Lloyds Banking Group plc

Q1 2021 Interim Pillar 3 Report

BASIS OF PREPARATION

This report presents the interim Pillar 3 disclosures of Lloyds Banking Group plc ('the Group') as at 31 March 2021 and should be read in conjunction with the Group's Q1 2021 Interim Management Statement.

The disclosures have been prepared in accordance with the Capital Requirements Directive and Regulation (CRD IV) and associated European Banking Authority (EBA) guidelines and technical standards in force as at 31 December 2020.

Under UK law, EU capital rules that existed on 31 December 2020 (including applicable Pillar 3 requirements) continue to apply to the Group following the end of the transition period for the UK's withdrawal from the European Union, subject to the temporary transitional powers (TTP) granted to the Prudential Regulation Authority (PRA) which extend until 31 March 2022.

Where references are made to the provisions of the revised Capital Requirements Regulation (CRR) that came into force in June 2019 and December 2020 these are referred to as 'CRR II' requirements.

In addition to summary capital and leverage disclosures, specific Pillar 3 templates are required 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.

A description of the main features of common equity tier 1 (CET1), additional tier 1 (AT1) and tier 2 (T2) instruments issued by the Group and its significant subsidiaries are included in a separate document on the Group's website located at www.lloydsbankinggroup.com/investors/financial-downloads. In addition, the report identifies and provides a description of the main features of those instruments that are recognised as eligible MREL in accordance with the Bank of England's MREL framework.

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 or current 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', 'achieves', 'anticipates', 'estimates', 'expects', 'targets', 'should', 'intends', 'aims', 'projects', 'plans', 'potential', 'will', 'would', 'could', 'considered', 'likely', 'may', 'seek', '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, statements or guidance relating 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; potential changes in dividend policy; the ability to achieve strategic objectives; the Group's ESG targets and/or commitments; changing customer behaviour including consumer spending, saving and borrowing habits; changes to borrower or counterparty credit quality impacting the recoverability and value of balance sheet assets; concentration of financial exposure; management and monitoring of conduct risk; exposure to counterparty risk (including but not limited to third parties conducting illegal activities without the Group's knowledge); 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 the EU-UK Trade and Cooperation Agreement, instability as a result of 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 and any further possible referendum on Scottish independence; 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 COVID-19 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, or other such events; geopolitical unpredictability; risks relating to sustainability and climate change, including the Group's ability along with the government and other stakeholders to manage and mitigate the impacts of climate change effectively; changes in laws, regulations, practices and accounting standards or taxation, including as a result of the UK's exit from the EU;

changes to regulatory capital or liquidity requirements (including regulatory measures to restrict distributions to address potential capital and liquidity stress) 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 laws, 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 in the Group's ability to develop sustainable finance products and the Group's capacity to measure the climate impact from its financing activity, which may affect the Group's ability to achieve its climate ambition; 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 (the SEC), which is available on the SEC's website at www.sec.gov, for a discussion of certain factors and risks.

Lloyds Banking Group plc may also make or disclose written and/or oral forward looking statements in reports filed with or furnished to the SEC, Lloyds Banking Group plc 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 plc 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)[1,5]

		T	T-1	T-2	T-3	T-4
		Q1 2021[2]	Q4 2020	Q3 2020	Q2 2020	Q1 2020
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1) (£m)	**33,240**	32,822	31,237	30,189	29,674
2	CET1 capital as if IFRS 9 transitional arrangements had not been applied (£m)	**31,339**	30,341	28,568	27,583	28,861
3	Tier 1 (£m)	**38,534**	38,666	37,081	36,031	35,388
4	Tier 1 capital as if IFRS 9 transitional arrangements had not been applied (£m)	**36,633**	36,185	34,412	33,425	34,575
5	Total capital (£m)	**45,697**	47,168	46,491	46,146	45,695
6	Total capital as if IFRS 9 transitional arrangements had not been applied (£m)	**45,106**	46,052	45,077	44,691	45,421
	Risk-weighted assets (amounts)					
7	Total risk-weighted assets (£m)	**198,894**	202,747	205,296	207,052	208,715
8	Total risk-weighted assets as if IFRS 9 transitional arrangements had not been applied (£m)	**198,381**	201,800	203,941	205,595	208,212
	Risk-based capital ratios as a percentage of RWA					
9	Common Equity Tier 1 ratio (%)	**16.7%**	16.2%	15.2%	14.6%	14.2%
10	CET1 ratio as if IFRS 9 transitional arrangements had not been applied (%)	**15.8%**	15.0%	14.0%	13.4%	13.9%
11	Tier 1 ratio (%)	**19.4%**	19.1%	18.1%	17.4%	17.0%
12	Tier 1 ratio as if IFRS 9 transitional arrangements had not been applied (%)	**18.5%**	17.9%	16.9%	16.3%	16.6%
13	Total capital ratio (%)	**23.0%**	23.3%	22.6%	22.3%	21.9%
14	Total capital ratio as if IFRS 9 transitional arrangements had not been applied (%)	**22.7%**	22.8%	22.1%	21.7%	21.8%
	Additional CET1 buffer requirements as a percentage of RWA					
	Capital conservation buffer requirement	**2.500%**	2.500%	2.500%	2.500%	2.500%
	Countercyclical buffer requirement	**0.003%**	0.002%	0.002%	0.003%	0.007%
	Bank G-SIB and/or D-SIB additional requirements[3]	**—**	—	—	—	—
	Total of bank CET1 specific buffer requirements	**2.503%**	2.502%	2.502%	2.503%	2.507%
	CET1 available after meeting the bank's minimum capital requirements	**12.2%**	11.7%	10.7%	10.1%	9.7%
	UK leverage ratio[4]					
15	UK leverage ratio exposure measure (£m)	**655,443**	666,070	667,024	665,789	669,541
16	UK leverage ratio	**6.0%**	5.8%	5.6%	5.4%	5.3%
17	UK leverage ratio as if IFRS 9 transitional arrangements had not been applied	**5.7%**	5.5%	5.2%	5.0%	5.2%
	Average Liquidity Coverage Ratio (weighted) (LCR)					
	Total High Quality Liquid Assets (HQLA) (£m)	**142,700**	141,747	138,512	136,961	131,079
	Total net cash outflow (£m)	**106,442**	104,553	100,553	98,131	95,354
	LCR ratio (%)	**134%**	136%	138%	140%	138%

1. The Group applies the full extent of the IFRS9 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. As at 31 March 2021, static relief under the transitional arrangements amounted to £351 million (31 December 2020: £616 million) and dynamic relief under the transitional arrangements amounted to £1,550 million (31 December 2020: £1,865 million) through CET1 capital.
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 an Other Systemically Important Institution (OSII) buffer (previously referred to as the Systemic Risk Buffer), it is required to hold additional CET1 capital to meet its Ring-Fenced Bank's OSII buffer of 2.0 per cent, which equates to 1.7 per cent of Group risk-weighted assets.
4. The CRD IV leverage ratio at 31 March 2021 is 5.3 per cent (31 December 2020 is 5.3 per cent).
5. 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)

		March 2021 Resolution Group [1] £m	December 2020 Resolution Group [1] £m	September 2020 Resolution Group [1] £m	June 2020 Resolution Group [1] £m	March 2020 Resolution Group [1] £m
1	Total loss absorbing capacity (TLAC) available	**71,832**	73,726	74,998	76,275	71,904
1a	Fully loaded ECL accounting model TLAC available	**71,241**	72,610	73,584	74,820	71,630
2	Total RWA at the level of the resolution group	**198,894**	202,747	205,296	207,052	208,715
3	TLAC as a percentage of RWA	**36.1%**	36.4%	36.5%	36.8%	34.5%
3a	Fully loaded ECL accounting model TLAC as a percentage of fully loaded ECL accounting model RWA	**35.9%**	36.0%	36.1%	36.4%	34.4%
4	UK leverage ratio exposure measure at the level of the resolution group	**655,443**	666,070	667,024	665,789	669,541
5	TLAC as a percentage of UK leverage ratio exposure measure	**11.0%**	11.1%	11.2%	11.5%	10.7%
5a	Fully loaded ECL accounting model TLAC as a percentage of fully loaded ECL accounting model UK leverage ratio exposure measure	**10.9%**	10.9%	11.1%	11.3%	10.7%
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 31 Mar 2021 £m	At 31 Dec 2020 £m	At 31 Mar 2021 £m	At 31 Dec 2020 £m
Capital resources				
Common equity tier 1				
Shareholders' equity per balance sheet	**43,427**	43,278	**43,427**	43,278
Deconsolidation adjustments[1]	**2,322**	2,333	**2,322**	2,333
Other adjustments[2]	**367**	(231)	**367**	(231)
Deductions from common equity tier 1	**(12,876)**	(12,558)	**(12,876)**	(12,558)
Common equity tier 1 capital	**33,240**	32,822	**33,240**	32,822
Additional tier 1 instruments	**6,432**	6,982	**5,881**	5,881
Deductions from tier 1	**(1,138)**	(1,138)	**—**	—
Total tier 1 capital	**38,534**	38,666	**39,121**	38,703
Tier 2 instruments and eligible provisions	**8,105**	9,444	**5,959**	6,624
Deductions from tier 2	**(942)**	(942)	**(2,080)**	(2,080)
Total capital resources	**45,697**	47,168	**43,000**	43,247
Total risk-weighted assets	**198,894**	202,747	**198,894**	202,747
Leverage[3]				
Statutory balance sheet assets			**869,536**	871,269
Deconsolidation, qualifying central bank claims and other adjustments[1]			**(271,295)**	(266,081)
Off-balance sheet items			**57,202**	60,882
Total exposure measure			**655,443**	666,070
Average exposure measure[6]			**664,127**	
CRD IV exposure measure[4]			**731,802**	733,163
Ratios				
Common equity tier 1 capital ratio	**16.7%**	16.2%	**16.7%**	16.2%
Tier 1 capital ratio	**19.4%**	19.1%	**19.7%**	19.1%
Total capital ratio	**23.0%**	23.3%	**21.6%**	21.3%
UK leverage ratio[5]			**6.0%**	5.8%
Average UK leverage ratio[6]			**5.9%**	
CRD IV leverage ratio			**5.3%**	5.3%

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 Includes an adjustment applied to reserves to reflect the application of the IFRS 9 transitional arrangements for capital.

3 Calculated in accordance with the UK Leverage Ratio Framework which requires qualifying central bank claims to be excluded from the leverage exposure measure.

4 Calculated in accordance with CRD IV rules which include central bank claims within the leverage exposure measure.

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.

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 2021 to 31 March 2021). The average of 5.9 per cent compares to 5.8 per cent at the start and 6.0 per cent at the end of the quarter.

Overview of risk-weighted assets (OV1)

		March 2021 RWA £m	December 2020 RWA £m
		T	T-1
1	**Credit risk (excluding counterparty credit risk)**	147,819	151,330
2	of which: standardised approach	20,321	22,248
3	of which: the foundation rating-based (FIRB) approach	40,190	41,200
4	of which: the retail IRB (RIRB) approach	64,743	65,225
	of which: corporates – specialised lending	9,109	9,235
	of which: non-credit obligation assets[1]	8,436	7,881
5	of which: equity IRB under the simple risk-weight or the internal models approach	5,020	5,541
6	**Counterparty credit risk**	6,023	6,745
7	of which: marked to market	4,482	5,064
	of which: comprehensive approach for credit risk mitigation (for SFTs)	374	372
11	of which: exposures to central counterparties (including trades, default fund contributions and initial margin)	701	630
12	of which: credit valuation adjustment (CVA)	466	679
13	**Settlement risk**	—	—
14	**Securitisation exposures in banking book[2]**	5,856	5,673
	of which: revised framework internal ratings based approach	1,921	1,951
	of which: revised framework standardised approach	1,630	1,348
	of which: revised framework external ratings based approach	2,305	2,374
19	**Market risk**	2,361	2,207
20	of which: standardised approach	300	252
21	of which: internal model approaches	2,061	1,955
22	**Large exposures**	—	—
23	**Operational risk**	24,865	24,865
25	of which: standardised approach	24,865	24,865
27	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	11,970	11,927
	of which: Significant investment	9,332	9,233
	of which: Deferred tax asset	2,638	2,694
28	**Floor adjustment**	—	—
29	**Total**	198,894	202,747
	Pillar 1 capital requirement[3]	15,912	16,220
	Pillar 2A capital requirement[4]	7,698	7,698
	Total capital requirement	23,610	23,918

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 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.3.9 per cent of aggregated risk-weighted assets, of which c.2.2 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 31 December 2020							202,747
Less: total threshold risk-weighted assets[1]							(11,927)
Risk-weighted assets at 31 December 2020	133,407	23,596	157,003	6,745	2,207	24,865	190,820
Asset size	(1,442)	(367)	(1,809)	(465)	—	—	(2,274)
Asset quality	158	(109)	49	(259)	—	—	(210)
Model updates	—	—	—	—	—	—	—
Methodology and policy	(109)	(1,079)	(1,188)	—	(1)	—	(1,189)
Acquisitions and disposals	—	—	—	—	—	—	—
Movement in risk levels (Market risk only)	—	—	—	—	155	—	155
Foreign exchange movements	(290)	(90)	(380)	2	—	—	(378)
Other	—	—	—	—	—	—	—
Risk-weighted assets at 31 March 2021	131,724	21,951	153,675	6,023	2,361	24,865	186,924
Threshold risk-weighted assets[1]							11,970
Total risk-weighted assets as at 31 March 2021							198,894

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 £1.8bn reflects continued optimisation in Commercial Banking and the exit of equity investments partially offset by increased mortgage lending.
- Asset quality increases includes a limited impact of credit migration offset by the benefit of House Price Index increases.
- Methodology and Policy changes reduced risk-weighted assets by £1.2bn through securitisation activity and other optimisation activity.

Counterparty credit risk, risk-weighted assets decreased by £0.7bn due to movements in market rates during the quarter.

Market risk, risk-weighted assets increased over the quarter as the market to hedge Libor related risks diminishes and the focus turns to new risks that will materialise post-IBOR decommissioning.

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