

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

This document contains certain forward looking statements within the meaning of Section 21E of the US Securities Exchange Act of 1934, as amended, and section 27A of the US Securities Act of 1933, as amended, with respect to the business, strategy, plans and/or results of Lloyds Banking Group plc together with its subsidiaries (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. 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. 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 the 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. 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 (including but not limited to the coronavirus disease (COVID-19) outbreak and associated potential and/or actual UK or international lockdowns) 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 by Lloyds Banking Group plc 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 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

	T	T-1	T-2	T-3	T-4
	Q3 2020 ²	Q2 2020	Q1 2020	Q4 2019	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 ratio⁴					
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	Dec 2019
	RWA	RWA
	£m	£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 book²	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.

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