Lloyds Bank Corporate Markets plc

Q1 2023
Pillar 3 Disclosures

31 March 2023

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BASIS OF PREPARATION

This report presents the interim Pillar 3 disclosures of Lloyds Bank Corporate Markets plc ('the Bank') as at 31 March 2023.

The disclosures have been prepared in accordance with the Disclosure Part of the PRA Rulebook.

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

Abbreviation	Template name	Reason for exclusion
CCR7	RWA flow statements of CCR exposures under the IMM	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 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; political instability including as a result of any UK general election and any further possible referendum on Scottish independence; 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; market related risks, trends and developments; exposure to counterparty risk; instability in the global financial markets, including within the Eurozone, and as a result of the exit by the UK from the European Union (EU) and the effects of the EU-UK Trade and Cooperation Agreement; the ability to access sufficient sources of capital, liquidity and funding when required; changes to the Group's credit ratings; fluctuations in interest rates, inflation, exchange rates, stock markets and currencies; volatility in credit markets; volatility in the price of the Group's securities; tightening of monetary policy in jurisdictions in which the Group operates; natural pandemic (including but not limited to the COVID-19 pandemic) and other disasters; risks concerning borrower and counterparty credit quality; risks related to the uncertainty surrounding the integrity and continued existence of reference rates; changes in laws, regulations, practices and accounting standards or taxation; changes to regulatory capital or liquidity requirements and similar contingencies; the policies and actions of governmental or regulatory authorities or courts together with any resulting impact on the future structure of the Group; risks associated with the Group's compliance with a wide range of laws and regulations; assessment related to resolution planning requirements; risks related to regulatory actions which may be taken in the event of a bank or Group failure; exposure to legal, regulatory or competition proceedings, investigations or complaints; 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; 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; technological failure; inadequate or failed internal or external processes or systems; risks relating to ESG matters, such as climate change (and achieving climate change ambitions), including the Group's ability along with the government and other stakeholders to measure, manage and mitigate the impacts of climate change effectively, and human rights issues; the impact of competitive conditions; failure to attract, retain and develop high calibre talent; the ability to achieve strategic objectives; 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; assumptions and estimates that form the basis of the Group's financial statements; and potential changes in dividend policy. 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 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 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 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.

Executive Summary

Leverage Summary

		31 Mar 2023[1]	31 Dec 2022	30 Jun 2022
	Leverage ratio			
1	Total exposure measure excluding claims on central banks (£m)	**75,981**	69,175	74,898
2	Leverage ratio excluding claims on central banks (%)	**4.9%**	5.4%	4.5%
	Additional leverage ratio disclosure requirements			
3	Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)	**4.9%**	5.3%	4.5%
4	Leverage ratio including claims on central banks (%)	**3.9%**	4.2%	3.7%
5	Average leverage ratio excluding claims on central banks (%)[2]	**4.9%**		
6	Average leverage ratio including claims on central banks (%)	**3.9%**		
7	Countercyclical leverage ratio buffer (%)	**0.2%**		

1 Profits for Q1 remain subject to formal verification in accordance with capital regulations and are therefore excluded from the 31 March 2023 capital position.

2 The average leverage exposure measure (excluding claims on central banks) for the period from 1 January 2023 to 31 March 2023 amounted to £75,049 million.

Leverage

The Bank's UK leverage ratio reduced to 4.9 per cent (31 December 2022: 5.4 per cent), predominantly reflecting an increase in the exposure measure, which was largely driven by an increase in securities financing transactions.

OV1: Overview of risk-weighted assets

		Total RWA		Total own funds requirements
		31 Mar 2023	31 Dec 2022	31 Mar 2023
		£m	£m	£m
1	**Credit risk (excluding CCR)**	**10,644**	10,119	**852**
2	Of which the standardised approach	1,034	1,095	83
3	Of which the foundation IRB (FIRB) approach	8,924	8,301	714
4	Of which slotting approach	176	213	14
UK 4a	Of which equities under the simple risk weighted approach	450	450	36
	Of which: non-credit obligation assets[1]	60	60	5
6	**Counterparty credit risk - CCR**	**5,522**	5,515	**442**
7	Of which the standardised approach	4,993	4,989	400
UK 8a	Of which exposures to a CCP	66	65	5
UK 8b	Of which credit valuation adjustment - CVA	257	302	21
9	Of which other CCR	206	159	16
15	**Settlement risk**	**2**	—	**—**
16	**Securitisation exposures in the non-trading book (after the cap)**	**608**	498	**49**
18	Of which SEC-ERBA approach (including IAA)	202	156	16
19	Of which SEC-SA approach	406	342	33
20	**Position, foreign exchange and commodities risks (Market risk)**	**2,891**	3,133	**231**
21	Of which the standardised approach	235	204	19
22	Of which IMA	2,656	2,929	212
23	**Operational risk**	**930**	930	**74**
UK 23b	Of which standardised approach	930	930	74
24	Memo: Amounts below the thresholds for deduction (subject to 250% risk weight) (For information)	507	509	41
29	**Total**	**20,597**	20,195	**1,648**
	Pillar 2A capital requirement[2]			954
	Total capital requirement			**2,602**

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

2 As at 31 March 2023, the Pillar 2A capital requirement was around 4.6 per cent of risk-weighted assets, of which around 2.6 per cent was 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 and other non-credit obligation assets.

CR8: Risk-weighted assets flow statements of credit risk exposures - 3 months to 31 Mar 2023

		Total RWA
		£m
1	**Risk weighted exposure amount as at the end of previous reporting period**	**8,514**
2	Asset size (+/-)	862
3	Asset quality (+/-)	(121)
7	Foreign exchange movements (+/-)	(155)
9	**Risk weighted exposure amount as at the end of the reporting period**	**9,100**

Key movements

– Asset size increase driven by net new lending.

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

Market Risk

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

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

		VaR	SVaR	IRC	Other	Total RWA	Total own funds requirements
		£m	£m	£m	£m	£m	£m
1	**RWAs at 31 Dec 2022**	**1,018**	**705**	**124**	**1,082**	**2,929**	**234**
1a	Regulatory adjustment	(907)	(547)	(32)	—	**(1,487)**	(118)
1b	**RWAs at end of day[1]**	**111**	**158**	**92**	**1,082**	**1,442**	**116**
2	Movement in risk levels	143	5	33	(168)	**13**	1
3	Model updates/changes	—	—	—	(45)	**(45)**	(4)
7	Other	—	—	—	200	**200**	16
8a	**RWAs at end of day[1]**	**254**	**163**	**125**	**1,069**	**1,610**	**129**
8b	Regulatory adjustment	544	481	21	—	**1,046**	84
8	**RWAs at 31 Mar 2023**	**798**	**644**	**146**	**1,069**	**2,656**	**212**

1 End of day represents spot position

Key movements

– The decrease in VaR RWAs is driven by reduced average VaR levels in Q1 2023 compared to Q4 2022 given slightly lower market volatility and reduced risk takings.

– "Other" includes a RWA add-on introduced to reflect the capital impact of a planned enhancement to the internal model approach.

Liquidity

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)			
		31 Mar 2023	31 Dec 2022	30 Sep 2022	30 Jun 2022	31 Mar 2023	31 Dec 2022	30 Sep 2022	30 Jun 2022
	Number of data points used in calculation of averages	**12**	12	12	12	**12**	12	12	12
HIGH-QUALITY LIQUID ASSETS (£m)									
1	Total high-quality liquid assets (HQLA)					**24,395**	23,858	24,294	24,181
CASH - OUTFLOWS (£m)									
2	Retail deposits and deposits from small business customers, of which:	**7,937**	7,839	7,694	7,532	**1,032**	1,020	999	975
4	Less stable deposits	**7,937**	7,839	7,694	7,532	**1,032**	1,020	999	975
5	Unsecured wholesale funding	**7,819**	7,602	7,928	7,655	**5,352**	5,271	5,716	5,338
7	Non-operational deposits (all counterparties)	**6,692**	6,521	6,911	6,780	**4,225**	4,190	4,699	4,463
8	Unsecured debt	**1,127**	1,081	1,017	875	**1,127**	1,081	1,017	875
9	Secured wholesale funding					**58**	35	30	30
10	Additional requirements	**26,152**	24,453	22,790	22,632	**19,134**	17,848	16,574	16,798
11	Outflows related to derivative exposures and other collateral	**14,420**	13,362	12,208	12,647	**14,420**	13,362	12,206	12,642
13	Credit and liquidity facilities	**11,732**	11,091	10,582	9,985	**4,714**	4,486	4,368	4,156
14	Other contractual funding obligations	**667**	499	475	376	**632**	464	441	341
15	Other contingent funding obligations	**7,148**	7,137	6,867	6,433	**126**	161	188	204
16	TOTAL CASH OUTFLOWS					**26,334**	24,799	23,948	23,686
CASH - INFLOWS (£m)									
17	Secured lending (e.g. reverse repos)	**20,520**	20,113	19,960	19,912	**176**	183	186	149
18	Inflows from fully performing exposures	**1,030**	1,013	998	906	**923**	903	895	806
19	Other cash inflows	**10,878**	9,606	8,346	8,216	**10,877**	9,606	8,346	8,215
20	TOTAL CASH INFLOWS	**32,428**	30,732	29,304	29,034	**11,976**	10,692	9,427	9,170
UK-20c	Inflows subject to 75% cap	**29,065**	27,057	25,336	25,033	**11,976**	10,692	9,427	9,170
TOTAL ADJUSTED VALUE									
UK-21	LIQUIDITY BUFFER (£m)					**24,395**	23,858	24,294	24,181
22	TOTAL NET CASH OUTFLOWS (£m)					**14,358**	14,107	14,521	14,516
23	LIQUIDITY COVERAGE RATIO (%)					**171%**	170%	169%	168%

Liquidity (continued)

LIQB: Qualitative information on LCR

The Bank's LCR (calculated as the simple average of month end observations over the 12 months preceding the end of the reporting quarter) was 171% as of 31 March 2023. The small increase of 1% from 170% for the prior quarter is due to a small increase in liquid assets, primarily from an increase in customer deposits.

The Bank's derivative exposures and other collateral requirements outflows include those as a result of a deterioration in credit rating and 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'.

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 Bank's liquidity buffer consists almost entirely of LCR Level 1 assets. Level 1 assets, which are assets of extremely high liquidity and credit quality, are primarily held as central bank reserves and UK government bonds.

The Bank's 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's committee level i.e. the Asset and Liability Committee.