Lloyds Bank Corporate Markets plc

Q3 2022
Pillar 3 Disclosures
30 September 2022

BASIS OF PREPARATION

This report presents the interim Pillar 3 disclosures of Lloyds Bank Corporate Markets plc ('the Bank') as at 30 September 2022.

The disclosures have been prepared in accordance with the Disclosure Part of the PRA Rulebook which includes revised disclosure requirements applicable from 1 January 2022 following the UK implementation of the remaining provisions of Capital Requirements Regulation II.

Specific Pillar 3 templates are required to be disclosed on a quarterly basis and these are included within this report with the following exceptions:

– Template CCR7 (RWA flow statements of CCR exposures under the IMM) is not applicable to the Bank.

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 within the meaning of Section 21E of the US Securities Exchange Act of 1934, as amended, and section 27A of the US Securities Act of 1933, as amended, with respect to the business, strategy, plans and/or results of Lloyds Bank Corporate Markets plc together with its subsidiaries (the Group) and its current goals and expectations. Statements that are not historical or current facts, including statements about the Group's or its directors' and/or management's beliefs and expectations, are forward looking statements. Words such as, without limitation, 'believes', 'achieves', 'anticipates', 'estimates', 'expects', 'targets', 'should', 'intends', 'aims', 'projects', 'plans', 'potential', 'will', 'would', 'could', 'considered', 'likely', 'may', 'seek', 'estimate', 'probability', 'goal', 'objective', 'deliver', 'endeavour', 'prospects', 'optimistic' and similar expressions or variations on these expressions are intended to identify forward looking statements. These statements concern or may affect future matters, including but not limited to: projections or expectations of the Group's future financial position, including profit attributable to shareholders, provisions, economic profit, dividends, capital structure, portfolios, net interest margin, capital ratios, liquidity, risk-weighted assets (RWAs), expenditures or any other financial items or ratios; litigation, regulatory and governmental investigations; the Group's future financial performance; the level and extent of future impairments and write-downs; the Lloyds Banking Group's ESG targets and/or commitments; statements of plans, objectives or goals of the Group or its management and other statements that are not historical fact; expectations about the impact of COVID-19; and statements of assumptions underlying such 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 forward looking statements include, but are not limited to: general economic and business conditions in the UK and internationally; market related risks, trends and developments; risks concerning borrower and counterparty credit quality; fluctuations in interest rates, inflation, exchange rates, stock markets and currencies; volatility in credit markets; volatility in the price of Lloyds Banking Group plc's and/or the Group's securities; changes in consumer behaviour; any impact of the transition from IBORs to alternative reference rates; the ability to access sufficient sources of capital, liquidity and funding when required; changes to the Group's or Lloyds Banking Group plc's credit ratings; the ability to derive cost savings and other benefits including, but without limitation, as a result of any acquisitions, disposals and other strategic transactions; inability to capture accurately the expected value from acquisitions; potential changes in dividend policy; the ability to achieve strategic objectives; model risk; management and monitoring of conduct risk; exposure to counterparty risk; credit rating risk; tightening of monetary policy in jurisdictions in which the Group operates; instability in the global financial markets, including within the Eurozone, and as a result of ongoing uncertainty following the exit by the UK from the European Union (EU) and the effects of the EU-UK Trade and Cooperation Agreement; political instability including as a result of any UK general election and any further possible referendum on Scottish independence; operational risks; conduct risk; technological changes and risks to the security of IT and operational infrastructure, systems, data and information resulting from increased threat of cyber and other attacks; natural pandemic (including but not limited to the COVID-19 pandemic) and other disasters; inadequate or failed internal or external processes or systems; acts of hostility or terrorism and responses to those acts, or other such events; geopolitical unpredictability; the war between Russia and Ukraine; the tensions between China and Taiwan; risks relating to sustainability and climate change (and achieving climate change ambitions), including the Group and/or Lloyds Banking Group plc's ability along with the government and other stakeholders to measure, manage and mitigate the impacts of climate change effectively; changes in laws, regulations, practices and accounting standards or taxation; changes to regulatory capital or liquidity requirements and similar contingencies; assessment related to resolution planning requirements; the policies and actions of governmental or regulatory authorities or courts together with any resulting impact on the future structure of the Group; failure to comply with anti-money laundering, counter terrorist financing, anti-bribery and sanctions regulations; failure to prevent or detect any illegal or improper activities; projected employee numbers and key person risk; increased labour costs; assumptions and estimates that form the basis of our financial statements; the impact of competitive conditions; and exposure to legal, regulatory or competition proceedings, investigations or complaints. A number of these influences and factors are beyond the control of the Group or Lloyds Banking Group plc. Please refer to the Base Prospectus for the Group's Euro Medium Term Note Programme, which is available on the Lloyds Banking Group website at www.lloydsbankinggroup.com and the latest Annual Report on Form 20-F filed by Lloyds Banking Group plc with the US Securities and Exchange Commission (the SEC), which is available on the SEC's website at www.sec.gov, for a discussion of certain factors and risks. Forward-looking statements may also be made or disclosed in other written materials and/or in oral statements made by or on behalf of the directors, officers or employees of the Group to third parties, including financial analysts. 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 the Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statements contained in this document whether as a result of new information, future events or otherwise. 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.

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Key metric and overview of risk weighted exposure amounts (continued)

OV1: Overview of risk-weighted assets

		Total RWA		Total own funds requirements
		30 Sep 2022	31 Dec 2021	30 Sep 2022
		£m	£m	£m
1	**Credit risk (excluding CCR)[1]**	**11,669**	9,581	**934**
2	Of which the standardised approach[1]	1,511	1,337	121
3	Of which the foundation IRB (FIRB) approach	9,423	7,468	754
4	Of which slotting approach	213	197	17
UK 4a	Of which equities under the simple risk weighted approach[1]	450	508	36
	Of which: non-credit obligation assets[2]	72	71	6
6	**Counterparty credit risk - CCR[1]**	**6,519**	4,496	**521**
7	Of which the standardised approach	5,517	—	442
	Of which: marked to market[1]	—	3,507	—
UK 8a	Of which exposures to a CCP	104	361	8
UK 8b	Of which credit valuation adjustment - CVA	472	472	37
9	Of which other CCR	426	156	34
16	**Securitisation exposures in the non-trading book (after the cap)[1]**	**426**	571	**34**
18	Of which SEC-ERBA (including IAA)[1]	122	254	10
19	Of which SEC-SA approach[1]	304	317	24
20	**Position, foreign exchange and commodities risks (Market risk)**	**2,716**	2,933	**217**
21	Of which the standardised approach	244	259	19
22	Of which IMA	2,472	2,674	198
23	**Operational risk**	**763**	855	**61**
UK 23b	Of which standardised approach	763	855	61
24	**Memo: Amounts below the thresholds for deduction (subject to 250% risk weight) (For information)[1]**	508	555	41
29	**Total**	**22,093**	18,436	**1,767**
	Pillar 2A capital requirement[3]			847
	Total capital requirement			**2,614**

1 Restated in accordance with revised OV1 template requirements: (i) threshold balances now reported through relevant underlying category; (ii) counterparty credit risk exposures linked to securitisations now reported through securitisation exposures.

2 Non-credit obligation assets (IRB approach) includes other balance sheet assets that have no associated credit risk.

3 As at 30 September 2022, the Pillar 2A capital requirement was around 3.8 per cent of risk-weighted assets, of which around 2.2 per cent was to be met with CET1 capital. In October 2022 the PRA increased the Bank's Pillar 2A capital requirement to around 4.6 per cent of risk-weighted assets, of which around 2.6 per cent is to be met with CET1 capital.

IRB Approach to Credit Risk

The table below summarises the movements of risk-weighted assets for credit risk exposures under the Internal Ratings Based (IRB) Approach. The table excludes counterparty credit risk exposures, securitisation exposures, other non-credit obligation assets and equity exposures.

CR8: Risk-weighted assets flow statements of credit risk exposures - year to 30 Sep 2022

		Total RWA quarter to 30 Sep 2022	Total RWA YTD 30 Sep 2022
		£m	£m
1	**Risk weighted exposure amount as at the end of previous reporting period**	**9,302**	**7,665**
2	Asset size (+/-)	(326)	811
3	Asset quality (+/-)	125	52
5	Methodology and policy (+/-)	10	20
7	Foreign exchange movements (+/-)	525	1,088
9	**Risk weighted exposure amount as at the end of the reporting period**	**9,636**	**9,636**

Key movements quarter to 30 September 2022

– Asset size decrease driven by net lending reduction in the quarter.

– Foreign exchange movements, principally driven by movement in US Dollar.

Key movements year to date 30 September 2022

– Asset size increase year to date at 30 September 2022 is driven by net new lending.

– Foreign exchange movements, principally driven by movements in the US Dollar and Euro.

Standardised approach and internal model for Market Risk

The table below summarises the movements of risk-weighted assets for market risk exposures under the Internal Models Approach (IMA).

MR2-B: Risk-weighted assets flow statements of market risk exposures under an IMA

		VaR	SVaR	IRC	Comprehensive risk measure	Other	Total RWA	Total own funds requirements
		£m	£m	£m	£m	£m	£m	£m
1	**RWAs at 31 Dec 2021**	**312**	**1,171**	**181**	**0**	**1,010**	**2,674**	**214**
1a	Regulatory adjustment	(210)	(951)	—	—	—	**(1,161)**	(93)
1b	**RWAs at end of day 31 Dec 2021[1]**	**102**	**220**	**181**	**0**	**1,010**	**1,513**	**121**
2	Movement in risk levels	29	(43)	(84)	—	(339)	**(437)**	(35)
3	Model updates/changes	—	—	—	—	17	**17**	1
8a	**RWAs at end of day 30 Jun 2022[1]**	**131**	**177**	**97**	**0**	**688**	**1,093**	**87**
8b	Regulatory adjustment	325	590	—	—	—	**915**	74
8	**RWAs at 30 Jun 2022**	**456**	**767**	**97**	**0**	**688**	**2,008**	**161**
1a	Regulatory adjustment	(325)	(590)	—	—	—	**(915)**	(74)
1b	**RWAs at end of day 30 Jun 2022[1]**	**131**	**177**	**97**	**—**	**688**	**1,093**	**87**
2	Movement in risk levels	32	25	149	—	22	**228**	19
3	Model updates/changes	—	—	—	—	23	**23**	2
8a	**RWAs at end of day 30 Sep 2022[1]**	**163**	**202**	**246**	**—**	**733**	**1,344**	**108**
8b	Regulatory adjustment	518	610	—	—	—	**1,128**	90
8	**RWAs at 30 Sep 2022**	**681**	**812**	**246**	**—**	**733**	**2,472**	**198**

[1] End of day represents spot position

Key movements to 30 June 2022

– Market risk IMA RWAs decreased over the first half of the year largely driven by a reduction in interest rate risk exposure.

Key movements to 30 September 2022

– Market risk IMA RWAs increased over the quarter driven by increased market volatility.

Liquidity Requirements

LIQ1: Quantitative information of LCR

The table below presents the breakdown of the Bank's cash outflows and cash inflows, as well as its available high quality liquid assets, calculated as the simple averages of month end observations over the 12 months preceding the end of each quarter.

		Total unweighted value (average)			Total weighted value (average)		
		30 Sep 2022	30 Jun 2022	31 Mar 2022	30 Sep 2022	30 Jun 2022	31 Mar 2022
	Number of data points used in calculation of averages	**12**	12	12	**12**	12	12
HIGH-QUALITY LIQUID ASSETS (£m)							
1	Total high-quality liquid assets (HQLA)				**24,294**	24,181	24,647
CASH - OUTFLOWS (£m)							
2	Retail deposits and deposits from small business customers, of which:	**7,694**	7,532	7,422	**999**	975	957
3	Stable deposits	**—**	—	—	**—**	—	—
4	Less stable deposits	**7,694**	7,532	7,422	**999**	975	957
5	Unsecured wholesale funding	**7,928**	7,655	7,594	**5,716**	5,338	5,077
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	**—**	—	—	**—**	—	—
7	Non-operational deposits (all counterparties)	**6,911**	6,780	6,801	**4,699**	4,463	4,284
8	Unsecured debt	**1,017**	875	793	**1,017**	875	793
9	Secured wholesale funding				**30**	30	16
10	Additional requirements	**22,790**	22,632	21,985	**16,574**	16,797	16,511
11	Outflows related to derivative exposures and other collateral requirements	**12,208**	12,647	12,427	**12,206**	12,642	12,422
12	Outflows related to loss of funding on debt products	**—**	—	—	**—**	—	—
13	Credit and liquidity facilities	**10,582**	9,985	9,558	**4,368**	4,156	4,089
14	Other contractual funding obligations	**475**	376	347	**441**	341	312
15	Other contingent funding obligations	**6,867**	6,433	5,927	**188**	204	191
16	TOTAL CASH OUTFLOWS				**23,948**	23,686	23,064
CASH - INFLOWS (£m)							
17	Secured lending (e.g. reverse repos)	**19,960**	19,912	20,200	**186**	149	121
18	Inflows from fully performing exposures	**998**	906	862	**895**	806	763
19	Other cash inflows	**8,346**	8,216	7,231	**8,346**	8,215	7,230
UK-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)				**—**	—	—
UK-19b	(Excess inflows from a related specialised credit institution)				**—**	—	—
20	TOTAL CASH INFLOWS	**29,304**	29,034	28,293	**9,427**	9,170	8,114
UK-20a	Fully exempt inflows	**—**	—	—	**—**	—	—
UK-20b	Inflows subject to 90% cap	**—**	—	—	**—**	—	—
UK-20c	Inflows subject to 75% cap	**25,336**	25,033	24,526	**9,427**	9,170	8,114
TOTAL ADJUSTED VALUE							
UK-21	LIQUIDITY BUFFER (£m)				**24,294**	24,181	24,647
22	TOTAL NET CASH OUTFLOWS (£m)				**14,521**	14,516	14,950
23	LIQUIDITY COVERAGE RATIO (%)				**169 %**	168 %	166 %

Liquidity Requirements (continued)

LIQB: Qualitative information on LCR

The Bank LCR disclosure (calculated as the simple average of month end observations over the 12 months preceding the end of the reporting quarter) was 169% as of 30 September 2022. The increase of 1% from 168% for the prior quarter is primarily driven by a slight increase in liquid assets.

The Bank derivative exposures and other collateral requirements outflows include modelled outflows due to a deterioration in credit rating and outflows from the impact of an adverse market scenario on derivatives transactions. Also included are outflows on derivative contracts that have offsetting inflows recorded in 'other cash inflows' in the template.

The Bank manages and monitors funding and liquidity risks in accordance with internal risk appetite, strategy and regulatory requirements, including maintaining diversified funding sources. Funding concentration by counterparty, currency and tenor is monitored on an ongoing basis and where concentrations do exist, these are managed as part of the planning process and limited by the internal funding and liquidity risk monitoring framework, with analysis regularly provided to senior management.

The liquidity buffer consists almost entirely of Level 1 assets, of which the vast majority is held as central bank reserves.

The Bank liquidity risk management framework covers currency liquidity risk, and ensures the currency denomination of LCR liquid assets is consistent with the distribution of net currency liquidity outflows. Granular LCR risk appetites by significant currency are set and monitored across tenors at the Bank committee level i.e. the Asset and Liability Committee.