment offset by movements in the valuation of equity investments.
- Methodology and policy changes increased risk-weighted assets by £2.5bn largely reflecting the full implementation of the new securitisation framework on 1st January 2020 which resulted in transactions using the original rules at the end of 2019 transition over to the new rules.

Counterparty credit risk, risk-weighted assets increased by £1.2bn due movements in market rates (yield curve related movements included in asset size) and CVA.

Market risk, risk-weighted assets remained broadly flat as the impact of increased capital multipliers (resulting from COVID-related backtesting overshoots) were largely offset by reductions in RNIV per regulator guidance.

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