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LLOYDS BANKING GROUP PASSES THE BANK OF ENGLAND 2018 STRESS TEST

Lloyds Banking Group plc (the Group), together with six other financial institutions in the UK, has been subject to the 2018 stress test conducted by the Bank of England (BoE).

This year's stress test scenario is broadly the same as in 2017 and thus remains the most severe test that the Group has faced, and more severe than the last global financial crisis. The scenario 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 three years, GDP reduces by 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.

This year's stress test runs under the IFRS 9 accounting standard (rather than IAS 39) for the first time, which requires the immediate recognition of expected lifetime losses rather than reflecting incurred losses. The BoE assesses the stress test results on an IFRS 9 transitional basis, in line with the phased implementation approach. Results are also shown on an IFRS 9 fully-loaded basis.

Result of the stress test

The Group has passed the stress test on a transitional basis with the BoE calculating the Group's transitional CET1 ratio after the application of management actions as 9.3 per cent and its leverage ratio as 4.5 per cent against the increased hurdle rates of 8.5 per cent and 3.8 per cent, respectively.

Despite the severity of the stress test scenario, the Group exceeds the capital and leverage hurdles after the application of management actions. At the low point, the total CET1 drawdown on a transitional basis is 20 basis points less than in the 2017 stress test and the headroom between the CET1 ratio low point and the hurdle rate has widened by 40 basis points to 80 basis points.

Given this performance, the Group is not required to take any capital actions and all capital guidance is reaffirmed, including the Board's view of the level of CET1 required, which remains circa 13 per cent, plus a management buffer of around 1 per cent.

The Group's capital position remains strong having reported a CET1 ratio of 14.6 per cent and a leverage ratio of 5.3 per cent, post dividend accrual, at 30 September 2018. The Group also continues to be strongly capital generative, having built 162 basis points of CET1 in the first nine months of 2018, and continues to expect to deliver circa 200 basis points for the full year which will support an increased capital start point for the 2019 stress test (2018 start point: 14.0 per cent on a transitional basis and 13.8 per cent on a fully loaded basis).

As stated by the BoE, there is no automatic link between the stress test results and the setting of capital buffers. The PRA buffer is expected to be communicated to the Group before the publication of the Group's 2018 results.

Further details

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

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