Lloyds Bank Corporate Markets plc

Q3 2023

Pillar 3 Disclosures

30 September 2023

Table of contents

Basis of preparation		2
Leverage and overview of risk weighted exposure amounts		
	Leverage Summary	3
OV1	Overview of risk-weighted exposure amounts	3
Credit risk		
CR8	Risk-weighted assets movements by key driver	4
Market Risk		
MR2-B	RWA flow statements of market risk exposures under an Internal Model Approach	4
Liquidity		
LIQ1	Liquidity coverage ratio	5
LIQB	Qualitative information on LCR	6
Forward-looking statements		7

Basis of preparation

This report presents the interim Pillar 3 disclosures of Lloyds Bank Corporate Markets plc ('the Bank') as at 30 September 2023.

These disclosures have been prepared in accordance with the Disclosure section of the PRA Rulebook. Pillar 3 templates required to be disclosed on a quarterly basis that have not been included in this report are listed in the table below along with the reason for exclusion.

PRA reference	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.

Leverage and overview of risk weighted exposure amounts

Leverage Summary

		30 Sep 2023[1]	30 Jun 2023	31 Mar 2023[1]	31 Dec 2022
	Leverage ratio				
1	Total exposure measure excluding claims on central banks (£m)	**80,485**	76,243	75,981	69,175
2	Leverage ratio excluding claims on central banks (%)	**4.7%**	5.0%	4.9%	5.4%
	Additional leverage ratio disclosure requirements				
3	Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)	**4.7%**	5.0%	4.9%	5.3%
4	Leverage ratio including claims on central banks (%)	**3.7%**	4.0%	3.9%	4.2%
5	Average leverage ratio excluding claims on central banks (%)[2]	**5.0%**	5.0%	4.9%	
6	Average leverage ratio including claims on central banks (%)	**3.9%**	4.0%	3.9%	
7	Countercyclical leverage ratio buffer (%)	**0.3%**	0.2%	0.2%	

1 Excludes profits for the preceding quarter from the total tier 1 capital positions at 31 March 2023 and 30 September 2023 (numerator of the leverage ratio) that remained subject to formal verification in accordance with capital regulations.

2 The average leverage exposure measure (excluding claims on central banks) for the period from 1 July 2023 to 30 September 2023 amounted to £76,240 million.

The Bank's UK leverage ratio reduced to 4.7 per cent (31 December 2022: 5.4 per cent), reflecting an increase in the leverage exposure measure following planned business growth including increases in securities financing transactions, other financial assets and off-balance sheet items. This was partially offset by an increase in total tier 1 capital.

OV1: Overview of risk-weighted assets

		Total RWA		**Total own funds requirements**
		30 Sep 2023	31 Dec 2022	**30 Sep 2023**
		£m	£m	**£m**
1	**Credit risk (excluding CCR)**	**10,240**	10,119	**819**
2	Of which the standardised approach	**1,082**	1,095	**86**
3	Of which the foundation IRB (FIRB) approach	**8,398**	8,301	**672**
4	Of which slotting approach	**249**	213	**20**
UK 4a	Of which equities under the simple risk weighted approach	**450**	450	**36**
	Of which: non-credit obligation assets[1]	**61**	60	**5**
6	**Counterparty credit risk (CCR)**	**5,111**	5,515	**409**
7	Of which the standardised approach	**4,633**	4,989	**371**
UK 8a	Of which exposures to a CCP	**84**	65	**7**
UK 8b	Of which credit valuation adjustment (CVA)	**254**	302	**20**
9	Of which other CCR	**140**	159	**11**
16	**Securitisation exposures in the non-trading book (after the cap)**	**526**	498	**42**
18	Of which SEC-ERBA approach (including IAA)	**163**	156	**13**
19	Of which SEC-SA approach	**363**	342	**29**
20	**Position, foreign exchange and commodities risks (Market risk)**	**4,637**	3,133	**371**
21	Of which the standardised approach	**403**	204	**32**
22	Of which IMA	**4,234**	2,929	**339**
23	**Operational risk**	**946**	930	**76**
UK 23b	Of which standardised approach	**946**	930	**76**
24	Memo: Amounts below the thresholds for deduction (subject to 250% risk weight)	**501**	509	**40**
29	**Total**	**21,460**	20,195	**1,717**
	Pillar 2A capital requirement[2]			**994**
	Total capital requirement			**2,711**

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

2 As at 30 September 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.

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

		Total RWA quarter to 30 Sept 2023	Total RWA YTD 30 Sept 2023
		£m	£m
1	Risk weighted exposure amount as at the end of previous reporting period	8,591	8,514
2	Asset size (+/-)	**(207)**	**343**
3	Asset quality (+/-)	**74**	**(59)**
5	Methodology and policy (+/-)	**(48)**	**(48)**
7	Foreign exchange movements (+/-)	**237**	**(103)**
9	**Risk weighted exposure amount as at the end of the reporting period**	**8,647**	**8,647**

Key movements 30 June to 30 September 2023

– Asset size movement driven by changes in exposures.

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

Market Risk

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

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

		Total RWA Quarter to 30 Sept 2023					
		VaR	SVaR	IRC	Other	Total RWA	Total own funds requirements
		£m	£m	£m	£m	£m	£m
1	RWAs at 30 June 2023	1,212	683	198	1,118	3,211	257
1a	Regulatory adjustment	(809)	(499)	(13)	(1)	(1,322)	(106)
1b	RWAs at end of day[1]	403	184	185	1,117	1,889	151
2	Movement in risk levels	**166**	**—**	**187**	**(35)**	**318**	**26**
3	Model updates/changes	**170**	**—**	**—**	**—**	**170**	**14**
7	Other	**—**	**—**	**—**	**653**	**653**	**52**
8a	**RWAs at end of day[1]**	**739**	**184**	**372**	**1,735**	**3,030**	**243**
8b	**Regulatory adjustment**	**620**	**584**	**—**	**—**	**1,204**	**96**
8	**RWAs at 30 Sept 2023**	**1,359**	**768**	**372**	**1,735**	**4,234**	**339**

		Total RWA YTD to 30 Sept 2023					
		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	**458**	**26**	**280**	**(155)**	**610**	**49**
3	Model updates/changes	**170**	**—**	**—**	**(45)**	**125**	**10**
7	Other	**—**	**—**	**—**	**853**	**853**	**68**
8a	**RWAs at end of day[1]**	**739**	**184**	**372**	**1,735**	**3,030**	**243**
8b	**Regulatory adjustment**	**620**	**584**	**—**	**—**	**1,204**	**96**
8	**RWAs at 30 Sept 2023**	**1,359**	**768**	**372**	**1,735**	**4,234**	**339**

1. End of day represents spot position

Key movements 30 June to 30 September 2023

- Movement in VaR RWA driven by model change following IBOR transition combined with increased trading book activity.
- Increase to the RWA add-on to prudently capitalise ahead of further IMA modelling enhancement ("Other").
- Increase in IRC RWA driven by trading activity.

Liquidity

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.

LIQ1: Quantitative information of Liquidity Coverage Ratio (LCR)

		Total unweighted value (average)				Total weighted value (average)			
		30 Sep 2023	30 Jun 2023	31 Mar 2023	31 Dec 2022	30 Sep 2023	30 Jun 2023	31 Mar 2023	31 Dec 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)					**26,530**	25,298	24,395	23,858
Cash - outflows (£m)									
2	Retail deposits and deposits from small business customers, of which:	**7,775**	7,933	7,937	7,839	**1,004**	1,029	1,032	1,020
4	Less stable deposits	**7,775**	7,933	7,937	7,839	**1,004**	1,029	1,032	1,020
5	Unsecured wholesale funding	**8,249**	8,052	7,819	7,602	**5,312**	5,317	5,352	5,271
7	Non-operational deposits (all counterparties)	**7,172**	6,951	6,692	6,521	**4,235**	4,216	4,225	4,190
8	Unsecured debt	**1,077**	1,101	1,127	1,081	**1,077**	1,101	1,127	1,081
9	Secured wholesale funding					**135**	92	58	35
10	Additional requirements	**27,404**	27,215	26,152	24,453	**20,135**	20,053	19,134	17,848
11	Outflows related to derivative exposures and other collateral requirements	**14,934**	15,070	14,420	13,362	**14,934**	15,070	14,420	13,362
13	Credit and liquidity facilities	**12,470**	12,145	11,732	11,091	**5,201**	4,983	4,714	4,486
14	Other contractual funding obligations	**578**	688	667	499	**543**	652	632	464
15	Other contingent funding obligations	**6,741**	6,875	7,148	7,137	**150**	121	126	161
16	Total cash outflows					**27,279**	27,264	26,334	24,799
Cash - inflows (£m)									
17	Secured lending (e.g. reverse repos)	**20,755**	21,455	20,520	20,113	**171**	193	176	183
18	Inflows from fully performing exposures	**849**	1,038	1,030	1,013	**755**	934	923	903
19	Other cash inflows	**10,284**	10,899	10,878	9,606	**10,284**	10,899	10,877	9,606
20	Total cash inflows	**31,888**	33,392	32,428	30,732	**11,210**	12,026	11,976	10,692
UK-20c	Inflows subject to 75% cap	**29,538**	30,571	29,065	27,057	**11,210**	12,026	11,976	10,692
Total adjusted value									
UK-21	Liquidity buffer (£m)					**26,530**	25,298	24,395	23,858
22	Total net cash outflows (£m)					**16,069**	15,238	14,358	14,107
23	Liquidity coverage ratio (%)					**165%**	167%	171%	170%

Liquidity continued

LIQB: Qualitative information on Liquidity Coverage Ratio (LCR)

The Bank's Pillar 3 LCR disclosure (calculated as the simple average of month end observations over the 12 months preceding the end of the reporting quarter) was 165 percent as of 30 September 2023. The decrease of 2 percentage points from 167 percent for the prior quarter has been driven by an increase in net outflows, primarily related to higher derivative exposure outflows from market volatility post the mini-budget in late 2022. Liquid assets also increased primarily from an increase in customer deposits.

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

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

The liquidity buffer consists almost entirely of Level 1 items. The majority of Level 1 assets are held as central bank reserves, with the remaining balance of Level 1 assets primarily held as 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 Bank committee level.

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. 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