Lloyds Bank plc

Q1 2020 Interim Pillar 3 Report

30 April 2020

BASIS OF PRESENTATION

This report presents the consolidated interim Pillar 3 disclosures of Lloyds Bank plc (the Bank) together with its subsidiaries (the Lloyds Bank Group) as at 31 March 2020 and should be read in conjunction with the Lloyds Bank Group's Q1 2020 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 Lloyds Bank 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]

	Q1 2020[2]	Q4 2019	Q3 2019	Q2 2019	Q1 2019
Available capital (amounts)					
Common Equity Tier 1 (CET1) (£m)	**24,807**	24,637	24,380	25,082	25,611
CET1 capital as if IFRS 9 transitional arrangements had not been applied (£m)	**24,316**	24,185	23,930	24,632	25,150
Tier 1 (£m)	**31,415**	31,542	29,637	30,339	30,868
Tier 1 capital as if IFRS 9 transitional arrangements had not been applied (£m)	**30,924**	31,090	29,187	29,889	30,407
Total capital (£m)	**38,125**	37,976	36,245	36,457	37,044
Total capital as if IFRS 9 transitional arrangements had not been applied (£m)	**38,142**	38,004	36,275	36,487	37,063
Risk-weighted assets (amounts)					
Total risk-weighted assets (£m)	**175,612**	171,940	175,631	173,782	176,261
Total risk-weighted assets as if IFRS 9 transitional arrangements had not been applied (£m)	**176,104**	172,324	176,014	174,165	176,618
Risk-based capital ratios as a percentage of RWA					
Common Equity Tier 1 ratio (%)	**14.1%**	14.3%	13.9%	14.4%	14.5%
CET1 ratio as if IFRS 9 transitional arrangements had not been applied (%)	**13.8%**	14.0%	13.6%	14.1%	14.2%
Tier 1 ratio (%)	**17.9%**	18.3%	16.9%	17.5%	17.5%
Tier 1 ratio as if IFRS 9 transitional arrangements had not been applied (%)	**17.6%**	18.0%	16.6%	17.2%	17.2%
Total capital ratio (%)	**21.7%**	22.1%	20.6%	21.0%	21.0%
Total capital ratio as if IFRS 9 transitional arrangements had not been applied (%)	**21.7%**	22.1%	20.6%	20.9%	21.0%
Additional CET1 buffer requirements % of RWA					
Capital conservation buffer requirement	**2.5%**	2.5%	2.5%	2.5%	2.5%
Countercyclical buffer requirement (%)[3]	**0.0%**	0.9%	0.9%	0.9%	0.9%
Bank G-SIB and/or D-SIB additional requirements (%)[4]	**2.0%**	2.0%	2.0%	-	-
Total of bank CET1 specific buffer requirements (%)	**4.5%**	5.4%	5.4%	3.4%	3.4%
CET1 available after meeting the bank's minimum capital requirements (%)	**9.6%**	9.8%	9.4%	9.9%	10.0%
UK leverage ratio[5]					
UK leverage ratio exposure measure (£m)	**589,261**	582,921	597,876	590,895	592,506
UK leverage ratio (%)	**5.1%**	5.1%	4.6%	4.8%	4.9%
UK leverage ratio as if IFRS 9 transitional arrangements had not been applied (%)	**5.0%**	5.0%	4.5%	4.7%	4.8%
Average Liquidity Coverage Ratio (weighted) (LCR)					
Total High Quality Liquid Assets (HQLA) (£m)	111,487	112,203	113,545	112,131	111,884
Total net cash outflow (£m)	87,313	88,490	90,061	89,826	88,781
LCR ratio (%)	128%	127%	126%	125%	126%

[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.

[2] Incorporating profits for the period that remain subject to formal verification in accordance with the Capital Requirements Regulation.

[3] The countercyclical capital buffer requirement at 31 March 2020 was less than 0.01 per cent following the reduction in the UK countercyclical buffer rate to nil.

[4] The Group is subject to a systemic risk buffer of 2.0 per cent of risk-weighted assets which came into effect in August 2019 and is designed to hold systemically important banks to higher capital standards so that they can withstand a greater level of stress before requiring resolution.

[5] The CRD IV leverage ratio at 31 March 2020 is 4.7 per cent (31 December 2019: 4.8 per cent).

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 31 Mar 2020	At 31 Dec 2019	**At 31 Mar 2020**	At 31 Dec 2019
Capital resources	**£m**	£m	**£m**	£m
Common equity tier 1				
Shareholders' equity per balance sheet	**38,663**	33,973	**38,663**	33,973
Other adjustments	**(1,721)**	(1,133)	**(1,721)**	(1,133)
Deductions from common equity tier 1	**(12,135)**	(8,203)	**(12,135)**	(8,203)
Common equity tier 1 capital	**24,807**	24,637	**24,807**	24,637
Additional tier 1 instruments	**6,608**	6,905	**5,248**	4,865
Total tier 1 capital	**31,415**	31,542	**30,055**	29,502
Tier 2 instruments and eligible provisions	**6,710**	6,434	**5,122**	4,140
Total capital resources	**38,125**	37,976	**35,177**	33,642
Total risk-weighted assets	**175,612**	171,940	**175,612**	171,940
Leverage[1]				
Statutory balance sheet assets			**612,073**	581,368
Deconsolidation, qualifying central bank claims and other adjustments			**(67,432)**	(42,619)
Off-balance sheet items			**44,620**	44,172
Total exposure measure			**589,261**	582,921
Average exposure measure[4]			**584,928**	
CRD IV exposure measure[2]			**643,120**	616,329
Ratios				
Common equity tier 1 capital ratio	**14.1%**	14.3 %	**14.1%**	14.3%
Tier 1 capital ratio	**17.9%**	18.3%	**17.1%**	17.2%
Total capital ratio	**21.7%**	22.1%	**20.0%**	19.6%
UK leverage ratio[3]			**5.1%**	5.1%
Average UK leverage ratio[4]			**5.1%**	
CRD IV leverage ratio			**4.7%**	4.8%

[1] Calculated in accordance with the UK Leverage Ratio Framework which requires qualifying central bank claims to be excluded from the leverage exposure measure.

[2] Calculated in accordance with CRD IV rules which include central bank claims within the leverage exposure measure.

[3] The countercyclical leverage buffer is currently 0.0 per cent. The additional leverage ratio buffer is 0.7 per cent.

[4] The average UK leverage ratio is based on the average month end tier 1 capital position and average exposure measure over the quarter (1 January 2020 to 31 March 2020). The average of 5.1 per cent compares to 5.1 per cent at the start and 5.1 per cent at the end of the quarter.

Overview of risk-weighted assets (OV1)

	At 31 Mar 2020 RWA £m	At 31 Dec 2019 RWA £m
Credit risk (excluding counterparty credit risk)	**139,959**	138,990
Of which standardised approach	**22,225**	21,897
Of which the foundation rating-based (FIRB) approach	**37,454**	37,482
Of which the retail IRB (RIRB) approach	**64,384**	63,192
Of which corporates – specialised lending	**8,830**	9,018
Of which non-credit obligation assets[1]	**7,065**	7,401
Of which equity IRB under the simple risk-weight or the internal models approach	**-**	-
Counterparty credit risk	**2,507**	2,102
Of which marked to market	**1,492**	1,370
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)	**456**	232
Of which exposures to central counterparties (including trades, default fund contributions and initial margin)	**295**	229
Of which credit valuation adjustment (CVA)	**264**	271
Settlement risk	**-**	-
Securitisation exposures in banking book[2]	**6,259**	4,497
Of which IRB ratings-based approach (RBA)	**-**	1,525
Of which IRB supervisory formula approach (SFA)	**-**	-
Of which internal assessment approach (IAA)	**-**	234
Of which standardised approach	**-**	177
Of which Revised Framework: IRBA	**2,132**	1,214
Of which Revised Framework: Sec-SA	**827**	242
Of which Revised Framework: ERBA	**3,300**	1,107
Market risk	**265**	171
Of which: standardised approach	**59**	45
Of which: internal model approaches	**206**	125
Large exposures	**-**	-
Operational risk	**24,413**	24,413
Of which: basic indicator approach	**-**	-
Of which: standardised approach	**24,413**	24,413
Of which: advanced measurement approach	**-**	-
Amounts below the thresholds for deduction (subject to 250% risk weight)	**2,209**	1,767
Of which: Significant investment	**-**	-
Of which: Deferred tax asset	**2,209**	1,767
Floor adjustment	**-**	-
Total	**175,612**	171,940
Pillar 1 capital requirement[3]	**14,049**	13,755
Pillar 2A capital requirement[4]	**8,530**	8,422
Total capital requirement	**22,579**	22,177

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.4.9 per cent of aggregated risk-weighted assets, of which c.2.7 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 2019							171,940
Less threshold risk-weighted assets[3]							(1,767)
Risk-weighted assets at 31 December 2019	121,172	22,316	143,488	2,102	171	24,413	170,173
Asset size	**(761)**	**(2)**	**(763)**	**398**	**-**	**-**	**(364)**
Asset quality	**958**	**16**	**974**	**(2)**	**-**	**-**	**972**
Model updates	**-**	**-**	**-**	**-**	**49**	**-**	**49**
Methodology and policy	**1,545**	**611**	**2,156**	**-**	**(12)**	**-**	**2,144**
Acquisitions and disposals	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Movements in risk levels (market risk only)	**-**	**-**	**-**	**-**	**57**	**-**	**57**
Foreign exchange movements	**252**	**111**	**363**	**9**	**-**	**-**	**372**
Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Risk-weighted assets at 31 March 2020	**123,166**	**23,052**	**146,218**	**2,507**	**265**	**24,413**	**173,403**
Threshold risk-weighted assets[3]							**2,209**
Total risk-weighted assets at 31 March 2019							**175,612**

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 deferred tax assets that are permitted to be risk-weighted instead of being deducted from CET1 capital.

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 £0.8bn predominantly reflects optimisation activity undertaken in Commercial Banking prior to the pandemic, offset by drawdowns by corporate customers towards the end of the quarter.
- Asset quality increase of £1.0bn includes movements due to changes in borrower risk, including changes in the macro-economic environment increases.
- Methodology and policy changes increased risk-weighted assets by £2.2bn largely reflecting the full implementation of the new securitisation framework on 1st January 2020 which resulted in transactions using the original rules at the end of 2019 transition over to the new rules.

Counterparty credit risk, risk weighted assets increased by £0.4bn due movements in market rates (yield curve related movements included in asset size) and CVA.

Market risk, risk weighted assets increased by £0.1bn due to an increase in risk and an increase in the capital multiplier from COVID-related backtesting overshoots.

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