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LLOYDS BANKING GROUP PASSES THE BANK OF ENGLAND 2017 STRESS TEST

Lloyds Banking Group plc (the Group), together with six other financial institutions in the UK, has been subject to the 2017 stress test conducted by the Bank of England (BoE).

The test applies a hypothetical adverse stress to banks' balance sheets as at 31 December 2016 and assesses banks' capital adequacy against their own minimum Common Equity Tier 1 (CET1) capital and Tier 1 leverage thresholds. For the Group these thresholds have increased from 7.0 per cent to 7.5 per cent for CET1 (4.5 per cent Pillar 1 minimum plus 3.0 per cent Group specific Pillar 2a) and from 3.0 per cent to 3.25 per cent for Tier 1 leverage.

In addition, the test also includes a 'systemic reference point' (SRP) assessment for globally systemic banks (G-SIBs). As the Group is not a G-SIB, this hurdle rate does not apply.

This year's stress scenario for the UK combines rapidly rising interest rates and unemployment in conjunction with significant falls in property prices and GDP. In particular base rates rise to 4 per cent in the first year and remain at this level for a further 3 years, GDP falls 4.7 per cent in the first year, unemployment increases to a peak of 9.5 per cent in the second year, and UK house and commercial property prices fall 33 per cent and 40 per cent respectively over the first three years. In addition the pound depreciates significantly against the dollar with a 32 per cent fall in the first year. This scenario is the most severe stress for the Group since inception of the BoE stress tests.

Result of the stress test

Despite the severity of the stress, the Group exceeds the capital and leverage thresholds set out for the purpose of the stress test before the application of any management actions; therefore, the Group is not required to take any capital action as a result of this stress test.

In the trough of the stress, the BoE calculated the Group's estimated CET1 ratio as 7.5 per cent and its leverage ratio as 3.8 per cent pre-management actions, and 7.9 per cent and 3.9 per cent post-management actions, respectively, compared with a CET1 ratio of 12.8 per cent¹ and leverage ratio of 5.2 per cent as at 31 December 2016. The Group continues to be strongly capital generative and, as previously reported, the CET1 ratio at 30 September 2017 was 14.9 per cent².

As stated by the BoE, there is no mechanical link between the stress test results and the setting of capital buffers. The PRA buffer is expected to be communicated to the Group by the PRA before the publication of the Group's 2017 results.

Further details

Details of the PRA approach to the stress test and the detailed results in relation to all participating financial institutions are available from the Bank of England's website.

¹ Adjusted for the acquisition of MBNA.

² Pre dividend accrual (14.1% post dividend accrual).

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FORWARD LOOKING STATEMENTS

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