Lloyds Banking Group plc

Q3 2021 Interim Pillar 3 Report
30 September 2021

BASIS OF PREPARATION

This report presents the interim Pillar 3 disclosures of Lloyds Banking Group plc ('the Group') as at 30 September 2021 and should be read in conjunction with the Group's Q3 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.

From 1 January 2022, UK Pillar 3 disclosure requirements will be set out under the new Disclosure Part of the PRA Rulebook. This will include revisions to current Pillar 3 disclosure requirements that will apply from the same date and are broadly aligned to the equivalent revisions that have already come into force under the EU version of CRR II.

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.

Consolidated interim Pillar 3 disclosures for the Group's ring-fenced banking group (Lloyds Bank plc) will be published separately on the Group's website, located at www.lloydsbankinggroup.com/investors/financial-downloads.

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 Lloyds Banking Group plc together with its subsidiaries (the Group) and its current goals and expectations. 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, without limitation, 'believes', 'achieves', 'anticipates', 'estimates', 'expects', 'targets', 'should', 'intends', 'aims', 'projects', 'plans', 'potential', 'will', 'would', 'could', 'considered', 'likely', 'may', 'seek', 'estimate', 'probability', 'goal', 'objective', 'deliver', 'endeavour', 'prospects', 'optimistic' and similar expressions or variations on these expressions are intended to identify forward looking statements. These statements concern or may affect future matters, including but 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; the Group's ESG targets and/or commitments; statements of plans, objectives or goals of the Group or its management and other statements that are not historical fact; expectations about the impact of COVID-19; 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 include, but are not limited to: general economic and business conditions in the UK and internationally; market related risks, trends and developments; fluctuations in interest rates, inflation, exchange rates, stock markets and currencies; volatility in credit markets; 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; management and monitoring of conduct risk; exposure to counterparty risk; credit rating risk; instability in the global financial markets, including within the Eurozone, and as a result of uncertainty surrounding the exit by the UK from the European Union (EU) and the effects of the EU-UK Trade and Cooperation Agreement; 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; inadequate or failed internal or external processes or systems; acts of hostility or terrorism and responses to those acts, or other such events; geopolitical unpredictability; risks relating to sustainability and climate change (and achieving climate change ambitions), including the Group's ability along with the government and other stakeholders to measure, manage and mitigate the impacts of climate change effectively; changes in laws, regulations, practices and accounting standards or taxation; changes to regulatory capital or liquidity requirements and similar contingencies; the policies and actions of governmental or regulatory authorities or courts together with any resulting impact on the future structure of the Group; projected employee numbers and key person risk; the impact of competitive conditions; and exposure to legal, regulatory or competition proceedings, investigations or complaints. A number of these influences and factors are beyond the Group's control. 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 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 whether as a result of new information, future events or otherwise. 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

The table below provides an overview of the Group's prudential regulatory metrics.

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]

		30 Sep 2021[2]	30 Jun 2021	31 Mar 2021	31 Dec 2020	30 Sep 2020
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1) (£m)	**34,419**	33,525	33,240	32,822	31,237
2	CET1 capital as if IFRS 9 transitional arrangements had not been applied	**33,187**	31,855	31,339	30,341	28,568
3	Tier 1 (£m)	**39,749**	38,855	38,534	38,666	37,081
4	Tier 1 capital as if IFRS 9 transitional arrangements had not been applied (£m)	**38,517**	37,185	36,633	36,185	34,412
5	Total capital (£m)	**47,365**	46,481	45,697	47,168	46,491
6	Total capital as if IFRS 9 transitional arrangements had not been applied	**47,355**	46,153	45,106	46,052	45,077
	Risk-weighted assets (amounts)					
7	Total risk-weighted assets (£m)	**200,678**	200,858	198,894	202,747	205,296
8	Total risk-weighted assets as if IFRS 9 transitional arrangements had not been applied (£m)	**200,483**	200,234	198,381	201,800	203,941
	Risk-based capital ratios as a percentage of RWA					
9	Common Equity Tier 1 ratio (%)	**17.2%**	16.7%	16.7%	16.2%	15.2%
10	CET1 ratio as if IFRS 9 transitional arrangements had not been applied (%)	**16.6%**	15.9%	15.8%	15.0%	14.0%
11	Tier 1 ratio (%)	**19.8%**	19.3%	19.4%	19.1%	18.1%
12	Tier 1 ratio as if IFRS 9 transitional arrangements had not been applied (%)	**19.2%**	18.6%	18.5%	17.9%	16.9%
13	Total capital ratio (%)	**23.6%**	23.1%	23.0%	23.3%	22.6%
14	Total capital ratio as if IFRS 9 transitional arrangements had not been applied (%)	**23.6%**	23.0%	22.7%	22.8%	22.1%
	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	**0.007%**	0.003%	0.003%	0.002%	0.002%
	Bank G-SIB and/or D-SIB additional requirements[3]	**—**	—	—	—	—
	Total of bank CET1 specific buffer requirements	**2.507%**	2.503%	2.503%	2.502%	2.502%
	CET1 available after meeting the bank's minimum capital requirements	**12.7%**	12.2%	12.2%	11.7%	10.7%
	UK leverage ratio[4]					
15	UK leverage ratio exposure measure (£m)	**671,527**	658,689	655,443	666,070	667,024
16	UK leverage ratio	**5.8%**	5.8%	6.0%	5.8%	5.6%
17	UK leverage ratio as if IFRS 9 transitional arrangements had not been	**5.7%**	5.6%	5.7%	5.5%	5.2%
	Average Liquidity Coverage Ratio (weighted) (LCR)					
	Total High Quality Liquid Assets (HQLA) (£m)	**137,134**	139,108	142,700	141,747	138,512
	Total net cash outflow (£m)	**105,095**	105,824	106,442	104,553	100,553
	LCR ratio (%)	**130%**	131%	134%	136%	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 30 September 2021, static relief under the transitional arrangements amounted to £320 million (31 December 2020: £616 million) and dynamic relief under the transitional arrangements amounted to £912 million (31 December 2020: £1,865 million) through CET1 capital.

2 Incorporating profits for the quarter 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 30 September 2021 is 5.3 per cent (31 December 2020 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)

		30 September 2021 Resolution Group [1] £m	30 June 2021 Resolution Group [1] £m	31 March 2021 Resolution Group [1] £m	31 December 2020 Resolution Group [1] £m	30 September 2020 Resolution Group [1] £m
1	Total loss absorbing capacity (TLAC) available	**74,130**	72,846	71,832	73,726	74,998
1a	Fully loaded ECL accounting model TLAC available	**74,120**	72,519	71,241	72,610	73,584
2	Total RWA at the level of the resolution group	**200,678**	200,858	198,894	202,747	205,296
3	TLAC as a percentage of RWA	**36.9%**	36.3%	36.1%	36.4%	36.5%
3a	Fully loaded ECL accounting model TLAC as a percentage of fully loaded ECL accounting model RWA	**37.0%**	36.2%	35.9%	36.0%	36.1%
4	UK leverage ratio exposure measure at the level of the resolution group	**671,527**	658,689	655,443	666,070	667,024
5	TLAC as a percentage of UK leverage ratio exposure measure	**11.0%**	11.1%	11.0%	11.1%	11.2%
5a	Fully loaded ECL accounting model TLAC as a percentage of fully loaded ECL accounting model UK leverage ratio exposure measure	**11.1%**	11.0%	10.9%	10.9%	11.1%
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 2021 £m	At 31 Dec 2020 £m	At 30 Sep 2021 £m	At 31 Dec 2020 £m
Capital resources				
Common equity tier 1				
Shareholders' equity per balance sheet	**46,490**	43,278	**46,490**	43,278
Deconsolidation adjustments[1]	**2,452**	2,333	**2,452**	2,333
Other adjustments[2]	**294**	(231)	**294**	(231)
Deductions from common equity tier 1	**(14,817)**	(12,558)	**(14,817)**	(12,558)
Common equity tier 1 capital	**34,419**	32,822	**34,419**	32,822
Additional tier 1 instruments	**6,430**	6,982	**5,879**	5,881
Deductions from tier 1	**(1,100)**	(1,138)	**(1,100)**	—
Total tier 1 capital	**39,749**	38,666	**39,198**	38,703
Tier 2 instruments and eligible provisions	**8,582**	9,444	**6,428**	6,624
Deductions from tier 2	**(966)**	(942)	**(966)**	(2,080)
Total capital resources	**47,365**	47,168	**44,660**	43,247
Total risk-weighted assets	**200,678**	202,747	**200,678**	202,747
Leverage[3]				
Statutory balance sheet assets			**881,997**	871,269
Deconsolidation, qualifying central bank claims and other adjustments[1]			**(267,238)**	(266,081)
Off-balance sheet items			**56,768**	60,882
Total exposure measure			**671,527**	666,070
Average exposure measure[6]			**668,654**	
CRD IV exposure measure[4]			**734,709**	733,163
Ratios				
Common equity tier 1 capital ratio	**17.2%**	16.2%	**17.2%**	16.2%
Tier 1 capital ratio	**19.8%**	19.1%	**19.5%**	19.1%
Total capital ratio	**23.6%**	23.3%	**22.3%**	21.3%
UK leverage ratio[5]			**5.8%**	5.8%
Average UK leverage ratio[6]			**5.8%**	
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 July 2021 to 30 September 2021). The average of 5.8 per cent compares to 5.8 per cent at the start and 5.8 per cent at the end of the quarter.

Overview of risk-weighted assets (OV1)

		30 Sep 2021 RWA £m	31 Dec 2020 RWA £m	30 Sep 2021 Minimum capital Requirements £m	31 Dec 2020 Minimum capital Requirements £m
1	**Credit risk (excluding counterparty credit risk)**	149,175	151,330	11,934	12,106
2	of which: standardised approach	19,734	22,248	1,579	1,780
3	of which: the foundation rating-based (FIRB) approach	40,215	41,200	3,217	3,296
4	of which: the retail IRB (RIRB) approach	66,665	65,225	5,334	5,218
	of which: corporates – specialised lending	9,552	9,235	764	739
	of which: non-credit obligation assets[1]	7,254	7,881	580	630
5	of which: equity IRB under the simple risk-weight	5,755	5,541	460	443
6	**Counterparty credit risk**	6,025	6,745	482	540
7	of which: marked to market	4,545	5,064	363	405
	of which: comprehensive approach for credit risk mitigation (for SFTs)	454	372	36	30
11	of which: exposures to central counterparties (including trades, default fund contributions and initial margin)	557	630	45	50
12	of which: credit valuation adjustment (CVA)	469	679	38	54
14	**Securitisation exposures in banking book[2]**	5,726	5,673	458	454
	of which: internal ratings based approach	1,931	1,951	154	156
	of which: standardised approach	1,763	1,348	141	108
	of which: external ratings based approach	2,032	2,374	163	190
19	**Market risk**	2,738	2,207	219	177
20	of which: standardised approach	254	252	20	20
21	of which: internal model approaches	2,484	1,955	199	156
23	**Operational risk**	24,573	24,865	1,966	1,989
25	of which: standardised approach	24,573	24,865	1,966	1,989
27	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	12,441	11,927	995	954
	of which: Significant investment	9,606	9,233	768	739
	of which: Deferred tax asset	2,835	2,694	227	216
28	**Floor adjustment**	—	—	—	—
29	**Total**	200,678	202,747	16,054	16,220
	Pillar 2A capital requirement[3]			7,698	7,698
	Total capital requirement			23,752	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 As at 30 September 2021, the Pillar 2A capital requirement was c.3.8 per cent of aggregated risk-weighted assets, of which c.2.2 per cent was to be met with CET1 capital. The PRA has subsequently reduced the Group's nominal Pillar 2A capital requirement to the equivalent of c.3.6 per cent of aggregated risk-weighted assets (based on the position at 30 September 2021), of which c.2.0 per cent is to be met with CET1 capital.

The risk-weighted assets movement tables presented below provide 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.

Risk-weighted assets movement by key driver - 3 months to 30 September 2021

	Credit Risk IRB £m	Credit Risk STA £m	Credit Risk Total[1] £m	Counterparty Credit Risk[2] £m	Market Risk £m	Operational Risk £m	Total £m
Total risk-weighted assets as at 30 June 2021							200,858
Less: total threshold risk-weighted assets[3]							(12,309)
Risk-weighted assets at 30 June 2021	131,725	21,787	153,512	5,948	4,516	24,573	188,549
Asset size	261	(408)	(147)	222	—	—	75
Asset quality	465	(34)	431	13	—	—	444
Model updates	—	—	—	—	(243)	—	(243)
Methodology and policy	753	111	864	—	—	—	864
Movement in risk levels (Market risk only)	—	—	—	—	190	—	190
Foreign exchange movements	200	41	241	(158)	—	—	83
Other	—	—	—	—	(1,725)	—	(1,725)
Risk-weighted assets at 30 September 2021	133,404	21,497	154,901	6,025	2,738	24,573	188,237
Threshold risk-weighted assets[3]							12,441
Total risk-weighted assets as at 30 September 2021							200,678

1 Credit risk includes securitisation risk-weighted assets.

2 Counterparty credit risk includes movements in contributions to the default funds 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.

Key movements

Credit risk, risk weighted assets:

– Asset quality increase of £0.4 billion reflects the impact of credit migration and retail model calibrations, offset by the benefit of House Price Index increases

– Methodology and policy changes includes reductions in risk-weighted assets through enhanced identification of SME scalar exposures that benefit from the SME scalar more than offset by changes to RWA calculation methodology and lower collateral recognition.

Market risk, risk-weighted assets: the reduction of £1.8 billion is predominantly due to the adjustment to the Group's Market Risk capital models as a result of IBOR cessation activities and largely reverses the increase seen during Q2.

Risk-weighted assets movement by key driver - year to 30 September 2021

	Credit Risk IRB £m	Credit Risk STA £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 2020							202,747
Less: total threshold risk-weighted assets[3]							(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	(2,917)	(783)	(3,700)	(347)	—	—	(4,047)
Asset quality	2,281	(144)	2,137	(180)	—	—	1,957
Model updates	—	—	—	—	291	—	291
Methodology and policy	711	(1,132)	(421)	—	(1)	—	(422)
Movement in risk levels (Market risk only)	—	—	—	—	241	—	241
Foreign exchange movements	(78)	(40)	(118)	(193)	—	—	(311)
Other	—	—	—	—	—	(292)	(292)
Risk-weighted assets as at 30 September 2021	133,404	21,497	154,901	6,025	2,738	24,573	188,237
Threshold risk-weighted assets[3]							12,441
Total risk-weighted assets as at 30 September 2021							200,678

1 Credit risk includes securitisation risk-weighted assets.

2 Counterparty credit risk includes movements in contributions to the default funds 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.

Key movements

Credit risk, risk weighted assets:

- Asset size reduction of £3.7 billion predominantly reflects continued optimisation in Commercial Banking and lower unsecured balances, partially offset by increased mortgage lending
- Asset quality increase of £2.1 billion reflects the impact of credit migration and retail model calibrations, offset by the benefit of House Price Index increases
- Methodology and policy changes includes reductions in risk-weighted assets through securitisation activity, other optimisation activity and enhanced identification of SME exposures partially offset by changes to RWA calculation methodology and lower collateral recognition.

Counterparty credit risk, risk-weighted assets: reduced by £0.7 billion predominantly due to movements in market rates during the period.

Market risk, risk-weighted assets: increased by £0.5 billion due to rates flow activity and model updates linked to IBOR decommissioning.

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