Lloyds Bank Corporate Markets plc

2021 Half-Year Results

Member of the Lloyds Banking Group

CONTENTS

REVIEW OF PERFORMANCE

Lloyds Bank Corporate Markets plc (the Bank) and its subsidiaries (the Group) carries out the non-ring fenced banking operations of Lloyds Banking Group (LBG) and provides a wide range of banking and financial services in the UK and overseas. The Group operates as an integrated business across the UK, the Crown Dependencies, the USA, Singapore and Germany and contributes to the financial results of the Commercial Banking Division of LBG.

The Group's strategic purpose as part of LBG is to Help Britain Recover as part of Helping Britain Prosper through operating a responsible business that focuses on delighting our customers and delivering long-term sustainable success.

Principal activities

Supporting a diverse range of customers, the Group provides a broad range of banking products to help them achieve their financial goals. The Group's revenues are earned through the provision of financing and risk management solutions to commercial customers; and current accounts, savings accounts, mortgages, car finance and personal loans in the retail market in our Crown Dependencies businesses.

The target market for these products and services in the UK and internationally is made up of large corporates, financial institutions and retail and commercial customers in the Crown Dependencies, and includes the following product propositions:

- Commercial lending (including fixed rate loans, revolving credit facilities, variable loans and business mortgages)
- Trade and working capital management (including trade services, trade finance, supply chain finance and asset finance)
- Bonds and structured finance (including bonds, structured lending and asset securitisation)
- Risk management (including FX, rates, credit, commodities and liabilities management)
- Retail banking services (including mortgages, personal current accounts, personal loans and motor finance) in the Crown Dependencies

Review of results

During the half-year to 30 June 2021, the Group recorded a profit before tax of £193 million compared to £7 million during the half-year to 30 June 2020, an overall increase of £186 million. The Group has benefited from robust performance in its retail banking and corporate sales businesses but noted that trading performance has been impacted by limited underlying market volatility. Throughout, the Group has continued to support customers and provided financial assistance to the UK economy and the economies in which our customers operate.

The Group has benefitted from an impairment net credit of £47 million (2020: £77 million impairment charge) in the income statement relating to expected credit loss (ECL) driven by the improving economic outlook. The Group's ECL on loans and commitments, calculated under IFRS 9, requires the use of a range of possible future outcomes and more details are contained in Notes 2 and 4.

Regulatory capital adequacy remains strong, with a CET1 ratio of 13.8% (2020: 14.8%); reflecting the stability of the business, and the strength of the client franchise served by the Group. Risk weighted assets have increased by £1,902 million from £16,610 million at 31 December 2020 to £18,512 million at 30 June 2021. This is predominantly as a result of the phasing of the Group's IBOR transition project, is largely temporary and does not represent additional risk taken by the Group.

Total income was £350 million in the first half of 2021 compared to £291 million in the first half of 2020. This predominantly comprises net interest income (NII) of £70 million (£30 million in the half-year to 30 June 2020), net fee and commission income of £117 million (£96 million in the half-year to 30 June 2020) and net trading income of £171 million (£165 million in the half-year to 30 June 2020). This reflects an improving NII position as a result of stable funding costs in 2021 and management action with regard to reducing funding and liquidity risk.

Operating expenses were £204 million, down from £207 million in the half-year to 30 June 2020, a reduction of £3 million as a result of cost control initiatives. Costs consist predominantly of management charges relating to the Intra Group Agreement paid to Lloyds Bank plc, staff costs and other operating expenses. The taxation charge in the period was £60 million (six months to 30 June 2020 £27 million credit) reflecting increased profitability in 2021 and more details are contained in Note 5.

REVIEW OF PERFORMANCE (continued)

Total assets were £10,568 million lower at £81,861 million at 30 June 2021 compared to £92,429 million at 31 December 2020. Cash and balances at central banks which decreased by £3,096 million from £23,369 million at 31 December 2020 to £20,273 million at 30 June 2021 reflecting a lower assessment of the liquidity required should the impact of COVID-19 cause further market distress. Financial assets at fair value through profit or loss were £18,249 million at 30 June 2021 compared to £20,926 million at 31 December 2020 and predominantly consist of reverse repurchase agreements. Derivative financial instruments of £17,288 million at 30 June 2021 decreased by £4,469 million compared to £21,757 million at 31 December 2020 reflecting fair value mark to market movements. Financial assets at amortised cost decreased by £1,623 million from £25,087 million at 31 December 2020 to £23,464 million at 30 June 2021 and consist mainly of loans and advances to customers and banks.

Total liabilities of the Group were £78,375 million at 30 June 2021 compared to £88,800 million at 31 December 2020, a decrease of £10,425 million. Deposits from banks were £4,144 million at 30 June 2021 which is £1,457 million lower than £5,601 million at 31 December 2020. Customer deposits decreased by £616 million from £25,497 million at 31 December 2020 to £24,881 million at 30 June 2021. Financial liabilities at fair value through profit or loss at 30 June 2021 of £14,196 million consist predominantly of repurchase agreements and reduced by £1,619 million when compared with the 31 December 2020 balance of £15,815 million. Derivative financial instruments of £14,589 million have decreased by £6,644 million compared to the 31 December 2020 balance of £21,233 million reflecting fair value mark to market movements. Debt securities in issue of £14,273 million has decreased by £1,329 million compared to £15,602 million at 31 December 2020. The decreases in deposits and debt securities in issue noted above reflect reduced overall funding requirements and are reflected in the amount held in cash and balances at central banks.

Total equity at 30 June 2021 was £3,486 million which is a reduction of £143 million compared to £3,629 million at 31 December 2020 including profits in the period less the dividend paid to LBG in the period of £200 million (2020: £700 million).

Capital position at 30 June 2021

The Bank's capital position as at 30 June 2021, applying current IFRS 9 transitional arrangements, is set out in the following section.

REVIEW OF PERFORMANCE (continued)

Bank capital resources (transitional)	**At 30 June 2021 £m**	At 31 Dec 2020 £m
Common equity tier 1		
Shareholders' equity per Bank balance sheet	**2,789**	2,914
Adjustment to retained earnings for foreseeable dividends	**–**	(200)
Cash flow hedging reserve	**(42)**	(105)
Debit valuation adjustment	**(18)**	(25)
Other adjustments	**3**	34
	2,732	2,618
Less: deductions from common equity tier 1		
Prudent valuation adjustment	**(185)**	(156)
Common equity tier 1 capital	**2,547**	2,462
Additional tier 1		
Additional tier 1 instruments	**757**	757
Total tier 1 capital	**3,304**	3,219
Tier 2		
Tier 2 instruments	**622**	635
Other adjustments	**(92)**	(109)
Total tier 2 capital	**530**	526
Total capital resources	**3,834**	3,745
Risk-weighted assets	**18,512**	16,610
Common equity tier 1 capital ratio[1]	**13.8%**	14.8%
Tier 1 capital ratio[1]	**17.8%**	19.4%
Total capital ratio[1]	**20.7%**	22.5%

[1] Reflecting the full impact of IFRS 9 at 30 June 2021, without the application of transitional arrangements, the Bank's common equity tier 1 capital ratio would be 13.7% per cent, the tier 1 capital ratio would be 17.8% per cent and the total capital ratio would be 20.7% per cent.

REVIEW OF PERFORMANCE (continued)

	At 30 June 2021 £m	At 31 Dec 2020 £m
Bank risk-weighted assets		
Foundation Internal Ratings Based (IRB) Approach	**6,693**	6,566
Other IRB Approach	**301**	267
IRB Approach	**6,994**	6,833
Standardised (STA) Approach	**1,704**	1,961
Credit risk	**8,698**	8,794
Counterparty credit risk	**3,727**	3,948
Credit valuation adjustment risk	**320**	324
Operational risk	**901**	952
Market risk	**4,321**	1,982
Underlying risk-weighted assets	**17,967**	16,000
Threshold risk-weighted assets	**545**	610
Total risk-weighted assets	**18,512**	16,610

PRINCIPAL RISKS AND UNCERTAINTIES

The most significant risks that could impact Group's ability to deliver long-term strategic objectives are outlined below. These principal risks and uncertainties are reviewed and reported to the Board Risk Committee regularly. There has been no change to the list of risks as disclosed in the Group's 2020 Annual Report and Accounts.

The first half of 2021 continued to bring significant uncertainty. The spread of new COVID-19 variants compounded by other factors, such as the UK's exit from the European Union, have the potential to delay economic recovery in the UK and globally. These risks could continue to place pressure on the Group's strategy, business model and performance.

The Group continues to monitor, assess and address risks and their impact on customers, colleagues and strategy. COVID-19 remains a dominant risk theme and an important area of management focus.

- While the macroeconomic environment is improving, the recovery remains uneven across jurisdictions. Vaccine effectiveness and the international community's ability to deliver them to the majority of the populace remain key factors in restricting the spread of the virus and improving global growth prospects
- Aggressive fiscal policies implemented in response to the pandemic have led to elevated government indebtedness in advanced economies and could generate levels of inflation that require a tightening in monetary policy
- Higher interest rates could expose vulnerabilities within highly indebted companies and households as other stimulus measures are simultaneously withdrawn. Higher rate expectations could also impact asset prices that have been supported by very accommodative monetary and fiscal policy
- COVID-19 continues to have an adverse impact on various risks. While improved economic environment resulted in lower impairment levels at the half-year, this remains an area of continued management focus given risks and uncertainties. Linked to this is increased model risk caused by a weakening in established macroeconomic relationships between model inputs and outputs that could reduce the forecasting ability of those models. While underlying model drivers are expected to remain valid in the longer term, impairment provisions still contain an element of judgement. Meanwhile, regulatory scrutiny of model performance and assumptions has increased
- As well as the risks mentioned above, the Group continues to assess and address the impact of data and operational risks. Existing, industry wide, challenges with keeping Know Your Customer (KYC) information relevant and up to date have been exacerbated by COVID-19. Failure to maintain information in accordance with Money Laundering regulations may result in the less effective operation of anti-money laundering controls and consequently in regulatory censure, fines and / or loss of licence
- For colleagues, remote working and other ways of working will remain in place for the foreseeable future to meet current and future customer needs and expectations

In relation to the UK's exit from the European Union and further to the EU-UK Trade and Cooperation Agreement (TCA) agreed between the UK and EU at the end of 2020, a high level Memorandum of Understanding (MoU) establishing a framework for Financial Services Regulatory Cooperation (to help preserve financial stability, market integrity and the protection of investors and consumers) was due to be agreed by the 31st March 2021 however some EU member states are still due to ratify it. Also, the MoU is not a legally binding arrangement and does not address regulatory equivalence. The Group continues to consider the ongoing impact of the TCA on its customers, colleagues, products and business strategy including the potential legal, regulatory, tax, financial and capital implications. The UK has established a regulatory regime derived from the pre-existing EU regime, although some variations have already been announced. The Group continues to be subject to substantial EU-derived laws, regulation and oversight through its subsidiary in Germany, Lloyds Bank Corporate Markets Wertpapierhandelsbank GmbH, which offers a set of products to meet the current customers' needs in the EU. With LBG, the Group continues to work closely with regulatory authorities and industry bodies to ensure that the Group can identify and respond to the evolving regulatory and legal landscape and meet customers' demands with appropriate products and service offerings.

The Group continues its transition from Interbank Offered Rates (IBORs) to Alternative Risk Free Reference Rates to meet London Interbank Offered Rate (LIBOR) cessation dates that were announced in March 2021. As a result, a number of existing benchmark rates are being discontinued or the basis on which they are calculated is changing, impacting pricing, market risk and valuations. As the nature of some of these changes is still evolving, including the impact of the UK Government's Tough Legacy Legislation, the value of a broad array of financial products, including any LIBOR-based securities, loans and derivatives could be adversely impacted. IBOR changes will have important implications for the Group and its customers by necessitating amendments to existing documents and contracts and thereby creating differentials in

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

performance of benchmark rates and financial products which reference them. The Group could incur additional costs as a result of regulatory action if there are concerns with the pace or effectiveness of implementation. The Group is working closely with LBG on the transition away from IBORs, including the mitigation of potential conduct risk to which its customers may be exposed.

Credit risk – The risk that parties with whom the Group has contracted fail to meet their financial obligations (both on and off-balance sheet). Observed or anticipated changes in the economic environment could impact profitability due to an increase in delinquency, defaults, write-downs and/or expected credit losses.

Regulatory and legal risk – The risk arising from the failure to identify, assess, correctly interpret, comply with, or manage regulatory and/or legal requirements, leading to customer detriment, failure to prevent fraud and financial crime, financial penalties, regulatory censure, criminal or civil enforcement action.

Conduct risk – The risk of detriment across the customer lifecycle including: failures in product management, distribution and servicing activities, from other risks materialising, or other activities which could undermine the integrity of the market or distort competition, leading to unfair customer outcomes, regulatory censure, reputational damage or financial loss.

Operational risk – The risk of inadequate or failed internal processes, people, systems or from external events (including cyber-related and fraud and financial crime prevention challenges) leading to loss.

Operational risk: shared services model (SSM) – LBG's chosen ring-fencing operating model introduces risks for the Group in the execution of that model as a shared service recipient.

Key risks include:

- Key reliance on the SSM increases the prominence of internal service provision risk
- Business process risk (i.e. non-adherence to key processes, including those relating to market, operational, capital, credit, fraud and financial crime prevention and funding and liquidity risk)
- Information security and cyber risk including access management, records, data protection and cyber
- IT systems risk
- Reliance on the SSM to operate key controls designed to detect and prevent fraud and financial crime
- Operational risk around business resilience, change activity and sourcing

Operational resilience risk – The risk that the Group fails to design resilience into business operations, underlying infrastructure and controls (people, process, technical) to withstand external or internal events that could impact the continuity of operations or alternatively the failure to respond to events in a way which meets stakeholder expectations and needs when the continuity of operations is compromised.

People risk – The risk that the Group fails to provide an appropriate colleague and customer centric culture, supported by robust reward and wellbeing policies and processes; effective leadership to manage colleague resources; effective talent and succession management; and control framework to ensure all colleague related requirements are met. Failure to meet these conditions would impact the Group's capacity to attract, retain and develop talented colleagues.

Capital risk – The risk that the Group has a sub-optimal quantity or quality of capital or that capital is inefficiently deployed across the Group.

Funding and liquidity risk – The risk that the Group does not have sufficiently stable and diverse sources of funding or financial resources are insufficient to meet commitments as they fall due.

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

Governance risk – The risk that the Group's organisational infrastructure fails to provide robust oversight of decision making and the control mechanisms to ensure strategies and management instructions are implemented effectively. Against a background of increased regulatory focus on governance and risk management, the most significant challenges arise from the continuing evolution of the Senior Managers and Certification Regime, including incorporating senior manager function allocation for financial risks arising from climate change.

Market risk – The risk that the Group's capital or earnings profile is affected by adverse market rates, in particular changes and volatility in interest and foreign exchange rates, inflation rates, commodity prices and credit spreads through activity in the banking and markets businesses.

Model risk – The risk of financial loss, regulatory censure, reputational damage or customer detriment from deficiencies in developing, applying and operating models and rating systems.

Climate change risk – The risk that the Group experiences losses and /or reputational damage as a result of climate change, either directly or through impact on its customers. These losses may be realised from physical events, the required adaptation in transitioning to a lower carbon economy, or as a consequence of the responses to managing these changes.

Data risk - The risk of the Group failing effectively to govern, manage, and control its data (including data processed by third party suppliers) leading to unethical decisions, poor customer outcomes, loss of value to the Group and mistrust.

Change/execution risk – The risk that, the Group does not deliver its change agenda successfully, leading to a failure to: maintain effective customer service and availability; deliver against strategic objectives; ensure compliance with laws and regulation; and/or otherwise operate within the Group's risk appetite.

Strategic risk – The risk which results from incorrect assumptions about internal or external operating environments; failure to respond or the Group's inappropriate strategic response to material changes in the external or internal operating environments; and/or failure to understand the potential impact.

STATUTORY INFORMATION

CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Note	**Half-year to 30 June 2021 £m**	Half-year to 30 June 2020[1] £m
Interest income		**151**	278
Interest expense		**(81)**	(248)
Net interest income		**70**	30
Fee and commission income		**132**	112
Fee and commission expense		**(15)**	(16)
Net fee and commission income		**117**	96
Net trading income		**171**	165
Other operating (losses) income		**(8)**	–
Other income		**280**	261
Total income		**350**	291
Operating expenses	3	**(204)**	(207)
Impairment credit (charge)	4	**47**	(77)
Profit before tax		**193**	7
Tax (expense) credit	5	**(60)**	27
Profit for the period		**133**	34
Profit attributable to ordinary shareholders		**117**	11
Profit attributable to other equity shareholders		**16**	23
Profit for the period		**133**	34

[1] Restated – see note 1

The accompanying notes are an integral part of the condensed consolidated half-year financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	Note	**Half-year to 30 June 2021 £m**	Half-year to 30 June 2020 £m
Profit for the period		**133**	34
Other comprehensive income:			
Items that may subsequently be reclassified to profit or loss:			
Movements in revaluation reserve in respect of debt securities held at fair value through other comprehensive income	9	**5**	(4)
Movement in cash flow hedging reserve	9	**(63)**	58
Currency translation differences	9	**(2)**	7
Other comprehensive income for the period, net of tax		**(60)**	61
Total comprehensive income for the period		**73**	95
Total comprehensive income attributable to ordinary shareholders		**57**	72
Total comprehensive income attributable to other equity holders		**16**	23
Total comprehensive income for the period		**73**	95

CONSOLIDATED BALANCE SHEET

	Note	**At 30 June 2021 (unaudited) £m**	At 31 Dec 2020 (audited) £m
Assets			
Cash and balances at central banks		**20,273**	23,369
Financial assets at fair value through profit or loss	6	**18,249**	20,926
Derivative financial instruments		**17,288**	21,757
Loans and advances to banks		**3,307**	5,260
Loans and advances to customers		**18,837**	18,452
Debt securities		**210**	257
Due from fellow Lloyds Banking Group undertakings		**1,110**	1,118
Financial assets at amortised cost	7	**23,464**	25,087
Financial assets at fair value through other comprehensive income		**134**	149
Property, plant and equipment		**70**	78
Current tax recoverable		**6**	19
Deferred tax assets		**11**	19
Other assets		**2,366**	1,025
Total assets		**81,861**	92,429
Equity and liabilities			
Liabilities			
Deposits from banks		**4,144**	5,601
Customer deposits		**24,881**	25,497
Due to fellow Lloyds Banking Group undertakings		**3,048**	3,283
Financial liabilities at fair value through profit or loss		**14,196**	15,815
Derivative financial instruments		**14,589**	21,233
Debt securities in issue	8	**14,273**	15,602
Current tax liabilities		**5**	–
Deferred tax liabilities		**19**	38
Other liabilities		**2,547**	1,045
Subordinated liabilities		**673**	686
Total liabilities		**78,375**	88,800
Equity			
Share capital		**120**	120
Other reserves	9	**21**	81
Retained profits		**2,563**	2,646
Shareholders' equity		**2,704**	2,847
Other equity instruments		**782**	782
Total equity		**3,486**	3,629
Total equity and liabilities		**81,861**	92,429

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Attributable to ordinary shareholders					
	Share capital £m	Other reserves £m	Retained profits £m	Total £m	Other equity instruments £m	Total £m
Balance at 1 January 2021	**120**	**81**	**2,646**	**2,847**	**782**	**3,629**
Comprehensive income						
Profit for the period	–	–	117	117	16	133
Other comprehensive income						
Movements in revaluation reserve in respect of financial assets held at fair value through other comprehensive income, net of tax:						
Debt securities	–	5	–	5	–	5
Movements in cash flow hedging reserve, net of tax	–	(63)	–	(63)	–	(63)
Movement in foreign exchange translation reserve (tax: nil)	–	(2)	–	(2)	–	(2)
Total other comprehensive income	–	(60)	–	(60)	–	(60)
Total comprehensive income	–	(60)	117	57	16	73
Transactions with owners						
Dividends	–	–	(200)	(200)	–	(200)
Distributions on other equity instruments	–	–	–	–	(16)	(16)
Total transactions with owners	–	–	(200)	(200)	(16)	(216)
Balance at 30 June 2021	**120**	**21**	**2,563**	**2,704**	**782**	**3,486**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Attributable to ordinary shareholders					
	Share capital £m	Other reserves £m	Retained profits £m	Total £m	Other equity instruments £m	Total £m
Balance at 1 January 2020	120	32	3,342	3,494	782	4,276
Comprehensive income						
Profit for the period	–	–	11	11	23	34
Other comprehensive income						
Movements in revaluation reserve in respect of financial assets held at fair value through other comprehensive income, net of tax:						
Debt securities	–	(4)	–	(4)	–	(4)
Movements in cash flow hedging reserve, net of tax	–	58	–	58	–	58
Movement in foreign exchange translation reserve (tax: nil)	–	7	–	7	–	7
Total other comprehensive income	–	61	–	61	–	61
Total comprehensive income	–	61	11	72	23	95
Transactions with owners						
Dividends	–	–	(700)	(700)	–	(700)
Distributions on other equity instruments	–	–	–	–	(23)	(23)
Other adjustments	–	–	1	1	–	1
Total transactions with owners	–	–	(699)	(699)	(23)	(722)
Balance at 30 June 2020	120	93	2,654	2,867	782	3,649

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Attributable to ordinary shareholders					
	Share capital £m	Other reserves £m	Retained profits £m	Total £m	Other equity instruments £m	Total £m
Balance at 1 July 2020	120	93	2,654	2,867	782	3,649
Comprehensive income						
Profit for the period	–	–	(7)	(7)	17	10
Other comprehensive income						
Movements in revaluation reserve in respect of financial assets held at fair value through other comprehensive income, net of tax:						
Debt securities	–	3	–	3	–	3
Movements in cash flow hedging reserve, net of tax	–	(9)	–	(9)	–	(9)
Movement in foreign exchange translation reserve (tax: nil)	–	(6)	–	(6)	–	(6)
Total other comprehensive income	–	(12)	–	(12)	–	(12)
Total comprehensive income	–	(12)	(7)	(19)	17	(2)
Transactions with owners						
Dividends	–	–	–	–	–	–
Distributions on other equity instruments	–	–	–	–	(17)	(17)
Other adjustments	–	–	(1)	(1)	–	(1)
Total transactions with owners	–	–	(1)	(1)	(17)	(18)
Balance at 31 December 2020	120	81	2,646	2,847	782	3,629

CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

	Half-year to 30 June 2021 £m	Half-year to 30 June 2020[1] £m
Profit before tax	**193**	7
Adjustments for:		
Change in operating assets	**6,104**	(7,710)
Change in operating liabilities	**(10,306)**	18,889
Non-cash and other items	**(26)**	(128)
Tax paid	**(33)**	(49)
Net cash (used in) provided by operating activities	**(4,068)**	11,009
Cash flows from investing activities		
Purchase of financial assets	**(25)**	(80)
Proceeds from sale and maturity of financial assets	**41**	203
Purchase of fixed assets	**(4)**	(16)
Net cash provided by investing activities	**12**	107
Cash flows from financing activities		
Dividends paid to ordinary shareholders	**(200)**	(700)
Distributions on other equity instruments	**(16)**	(23)
Interest paid on subordinated liabilities	**(8)**	(14)
Net cash used in financing activities	**(224)**	(737)
Effects of exchange rate changes on cash and cash equivalents	**(63)**	473
Change in cash and cash equivalents	**(4,343)**	10,852
Cash and cash equivalents at beginning of period	**26,370**	19,094
Cash and cash equivalents at end of period	**22,027**	29,946

[1] Restated – see note 1

Cash and cash equivalents comprise cash and balances at central banks (excluding mandatory deposits) and amounts due from banks with a maturity of less than three months.

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS

1. Accounting policies

These condensed consolidated half-year financial statements as at and for the 6 month period to 30 June 2021 have been prepared in accordance with the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority (FCA) and with International Accounting Standard 34 (IAS 34), *Interim Financial Reporting* as adopted by the United Kingdom and comprise the results of Lloyds Bank Corporate Markets plc (the Bank) together with its subsidiaries (the Group). They do not include all of the information required for full annual financial statements and should be read in conjunction with the Group's consolidated financial statements as at and for the year ended 31 December 2020 which complied with international accounting standards in conformity with the requirements of the Companies Act 2006, were prepared in accordance with International Financial Reporting Standards (IFRS) and were compliant with IFRS adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. Copies of the 2020 Annual Report and Accounts are available on the Group's website and are available upon request from Investor Relations, Lloyds Banking Group plc, 25 Gresham Street, London EC2V 7HN.

The directors consider that it is appropriate to continue to adopt the going concern basis in preparing the condensed consolidated half-year financial statements. In reaching this assessment, the directors have taken into account the continuing uncertainties affecting the UK economy post-pandemic and their potential effects upon the Group's performance and projected funding and capital position; the impact of further stress scenarios has also been considered. On this basis, the directors are satisfied that the Group will maintain adequate levels of funding and capital for the foreseeable future.

As disclosed in the 2020 Annual Review and Accounts, the Group reassessed the treatment of interest income and expense on certain derivative instruments to better reflect the economic substance of the hedging arrangement by recording derivative interest in the same income statement line item as the interest on the hedged item. The result of which is that in the income statement, the 2020 comparative numbers have been restated to reflect a £29 million reclassification between net interest income (increased) and other income (decreased). This reclassification between lines within total income has no impact on overall total income reported or profit for the period.

The 2020 comparative cashflow statement has been restated to correct the treatment of non-cash item movements on the net cash provided by operating activities and reallocation of purchases and sales on financial assets from operating activities to investing activities. These corrections have no impact on the closing cash positions but the following impact on the underlying lines within the cashflow statement; net cash provided by operating activities decreases by £594 million from £11,603 million to £11,009 million with a corresponding £123 million increase on net cash used in investing activities to £107 million and £471 million increase on foreign exchange on cash and cash equivalents to £473 million.

Changes in accounting policy

The Group adopted the Interest Rate Benchmark Reform Phase 2 amendments from 1 January 2021. These amendments require that changes to expected future cash flows that both arise as a direct result of IBOR Reform and are economically equivalent to the previous cash flows are accounted for as a change to the effective interest rate with no adjustment to the asset or liability's carrying amount; no immediate gain or loss is recognised. The new requirements also provide relief from the requirement to discontinue hedge accounting as a result of amending hedge documentation if the changes are required solely as a result of the IBOR Reform. The amendments do not have a material impact on the Group's comparatives, which have not been restated.

Except for the change above, the Group's accounting policies are consistent with those applied by the Group in its 2020 Annual Report and Accounts and there have been no changes in the Group's methods of computation.

Future accounting developments

The IASB has issued a number of minor amendments to IFRSs effective 1 January 2022 and in later years (including IFRS 9 Financial Instruments and IAS 37 Provisions, Contingent Liabilities and Contingent Assets). These amendments are not expected to have a significant impact on the Group.

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

2. Critical accounting judgements and estimates

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that impact the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, actual results reported in future periods may include amounts which differ from those estimates. Estimates, judgements and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group's significant judgements, estimates and assumptions are unchanged, compared to those applied at 31 December 2020, except as detailed below.

Allowance for expected credit losses

The Group recognises an allowance for expected credit losses (ECLs) for loans and advances to customers and banks, other financial assets held at amortised cost, financial assets measured at fair value through other comprehensive income and certain loan commitment and financial guarantee contracts. At 30 June 2021, the Group's expected credit loss allowance was £33 million (31 December 2020: £83 million), of which £22 million (31 December 2020: £50 million) was in respect of drawn balances.

The calculation of the Group's expected credit loss allowances and provisions against loan commitments and guarantees under IFRS 9 requires the Group to make a number of judgements, assumptions and estimates. These are set out in detail in the Group's 2020 Annual Report and Accounts. The principal changes made in the period ended 30 June 2021 are as follows:

Base Case and Economic Assumptions
The Group's base case economic scenario has been revised in light of the continuing impact of the coronavirus pandemic in the UK and globally. The scenario reflects judgements of the net effect of government-mandated restrictions on economic activity, large-scale government interventions, and behavioural changes by households and businesses that may persist beyond the rollout of coronavirus vaccination programmes.

As large-scale vaccination efforts compete with the emergence of new viral strains in the UK and globally, there remains considerable uncertainty about the pace and eventual extent of the post-pandemic recovery. The Group's updated base case scenario builds in three key conditioning assumptions. First, that rising infections in the UK's third COVID-19 wave do not lead to a re-imposition of restrictions. Second, that the rollout of vaccination programmes among the UK's trading partners will reinforce an improving global backdrop. Third, that domestic policy measures remain accommodative, with monetary policy looking through a transient rise in inflation.

Conditioned on these assumptions and taking note of improvements in economic indicators in the second quarter, the Group's base case outlook continues to assume a rise in the unemployment rate as furlough support ends alongside a deceleration in commercial property price growth. Risks around this base case economic view lie in both directions and are partly captured by the alternative economic scenarios generated. But uncertainties relating to the key conditioning assumptions, including epidemiological developments, the efficacy of vaccine rollouts against emergent strains and the response of the economy in those circumstances, are not specifically captured by these scenarios. These specific risks have been recognised outside the modelled scenarios with a central adjustment.

The Group has incorporated the latest available information at the reporting date in defining its base case scenario and generating alternative economic scenarios. The scenarios include forecasts for key variables in the second quarter of 2021, for which actuals may have since emerged prior to publication.

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

2. Critical accounting judgements and estimates (continued)

Scenarios by year

Key annual assumptions made by the Group are shown below. Gross domestic product is presented as an annual change and commercial real estate price growth is presented as the growth in the respective index within the period. UK Bank Rate and unemployment rates are averages for the period. The upside, base case and downside scenarios are weighted at 30 per cent each, with the severe downside scenario weighted at 10 per cent.

At 30 June 2021	2021 %	2022 %	2023 %	2024 %	2025 %	2021-25 average %
Upside						
UK Gross domestic product	6.1	5.5	1.4	1.4	1.2	3.1
UK Bank rate	0.52	1.27	1.09	1.32	1.58	1.16
UK Unemployment rate	4.7	4.9	4.4	4.2	4.1	4.5
UK Commercial real estate price growth	9.2	5.7	2.4	0.3	(0.3)	3.4
US Gross domestic product	7.6	7.5	1.6	(0.4)	0.2	3.2
US Unemployment rate	5.4	3.4	3.3	4.5	5.2	4.4
Base Case						
UK Gross domestic product	5.5	5.5	1.6	1.4	1.2	3.0
UK Bank rate	0.10	0.10	0.25	0.50	0.75	0.34
UK Unemployment rate	5.4	6.1	5.4	5.0	4.8	5.4
UK Commercial real estate price growth	0.4	1.0	0.6	0.3	0.5	0.6
US Gross domestic product	6.3	3.9	2.1	1.8	1.7	3.2
US Unemployment rate	5.5	4.4	4.2	4.1	4.1	4.5
Downside						
UK Gross domestic product	4.8	4.2	1.3	1.4	1.4	2.6
UK Bank rate	0.09	0.05	0.06	0.11	0.20	0.10
UK Unemployment rate	6.0	7.8	7.1	6.5	6.0	6.7
UK Commercial real estate price growth	(5.3)	(5.3)	(2.8)	(1.5)	0.20	(3.0)
US Gross domestic product	5.3	0.5	1.1	3.0	2.9	2.6
US Unemployment rate	5.7	5.9	6.4	5.8	5.1	5.8
Severe Downside						
UK Gross domestic product	4.1	3.5	1.1	1.4	1.4	2.3
UK Bank rate	0.06	0.00	0.01	0.02	0.03	0.02
UK Unemployment rate	7.0	9.9	9.1	8.3	7.6	8.4
UK Commercial real estate price growth	(13.5)	(13.5)	(6.9)	(2.3)	0.5	(7.3)
US Gross domestic product	3.5	(4.8)	0.7	5.7	5.2	2.0
US Unemployment rate	6.0	8.0	9.0	7.1	5.3	7.1

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

2. Critical accounting judgements and estimates (continued)

At 31 December 2020	2020 %	2021 %	2022 %	2023 %	2024 %	2020-24 average %
Upside						
UK Gross domestic product	(10.5)	3.7	5.7	1.7	1.5	0.3
UK Bank rate	0.10	1.14	1.27	1.20	1.21	0.98
UK Unemployment rate	4.3	5.4	5.4	5.0	4.5	5.0
UK Commercial real estate price growth	(4.6)	9.3	3.9	2.1	0.3	2.1
US Gross domestic product	(3.4)	8.0	5.1	0.2	(0.6)	1.8
US Unemployment rate	8.3	5.7	3.8	4.3	5.3	5.5
Base case						
UK Gross domestic product	(10.5)	3.0	6.0	1.7	1.4	0.1
UK Bank rate	0.10	0.10	0.10	0.21	0.25	0.15
UK Unemployment rate	4.5	6.8	6.8	6.1	5.5	5.9
UK Commercial real estate price growth	(7.0)	(1.7)	1.6	1.1	0.6	(1.1)
US Gross domestic product	(3.5)	3.9	2.6	2.0	1.8	1.3
US Unemployment rate	8.3	6.6	5.8	5.5	5.2	6.3
Downside						
UK Gross domestic product	(10.6)	1.7	5.1	1.4	1.4	(0.4)
UK Bank rate	0.10	0.06	0.02	0.02	0.03	0.05
UK Unemployment rate	4.6	7.9	8.4	7.8	7.0	7.1
UK Commercial real estate price growth	(8.7)	(10.6)	(3.2)	(0.8)	(0.8)	(4.9)
US Gross domestic product	(3.7)	1.2	0.3	2.5	3.3	0.7
US Unemployment rate	8.3	7.3	7.7	7.2	6.2	7.3
Severe downside						
UK Gross domestic product	(10.8)	0.3	4.8	1.3	1.2	(0.8)
UK Bank rate	0.10	0.00	0.00	0.01	0.01	0.02
UK Unemployment rate	4.8	9.9	10.7	9.8	8.7	8.8
UK Commercial real estate price growth	(11.0)	(21.4)	(9.8)	(3.9)	(0.8)	(9.7)
US Gross domestic product	(3.9)	(2.9)	(3.0)	3.8	5.9	(0.1)
US Unemployment rate	8.4	8.4	10.4	9.4	7.0	8.7

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

2. Critical accounting judgements and estimates (continued)

The table below shows the Group's ECL for the upside, base case, downside and severe downside scenarios. The stage allocation for an asset is based on the overall scenario probability-weighted PD and, hence, the Stage 2 allocation is constant across all the scenarios. ECL applied through individual assessments and post-model adjustments is reported flat against each economic scenario, reflecting the basis on which they are evaluated. Judgements applied through changes to inputs are reflected in the scenario sensitivities. It therefore shows the extent to which a higher ECL allowance has been recognised to take account of multiple economic scenarios from the probability-weighted view relative to the base case. The uplift being £3 million compared to £12 million at 31 December 2020.

Impact of multiple economic scenarios	Probability-weighted £m	Upside £m	Base case £m	Downside £m	Severe Downside £m
At 30 June 2021	**33**	**28**	**30**	**36**	**44**
At 31 December 2020	83	51	71	102	159

Application of judgement in adjustments to modelled ECL

Impairment models fall within the Group's Model Risk framework as reported in note 3 of the 2020 Annual Report and Accounts.

At 30 June 2021, the coronavirus pandemic and the various support measures that have been put in place have resulted in an economic environment which differs significantly from the historical economic conditions upon which the impairment models have been built. As a result, there is a greater need for management judgements to be applied as seen in the elevated levels present since year end. At 30 June 2021 management judgement resulted in additional ECL allowances totalling £23 million (2020: £50 million). The table below analyses total ECL allowance at 30 June 2021 between modelled, those that have been individually assessed and those arising through the application of management judgement.

	Modelled ECL £m	Individually assessed £m	Judgements due to COVID-19[1] £m	Total ECL £m
At 30 June 2021	**8**	**2**	**23**	**33**
At 31 December 2020	32	1	50	83

[1] Judgements due to the impact that COVID-19 and resulting interventions have had on the Group's economic outlook and observed loss experience, which have required additional model limitations to be addressed.

Post-model adjustments have been raised to reflect uncertainty in the near term economic outlook and limitations in the models in dealing with this uncertainty but the impact on staging of assets has not been reflected.

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

2. Critical accounting judgements and estimates (continued)

Adjustment to PD models: £13 million
This is principally comprised of an adjustment to PD models reliant on GDP inputs. The credit models used to estimate US and Financial Institution defaults use GDP as a Key Input. Given the volatility seen in quarterly GDP, the resulting anticipated recovery from the extraordinary low levels is judged to understate predicted defaults. Management used an alternative approach in generating PDs and adjusted ECL to reflect equivalent movements seen in core models not reliant on GDP. In addition, the 30 June 2021 figure also incorporates the use of unemployment trends to replace the use of corporate insolvency data.

Economic impacts not captured by models: £10 million
A further management adjustment to increase ECL by £10 million is incorporated to reflect the additional uncertainty of economic forecasts. This qualitative overlay is a management judgement to ensure the overall provision adequately reflects the current material risks; considering the range of the quarterly provision release, review of trends and provision coverage.

3. Operating expenses

	Half-year to 30 June 2021 £m	Half-year to 30 June 2020 £m
Staff costs:		
Salaries	**81**	76
Social security costs	**7**	7
Pensions and other post-retirement benefit schemes	**7**	6
Restructuring costs	**4**	5
Other staff costs	**3**	2
	102	96
Management charges	**69**	86
Depreciation and amortisation	**7**	8
Premises and equipment	**9**	1
Communications and data processing	**6**	5
Professional fees	**2**	3
Other operating expenses	**9**	8
Total operating expenses	**204**	207

4. Impairment

	Half-year to 30 June 2021 £m	Half-year to 30 June 2020 £m
Loans and advances to banks	**(1)**	7
Loans and advances to customers	**(25)**	36
Impairment charge on drawn balances	**(26)**	43
Loan commitments and financial guarantees	**(21)**	34
Total impairment (credit) charge	**(47)**	77

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

5. Taxation

In accordance with IAS 34, the Group's income tax expense for the half-year to 30 June 2021 is based on the best estimate of the weighted-average annual income tax rate expected for the full financial year. The tax effects of one-off items are not included in the weighted-average annual income tax rate, but are recognised in the relevant period.

An explanation of the relationship between tax (expense)/credit and accounting profit is set out below:

	Half-year to 30 June 2021 £m	Half-year to 30 June 2020 £m
Profit before tax	**193**	7
Tax thereon at UK corporation tax rate of 19 per cent (2020: 19 per cent)	**(37)**	(1)
Impact of surcharge on banking profits	**(13)**	4
Remeasurement of deferred tax due to rate changes	**(1)**	–
Non-deductible costs	**(3)**	–
Non-taxable income and other deductions	**1**	10
Tax relief on coupons on other equity instruments	**3**	4
Losses on which deferred tax not recognised	**(3)**	–
Recognition of temporary differences that arose in prior periods	**–**	8
Differences in overseas tax rates	**(7)**	2
Tax (charge) credit	**(60)**	27

The Finance Act 2021, which was substantively enacted on 24 May 2021, increases the rate of corporation tax from 19 per cent to 25 per cent with effect from 1 April 2023. The impact of this rate change is an increase in the Group's net deferred tax liability as at 30 June 2021 of £3 million, comprising a £1 million charge included in the income statement and a £2 million charge included in equity.

6. Financial assets at fair value through profit or loss

	At 30 June 2021 £m	At 31 Dec 2020 £m
Trading assets	**17,799**	20,262
Financial assets mandatorily at fair value through profit or loss:		
Loans and advances to customers	**119**	353
Debt securities	**313**	289
Equity shares	**–**	3
Treasury bills and other bills	**18**	19
	450	664
Total financial assets at fair value through profit or loss	**18,249**	20,926

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

7. Financial assets at amortised cost

Period ended 30 June 2021

	Gross carrying amount				Allowance for expected credit losses			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Loans and advance to banks								
At 1 January 2021	**5,262**	**–**	**–**	**5,262**	**2**	**–**	**–**	**2**
Exchange and other adjustments	**(70)**	**–**	**–**	**(70)**	**–**	**–**	**–**	
Additions (repayments)	**(1,884)**	**–**	**–**	**(1,884)**	**1**	**–**	**–**	**1**
Other changes in credit quality					**(2)**	**–**	**–**	**(2)**
Credit to the income statement					**(1)**	**–**	**–**	**(1)**
At 30 June 2021	**3,308**	**–**	**–**	**3,308**	**1**	**–**	**–**	**1**
Allowance for impairment losses	**(1)**	**–**	**–**	**(1)**				
Net carrying amount	**3,307**	**–**	**–**	**3,307**				
Loans and advance to customers								
At 1 January 2021	**18,082**	**379**	**39**	**18,500**	**26**	**20**	**2**	**48**
Exchange and other adjustments	**(344)**	**(1)**	**–**	**(345)**	**(1)**	**(1)**	**1**	**(1)**
Transfers to Stage 1	**78**	**(78)**	**–**	**–**	**1**	**(1)**	**–**	**–**
Transfers to Stage 2	**(17)**	**17**	**–**	**–**	**–**	**–**	**–**	**–**
Transfers to Stage 3	**–**	**(2)**	**2**	**–**	**–**	**–**	**–**	**–**
Impact of transfers between stages	**61**	**(63)**	**2**	**–**	**–**	**–**	**–**	**–**
					1	**(1)**	**–**	**–**
Additions (repayments)	**929**	**(218)**	**(7)**	**704**	**(4)**	**(2)**	**–**	**(6)**
Other changes in credit quality					**(9)**	**(10)**	**–**	**(19)**
Credit to the income statement					**(12)**	**(13)**	**–**	**(25)**
Advances written off			**(1)**	**(1)**			**(1)**	**(1)**
Recoveries of advances written off in previous years			**–**	**–**			**–**	**–**
Discount unwind							**–**	**–**
At 30 June 2021	**18,728**	**97**	**33**	**18,858**	**13**	**6**	**2**	**21**
Allowance for impairment losses	**(13)**	**(6)**	**(2)**	**(21)**				
Net carrying amount	**18,715**	**91**	**31**	**18,837**				

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

7. Financial assets at amortised cost (continued)

	Gross carrying amount				Allowance for expected credit losses			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Debt securities								
At 1 January 2021	**257**	**–**	**–**	**257**	**–**	**–**	**–**	**–**
Exchange and other adjustments	**(1)**	**–**	**–**	**(1)**	**–**	**–**	**–**	**–**
Additions (repayments)	**(46)**	**–**	**–**	**(46)**	**–**	**–**	**–**	**–**
Charge to the income statement					**–**	**–**	**–**	**–**
At 30 June 2021	**210**	**–**	**–**	**210**	**–**	**–**	**–**	**–**
Allowance for impairment losses	**–**	**–**	**–**	**–**				
Net carrying amount	**210**	**–**	**–**	**210**				
Due from fellow LBG undertakings	**1,110**	**–**	**–**	**1,110**				
Net carrying amount	**1,110**	**–**	**–**	**1,110**				
Total financial assets at amortised cost	**23,342**	**91**	**31**	**23,464**				

Movements in allowance for expected credit losses in respect of undrawn balances were as follows:

	Allowance for expected credit losses			
	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m
Undrawn balances				
At 1 January 2021	**20**	**13**	**–**	**33**
Exchange and other adjustments	**(1)**	–	–	**(1)**
Transfers to Stage 1	**9**	**(9)**	–	–
Transfers to Stage 2	–	–	–	–
Transfers to Stage 3	–	–	–	–
Impact of transfers between stages	**(6)**	–	–	**(6)**
	3	**(9)**	–	**(6)**
Other changes in credit quality	**(12)**	**(3)**	–	**(15)**
Credit to the income statement	**(9)**	**(12)**	–	**(21)**
At 30 June 2021	**10**	**1**	–	**11**

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

7. Financial assets at amortised cost (continued)

The Group's total impairment allowances were as follows:

	Allowance for expected credit losses			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	£m	**£m**	**£m**	**£m**
In respect of:				
Loans and advances to banks	1	–	–	1
Loans and advances to customers	13	6	2	21
Debt securities	–	–	–	–
Due from fellow LBG undertakings	–	–	–	–
Financial assets at amortised cost	14	6	2	22
Provisions in relation to loan commitments and financial guarantees	10	1	–	11
At 30 June 2021	**24**	**7**	**2**	**33**

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

7. Financial assets at amortised cost (continued)

Year ended 31 December 2020

	Gross carrying amount				Allowance for expected credit losses			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Loans and advance to banks								
At 1 January 2020	4,814	–	–	4,814	1	–	–	1
Exchange and other adjustments	75	–	–	75	–	–	–	–
Additions (repayments)	373	–	–	373	–	–	–	–
Charge to the income statement					1	–	–	1
At 31 December 2020	5,262	–	–	5,262	2	–	–	2
Allowance for impairment losses	(2)	–	–	(2)				
Net carrying amount	5,260	–	–	5,260				
Loans and advance to customers								
At 1 January 2020	20,028	29	293	20,350	7	2	77	86
Exchange and other adjustments	301	(74)	(222)	5	(1)	(1)	(8)	(10)
Transfers to Stage 1	3	(3)	–	–	2	(2)	–	–
Transfers to Stage 2	(339)	339	–	–	–	–	–	–
Transfers to Stage 3	(3)	(29)	32	–	–	–	–	–
Impact of transfers between stages	(339)	307	32	–	(2)	3	–	1
					–	1	–	1
Additions (repayments)	(1,908)	117	(3)	(1,794)	13	2	1	16
Other changes in credit quality					7	16	(6)	17
Charge to the income statement					20	19	(5)	34
Advances written off			(61)	(61)			(61)	(61)
Recoveries of advances written off in previous years			–	–			–	–
Discount unwind							(1)	(1)
At 31 December 2020	18,082	379	39	18,500	26	20	2	48
Allowance for impairment losses	(26)	(20)	(2)	(48)				
Net carrying amount	18,056	359	37	18,452				

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

7. **Financial assets at amortised cost** (continued)

	Gross carrying amount				Allowance for expected credit losses			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Debt securities								
At 1 January 2020	112	–	–	112	–	–	–	–
Exchange and other adjustments	(4)	–	–	(4)	–	–	–	–
Additions (repayments)	149	–	–	149	–	–	–	–
Charge to the income statement							–	–
At 31 December 2020	257	–	–	257	–	–	–	–
Allowance for impairment losses	–	–	–	–				
Net carrying amount	257	–	–	257				
Due from fellow LBG undertakings	1,118	–	–	1,118				
Net carrying amount	1,118	–	–	1,118				
Total financial assets at amortised cost	24,691	359	37	25,087				

During the prior year, a Stage 3 customer was restructured with £57 million of gross advances written off and a £57 million impairment provision utilised. The remaining gross advances balance of £222 million was transferred to a new debt securities financial asset classified at fair value through profit or loss. Movements in allowance for expected credit losses in respect of undrawn balances were as follows:

	Allowance for expected credit losses			
	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m
Undrawn balances				
At 1 January 2020	4	–	–	4
Exchange and other adjustments	(6)	(1)	–	(7)
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	(1)	1	–	–
Transfers to Stage 3	–	–	–	–
Impact of transfers between stages	–	12	–	12
	(1)	13	–	12
Other changes in credit quality	23	1	–	24
Charge to the income statement	22	14	–	36
At 31 December 2020	20	13	–	33

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

7. Financial assets at amortised cost (continued)

The Group's total impairment allowances were as follows:

	Allowance for expected credit losses			
	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m
In respect of:				
Loans and advances to banks	2	–	–	2
Loans and advances to customers	26	20	2	48
Debt securities	–	–	–	–
Due from fellow LBG undertakings	–	–	–	–
Financial assets at amortised cost	28	20	2	50
Provisions in relation to loan commitments and financial guarantees	20	13	–	33
At 31 December 2020	48	33	2	83

The movement tables are compiled by comparing the position at the reporting date to that at the beginning of the year.

Transfers between stages are deemed to have taken place at the start of the reporting period, with all other movements shown in the stage in which the asset is held at the period end.

Additions (repayments) comprise new loans originated and repayments of outstanding balances throughout the reporting period. Loans which are written off in the period are first transferred to Stage 3 before acquiring a full allowance and subsequent write-off.

8. Debt securities in issue

	At 30 June 2021 £m	At 31 Dec 2020 £m
Medium-term notes issued	**4,729**	4,891
Certificates of deposit	**3,772**	4,405
Commercial paper	**2,549**	2,610
Amounts due to fellow Lloyds Banking Group undertakings	**3,223**	3,696
Total debt securities in issue	**14,273**	15,602

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

9. Other reserves

	At 30 June 2021 £m	At 31 Dec 2020 £m	At 30 June 2020 £m
Other reserves comprise:			
Revaluation reserve in respect of debt securities held at fair value through other comprehensive income	**(5)**	(10)	(13)
Cash flow hedging reserve	**42**	105	114
Foreign currency translation reserve	**(16)**	(14)	(8)
Total other reserves	**21**	81	93

	At 30 June 2021 £m	At 31 Dec 2020 £m	At 30 June 2020 £m
Revaluation reserve in respect of debt securities held at fair value through other comprehensive income			
At 1 January	**(10)**	(9)	(9)
Change in fair value	**6**	(2)	(6)
Deferred tax	**(1)**	1	2
	5	(1)	(4)
At period end	**(5)**	(10)	(13)

	At 30 June 2021 £m	At 31 Dec 2020 £m	At 30 June 2020 £m
Cash flow hedging reserve			
At 1 January	**105**	56	56
Change in fair value of hedging derivatives	**(62)**	93	84
Deferred tax	**14**	(27)	(23)
	(48)	66	61
Income statement transfers	**(22)**	(23)	(4)
Deferred tax	**7**	6	1
	(15)	(17)	(3)
Net movement in cash flow hedging reserve	**(63)**	49	58
At period end	**42**	105	114

	At 30 June 2021 £m	At 31 Dec 2020 £m	At 30 June 2020 £m
Foreign currency translation reserve			
At 1 January	**(14)**	(15)	(15)
Currency translation differences arising in the period (tax: nil)	**(2)**	1	7
At period end	**(16)**	(14)	(8)

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

10. Related party transactions

Balances and transactions with fellow Lloyds Banking Group undertakings

The Bank and its subsidiaries have balances due to and from the Bank's parent company, Lloyds Banking Group plc, and fellow LBG undertakings. These are included on the balance sheet as follows:

	At 30 June 2021 £m	At 31 Dec 2020 £m
Assets, included within:		
Financial assets at amortised cost: due from fellow Lloyds Banking Group undertakings	**1,110**	1,118
Derivative financial instruments	**2,401**	2,911
Financial assets at fair value through profit or loss	**35**	27
	3,546	4,056
Liabilities, included within:		
Due to fellow Lloyds Banking Group undertakings	**3,048**	3,283
Derivative financial instruments	**3,002**	3,788
Debt securities in issue	**3,223**	3,696
Subordinated liabilities	**673**	686
	9,946	11,453
Other equity instruments		
Additional tier 1 instruments	**782**	782

During the half-year to 30 June 2021, the Group earned £1 million (half-year to 30 June 2020: £7 million) of interest income and incurred £54 million (half-year to 30 June 2020: £80 million) of interest expense on balances and transactions with Lloyds Banking Group plc and fellow Group undertakings.

Other related party transactions

Other related party transactions for the half-year to 30 June 2021 are primarily shared service costs and management fees similar in nature to those for the year ended 31 December 2020.

Management charges payable to Lloyds Bank plc of £69 million (half-year to 30 June 2020: £86 million) have been incurred in the period see note 3 for further detail.

During the period, the Group sold a portfolio of facilities (£55 million of assets and £489 million of commitments) to Lloyds Bank plc, on which an £8 million operating loss arose.

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

11. Contingent liabilities, commitments and guarantees

Legal actions and regulatory matters

During the ordinary course of business the Group is subject to complaints and threatened or actual legal proceedings (including class or group action claims) brought by or on behalf of current or former employees, customers, investors or other third parties, as well as legal and regulatory reviews, challenges, investigations and enforcement actions, both in the UK and overseas. Where material, such material matters are periodically reassessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of the Group incurring a liability. In those instances where it is concluded that it is more likely than not that a payment will be made, a provision is established to management's best estimate of the amount required at the relevant balance sheet date. In some cases it will not be possible to form a view, for example because the facts are unclear or because further time is needed to properly assess the merits of the case, and no provisions are held in relation to such matters. In these circumstances, specific disclosure in relation to a contingent liability will be made where material. However the Group does not currently expect the final outcome of any such case to have a material adverse effect on its financial position, operations or cash flows.

Contingent liabilities, commitments and guarantees arising from the banking business

	At 30 June 2021 £m	At 31 Dec 2020 £m
Contingent liabilities		
Acceptances and endorsements	**98**	57
Other:		
Other items serving as direct credit substitutes	**58**	96
Performance bonds and other transaction-related contingencies	**22**	34
	80	130
Total contingent liabilities	**178**	187
Commitments and guarantees		
Forward asset purchases and forward deposits placed	**–**	3
Undrawn formal standby facilities, credit lines and other commitments to lend:		
Less than 1 year original maturity:		
Mortgage offers made	**40**	52
Other commitments and guarantees	**8,145**	7,466
	8,185	7,518
1 year or over original maturity	**5,222**	7,014
Total commitments and guarantees	**13,407**	14,535

Of the amounts shown above in respect of undrawn formal standby facilities, credit lines and other commitments to lend, £13,347 million (31 December 2020: £14,416 million) was irrevocable.

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

12. Fair values of financial assets and liabilities

The valuations of financial instruments have been classified into three levels according to the quality and reliability of information used to determine those fair values. Note 31 to the Group's 2020 financial statements describes the definitions of the three levels in the fair value hierarchy.

Valuation control framework

Key elements of the valuation control framework, which covers processes for all levels in the fair value hierarchy including level 3 portfolios, include model validation (incorporating pre-trade and post-trade testing), product implementation review and independent price verification. Formal committees meet quarterly to discuss and approve valuations in more judgemental areas.

Transfers into and out of level 3 portfolios

Transfers out of level 3 portfolios arise when inputs that could have a significant impact on the instrument's valuation become market observable; conversely, transfers into the portfolios arise when sources of data cease to be observable.

Valuation methodology

For level 2 and level 3 portfolios, there is no significant change to the valuation methodology (techniques and inputs) disclosed in the Group's 2020 Annual Report and Accounts applied to these portfolios.

The table below summarises the carrying values of financial assets and liabilities presented on the Group's balance sheet. The fair values presented in the table are at a specific date and may be significantly different from the amounts which will actually be paid or received on the maturity or settlement date.

	30 June 2021		31 December 2020	
	Carrying value £m	**Fair value £m**	Carrying value £m	Fair value £m
Financial assets				
Loans and advances to banks	**3,307**	**3,308**	5,260	5,260
Loans and advances to customers	**18,837**	**18,852**	18,452	18,524
Debt securities	**210**	**210**	257	257
Due from fellow Lloyds Banking Group undertakings	**1,110**	**1,110**	1,118	1,118
Financial assets at amortised cost	**23,464**	**23,480**	25,087	25,159
Financial liabilities				
Deposits from banks	**4,144**	**4,144**	5,601	5,603
Customer deposits	**24,881**	**24,967**	25,497	25,596
Due to fellow Lloyds Banking Group undertakings	**3,048**	**3,048**	3,283	3,283
Debt securities in issue	**14,273**	**14,406**	15,602	15,849
Subordinated liabilities	**673**	**673**	686	686

Financial instruments classified as financial assets at fair value through profit or loss, derivative financial instruments, financial assets at fair value through other comprehensive income and financial liabilities at fair value through profit or loss are recognised at fair value.

The carrying amount of the following financial instruments is a reasonable approximation of fair value: cash and balances at central banks, items in the course of collection from banks and items in course of transmission to banks.

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

12. Fair values of financial assets and liabilities (continued)

The Group manages valuation adjustments for its derivative exposures on a net basis; the Group determines their fair values on the basis of their net exposures. In all other cases, fair values of financial assets and liabilities measured at fair value are determined on the basis of their gross exposures.

The following tables provide an analysis of the financial assets and liabilities of the Group that are carried at fair value in the Group's consolidated balance sheet, grouped into levels 1 to 3 based on the degree to which the fair value is observable. There were no significant transfers between level 1 and level 2 during the period (June 2020: nil).

Financial assets

	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**
At 30 June 2021				
Financial assets at fair value through profit or loss:				
Loans and advances to customers	**–**	**12,285**	**2**	**12,287**
Loans and advances to banks	**–**	**162**	**–**	**162**
Debt securities	**5,101**	**487**	**194**	**5,782**
Treasury and other bills	**18**	**–**	**–**	**18**
Total financial assets at fair value through profit or loss	**5,119**	**12,934**	**196**	**18,249**
Financial assets at fair value through other comprehensive income:				
Debt securities	**–**	**–**	**109**	**109**
Treasury and other bills	**25**	**–**	–	**25**
Total financial assets at fair value through other comprehensive income	**25**	**–**	**109**	**134**
Derivative financial instruments	**6**	**16,321**	**961**	**17,288**
Total financial assets carried at fair value	**5,150**	**29,255**	**1,266**	**35,671**
At 31 December 2020				
Financial assets at fair value through profit or loss:				
Loans and advances to customers	–	12,775	344	13,119
Loans and advances to banks	–	229	–	229
Debt securities	6,983	350	223	7,556
Equity shares	–	–	3	3
Treasury and other bills	19	–	–	19
Total financial assets at fair value through profit or loss	7,002	13,354	570	20,926
Financial assets at fair value through other comprehensive income:				
Debt securities	–	–	113	113
Treasury and other bills	36	–	–	36
Total financial assets at fair value through other comprehensive income	36	–	113	149
Derivative financial instruments	1	20,808	948	21,757
Total financial assets carried at fair value	7,039	34,162	1,631	42,832

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

12. Fair values of financial assets and liabilities (continued)

Financial liabilities

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 30 June 2021				
Financial liabilities at fair value through profit or loss:				
Trading liabilities	**1,072**	**13,124**	**–**	**14,196**
Total financial liabilities at fair value through profit or loss	**1,072**	**13,124**	**–**	**14,196**
Derivative financial instruments	**2**	**13,307**	**1,280**	**14,589**
Total financial liabilities carried at fair value	**1,074**	**26,431**	**1,280**	**28,785**
At 31 December 2020				
Financial liabilities at fair value through profit or loss:				
Trading liabilities	777	15,038	–	15,815
Total financial liabilities at fair value through profit or loss	777	15,038	–	15,815
Derivative financial instruments	9	19,973	1,251	21,233
Total financial liabilities carried at fair value	786	35,011	1,251	37,048

Movements in level 3 portfolio

The tables below analyse movements in the level 3 financial assets portfolio.

	Financial assets at fair value through profit or loss £m	Financial assets at fair value through other comprehensive income £m	Derivative assets £m	Total financial assets carried at fair value £m
At 1 January 2021	**570**	**113**	**948**	**1,631**
Exchange and other adjustments	**–**	**(4)**	**3**	**(1)**
Gains (losses) recognised in the income statement within other income	**(30)**	**–**	**(175)**	**(205)**
Gains (losses) recognised in other comprehensive income within the revaluation reserve in respect of financial assets at fair value through other comprehensive income	**–**	**6**	**–**	**6**
Purchases	**–**	**–**	**249**	**249**
Sales	**(226)**	**(6)**	**(64)**	**(296)**
Transfers into the level 3 portfolio	**1**	**–**	**–**	**1**
Transfers out of the level 3 portfolio	**(119)**	**–**	**–**	**(119)**
At 30 June 2021	**196**	**109**	**961**	**1,266**
Gains (losses) recognised in the income statement within other income relating to those assets held at 30 June 2021	**(30)**	**1**	**(168)**	**(197)**

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

12. Fair values of financial assets and liabilities (continued)

	Financial assets at fair value through profit or loss £m	Financial assets at fair value through other comprehensive income £m	Derivative assets £m	Total financial assets carried at fair value £m
At 1 January 2020	326	121	785	1,232
Exchange and other adjustments	–	6	19	25
Gains (losses) recognised in the income statement within other income	(1)	–	127	126
Gains (losses) recognised in other comprehensive income within the revaluation reserve in respect of financial assets at fair value through other comprehensive income	–	(5)	–	(5)
Purchases	–	–	2	2
Sales	(112)	(6)	(81)	(199)
Transfers into the level 3 portfolio	–	–	88	88
Transfers out of the level 3 portfolio	–	–	(84)	(84)
At 30 June 2020	213	116	856	1,185
Gains (losses) recognised in the income statement within other income relating to those assets held at 30 June 2020	–	3	132	135

The tables below analyse movements in the level 3 financial liabilities portfolio.

	Financial liabilities at fair value through profit or loss £m	**Derivative liabilities £m**	**Total financial liabilities carried at fair value £m**
At 1 January 2021	**–**	**1,251**	**1,251**
Exchange and other adjustments	**–**	**3**	**3**
(Gains) losses recognised in the income statement within other income	**–**	**(196)**	**(196)**
Additions	**–**	**265**	**265**
Disposals	**–**	**(43)**	**(43)**
Transfers into the level 3 portfolio	**–**	**–**	**–**
Transfers out of the level 3 portfolio	**–**	**–**	**–**
At 30 June 2021	**–**	**1,280**	**1,280**
(Gains) losses recognised in the income statement within other income relating to those liabilities held at 30 June 2021	**–**	**(201)**	**(201)**

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

12. Fair values of financial assets and liabilities (continued)

	Financial liabilities at fair value through profit or loss £m	Derivative liabilities £m	Total financial liabilities carried at fair value £m
At 1 January 2020	–	1,070	1,070
Exchange and other adjustments	–	20	20
(Gains) losses recognised in the income statement within other income	–	187	187
Additions	–	2	2
Transfers into the level 3 portfolio	–	65	65
Transfers out of the level 3 portfolio	–	(158)	(158)
At 30 June 2020	–	1,186	1,186
(Gains) losses recognised in the income statement within other income relating to those liabilities held at 30 June 2020	–	195	195

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

12. Fair values of financial assets and liabilities (continued)

The tables below set out the effects of reasonably possible alternative assumptions for categories of level 3 financial assets and financial liabilities.

			At 30 June 2021		
				Effect of reasonably possible alternative assumptions[2]	
	Valuation technique(s)	Significant unobservable inputs[1]	Carrying value £m	Favourable changes £m	Unfavourable changes £m
Financial assets at fair value through profit or loss:					
Debt securities	Discounted cash flow	Credit spreads (discount factor) and inflation	**194**	**10**	**(10)**
Loans and advances to customers	Comparable pricing	Spread	**2**	**–**	**–**
			196	**10**	**(10)**
Financial assets at fair value through other comprehensive income:					
Asset-backed securities	Comparable pricing	Price	**109**	**2**	**(2)**
			109	**2**	**(2)**
Derivative financial assets:					
Interest rate derivatives	Option pricing model	Inflation volatility	**514**	**2**	**(4)**
	Option pricing model	Interest rate volatility	**447**	**2**	**(2)**
			961	**4**	**(6)**
Level 3 financial assets carried at fair value			**1,266**	**16**	**(18)**
Financial liabilities at fair value through profit or loss					
Derivative financial liabilities:					
Interest rate derivatives	Option pricing model	Illiquid long dated repo rate	**(1)**	**–**	**–**
	Option pricing model	Inflation volatility	**(511)**	**3**	**(1)**
	Option pricing model	Interest rate volatility	**(768)**	**12**	**(13)**
			(1,280)	**15**	**(14)**
Level 3 financial liabilities carried at fair value			**(1,280)**	**15**	**(14)**

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

12. Fair values of financial assets and liabilities (continued)

			At 31 December 2020		
				Effect of reasonably possible alternative assumptions[2]	
	Valuation technique(s)	Significant unobservable inputs[1]	Carrying value £m	Favourable changes £m	Unfavourable changes £m
Financial assets at fair value through profit or loss:					
Debt securities	Discounted cash flow	Credit spreads (discount factor) and inflation volatility	223	–	(7)
Loans and advances to customers	Comparable pricing	Spread	344	4	(4)
Equity investments	Discounted cash flow	Credit spreads (discount factor) and inflation	3	10	(3)
			570	14	(14)
Financial assets at fair value through other comprehensive income:					
Asset-backed securities	Comparable pricing	Price	96	2	(2)
Asset-backed securities	Comparable pricing	Spread	17	1	(1)
			113	3	(3)
Derivative financial assets:					
Interest rate derivatives	Option pricing model	Inflation volatility	436	5	(3)
	Option pricing model	Interest rate volatility	512	2	(1)
			948	7	(4)
Level 3 financial assets carried at fair value			1,631	24	(21)
Financial liabilities at fair value through profit or loss					
Derivative financial liabilities:					
Interest rate derivatives	Option pricing model	Illiquid long dated repo rate	(2)	–	–
Interest rate derivatives	Option pricing model	Inflation volatility	(324)	2	(3)
Interest rate derivatives	Option pricing model	Interest rate volatility	(925)	1	(2)
			(1,251)	3	(5)
Level 3 financial liabilities carried at fair value			(1,251)	3	(5)

1 Ranges are shown where appropriate and represent the highest and lowest inputs used in the level 3 valuations.

2 Where the exposure to an unobservable input is managed on a net basis, only the net impact is shown in the table.

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (continued)

12. Fair values of financial assets and liabilities (continued)

Unobservable inputs

Significant unobservable inputs affecting the valuation of loans and advances, debt securities, unlisted equity investments and derivatives are unchanged from those described in the Group's 2020 financial statements.

Reasonably possible alternative assumptions

Valuation techniques applied to many of the Group's level 3 instruments often involve the use of two or more inputs whose relationship is interdependent. The calculation of the effect of reasonably possible alternative assumptions included in the table above reflects such relationships and are unchanged from those described in the Group's 2020 financial statements.

Fair value write downs on derivatives

In the prior period, the Group has reflected a fair value write down of £97 million on derivative positions through net trading income, driven by a single counterparty that has only derivative exposure with the Group and has entered administration in the wake of the COVID-19 pandemic.

13. Dividends on ordinary shares

The Bank paid a dividend of £200 million on 30 April 2021 (2020: £700 million).

14. Ultimate parent undertaking

The Bank's ultimate parent undertaking and controlling party is Lloyds Banking Group plc which is incorporated in Scotland. Lloyds Banking Group plc has published consolidated accounts for the year to 31 December 2020 and half-year results for the six month period to 30 June 2021, and copies may be obtained from Investor Relations, Lloyds Banking Group, 25 Gresham Street, London EC2V 7HN and are available for download from www.lloydsbankinggroup.com.

15. Events since the balance sheet date

There are no events since the balance sheet date to disclose.

16. Other information

The financial information contained in this document does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. The statutory accounts for the year ended 31 December 2020 were approved by the directors on 11 March 2021 and were delivered to the Registrar of Companies on 12 April 2021. The auditors' report on those accounts was unqualified and did not include a statement under sections 498(2) (accounting records or returns inadequate or accounts not agreeing with records and returns) or 498(3) (failure to obtain necessary information and explanations) of the Act.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors listed below (being all the directors of Lloyds Bank Corporate Markets plc) confirm that to the best of their knowledge these condensed consolidated half-year financial statements have been prepared in accordance with UK adopted International Accounting Standard 34, Interim Financial Reporting, and that the half-year management report herein includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R, namely:

- an indication of important events that have occurred during the six months ended 30 June 2021 and their impact on the condensed consolidated half-year financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related party transactions in the six months ended 30 June 2021 and any material changes in the related party transactions described in the last annual report.

Signed on behalf of the board by

Eduardo J Stock da Cunha
Chief Executive Officer
13 September 2021

Lloyds Bank Corporate Markets plc board of directors:
John J Cummins (Non-executive director)
Eduardo J Stock da Cunha (Chief Executive Officer)
Julienne C Daglish (Executive director and Chief Financial Officer)
Eve A Henrikson (Non-executive director)
Emma Lawrence (Non-executive director)
Lord Lupton CBE (Non-executive director and Chair)
Andrew J McIntyre (Non-executive director)
John S W Owen (Non-executive director)
Carla A S Antunes da Silva (Non-executive director)

Changes to the composition of the Board since 1 January 2021 up to the date of this report are shown below:

- Christopher J K Edis (resigned 5 April 2021)
- Julienne C Daglish (appointed 22 April 2021)
- Letitia M Smith (resigned 4 June 2021)
- Emma Lawrence (appointed 7 June 2021)

INDEPENDENT REVIEW REPORT TO LLOYDS BANK CORPORATE MARKETS PLC

We have been engaged by the Bank to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2021 which comprises the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement and related notes 1 to 16. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the Group will be prepared in accordance with International Financial Reporting Standards as adopted by the United Kingdom. Accordingly, the condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with UK adopted International Accounting Standard 34, "Interim Financial Reporting".

Our responsibility

Our responsibility is to express to the Bank a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2021 is not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

INDEPENDENT REVIEW REPORT TO LLOYDS BANK CORPORATE MARKETS PLC

Use of our report

This report is made solely to the Bank in accordance with International Standard on Review Engagements (UK and Ireland) 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the Bank those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank, for our review work, for this report, or for the conclusions we have formed.

Deloitte LLP

Deloitte LLP
Statutory Auditor
London, England
13 September 2021

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 relating to its future financial condition and performance. 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 'believes', 'achieves', 'anticipates', 'estimates', 'expects', 'targets', 'should', 'intends', 'aims', 'projects', 'plans', 'potential', 'will', 'would', 'could', 'considered', 'likely', 'may', 'seek', 'estimate', 'probability', 'goal', 'objective', 'endeavour', 'prospects', 'optimistic' and variations of these words and similar future or conditional expressions are intended to identify forward looking statements but are not the exclusive means of identifying such statements.

Examples of such forward looking statements include, but are not limited to, statements or guidance relating 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; ESG targets and/or commitments; statements of plans, objectives or goals of the Group or its management including in respect of statements about the future business and economic environments in the UK and elsewhere including, but not limited to, future trends in interest rates, foreign exchange rates, credit and equity market levels and demographic developments; statements about competition, regulation, disposals and consolidation or technological developments in the financial services industry; 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 made by the Group or on its behalf include, but are not limited to: general economic and business conditions in the UK and internationally; market related trends and developments; fluctuations in interest rates, inflation, exchange rates, stock markets and currencies; 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 credit ratings of relevant member(s) of the Group or Lloyds Banking Group plc; the ability to derive cost savings and other benefits including, but without limitation as a result of any acquisitions, disposals and other strategic transactions; potential changes in dividend policy; the ability to achieve strategic objectives; changing customer behaviour including consumer spending, saving and borrowing habits; changes to borrower or counterparty credit quality impacting the recoverability and value of balance sheet assets; concentration of financial exposure; management and monitoring of conduct risk; exposure to counterparty risk (including but not limited to third parties conducting illegal activities without the Group's knowledge); instability in the global financial markets, including Eurozone instability, instability as a result of uncertainty surrounding the exit by the UK from the European Union (EU) and the EU-UK Trade and Cooperation Agreement, instability as a result of the potential for other countries to exit the EU or the Eurozone and the impact of any sovereign credit rating downgrade or other sovereign financial issues; political instability including as a result of any UK general election and any further possible referendum on Scottish independence; 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, adverse weather and similar contingencies outside the control of the Group or Lloyds Banking Group plc; inadequate or failed internal or external processes or systems; acts of war, other acts of hostility, terrorist acts and responses to those acts, or other such events; geopolitical unpredictability; risks relating to sustainability and climate change, including the Group and/or Lloyds Banking Group plc's ability along with the government and other stakeholders to manage and mitigate the impacts of climate change effectively; changes in laws, regulations, practices and accounting standards or taxation, including as a result of the UK's exit from the EU; changes to regulatory capital or liquidity requirements (including regulatory measures to restrict distributions to address potential capital and liquidity stress) and similar contingencies outside the control of the

FORWARD LOOKING STATEMENTS (continued)

Group or Lloyds Banking Group plc; the policies, decisions and actions of governmental or regulatory authorities or courts in the UK, the EU, the US or elsewhere including the implementation and interpretation of key laws, legislation and regulation together with any resulting impact on the future structure of the Group; the ability to attract and retain senior management and other employees and meet its diversity objectives; actions or omissions by the Group's directors, management or employees including industrial action; changes in the Group and/or Lloyds Banking Group plc's ability to develop sustainable finance products and the Group and/or Lloyds Banking Group plc's capacity to measure the ESG impact from its financing activity, which may affect the Group and/or Lloyds Banking Group plc's ability to achieve its climate ambition; changes to the Lloyds Banking Group plc's post-retirement defined benefit scheme obligations; the extent of any future impairment charges or write-downs caused by, but not limited to, depressed asset valuations, market disruptions and illiquid markets; the value and effectiveness of any credit protection purchased by the Group; the inability to hedge certain risks economically; the adequacy of loss reserves; the actions of competitors, including non-bank financial services, lending companies and digital innovators and disruptive technologies; and exposure to regulatory or competition scrutiny, legal, regulatory or competition proceedings, investigations or complaints. Please refer to the Base Prospectus for the Group's Euro Medium Term Note Programme 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.

Lloyds Banking Group plc may also make or disclose written and/or oral forward looking statements in reports filed with or furnished to the SEC, Lloyds Banking Group plc annual reviews, half-year announcements, proxy statements, offering circulars, prospectuses, press releases and other written materials and in oral statements made by the directors, officers or employees of Lloyds Banking Group plc 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 to reflect any change in the Group's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. 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.