# Lloyds Banking Group plc

# Q3 2019 Interim Pillar 3 Report

31 October 2019

## BASIS OF PRESENTATION

This report presents the interim Pillar 3 disclosures of Lloyds Banking Group plc ('the Group') as at 30 September 2019 and should be read in conjunction with the Group's Q3 2019 Interim Management Statement.

The disclosures have been prepared in accordance with the European Banking Authority's revised guidelines:

- on materiality, proprietary and confidentiality and on disclosure frequency;
- on Pillar 3 disclosure formats and frequency that were published in December 2016 and;
- on uniform disclosures regarding the transitional period for mitigating the impact of the introduction of IFRS 9 on own funds that were published in January 2018.

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

**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]

| | | **Q3 2019** | Q2 2019 | Q1 2019 | Q4 2018 | Q3 2018 |
|---|---|---|---|---|---|---|
| | **Available capital (amounts)** | | | | | |
| **1** | Common Equity Tier 1 (CET1) (£m) | **28,238** | 28,767 | 28,883 | 30,167 | 30,167 |
| **2** | CET1 capital as if IFRS 9 transitional arrangements had not been applied (£m) | **27,470** | 28,272 | 28,375 | 29,592 | 29,593 |
| **3** | Tier 1 (£m) | **33,982** | 34,506 | 35,703 | 37,539 | 36,365 |
| **4** | Tier 1 capital as if IFRS 9 transitional arrangements had not been applied (£m) | **33,214** | 34,011 | 35,196 | 36,964 | 35,791 |
| **5** | Total capital (£m) | **44,678** | 44,708 | 45,379 | 47,234 | 45,149 |
| **6** | Total capital as if IFRS 9 transitional arrangements had not been applied (£m) | **44,389** | 44,688 | 45,351 | 47,195 | 45,111 |
| | **Risk-weighted assets (amounts)** | | | | | |
| **7** | Total risk-weighted assets (£m) | **209,070** | 206,520 | 207,664 | 206,366 | 206,884 |
| **8** | Total risk-weighted assets as if IFRS 9 transitional arrangements had not been applied (£m) | **208,658** | 206,789 | 207,903 | 206,614 | 207,364 |
| | **Risk-based capital ratios as a percentage of RWA** | | | | | |
| **9** | Common Equity Tier 1 ratio (%)[2] | **13.5%** | 13.9% | 13.9% | 14.6% | 14.6% |
| **10** | CET1 ratio as if IFRS 9 transitional arrangements had not been applied (%) | **13.2%** | 13.7% | 13.6% | 14.3% | 14.3% |
| **11** | Tier 1 ratio (%) | **16.3%** | 16.7% | 17.2% | 18.2% | 17.6% |
| **12** | Tier 1 ratio as if IFRS 9 transitional arrangements had not been applied (%) | **15.9%** | 16.4% | 16.9% | 17.9% | 17.3% |
| **13** | Total capital ratio (%) | **21.4%** | 21.6% | 21.9% | 22.9% | 21.8% |
| **14** | Total capital ratio as if IFRS 9 transitional arrangements had not been applied (%) | **21.3%** | 21.6% | 21.8% | 22.8% | 21.8% |
| | **Additional CET1 buffer requirements % of RWA** | | | | | |
| | Capital conservation buffer requirement | **2.500%** | 2.500% | 2.500% | 1.875% | 1.875% |
| | Countercyclical buffer requirement (%) | **0.899%** | 0.883% | 0.883% | 0.884% | 0.444% |
| | Bank G-SIB and/or D-SIB additional requirements (%)[3] | **–** | – | – | – | – |
| | Total of bank CET1 specific buffer requirements (%) | **3.399%** | 3.383% | 3.383% | 2.759% | 2.319% |
| | CET1 available after meeting the bank's minimum capital requirements (%) | **9.0%** | 9.4% | 9.4% | 10.1% | 10.1% |
| | **UK leverage ratio**[4] | | | | | |
| **15** | UK leverage ratio exposure measure (£m) | **683,562** | 668,207 | 668,264 | 663,277 | 671,885 |
| **16** | UK leverage ratio (%) | **4.9%** | 5.1% | 5.3% | 5.5% | 5.3% |
| **17** | UK leverage ratio as if IFRS 9 transitional arrangements had not been applied (%) | **4.8%** | 5.0% | 5.2% | 5.4% | 5.2% |
| | **Average Liquidity Coverage Ratio (weighted) (LCR)**[5] | | | | | |
| | Total High Quality Liquid Assets (HQLA) (£m) | **130,554** | 129,483 | 128,501 | 125,731 | 123,498 |
| | Total net cash outflow (£m) | **99,297** | 99,281 | 99,242 | 98,489 | 97,091 |
| | LCR ratio (%) | **131%** | 130% | 129% | 128% | 127% |

1. The Group has opted to apply paragraph 4 of CRR Article 473a (the 'transitional rules') which allows for additional capital relief in respect of any post 1 January 2018 increase in Stage 1 and Stage 2 IFRS 9 expected credit loss provisions (net of regulatory expected losses) during the transition period. As at 30 September 2019 no additional capital relief has been recognised.
2. The common equity tier 1 ratio at 30 September 2019 is 14.4 per cent prior to the accrual for foreseeable dividends. At 31 December 2018 the common equity tier 1 ratio was 13.9 per cent on a pro forma basis, reflecting the dividend paid up by the Insurance business in February 2019 and incorporating the effects of the share buy back announced in February 2019.
3. The Group's ring-fenced bank (RFB) is subject to a systemic risk buffer of 2.0 per cent, which is the equivalent of 1.7 per cent at Group level.
4. At 31 December 2018 the leverage ratio was 5.6 per cent on a pro forma basis, reflecting the dividend paid up by the Insurance business in February 2019. The CRD IV leverage ratio at 30 September 2019 is 4.6 per cent (31 December 2018: 5.1 per cent).
5. Following the implementation of structural reform, liquidity is managed at a legal entity level with the Group LCR representing the composite of the ring-fenced bank and non-ring fenced bank entities.

**Key metrics - TLAC requirements (KM2)**

| | | At 30 Sept 2019 Resolution Group[1] £m | At 30 June 2019 Resolution Group[1] £m |
|---|---|---|---|
| 1 | Total loss absorbing capacity (TLAC) available | **67,988** | **66,415** |
| 1a | Fully loaded ECL accounting model TLAC available | **67,699** | **66,395** |
| 2 | Total RWA at the level of the resolution group | **209,070** | **206,520** |
| 3 | TLAC as a percentage of RWA[2] | **32.5%** | **32.2%** |
| 3a | Fully loaded ECL accounting model TLAC as a percentage of fully loaded ECL accounting model RWA | **32.4%** | **32.1%** |
| 4 | UK leverage ratio exposure measure at the level of the resolution group | **683,562** | **668,207** |
| 5 | TLAC as a percentage of UK leverage ratio exposure measure | **9.9%** | **9.9%** |
| 5a | Fully loaded ECL accounting model TLAC as a percentage of fully loaded ECL accounting model UK leverage ratio exposure measure | **9.9%** | **9.9%** |
| 6a | Does the subordination exemption in the antepenultimate paragraph of Section 11 of the FSB TLAC Term Sheet apply? | **No** | **No** |
| 6b | Does the subordination exemption in the penultimate paragraph of Section 11 of the FSB TLAC Term Sheet apply? | **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** |

1 The consolidated position of Lloyds Banking Group plc (the resolution entity).
2 At 31 December 2018 the TLAC (MREL) ratio was 32.6 per cent on a pro forma basis reflecting the dividend paid up by the Insurance business in February 2019.

## 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 Sept 2019** | At 31 Dec 2018 | **At 30 Sept 2019** | At 31 Dec 2018 |
| **Capital resources** | **£m** | £m | **£m** | £m |
| Common equity tier 1 | | | | |
| Shareholders' equity per balance sheet | **42,530** | 43,434 | **42,530** | 43,434 |
| Deconsolidation adjustments[1] | **2,310** | 2,273 | **2,310** | 2,273 |
| Other adjustments | **(2,754)** | (2,873) | **(2,754)** | (2,873) |
| Deductions from common equity tier 1 | **(13,848)** | (12,667) | **(13,848)** | (12,667) |
| **Common equity tier 1 capital** | **28,238** | 30,167 | **28,238** | 30,167 |
| | | | | |
| Additional tier 1 instruments | **7,034** | 8,670 | **5,381** | 6,466 |
| Deductions from tier 1 | **(1,290)** | (1,298) | | - |
| **Total tier 1 capital** | **33,982** | 37,539 | **33,619** | 36,633 |
| | | | | |
| Tier 2 instruments and eligible provisions | **11,658** | 10,668 | **6,697** | 7,898 |
| Deductions from tier 2 | **(962)** | (973) | **(2,252)** | (2,271) |
| **Total capital resources** | **44,678** | 47,234 | **38,064** | 42,260 |
| | | | | |
| **Total risk-weighted assets** | **209,070** | 206,366 | **209,070** | 206,366 |
| | | | | |
| **Leverage[2]** | | | | |
| Statutory balance sheet assets | | | **858,543** | 797,598 |
| Deconsolidation, qualifying central bank claims and other adjustments[1] | | | **(231,694)** | (190,714) |
| Off-balance sheet items | | | **56,713** | 56,393 |
| **Total exposure measure** | | | **683,562** | 663,277 |
| **Average exposure measure[6]** | | | **679,308** | |
| | | | | |
| **CRD IV exposure measure[3]** | | | **731,041** | 713,382 |
| | | | | |
| **Ratios** | | | | |
| Common equity tier 1 capital ratio[4] | **13.5%** | 14.6% | **13.5%** | 14.6% |
| Tier 1 capital ratio | **16.3%** | 18.2% | **16.1%** | 17.8% |
| Total capital ratio | **21.4%** | 22.9% | **18.2%** | 20.5% |
| UK leverage ratio[5] | | | **4.9%** | 5.5% |
| Average UK leverage ratio[6] | | | **5.0%** | |
| CRD IV leverage ratio | | | **4.6%** | 5.1% |

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 common equity tier 1 ratio at 30 September 2019 is 14.4 per cent prior to the accrual for foreseeable dividends. At 31 December 2018 the common equity tier 1 ratio was 13.9 per cent on a pro forma basis, reflecting the dividend paid up by the Insurance business in February 2019 and incorporating the effects of the share buy back announced in February 2019.

5 The countercyclical leverage buffer is currently 0.3 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. At 31 December 2018 the leverage ratio was 5.6 per cent on a pro forma basis, reflecting the dividend paid up by the Insurance business in February 2019.

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 2019 to 30 September 2019). The average of 5.0 per cent compares to 5.1 per cent at the start and 4.9 per cent at the end of the quarter, with the ratio reducing across the quarter largely as a result of both the reduction in tier 1 capital and balance sheet movements.

**Overview of risk-weighted assets (OV1)**

| | **At 30 Sept 2019 RWA £m** | At 31 Dec 2018 RWA £m |
|---|---|---|
| **Credit risk (excluding counterparty credit risk)** | **159,065** | **157,239** |
| Of which standardised approach | **25,333** | 25,548 |
| Of which the foundation rating-based (FIRB) approach | **45,837** | 48,747 |
| Of which the retail IRB (RIRB) approach | **63,661** | 59,522 |
| Of which corporates – specialised lending | **10,351** | 11,808 |
| Of which non-credit obligation assets[1] | **7,341** | 5,866 |
| Of which equity IRB under the simple risk-weight or the internal models approach | **6,542** | 5,749 |
| **Counterparty credit risk** | **7,394** | 7,250 |
| Of which marked to market | **5,452** | 4,917 |
| 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) | **558** | 471 |
| Of which exposures to central counterparties (including trades, default fund contributions and initial margin) | **526** | 1,160 |
| Of which credit valuation adjustment (CVA) | **858** | 702 |
| **Settlement risk** | - | - |
| **Securitisation exposures in banking book**[2] | **4,787** | 4,262 |
| Of which IRB ratings-based approach (RBA) | **2,941** | 3,159 |
| Of which IRB supervisory formula approach (SFA) | **72** | 72 |
| Of which internal assessment approach (IAA) | **644** | 820 |
| Of which standardised approach | **192** | 209 |
| Of which Revised Framework: IRBA | **594** | - |
| Of which Revised Framework: Sec-SA | **270** | - |
| Of which Revised Framework: ERBA | **75** | - |
| **Market risk** | **2,156** | 2,085 |
| Of which: standardised approach | **484** | 416 |
| Of which: internal model approaches | **1,673** | 1,669 |
| **Large exposures** | - | - |
| **Operational risk** | **25,161** | 25,505 |
| Of which: basic indicator approach | - | - |
| Of which: standardised approach | **25,161** | 25,505 |
| Of which: advanced measurement approach | - | - |
| **Amounts below the thresholds for deduction (subject to 250% risk weight)** | **10,507** | 10,026 |
| Of which: Significant investment | **8,159** | 8,597 |
| Of which: Deferred tax asset | **2,348** | 1,429 |
| Floor adjustment | | - |
| **Total** | **209,070** | **206,366** |
| Pillar 1 capital requirement[3] | 16,725 | 16,509 |
| Pillar 2A capital requirement[4] | 9,500 | 9,615 |
| **Total capital requirement** | **26,225** | **26,124** |

1 Non-credit obligation assets (IRB approach) predominately relate to other balance sheet assets including fixed assets, prepayments, cash and sundry debtors.

2 Securitisations are shown separately in the 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.4.6 per cent of aggregated risk-weighted assets, of which c.2.6 per cent must be met with CET1 capital.

**Risk-weighted asset movements by key driver**

| | Credit risk IRB £m | Credit risk SA £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 2018** | | | | | | | 206,366 |
| Less threshold risk-weighted assets[3] | | | | | | | (10,026) |
| **Risk-weighted assets at 31 December 2018** | 135,743 | 25,757 | 161,500 | 7,250 | 2,085 | 25,505 | 196,340 |
| Asset size | **(183)** | **(88)** | **(271)** | **9** | **(110)** | | **(372)** |
| Asset quality | **1,498** | **(718)** | **780** | **435** | **-** | | **1,215** |
| Model updates | **1,765** | **-** | **1,765** | **-** | **(110)** | | **1,655** |
| Methodology and policy | **(905)** | **(585)** | **(1,490)** | **(276)** | **4** | | **(1,762)** |
| Acquisitions and disposals | **-** | **1,326** | **1,326** | **-** | **-** | | **1,326** |
| Movements in risk levels (market risk only) | **-** | **-** | **-** | **-** | **287** | | **287** |
| Foreign exchange movements | **138** | **102** | **240** | **(24)** | **-** | | **216** |
| Other | **-** | **-** | **-** | **-** | **-** | **(344)** | **(344)** |
| **Risk-weighted assets at 30 September 2019** | **138,057** | **25,795** | **163,852** | **7,394** | **2,156** | **25,161** | **198,563** |
| Threshold risk-weighted assets[3] | | | | | | | **10,507** |
| **Total risk-weighted assets at 30 September 2019** | | | | | | | **209,070** |

[1] Credit risk includes movements in 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 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 judgment.

**Credit risk, risk weighted assets:**

- Asset size reduction of £0.3bn includes changes in book size (both drawn and undrawn balances) and composition, excluding acquisitions and disposals.
- Asset quality increase of £0.8bn captures movements due to changes in borrower risk, including changes in the macro economic environment.
- Model updates increase in risk-weighted assets of £1.8bn principally as a result of changes to mortgage models.
- Methodology and policy changes reduced risk-weighted assets by £1.5bn principally as a result of securitisation activity, partially offset by the introduction of IFRS 16.
- Acquisitions and disposals increase of £1.3bn reflects the purchase of the Tesco Bank UK prime residential mortgage portfolio.

**Counterparty credit risk, risk-weighted assets** increased by £0.1bn due to movements in yield curves, partially offset by reduced contributions to default funds.

**Market risk, risk-weighted assets** increased by £0.1bn due to small risk and model changes**.**

**Operational risk, risk-weighted assets** decreased by £0.3bn following the actualisation of calculation inputs.

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