Lloyds Banking Group plc

Q3 2020 Interim Pillar 3 Report

BASIS OF PREPARATION

This report presents the interim Pillar 3 disclosures of Lloyds Banking Group plc ('the Group') as at 30 September 2020 and should be read in conjunction with the Group's Q3 2020 Interim Management Statement.

The disclosures have been prepared in accordance with the Capital Requirements Directive and Regulation (CRD IV) and 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 (as amended August 2020)

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]

		T Q3 2020 [2]	T-1 Q2 2020	T-2 Q1 2020	T-3 Q4 2019	T-4 Q3 2019
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1) (£m)	**31,237**	30,189	29,674	27,744	28,238
2	CET1 capital as if IFRS 9 transitional arrangements had not been applied (£m)	**28,568**	27,583	28,861	27,002	27,470
3	Tier 1 (£m)	**37,081**	36,031	35,388	33,992	33,982
4	Tier 1 capital as if IFRS 9 transitional arrangements had not been applied (£m)	**34,412**	33,425	34,575	33,238	33,214
5	Total capital (£m)	**46,491**	46,146	45,695	43,416	44,678
6	Total capital as if IFRS 9 transitional arrangements had not been applied (£m)	**45,077**	44,691	45,421	43,153	44,389
	Risk-weighted assets (amounts)					
7	Total risk-weighted assets (£m)	**205,296**	207,052	208,715	203,431	209,070
8	Total risk-weighted assets as if IFRS 9 transitional arrangements had not been applied (£m)	**203,941**	205,595	208,212	203,083	208,658
	Risk-based capital ratios as a percentage of RWA					
9	Common Equity Tier 1 ratio (%)	**15.2%**	14.6%	14.2%	13.6%	13.5%
10	CET1 ratio as if IFRS 9 transitional arrangements had not been applied (%)	**14.0%**	13.4%	13.9%	13.3%	13.2%
11	Tier 1 ratio (%)	**18.1%**	17.4%	17.0%	16.7%	16.3%
12	Tier 1 ratio as if IFRS 9 transitional arrangements had not been applied (%)	**16.9%**	16.3%	16.6%	16.4%	15.9%
13	Total capital ratio (%)	**22.6%**	22.3%	21.9%	21.3%	21.4%
14	Total capital ratio as if IFRS 9 transitional arrangements had not been applied (%)	**22.1%**	21.7%	21.8%	21.2%	21.3%
	Additional CET1 buffer requirements as a percentage of RWA					
	Capital conservation buffer requirement	**2.5%**	2.5%	2.5%	2.5%	2.5%
	Countercyclical buffer requirement	**0.0%**	0.0%	0.0%	0.9%	0.9%
	Bank G-SIB and/or D-SIB additional requirements[3]	**—**	—	—	—	—
	Total of bank CET1 specific buffer requirements	**2.5%**	2.5%	2.5%	3.4%	3.4%
	CET1 available after meeting the bank's minimum capital requirements	**10.7%**	10.1%	9.7%	9.1%	9.0%
	UK leverage ratio[4]					
15	UK leverage ratio exposure measure (£m)	**667,024**	665,789	669,541	654,387	683,562
16	UK leverage ratio	**5.6%**	5.4%	5.3%	5.1%	4.9%
17	UK leverage ratio as if IFRS 9 transitional arrangements had not been applied	**5.2%**	5.0%	5.2%	5.0%	4.8%
	Average Liquidity Coverage Ratio (weighted) (LCR)					
	Total High Quality Liquid Assets (HQLA) (£m)	**138,512**	136,961	131,079	130,262	130,554
	Total net cash outflow (£m)	**100,553**	98,131	95,354	94,966	97,478
	LCR ratio (%)	**138%**	140%	138%	137%	134%

1. The Group applies the full extent of the IFRS 9 transitional arrangements for capital as set out under CRR Article 473a (as amended via the CRR 'Quick Fix' revisions published in June 2020). Specifically, the Group has opted to apply both paragraphs 2 and 4 of CRR Article 473a (static and dynamic relief) and in addition to apply a 100% risk weight to the consequential Standardised credit risk exposure add-back as permitted under paragraph 7a of the revisions. An analysis of the Group's application of the transitional arrangements during the period can be found in the Group's Q3 2020 Interim Management Statement.
2. Incorporating profits for the period that remain subject to formal verification in accordance with the Capital Requirements Regulation.
3. 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.
4. The CRD IV leverage ratio at 30 September 2020 is 5.0 per cent (31 December 2019: 4.8 per cent).

The Group has chosen not to apply the temporary treatment specified under CRR Article 468 (as amended via the CRR 'Quick Fix' revisions published in June 2020) and therefore the reported own funds, capital and leverage ratios already reflect the full impact of unrealised gains and losses on holdings in government and public sector debt measured at fair value through other comprehensive income.

Key Metrics – TLAC requirements (KM2)

		September 2020 Resolution Group [1] £m	June 2020 Resolution Group [1] £m	March 2020 Resolution Group [1] £m	December 2019 Resolution Group [1] £m	September 2019 Resolution Group [1] £m
1	Total loss absorbing capacity (TLAC) available	**74,998**	76,275	71,904	66,120	67,988
1a	Fully loaded ECL accounting model TLAC available	**73,584**	74,820	71,630	65,857	67,699
2	Total RWA at the level of the resolution group	**205,296**	207,052	208,715	203,431	209,070
3	TLAC as a percentage of RWA	**36.5%**	36.8%	34.5%	32.5%	32.5%
3a	Fully loaded ECL accounting model TLAC as a percentage of fully loaded ECL accounting model RWA	**36.1%**	36.4%	34.4%	32.4%	32.4%
4	UK leverage ratio exposure measure at the level of the resolution group	**667,024**	665,789	669,541	654,387	683,562
5	TLAC as a percentage of UK leverage ratio exposure measure	**11.2%**	11.5%	10.7%	10.1%	9.9%
5a	Fully loaded ECL accounting model TLAC as a percentage of fully loaded ECL accounting model UK leverage ratio exposure measure	**11.1%**	11.3%	10.7%	10.1%	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	No
6b	Does the subordination exemption in the penultimate paragraph of Section 11 of the FSB TLAC Term Sheet apply?	**No**	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	N/a

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

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 Sep 2020 £m	At 31 Dec 2019 £m	At 30 Sep 2020 £m	At 31 Dec 2019 £m
Capital resources				
Common equity tier 1				
Shareholders' equity per balance sheet	**43,304**	41,697	**43,304**	41,697
Deconsolidation adjustments[1]	**2,297**	2,337	**2,297**	2,337
Other adjustments	**64**	(2,817)	**64**	(2,817)
Deductions from common equity tier 1	**(14,428)**	(13,473)	**(14,428)**	(13,473)
Common equity tier 1 capital	**31,237**	27,744	**31,237**	27,744
Additional tier 1 instruments	**6,982**	7,534	**5,881**	5,881
Deductions from tier 1	**(1,138)**	(1,286)	**—**	—
Total tier 1 capital	**37,081**	33,992	**37,118**	33,625
Tier 2 instruments and eligible provisions	**10,352**	10,384	**6,576**	5,902
Deductions from tier 2	**(942)**	(960)	**(2,080)**	(2,246)
Total capital resources	**46,491**	43,416	**41,614**	37,281
Total risk-weighted assets	**205,296**	203,431	**205,296**	203,431
Leverage[2]				
Statutory balance sheet assets			**868,883**	833,893
Deconsolidation, qualifying central bank claims and other adjustments[1]			**(261,866)**	(232,697)
Off-balance sheet items			**60,007**	53,191
Total exposure measure			**667,024**	654,387
Average exposure measure[6]			**679,181**	
CRD IV exposure measure[3]			**739,550**	703,977
Ratios				
Common equity tier 1 capital ratio[4]	**15.2%**	13.6%	**15.2%**	13.6%
Tier 1 capital ratio	**18.1%**	16.7%	**18.1%**	16.5%
Total capital ratio	**22.6%**	21.3%	**20.3%**	18.3%
UK leverage ratio[5]			**5.6%**	5.1%
Average UK leverage ratio[6]			**5.4%**	
CRD IV leverage ratio			**5.0%**	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 30 September 2020 is 15.2 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 July 2020 to 30 September 2020). The average of 5.4 per cent compares to 5.4 per cent at the start and 5.6 per cent at the end of the quarter.

Overview of risk-weighted assets (OV1)

		September 2020 RWA £m	Dec 2019 RWA £m
		T	T-1
1	**Credit risk (excluding counterparty credit risk)**	**153,211**	155,013
2	of which: standardised approach	**21,812**	23,853
3	of which: the foundation rating-based (FIRB) approach	**43,124**	44,769
4	of which: the retail IRB (RIRB) approach	**65,356**	63,208
	of which: corporates – specialised lending	**9,201**	9,074
	of which: non-credit obligation assets[1]	**6,756**	7,443
5	of which: equity IRB under the simple risk-weight or the internal models approach	**6,962**	6,666
6	**Counterparty credit risk**	**6,684**	5,877
7	of which: marked to market	**4,887**	4,539
8	of which: original exposure	**—**	—
9	of which: the standardised approach	**—**	—
10	of which: internal ratings-based model method (IMM)	**—**	—
	of which: comprehensive approach for credit risk mitigation (for SFTs)	**412**	286
11	of which: exposures to central counterparties (including trades, default fund contributions and initial margin)	**531**	468
12	of which: credit valuation adjustment (CVA)	**854**	584
13	**Settlement risk**	**—**	—
14	**Securitisation exposures in banking book[2]**	**6,340**	5,002
15	of which: IRB ratings-based approach (RBA)	**—**	1,880
16	of which: IRB supervisory formula approach (SFA)	**—**	—
17	of which: internal assessment approach (IAA)	**—**	234
18	of which: standardised approach	**—**	177
	of which: revised framework internal ratings based approach	**1,967**	1,214
	of which: revised framework standardised approach	**1,155**	391
	of which: revised framework external ratings based approach	**3,218**	1,107
19	**Market risk**	**2,102**	1,790
20	of which: standardised approach	**239**	279
21	of which: internal model approaches	**1,863**	1,511
22	**Large exposures**	**—**	—
23	**Operational risk**	**25,437**	25,482
24	of which: basic indicator approach	**—**	—
25	of which: standardised approach	**25,437**	25,482
26	of which: advanced measurement approach	**—**	—
27	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	**11,522**	10,268
	of which: Significant investment	**8,874**	8,093
	of which: Deferred tax asset	**2,648**	2,175
28	**Floor adjustment**	**—**	—
29	**Total**	**205,296**	203,431
	Pillar 1 capital requirement[3]	**16,424**	16,274
	Pillar 2A capital requirement[4]	**8,614**	9,334
	Total capital requirement	**25,038**	25,608

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 within this table, however, are included within Credit Risk in Table 4: Risk-weighted assets movement by key driver.

3 The Pillar 1 capital requirement is 8 per cent of aggregated risk-weighted assets.

4 The Pillar 2A capital requirement is currently c.4.2 per cent of aggregated risk-weighted assets, of which c.2.3 per cent must be met with CET1 capital.

Risk-weighted assets movement by key driver

	Credit risk IRB £m	Credit risk SA £m	Credit risk total[2] £m	Counterparty credit risk[3] £m	Market risk £m	Operational risk £m	Total £m
Total risk-weighted assets as at 30 June 2020	—	—	—	—	—	—	207,052
Less: total threshold risk-weighted assets[1]	—	—	—	—	—	—	(11,321)
Risk-weighted assets at 30 June 2020	137,756	24,046	161,802	6,539	1,953	25,437	195,731
Asset size	(1,177)	(840)	(2,017)	26	—	—	(1,991)
Asset quality	389	45	434	195	—	—	629
Model updates	(37)	—	(37)	—	45	—	8
Methodology and policy	100	(220)	(120)	—	(45)	—	(165)
Acquisitions and disposals	—	—	—	—	—	—	—
Movement in risk levels (Market risk only)	—	—	—	—	149	—	149
Foreign exchange movements	(447)	(64)	(511)	(76)	—	—	(587)
Other	—	—	—	—	—	—	—
Risk-weighted assets at 30 September 2020	136,584	22,967	159,551	6,684	2,102	25,437	193,774
Threshold risk-weighted assets[1]							11,522
Total risk-weighted assets as at 30 September 2020							205,296

1 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.

2 Credit risk includes securitisation risk-weighted assets.

3 Counterparty credit risk includes movements in contributions to the default funds of central counterparties and movements in credit valuation adjustment risk.

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 judgement.

Credit risk, risk-weighted assets:

- Asset size reduction of £2.0bn reflects reductions in underlying lending balances (excluding Government backed lending schemes that attract limited to no risk-weighted assets) and continued optimisation in Commercial Banking.
- Asset quality increases of £0.4bn includes movements due to changes in borrower risk and movements in the valuation of equity investments. The impact of Government schemes and payment holidays has delayed the emergence of credit migration, limiting the impact seen in the quarter.

Counterparty credit risk, risk-weighted assets decreased by £0.1bn due to movements in market rates during the quarter.

Market risk, risk-weighted assets increased over the quarter driven by increased volatility entering the VaR model and an increase in interest rate and credit spread risk in the trading books. The Lloyds Bank Corporate Markets and Ring-Fenced Bank capital multipliers remained high over Q3 driven by COVID-related backtesting overshoots observed in H1, the resulting risk-weighted asset increase was offset as per regulator guidance.

CONTACTS

For further information please contact:

INVESTORS AND ANALYSTS

Douglas Radcliffe
Group Investor Relations Director
020 7356 1571
douglas.radcliffe@lloydsbanking.com

Edward Sands
Director of Investor Relations
020 7356 1585
edward.sands@lloydsbanking.com

Nora Thoden
Director of Investor Relations
020 7356 2334
nora.thoden@lloydsbanking.com

CORPORATE AFFAIRS

Grant Ringshaw
Director of Media Relations
020 7356 2362
grant.ringshaw@lloydsbanking.com

Matt Smith
Head of Corporate Media
020 7356 3522
matt.smith@lloydsbanking.com

Registered office: Lloyds Banking Group plc, The Mound, Edinburgh, EH1 1YZ
Registered in Scotland No. 95000