Lloyds Banking Group plc

Q3 2017 Interim Pillar 3 Report

25 October 2017

BASIS OF PRESENTATION

This report presents the interim Pillar 3 disclosures of Lloyds Banking Group plc ('the Group') as at 30 September 2017 and should be read in conjunction with the Group's Q3 2017 Interim Management Statement.

The disclosures have been prepared in accordance with the European Banking Authority's revised guidelines on Pillar 3 disclosure formats and frequency that were published in December 2016. 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 with respect to the business, strategy and plans of Lloyds Banking Group and its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about Lloyds Banking Group's or its directors' and/or management's beliefs and expectations, are forward looking 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 the plans, objectives, expectations, estimates and intentions expressed in such 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 (including low or negative rates), exchange rates, stock markets and currencies; 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; changing customer behaviour including consumer spending, saving and borrowing habits; changes to borrower or counterparty credit quality; instability in the global financial markets, including Eurozone instability, the exit by the UK from the European Union (EU) and the potential for one or more other countries to exit the EU or the Eurozone and the impact of any sovereign credit rating downgrade or other sovereign financial issues; technological changes and risks to cyber security; natural, 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, geopolitical, pandemic or other such events; changes in laws, regulations, accounting standards or taxation, including as a result of an exit by the UK from the EU, 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; the ability to attract and retain senior management and other employees; requirements or limitations on the Group as a result of HM Treasury's investment in the Group; 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 provision of banking operations services to TSB Banking Group plc; 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 and lending companies; 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 with the US Securities and Exchange Commission for a discussion of certain factors together with examples of forward looking statements. 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 Lloyds Banking Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statements. 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.

CAPITAL AND LEVERAGE DISCLOSURES

	Transitional		Fully loaded	
	At 30 Sept 2017 £ million	At 31 Dec 2016 £ million	**At 30 Sept 2017 £ million**	At 31 Dec 2016 £ million
Capital resources				
Common equity tier 1				
Shareholders' equity per balance sheet	**43,379**	43,020	**43,379**	43,020
Deconsolidation adjustments[1]	**1,561**	1,342	**1,561**	1,342
Other adjustments	**(2,414)**	(3,893)	**(2,414)**	(3,893)
Deductions from common equity tier 1	**(12,007)**	(11,185)	**(12,007)**	(11,185)
Common equity tier 1 capital	**30,519**	29,284	**30,519**	29,284
Additional tier 1 instruments	**8,075**	8,626	**5,320**	5,320
Deductions from tier 1	**(1,291)**	(1,329)		–
Total tier 1 capital	**37,303**	36,581	**35,839**	34,604
Tier 2 instruments and eligible provisions	**10,342**	11,113	**7,307**	7,918
Deductions from tier 2	**(1,635)**	(1,571)	**(2,926)**	(2,900)
Total capital resources	**46,010**	46,123	**40,220**	39,622
Total risk-weighted assets	**217,014**	215,534	**217,014**	215,534
Leverage[2]				
Statutory balance sheet assets			**810,962**	817,793
Deconsolidation, qualifying central bank claims and other adjustments[1]			**(205,077)**	(210,880)
Off-balance sheet items			**57,860**	58,685
Total exposure measure			**663,745**	665,598
Average exposure measure[5]			**666,666**	
CRD IV exposure measure[3]			**709,976**	707,108
Ratios				
Common equity tier 1 capital ratio	**14.1%**	13.6%	**14.1%**	13.6%
Tier 1 capital ratio	**17.2%**	17.0%	**16.5%**	16.1%
Total capital ratio	**21.2%**	21.4%	**18.5%**	18.4%
UK leverage ratio[4]			**5.4%**	5.2%
Average UK leverage ratio[5]			**5.3%**	
CRD IV leverage ratio			**5.0%**	4.9%

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 countercyclical leverage buffer is currently nil.

5 The average UK leverage ratio is based on the average of the month end tier 1 capital and exposure measures over the quarter (1 July 2017 to 30 September 2017). The average of 5.3 per cent compares to 5.2 per cent at the start and 5.4 per cent at the end of the quarter, primarily reflecting a strengthening of the tier 1 capital position over the quarter.

Overview of risk-weighted assets (Template OV1)

	At 30 Sept 2017 £m	At 31 Dec 2016 £m
Credit risk (excluding counterparty credit risk)	**165,024**	162,650
Of which standardised approach	**24,520**	18,688
Of which the foundation rating-based (FIRB) approach	**48,295**	51,438
Of which the retail IRB (RIRB) approach	**66,458**	64,970
Of which corporates – specialised lending	**11,526**	13,469
Of which non-credit obligation assets	**6,672**	6,427
Of which equity IRB under the simple risk-weight or the internal models approach	**7,553**	7,658
Counterparty credit risk	**7,741**	9,623
Of which marked to market	**5,760**	7,552
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)	**689**	712
Of which exposures to central counterparties (including trades, default fund contributions and initial margin)	**530**	495
Of which credit valuation adjustment (CVA)	**762**	864
Settlement risk	**–**	–
Securitisation exposures in banking book[1]	**3,924**	3,971
Of which IRB ratings-based approach (RBA)	**2,935**	2,878
Of which IRB supervisory formula approach (SFA)	**47**	–
Of which internal assessment approach (IAA)	**692**	825
Of which standardised approach	**250**	268
Market risk	**3,439**	3,147
Of which standardised approach	**353**	352
Of which internal model approaches	**3,086**	2,795
Large exposures	**–**	–
Operational risk	**26,222**	25,292
Of which basic indicator approach	**–**	–
Of which standardised approach	**26,222**	25,292
Of which advanced measurement approach	**–**	–
Amounts below the thresholds for deduction (subject to 250% risk weight)	**10,664**	10,851
Floor adjustment	**–**	–
Total risk-weighted assets	**217,014**	215,534
Total minimum capital requirements	**17,361**	17,243

[1] Securitisations are shown separately in the table but are included within credit risk in the movement by key driver analysis.

Risk-weighted asset movements by key driver

	Credit risk IRB £m	Credit risk STA £m	Credit risk[1] £m	Counterparty credit risk[2] £m	Market risk £m	Operational risk £m	Total £m
Total risk-weighted assets as at 31 December 2016							**215,534**
Less total threshold risk-weighted assets[3]							(10,851)
Risk-weighted assets as at 31 December 2016	147,665	18,956	**166,621**	**9,623**	**3,147**	**25,292**	**204,683**
Asset size	(2,196)	(83)	**(2,279)**	**(348)**	**–**	**–**	**(2,627)**
Asset quality	(7)	(152)	**(159)**	**(1,018)**	**–**	**–**	**(1,177)**
Model updates	83	**–**	**83**	**–**	**181**	**–**	**264**
Methodology and policy	(147)	(74)	**(221)**	**–**	**–**	**–**	**(221)**
Acquisitions and disposals	(520)	6,236	**5,716**	**(26)**	**–**	**930**	**6,620**
Movements in risk levels (market risk only)	**–**	**–**	**–**	**–**	**111**	**–**	**111**
Foreign exchange	(699)	(144)	**(813)**	**(490)**	**–**	**–**	**(1,303)**
Risk-weighted assets as at 30 September 2017	144,179	24,769	**168,948**	**7,741**	**3,439**	**26,222**	**206,350**
Threshold risk-weighted assets[3]							**10,664**
Total risk-weighted assets as at 30 September 2017							**217,014**

1 Credit risk includes 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 reduction 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 decreased by £2.3 billion due to continued active portfolio management, partly offset by targeted growth in key customer segments.
- Asset quality captures movements due to changes in borrower risk, including changes in the economic environment. Reductions of £0.2 billion primarily relate to a net change in credit quality and model calibrations.
- Methodology and policy reductions of £0.2 billion, principally due to increased securitisation activity, partly offset by other movements.
- Acquisitions and disposals increased RWAs by £5.7 billion primarily driven by the acquisition of MBNA, partly offset by the disposal of the Group's interest in some strategic equity investments.
- Sterling foreign exchange movements with Euro and US Dollar contributed to an overall decrease in credit risk-weighted assets of £0.8 billion.

Counterparty credit risk and CVA risk-weighted asset reductions of £1.9 billion are driven mainly by yield curve movements (included in asset quality), improved collateralisation, reduction in position levels and foreign exchange movements.

Market risk, risk-weighted assets increased £0.3 billion due to a higher level of holdings of both government and corporate bonds, increased interest rate risk and improvements to the internal model methodology.

Operational risk, risk-weighted assets increase of £0.9 billion due to the acquisition of MBNA.

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