Helping Britain Prosper

Lloyds Bank Corporate Markets plc

Annual Report and Accounts 2023

LBCM's purpose is Helping Britain Prosper

Connecting the UK and Lloyds Banking Group with the world

Lloyds Bank Corporate Markets plc (LBCM) provides a wide range of banking and financial services through branches and offices in the UK, the Crown Dependencies, the US and Germany, supported by over 1,200 colleagues.

Robust financial performance from a growing business that's delivering for our customers

Total income
£908m
Continued business momentum

Return on tangible equity
9.2%
Disciplined balance sheet usage

Sustainable financing
£2.5bn
Supporting our customers

CET1 ratio
13.3%
Strongly capitalised bank

Find out more about our financial performance on **page 23**

Contents

Our reporting

Our reporting is designed to facilitate clear communication to a range of stakeholders. LBCM's annual report and accounts provides disclosures relating to our strategic, financial and operational performance and provides details on our strategy.

Key indicators of performance: the Bank's Board of directors regularly monitors indicators of performance including strategic progress, business performance and appropriate levels of capital, funding and liquidity.

To access more content on a mobile device, point your camera at the QR codes seen throughout this report.

Supplementary information and disclosures are provided in the Pillar 3 report.

This annual report and accounts document contains forward-looking statements relating to LBCM's future financial condition, performance, results, details of our strategy and objectives. For further details, please refer to our forward-looking statements on page 129.

Throughout this document we are proud to feature LBCM colleagues.

Definitions

Lloyds Bank Corporate Markets plc (the Bank) and its subsidiary undertakings (together the Group). References within this document to LBCM refer to the Group as defined here.

Lloyds Banking Group plc is the ultimate parent company of LBCM and is also referred to as LBG in this document.

Approval

The 2023 annual report and accounts incorporates the strategic report and the consolidated financial statements, both of which have been approved by the Board of directors.

On behalf of the Board

Carla Antunes da Silva
Chief Executive Officer (CEO)
Lloyds Bank Corporate Markets plc
19 March 2024

LBCM's unique business model

Our purpose

Helping Britain Prosper by connecting the UK and Lloyds Banking Group with the world.

Our strategy

To provide a first-class banking, financing and risk management proposition, underpinned by excellent customer service.

Deepening client relationships

Expanding institutional coverage

Driving LBG collaboration

LBCM is investing across its businesses

1. **Enhancing our financial markets proposition**
2. **Scaling our debt capital markets franchise**
3. **Deepening our footprint in UK, North America and Europe**
4. **Developing our Crown Dependencies business**

Our customers

The target market for these products and services in the UK and internationally is made up of large corporates, financial institutions and commercial customers plus retail and commercial customers in the Crown Dependencies.

Our colleagues

Are highly-engaged and customer focused. LBCM has a diverse workforce with significant expertise and experience to deliver these products and services.

Over
1,200
Colleagues

Our geographic hubs

- UK
- New York, USA
- Frankfurt, Germany
- Jersey
- Guernsey
- Isle of Man

Our values

Are the foundation of our culture and underpin the work of our colleagues and the decisions we make.

People-first

Bold

Trust

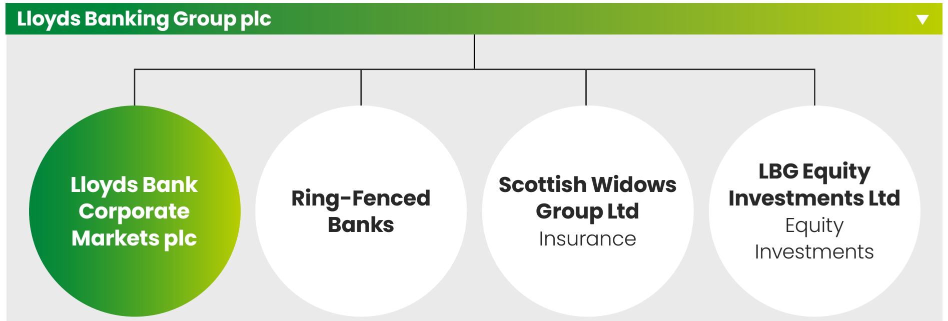
Inclusive

Sustainable

Our structure and businesses

We are part of the Corporate and Institutional Banking (CIB) business unit of Lloyds Banking Group and core to LBG's growth strategy.

Our core business areas are: **Financial markets, Capital markets, Lending** and in the Crown Dependencies **Retail and commercial banking**.



LBCM is the non ring-fenced bank of LBG, established in response to the Financial Services (Banking Reform) Act 2013 for the purpose of carrying on elements of the corporate and institutional banking business of LBG along with the territories outside the European Economic Area.

Our competitive advantages

- UK centre of excellence with deep customer insight and part of LBG
- Financial strength and disciplined risk management
- Diversified business model, meeting a wide range of customer needs
- Values-driven colleagues with strong purpose and excellent customer service

Investing for the future whilst growing with purpose

Lord Lupton CBE
Chair

Overview
During 2023 LBCM has continued to make significant progress, support our customers and invest in our business to deliver our purpose-driven strategy. Generating strong and sustainable earnings in the long term remains a priority and we have made good strides in executing our strategy whilst delivering a robust financial performance.

"Our colleagues strive to delight customers and I am proud of that and the role LBCM plays in Helping Britain Prosper"

Our purpose and strategy
LBCM's purpose is Helping Britain Prosper by connecting the UK and Lloyds Banking Group with the world. We achieve this through providing a first-class banking, financing and risk management proposition, underpinned by excellent customer service. This has positioned us well to grow our business in areas of core strategic focus and to deepen relationships across our customer base.

We remain committed to supporting our customers and strive to delight them. I am immensely proud of the role LBCM plays in Helping Britain Prosper.

Future opportunities
With regards to future opportunities, our strategic priorities in our markets business are focused on broader and more effective participation in core product areas such as foreign exchange and rates. The investments in our markets platform will enable us to support institutional customers across more of their needs and expand our footprint, and to improve our pricing, risk management and efficiency.

In our Crown Dependencies retail and commercial franchise, we continue to build from a strong position with the development of our new deposits platform combined with deepening customer relationships.

Taken together these, and other investments across our business, will drive long-term sustainable growth and gives me and the Board confidence in both the strategic progress we are making and confidence for future delivery.

Directors
We review the Board's composition and diversity regularly and are committed to ensuring we have the right balance of skills and experience, enhancing the quality of deliberations and decisions. I am pleased to say that we continue to exceed the FTSE Women Leaders and Parker Review recommendations.

In February 2023 Carla Antunes da Silva was appointed as CEO, who prior to this served on the LBCM Board for five years as a non-executive director. She has brought a wealth of knowledge and experience including most recently as LBG's group strategy, corporate development and investor relations director. Further detail regarding changes to the Board can be found in the governance report.

Governance in action
In the pages which follow you will be able to read about the variety of ways the Board has engaged with stakeholders across the jurisdictions in which LBCM operates throughout 2023.

Conclusion
This will be my last report as LBCM Chair, since I shall be retiring in May 2024. It has been an honour for me to be LBCM's inaugural Chair from our inception in 2018, and I am proud of the enormous progress all our colleagues have made in the intervening years developing LBCM into a focussed, customer-driven bank delivering strong results for 2023.

Looking ahead, I remain confident that LBCM will continue to support its customers through the opportunities and challenges in the years to come; and that our purpose-driven strategy will enhance the long-term future of LBCM for all its stakeholders.

Stakeholder engagement
including Section 172(1) statement

New York office charity park run


LBCM colleague photo competition winner

LBCM colleague photo competition winner

Governance in action

The Board continues to engage both directly and indirectly with its stakeholders, helping not just in providing a better understanding of their points of view, but also of the impact LBCM has in their day to day lives. Beyond the Board, stakeholder engagement takes place at all levels within the organisation, and in addition to the direct engagement of Board members with stakeholders discussed on the following pages, the Board requires **stakeholder implications** to be considered within all proposals submitted from across the organisation.

Senior management routinely provides the Board with details of stakeholder interaction and feedback through their **regular business updates** and during their interactions both inside and outside the boardroom. Managing stakeholder interests also forms a key part of the Board's delegation of the day-to-day management of the business to senior management.

The directors acknowledge that one of the primary responsibilities of the Board is to ensure the strategy of the Bank, as aligned to that of LBG, achieves **long-term success and generates sustainable returns.** Central to this is engagement with our stakeholders and considering in all instances the long-term implications of decisions made and acting at all times to maintain the highest possible standards of conduct.

Further details on key actions in this regard are also contained within the Directors' report and the corporate governance statement on pages 47 to 49.

Stakeholder engagement including Section 172(1) statement continued

S172(1) statement

In accordance with the Companies Act 2006 (the Act) (as amended by the Companies (Miscellaneous Reporting) Regulations 2018), the directors provide the following statement describing how they have had regard to the matters set out in section 172(1) of the Act, when performing their duty to promote the success of the Bank under section 172.

In accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended by the Companies (Miscellaneous Reporting). Regulations 2018), the following statement also provides details of how the directors have engaged with and had regard to the interests of key stakeholders.

The Bank is a subsidiary of LBG, and as such adopts many of the processes and practices of LBG, which are further referred to in this statement where relevant.

245,000

Personal customers and businesses in the UK and abroad

1,300

Corporate clients in the UK and abroad

Customers

The Board's deep understanding of customers' needs is vital in setting and achieving the Bank's goals. **Delighting our customers** and identifying their needs through a customer-centric approach remains therefore a key consideration in Board decisions. The directors ensure the Bank works towards achieving its customers' ambitions, treating customers fairly, and making it easy for customers to find, understand and access products that are suitable for their needs.

The Board is committed to providing meaningful support to meet the needs of customers, aiming to provide positive outcomes and working to mitigate or reduce the risk of financial harm. The **Board has increased its emphasis on customers** through more focused discussions at Board, refinement of customer goals in the Bank's balanced scorecard and activity to strengthen relationships. Members of the Board have spent time with customers at events including the International Monetary Fund, LBCM Markets summit and a panel of customers were invited to the Board's strategy day to share insights and provide open and honest feedback.

To ensure directors truly understand the needs of customers, **customer feedback** and related management information is regularly considered including as part of the directors' strategic decision-making process.

The Bank regularly **benchmarks its performance** and the performance of its business units amongst its customers. The directors use this insight along with a range of internal and external research to ensure ongoing improvement in customer experience. The directors ensure the Bank plays an active part in LBG's wider customer ambitions, as acknowledged in the Bank's strategy, and where appropriate during the course of the year this has included the ongoing development of market leading digital propositions, more personalised customer propositions and better experience for customers across all channels.

The FCA's **Consumer Duty** (the Duty) took effect in July 2023 in addition to a new FCA Principle for Business requiring firms 'to act to deliver good outcomes for retail customers'. LBCM Financial Markets and Capital Markets conducted a detailed review of client trading over the period 2018 to 2022 and concluded that there were currently no clients that should be treated as in-scope of the Duty. However, whilst there has been no LBCM business directly in scope of the Duty, LBCM, including our Crown Dependencies business, **is committed to comply with LBG's policies that have been updated according to the Duty.** The LBG Board Consumer Duty Champion represents the Bank for compliance with the Duty.

Colleagues

The Board considers that maintaining open dialogue is crucial in informing its thinking, allowing directors to hear first-hand colleague views on the matters most important to them as well as the Bank. Throughout 2023 the Board received regular updates on workforce engagement and on colleague matters through a combination of direct colleague **listening sessions** and updates from the LBCM CEO and LBCM people director. This included review of the findings of surveys of colleague sentiment, including annual and ad hoc surveys, and review of the progress being made in addressing the matters colleagues have previously raised.

Examples of Board engagement with colleagues included:

- An annual review summarising all people activity, with updates on progress and overall colleague sentiment
- A review of the pulse engagement reports throughout the year, as well as the annual colleague engagement survey, including key themes and issues which colleagues raised during the year
- Members of the Board have visited offices across the Bank's jurisdictions, where they met with colleagues to both share their perspective on matters on the Board's agenda and discuss LBCM's progress against its strategic objectives
- The Chair and non-executive directors also attended a number of listening sessions, allowing colleagues to share their perspective on a range of topics including progress on strategy, culture and diversity, equity and inclusion matters
- Board members held sessions with colleagues from a number of specific business areas to hear first hand about their concerns and challenges
- 1:1 sessions were held with a number of senior leaders across the business
- The Chair continued to congratulate the winners of awards, for colleagues making a significant difference in delighting customers and reducing bureaucracy

UK colleagues are remunerated by LBG (and recharged to the Bank), while colleagues based in the US, Germany and the Crown Dependencies are remunerated by LBCM. UK and US colleagues are eligible to participate in HMRC/IRAS approved share plans which promote share ownership by giving employees an opportunity to invest in LBG shares. The Bank follows the LBG **remuneration principles** that are designed to specifically promote appropriate culture and colleague behaviours that meet customer needs and regulatory expectations, supported by the structure of the remuneration package offered to colleagues.

In relation to base pay (salary) for UK colleagues, the Bank aims to ensure that the pay is determined and applied fairly and consistently to all colleagues. For 2024 and 2025, a two-year pay deal has been agreed, which is 4 per cent each year for junior colleagues and 3.5 per cent pay budget for senior colleagues below executive level.

Additionally, the most junior colleagues also received a £500 cash payment in December 2023. The multi-year proposal reflects the Bank's and LBG's desire to provide certainty to colleagues and help them plan for the future. For the 2024 annual pay review, the 4 per cent and 3.5 per cent pay budgets were applied consistently to colleagues in the US and Germany.

The remuneration principles also apply to the wider package including variable pay to ensure that reward is performance-driven, recognises success in delivering our purpose and strategy, is talent-focussed to attract and retain high-calibre colleagues and embodies our values: people first, inclusive, trust, sustainable and bold.

During 2023, **Flexibility Works** was launched, which is the new approach to flexible working, bringing together different aspects of flexibility and supportive working arrangements to make it easier for colleagues and the business to balance personal and team needs. The Board has ensured that the workforce has been supported through the transition of colleagues to working back in our offices for a minimum of two days per week.

Further information can be found in the directors' remuneration report within the LBG annual report and accounts for 2023, available on the LBG website.

The Bank, within the context of LBG, seeks to maintain a culture where our people feel supported, included and empowered. There are a variety of channels available to support this, such as Human Resources, Let's Talk (informal resolution service) as well as **Speak Up** (LBG's Whistleblowing programme), which enables colleagues to report their concerns confidentially and anonymously.

Andrew McIntyre is the Bank's Whistleblowing Champion and is responsible for oversight of arrangements, alongside ensuring that colleagues are protected from any form of victimisation. This is achieved through ensuring that the confidential reporting system remains a reliable and independent channel for colleagues to report suspected wrongdoing.

"The Board considers that maintaining open dialogue with colleagues... is crucial in informing its thinking"

Communities and the environment

The directors acknowledge that the Bank, as part of one of the largest financial service providers in the UK, has **responsibilities to invest in the communities in which it operates**, to help them prosper economically and build a more sustainable future. As such the directors receive regular updates on responsible and sustainable business activities.

LBCM Board with the Isle of Man Woodland Trust July 2023

The Bank has aligned with **LBG's sustainability objectives**, including the current 'Net Zero by 2050' climate pledge, which is a key part of the Bank's sustainability strategy and directly supports global external goals. Refer to the sustainability section of this report for full details of the progress being made by LBCM, as part of LBG.

2023 saw the launch of LBG's new charity partnership in the UK with Crisis – a national charity for people experiencing homelessness. A number of the Bank's colleagues took part in various LBG wide **fundraising and volunteering** activities to support Crisis from a 'coffee and cake' event to three of the Bank's colleagues participating in a trek in Iceland. Colleagues also undertook a series of volunteering days in Crisis's warehouses, to help the charity prepare for their end-of-year campaign.

In North America, the Bank was recognised with the 'Corporate Vision Award' by charity partner Birch Family Services for their contribution to the charity's mission. Colleagues have run half marathons, competed in golf days and made adaptive storybooks in aid of Birch.

In the Crown Dependencies we continue to work with the Lloyds Bank Foundation for the Channel Islands to support a wide range of local charities and initiatives across Jersey and Guernsey. Through a mentorship scheme, colleagues have used their transferable skills to support charities in many ways, such as setting up engagement surveys, sharing interview and CV writing tips, building web pages and the managing of social media channels.

The environment has also benefited from the Bank's support. Teams have collaborated with the Isle of Man Woodland Trust and Manx BirdLife to help plant trees, remove invasive non-native species and rebuild paths. The Bank is also the proud sponsors of the Manx Wildlife Trust Community Ranger in the Isle of Man.

Colleagues continue to undertake a variety of activities to support charities big and small, including cooking and delivering meals and organising coffee mornings and family fun days. In addition, the Isle of Man Colleague Charity Fund has also generously donated over £12,000 to colleagues' chosen charities.

At the end of 2023, the LBCM Charity, Volunteering and Fundraising Forum launched a pan-LBCM fundraiser – the Auction of Promises. Celebrating the skills, talent and experiences of colleagues, it also raised funds for our respective charity partners.

Diversity, equity and inclusion

The Board believes a diverse workforce is key to the Bank's success and values the differences each colleague brings to their role, making the Bank stronger and better able to meet the needs of its customers.

The Board supports colleague engagement through the Bank's **Race Action Plan** introduced in July 2020 and an array of **talent programmes** for women, Black, Asian and Minority Ethnic colleagues in order to drive race and gender-related cultural change, recruitment and progression to attract and retain diverse talent in the Bank.

The Bank continues to focus on increasing the representation of Black, Asian and Minority Ethnic colleagues in senior roles to at least 13 per cent, representation of Black heritage colleagues in senior roles to at least 3 per cent, and 50 per cent women in senior roles by 2025 in line with LBG's diversity agenda.

The Board's focus on diversity, equity and inclusion covers all the jurisdictions in which LBCM operates which have their own demographic profile. The Bank has a **dedicated forum** to support the progress of initiatives including the Race Action Plan, gender and LGBTQ+ initiatives and diversity priorities such as disability awareness across all jurisdictions.

Shareholder

The Bank is a wholly owned subsidiary of LBG, forming part of its Corporate & Institutional Banking (CIB) business unit. As a wholly owned subsidiary, the Board ensures that the strategy, priorities, processes and practices of LBCM are aligned where appropriate to those of LBG, ensuring that its interests as the Bank's shareholder are duly acknowledged. The Bank's **Corporate Governance Framework** which was refreshed in 2023 sets out the Bank's relationship with LBG and the reporting of material matters.

The LBCM Board and its committees provide regular updates to the LBG Board and its committees on the Bank's activities and performance. There is regular engagement with the **LBG Chief Executive Officer**, **LBG Chair** and **CIB Chief Executive Officer** on such matters as the Bank's strategy in the context of CIB and LBG. LBG's non-executive directors (NEDs) are also invited to attend Board and committee meetings during the year at which the Board can share insights and hear the LBG perspective increasing shareholder engagement. These arrangements ensure the Bank's Board has a clear understanding of the views of its shareholder.

Further information in respect of the relationship of LBG with its shareholders is included in the Strategic Report within the LBG Annual Report and Accounts for 2023, available on the LBG website.

Scan the QR code to be taken to the LBG Annual Report and Accounts.

Suppliers

The Board recognises the importance of partners who provide aspects of the Bank's operations through the **shared service model with LBG** and their importance to our customers. The Bank's approach to external supplier management utilises the LBG framework and aligns to the standards set out by our regulators. The supply chain is crucial to the way the Bank and LBG serves its customers, and through it the reach is considerable.

Importance is placed on having the right supplier framework to operate responsibly. LBG's **Sourcing and Supply Chain Management Policy** applies to all areas and subsidiaries of LBG, including the Bank, with the directors assuming ultimate responsibility for its application as relevant to the Bank. This policy has been designed to assist in managing the inherent risk in outsourcing services, and in dealing with third-party suppliers. Suppliers are required to adhere to relevant LBG policies and comply with LBG's Code of Supplier Responsibility which can be found on the LBG website. This defines expectations for responsible business behaviour, underpinning the efforts of the Bank and LBG to share and extend good practice. All material contracts are subject to rigorous cost management governance with **regular review of key supplier risks** which includes increasing focus on resilience and sustainability.

The Bank and LBG also seek to improve the experience of suppliers, with feedback regularly sought on related assurance processes to ensure continued improvement in the process. Suppliers are also encouraged to express their satisfaction or otherwise and have access to LBG and the Bank's whistleblowing service.

The operation of the Bank's supply chain is through LBG. The Board supports LBG's zero tolerance attitude towards **modern slavery** in LBG's supply chain and an assurance process of the measures which address the risk of human trafficking and **modern slavery** in the wider supply chain is undertaken by LBG.

Regulators and regulatory agenda

The Bank and its directors maintain an **open and transparent relationship** with relevant regulators and other authorities, and liaise regularly both directly and as part of LBG to ensure the business aligns to the requirements of these important stakeholders.

The Chair and individual directors have in the ordinary course of business had **continuing discussions** with the Financial Conduct Authority and Prudential Regulation Authority on a number of aspects of the regulatory agenda. The Board in turn reviewed regular updates on this and progress is being made in addressing key regulatory priorities. Key areas of interest for the Board have included ensuring robust prudential standards, the fair treatment of customers and the response to market changes.

Regular updates to the Board Risk Committee also cover all aspects of the regulatory agenda including **emerging regulatory and legal risks**. This provides a focused view of areas of priority alongside detail of regulator's actions.

The Board continues to closely monitor the status of the Bank's regulatory relationships across all the **jurisdictions in which it has a presence**, seeking to enhance engagement particularly in key areas of regulatory change. During the coming year, this is expected to include financial and operational resilience including for the prevention of financial crime, model risk management and change/execution risk.

Robust 2023 performance and well-positioned for future growth

▶ **Carla Antunes da Silva**
Chief Executive Officer

"We are successfully executing our strategy by supporting our customers' needs and providing diversification benefits to Lloyds Banking Group"

Robust results in 2023

LBCM has delivered a robust set of financial results in 2023 against a backdrop of market volatility and inflationary pressures. Total income was £908 million reflecting good growth; with profit before tax of £427 million demonstrating diligent control of costs and balance sheet management, offset by increased hedging and funding costs.

LBCM will return £450 million of capital to LBG via dividend and maintained a robust capital position reporting a strong CET1 ratio of 13.3 per cent and leverage ratio of 4.7 per cent, with risk-weighted assets of £20.5 billion. Return on tangible equity of 9.2 per cent demonstrates solid returns from disciplined balance sheet usage. For more details on the results please refer to the financial performance section on page 23.

A growing business that's delivering for our customers

2023 saw strong strategic and financial progress, particularly in respect of bringing LBCM closer to our Corporate and Institutional Banking business and to the broader LBG, resulting in noticeable growing customer engagement and relevance.

LBCM has a broad range of customers, from individual retail to large corporate and financial institutions. I am mindful of the impact of higher interest rates and inflation on them this year and LBCM colleagues have worked hard across the year to provide support, options and product choices in an evolving environment and uncertain economic outlook.

We believe our day-to-day business activities that are helping customers finance their ambitions and growth, are underpinned by our purpose.

LBCM is Helping Britain Prosper

By connecting the UK and LBG with the world

- **Robust 2023 financial performance** with total income of £908 million and return on tangible equity of 9.2 per cent
- **Continuing to support our customers' needs** in an uncertain economic environment
- **Purpose-driven growth** and strategic progress across our businesses
- **Continued significant investment** in systems including cash management and payments, and foreign exchange
- **Capital markets**
  - Full year 2023 issuance c£23 billion (81 per cent growth vs market 5 per cent)
  - Remain ranked as 2nd in UK issuers for GBP bookrunner across all bonds and 4th for UK issuers in G3 currencies
  - Ranked 1st in the league tables for structured finance in GBP, compared with a ranking of 5th at 2022 year end
- **Financial markets**
  - GBP Interest Rate Swap ranking 3rd
  - FX share of wallet position of over 6 per cent
  - FX market share ranking also continues to track well
- **Crown Dependencies**
  - Voted number 1 'best all rounder bank' for UK expats (Forbes Advisor)
  - Launch of new deposits platform; a market-leading API-enabled system with client onboarding ahead of target

This has been an important year for LBCM in successfully executing its strategy to sustainably grow the business. Growth has been broad based across our many businesses including the significant progress delivered by our capital and financial markets businesses, and in our suite of sustainability linked client solutions. This has been achieved through the strong collaboration of our colleagues based in the UK, New York and Frankfurt.

Additionally, our local expertise supporting our customers in the Crown Dependencies, in particular developing our products and offering for our commercial banking and international private banking customers, demonstrates ways in which we're Helping Britain Prosper.

Looking ahead to 2024, an important focus will be continuing to grow our collaboration across Lloyds Banking Group to deliver customer solutions tailored to their needs. Over 2024, we will continue to focus on the sustainability of our business, by serving more of the financial needs of our customers, as well as continuing to think of what Lloyds Banking Group can offer as a differentiating factor to our client base.

Colleagues

LBCM customer delivery and business growth is only possible as a result of the hard work, determination and dedication of colleagues across the whole LBCM business, as well as those supporting them within Lloyds Banking Group. A special thanks from me for a tremendous year where we achieved so much.

Making LBCM a great place to work will always be a priority for me and my leadership team and I am committed to using colleague feedback to create a place where everyone can thrive and be the best version of themselves, particularly given the different geographies and business areas that make up our business.

We have worked with our senior colleagues to help them become better leaders for our teams, focusing on improving our culture, sense of unity and for colleagues to feel able to deliver. Developing our colleagues with critical skills training has also been a key feature. Personally, one of my favourite moments of the year came with the 5th anniversary of LBCM in May 2023, where colleagues were able to celebrate and showcase our contribution to Lloyds Banking Group and how far we have come.

More details of the achievements in this area are included in our people section including our progress on diversity, equity and inclusion as part of LBG, an area where we are making progress, but where much more can be done.

LBCM in the media

Raising LBCM's profile and providing exposure has been important to me in my first year as CEO. LBCM has been featured in external articles in The Banker and Euromoney magazines, highlighting the range of our businesses and depth of thought leadership we offer to our Markets clients in particular, as well as a focus on our sustainability credentials. Within the Lloyds Banking Group, we have also been successful in telling the LBCM story, through a series of internal pieces focusing on areas as varied as our FX offering, our New York business, our role in Lloyds Banking Group's cash management and payments improvements and our client interactions.

LBCM Chair

I would like to take this opportunity to express my sincere thanks to James Lupton and wish him the best for his well-deserved retirement. James' stewardship as the inaugural LBCM Chair was instrumental in building a business that is delivering solutions for its clients, alongside a strong culture for its colleagues. James' mentorship and guidance has been of great value, both as a LBCM board member and more recently as CEO.

I am pleased to welcome Nathan Bostock as our new Chair from 1st August (subject to regulatory approval). LBCM will significantly benefit from Nathan's wealth of experience and I look forward to working with him as we look to build on our success and continue to grow sustainably.

Conclusion

I am delighted with the great progress made by our business in my first year as CEO and the momentum for growth that is in place. With 2023 as a positive backdrop in terms of financials and overall strategic progress, in 2024 we aim to further consolidate and accelerate some of these trends by continuing to invest in our systems, products and colleagues, while collaborating further with Lloyds Banking Group to achieve the best outcomes for our clients. Although the macroeconomic outlook remains uncertain, our financial strength, purpose-driven strategy and above all dedicated team means I am confident we will continue to deliver for our stakeholders, support our customers and Help Britain Prosper.

Carla Antunes da Silva
Chief Executive Officer

Investor presentation: developing our corporate and institutional business

LBCM is an integral part of the Corporate and Institutional banking (CIB) business unit of LBG and on 28 November Charlie Nunn (LBG CEO), John Winter (CIB CEO) and Carla Antunes da Silva (LBCM CEO) presented a CIB strategy update to equity investors and analysts. LBCM as part of CIB plays a critical part in supporting the purpose of Helping Britain Prosper, and this is delivered across the breadth of the CIB businesses.

The presentation was a chance to tell the story of CIB, highlighting the positive momentum of the business over the past two years where we've delivered significant revenue growth and showcase the investments made into our proposition, which are delivering benefits to our customers. This included our leading payments platform, our market-leading positions in infrastructure, sustainable issuance, DCM, rates swaps and our award-winning trade finance business.

CIB is a core part of LBG's growth strategy. We've made a strong start in this area and we're on track to achieve our targeted strategic outcomes of:

- Delivering £15 billion sustainable financing
- Maintaining a top 5 GBP interest rate swap position and increasing our FX volumes
- Growing other operating income by greater than 20 per cent
- Maintaining net risk-weighted asset growth under £3 billion

Our strategy is built around our clear cash debt risk management offering with a particular focus on transaction banking and markets. We are deepening and expanding client relationships as well as providing a platform for broader LBG collaboration. CIB is making a growing contribution to LBG's revenues and importantly, this represents a significant other income growth opportunity.

The reaction to the presentation was positive with investors commenting on the clarity of our story, ambition and LBG's positive stance on the CIB business.

Successfully executed, CIB will prove to be an important source of LBG's revenue growth and diversification. Indeed, it is expected to deliver around 25 per cent of LBG's additional strategic revenues by 2026. This is being achieved through less than 10 per cent of LBG's incremental investment spend to 2024, representing a strong return on investment delivered in a capital efficient manner.

Scan the QR code to see our CIB investor presentation

Charlie Nunn,
LBG CEO
Carla Antunes da Silva,
LBCM CEO
John Winter,
CIB CEO

"We're making great strategic progress in CIB where we have placed renewed focus in recent years."

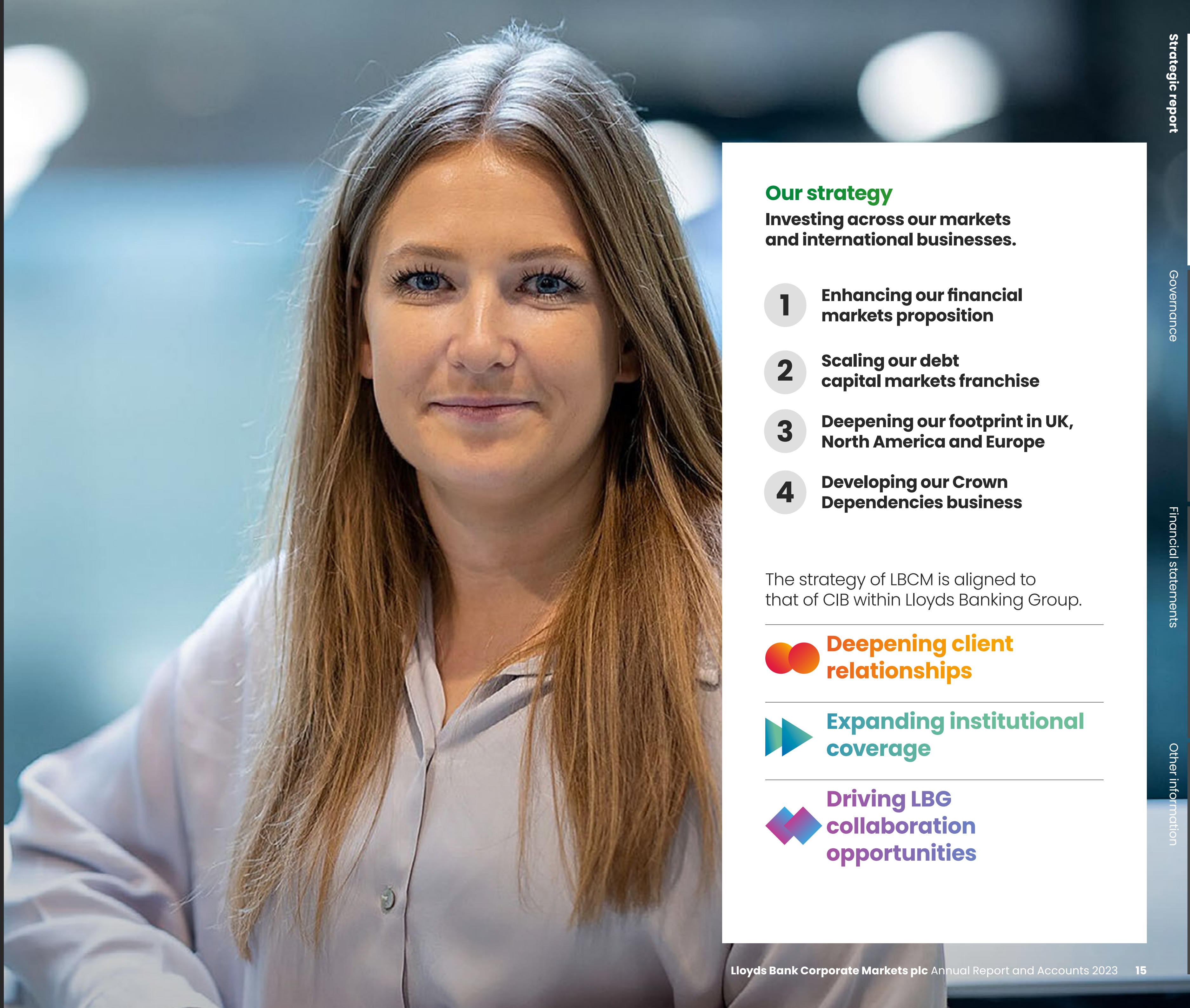
Charlie Nunn, LBG CEO

How LBCM is Helping Britain Prosper

We are connecting the UK and LBG with the world through a first-class banking, financing and risk management proposition, underpinned by excellent customer service.

We have a clear strategy of investing in our markets and international businesses that is delivering sustainable income growth and returns.

LBCM is part of the Corporate and Institutional Banking business unit of LBG and core to LBG's growth strategy.



Our strategy

Investing across our markets and international businesses.

1. Enhancing our financial markets proposition
2. Scaling our debt capital markets franchise
3. Deepening our footprint in UK, North America and Europe
4. Developing our Crown Dependencies business

The strategy of LBCM is aligned to that of CIB within Lloyds Banking Group.

Deepening client relationships

Expanding institutional coverage

Driving LBG collaboration opportunities

LBCM has a well-positioned markets franchise.

Ranked number 1 in structured finance

No 1

Franchise for sustainable issuance

Top 5

Executed FX volumes increased significantly

Position in inflation-linked gilts

Top 10

Markets

Our markets franchise is built on two complementary businesses: capital markets and financial markets.

Our capital markets business supports our customers in raising long-term funds in Sterling, Euros and US Dollars, as well as related credit trading and rates risk management on the back of issuance.

Financial markets supports our clients with risk management across FX, rates, repo and commodities. We have leading market positions across our proposition, including Sterling interest rate swaps and debt capital markets, as well as repo.

Our LBCM markets business is a top five Sterling interest rate swap counterparty and we support the UK Debt Management Office on their gilt issuance. With both capital and financial markets sitting in the same business area, we adopt a holistic approach to financing and risk management. This allows us to meet client needs in one place within our sophisticated risk and compliance framework.

Our markets business also acts as a centre of excellence for the broader CIB and LBG supporting access to funding and balance sheet management.

This is a clear example of synergies that exist across our business and how investing in LBCM supports other areas of LBG. From a financial perspective, our markets business delivers a diversified other income focused revenue stream with an attractive returns profile.

Making great progress

We have made great progress across markets over the past couple of years and there is potential for further upside. Within capital markets, given the majority of UK PLC debt issuance is Euros or US Dollars, we have recognised the importance of building our presence in these markets to better serve our clients.

Testament to this, we have outperformed the market in key product lines across our main currencies, including being ranked number one in structured finance. We have also seen significant growth in Euro and Dollar issuances, with our financial institutions debt capital management teams supporting twice the number of transactions so far this year versus the same period last year, as well as being a top five franchise for sustainable issuance.

We have seen similar strength in our financial markets business. Executed FX volumes have increased significantly since year end 2021, well above market growth, deepening our share of wallet. Similarly, in inflation-linked gilts, our volumes have grown well above the market and we maintain a top 10 position.

Future opportunities

With regards to future opportunities, our strategic priorities in financial markets are focused on broader and more effective participation in core product areas such as FX and rates. Whilst investment in technology enables us to improve our pricing, risk management and efficiency to drive long-term sustainable growth.

Linked to this, the investments in our markets platform will enable us to support institutional clients across more of their needs and expand our footprint. These increased flows will benefit corporates with an enhanced service demonstrating synergies between these two client groups. The sustained performance we have delivered in markets is demonstrative of the strategic progress we are making.

Markets summit: 'Forwards and up'

Our relaunched flagship conference took place during the year. It was a perfect opportunity to showcase the thought leadership and client insights LBCM, CIB and the wider LBG provide, with the keynote address delivered by Andy Haldane, the former Chief Economist of the Bank of England. He covered the outlook for the UK economy and there were insights from speakers across panel sessions themed around growth, attracting debt funding for UK energy and infrastructure and the financial markets outlook for 2024.

This was an important step towards increasing LBCM's presence in the market.

Markets

Delivering product choice:

Financial markets

Enhancing our financial markets proposition

LBCM is investing in its markets architecture across its rates and foreign exchange client propositions in an increasingly fast-paced and competitive marketplace. The investments into our platforms will deliver an enhanced client experience, broaden our proposition and deliver operational efficiencies.

These proposition and technology investments are intended to increase our flows and capture our natural presence, especially with our institutional base. Our intention is to partner with clients across a greater proportion of their risk management and hedging activities whilst taking a disciplined approach to risk and capital allocation.

1. **Rates**
2. **Repo**
3. **Foreign exchange**
4. **Commodities**

Strategic progress

- Number 3 Sterling interest rate swaps ranking, in line with CIB's targeted outcome to maintain a top 5 position
- Deepened our FX share of wallet with 31 per cent increase in volumes, seven times more than the market
- Two-fold increase in inflation linked bonds versus 2022, significantly outpacing the market
- First sustainability linked FX trade supporting our clients' transitions to net zero

"Our financial markets business supports our customers with risk management… we have leading market positions across several product types including Sterling interest rate swaps and repo."

Strategic report
Governance
Financial statements
Other information

Delivering product choice:

Capital markets

Scaling our debt capital markets franchise

LBCM has a well-established presence in the deep capital markets of the UK, the US and Europe. Our capital markets business supports our customers with their specialised expertise across financing structures including more complex and structured finance, liability management and sustainability.

The business is investing in its sustainability proposition to support our customers with both financing and thought leadership, including the implementation of ESG frameworks.

The ongoing investments in our capital markets business has supported CIB in increasing its other income by more than 20 per cent since the start of its current strategy in 2021, in line with CIB's targeted outcomes.

1. Debt capital markets
2. Credit trading
3. Securitisation
4. Corporate risk management solutions

Strategic progress

- Ranked number 1 for structured finance in Sterling (excl CDOs) UK issuers (G3 currencies), up from number 5 last year
- Supported CIB in achieving its £15 billion sustainable financing targeted outcome 1 year early
- Achieved No 4 league table position in 'All Bonds' (excl SSA) UK issuers G3 currencies, up from number 7 last year

"Our capital markets business supports our customers in raising long-term funds in Sterling, Euros and US Dollars… as well as related credit trading and rates risk management on the back of issuance."

International

Delivering product choice:

US and European propositions

Deepening our footprint in UK, North America and Europe

A core pillar of CIB's strategy is to deepen its customer relationships with its UK-centric customer base. A large proportion of UK issuers' capital markets issuance is in Euros and US Dollars and around 70 per cent of CIB clients trade internationally, with Europe and the US being core trading partners to the UK.

LBCM is focused on developing propositions to partner with our customers across a greater proportion of their financing and risk management activities. In the US, a key development this year is within our risk distribution capabilities, supporting CIB's targeted outcome of maintaining risk-weighted asset growth to 2024 below £3 billion.

1. Capital markets
2. Financial markets
3. Lending

Strategic progress

- Broadened proposition through provision of revolving credit facilities to large corporates in the US
- Tripled our volume of risk distribution transactions with US sponsors
- Significant US private placement and public bond in the housing association sector
- Growth in bonds business in our Frankfurt based operation

"We have local expertise in the deep capital markets of the US and Europe... LBCM is focused on supporting UK-linked clients with a broad spectrum of products in their key geographies."

Delivering product choice:

Retail and commercial banking

Developing our Crown Dependencies business

2023 has been a transformational year for our Crown Dependencies business with the delivery of a new cash management platform to support our corporate customer base, as well as investments into the digital proposition for our retail customers.

Our ambition is to be the most recommended bank to expats globally and customers with international needs. Therefore, via our international private bank, we continue to invest in our offering and servicing.

"Our retail and commercial banking businesses serves customers, communities and businesses in Jersey, Guernsey and Isle of Man... with a diverse range of products and services to support their needs."

1 Community banking

2 International private banking

3 Motor finance

4 Commercial banking

Strategic progress

- Voted No 1 'best all rounder bank' for UK expats (Forbes Advisor)
- Launch of new deposits platform; a market-leading API-enabled system with client onboarding ahead of target
- Launch of digital account onboarding journey for the community bank

Our journey to a sustainable future

Sustainability is a priority for LBCM

LBCM contributes towards the targets, goals and ambition of LBG, our parent company. LBG's updated strategy, is founded on a sustainable and inclusive future and is key to LBCM's delivery of our purpose of Helping Britain Prosper. Supporting the transition to a low carbon economy is vital. As part of LBG, a founding member of the Net Zero Banking Alliance, we:

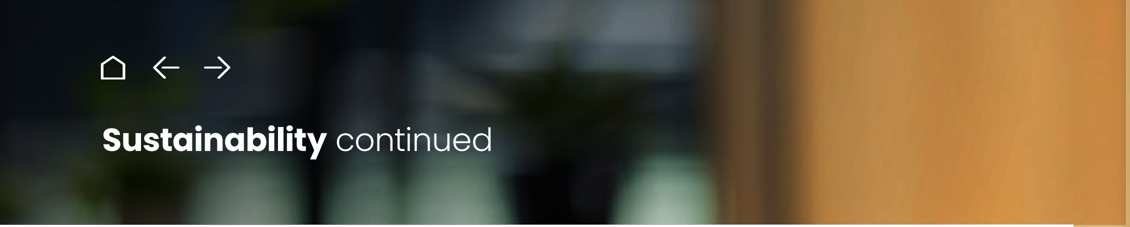
- work with our customers, governments and the broader market to help reduce the carbon emissions we finance by 50 per cent by 2030 on the path to net zero by 2050 or sooner[1]
- reduce the carbon emissions generated through our supply chain by 50 per cent by 2030 on the path to net zero by 2050 or sooner[2]
- will achieve net zero carbon operations by 2030 and reduce direct carbon emissions by at least 90 per cent[3]

LBG financed emissions are multiple times larger than operational emissions, therefore supporting customers on their sustainability journey is critical to meeting net zero ambitions. LBCM has provided sustainable financing of £2.5 billion in 2023. We committed to lending more sterling green bonds for UK corporates than any other bank; and in 2023 acted as active bookrunner/sole arranger on green, social and sustainability-linked bond transactions, supporting clients on their crucial journey to a more sustainable future.

LBCM is cognisant of the release of the Global GHG Accounting and Reporting Standard for Capital Markets (Part B) published by the Partnership for Carbon Accounting Financials in December 2023. This update will enable LBG to move towards calculating and disclosing its facilitated emissions in relation to its capital markets activities. We note that these will be measured and reported at an LBG level.

More details can be found in the LBG Sustainability Report 2023, which is available to download from the LBG website or via this QR code.

1 From a 2018 baseline, covering Scope 1 and 2 emissions.
2 All from a 2018/2019 baseline.
3 From a 2021/2022 baseline.



Delivering product choice:

Sustainability-linked financing

As our clients seek to transition to more sustainable business models, it is critical we establish a range of products and services to meet these needs. We support clients across a range of sectors with financing to directly support corporate investment in improving carbon efficiency. Our range of products and services continue to evolve as our client needs evolve.

LBCM offers sustainable financing, complimented with sharing insights and knowledge on sustainability which can support wider client conversations across LBG. Consultative services may include ESG ratings advisory, advising on establishing or developing existing ESG frameworks and sustainability-led consultancy. We strive to give customers the right tools, products and services to transition towards being low-carbon sustainable businesses.

Sustainability-linked bonds or loans are primarily for the general purposes of a borrower in pursuit of identified sustainability performance targets, supported by detailed key performance indicators that offer a preferential rate if met.

Sustainability-linked derivatives are those whose cash flows are contingent on a set of externally verified key performance indicators.

Emissions Allowance derivatives assist customers in buying or selling carbon emissions under the UK/EU mandatory schemes.

Use of proceeds bonds or loans are used for specific projects or to finance a sustainable economic activity that is linked to the borrower's investment framework.

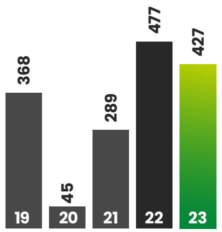
"LBCM aims to support its clients through their full transition journey towards net zero… whilst delivering its purpose of Helping Britain Prosper."

Robust financial performance

LBCM has recorded a robust financial performance in 2023 from a growing business that's delivering for our customers.

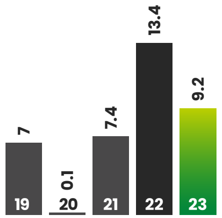
Profit before tax[1] (£m)

£427m



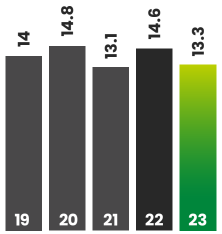
Statutory return on tangible equity[1,2] (%)

9.2%



Common equity tier 1 ratio[3] (%)

13.3%



1 LBCM Group.
2 Refer to other information section for basis of calculation.
3 Bank.

LBCM delivered growth in other income in 2023

Total income

£908m

Net trading income

£442m

Fee and commission income

£264m

Income statement

Total income was £908 million comprising net interest income of £198 million, net fee and commission income of £264 million, net trading income of £442 million and other operating income of £4 million.

Overall, **net interest income** has reduced in 2023 predominantly as a result of interest expense being impacted by significant charges relating to the structural hedge and higher funding costs compared to the prior period.

Lending average portfolio margin has remained strong, with lending utilisation being slightly down at year end as a result of underlying client demand.

Net fee and commission income has grown by £72 million or 38 per cent year-on-year, with strong performance on bond issuance from our markets business along with fees from customer lending.

Within **net trading income** the markets business has excelled in 2023, with an increase in FX volume and market share as well as being ranked first for Sterling structured finance. Highlights also include writing our first sustainability-linked FX trade and the issuance of an inaugural sustainability-linked bond, showcasing LBCM as a trusted sustainability product provider.

The 2023 reporting is impacted by foreign currency revaluation charges on the AT1 instruments which were a gain in 2022 but in 2023 a charge, masking the underlying business performance.

Income statement	2023 £m	2022 £m	Movement £m	Movement %
Net interest income	**198**	275	(77)	(28%)
Fee and commission income	**264**	192	72	38%
Net trading income	**442**	495	(53)	(11%)
Other income	**4**	5	(1)	
Total income	**908**	967	(59)	(6%)
Operating expenses	**(509)**	(444)	(65)	15%
Impairment release/(charge)	**28**	(46)	74	
Profit before tax	**427**	477	(50)	(10%)
Tax charge	**(89)**	(97)	8	
Profit after tax	**338**	380	(42)	(11%)

Contribution to CIB and LBG: Taken together, this strong growth in net fee and commission income and performance in net trading income is positively reflected in the results of our parent company; with LBCM contributing a large proportion of CIB other income and 13 per cent of LBG.

Operating expenses in the year were £509 million and predominantly consist of management charges relating to the intra-group agreement and staff costs payable to Lloyds Bank plc.

Cost management in the year has again been diligent and focused, with the increase predominantly relating to the costs of investment in our business now flowing through along with general inflationary pressures.

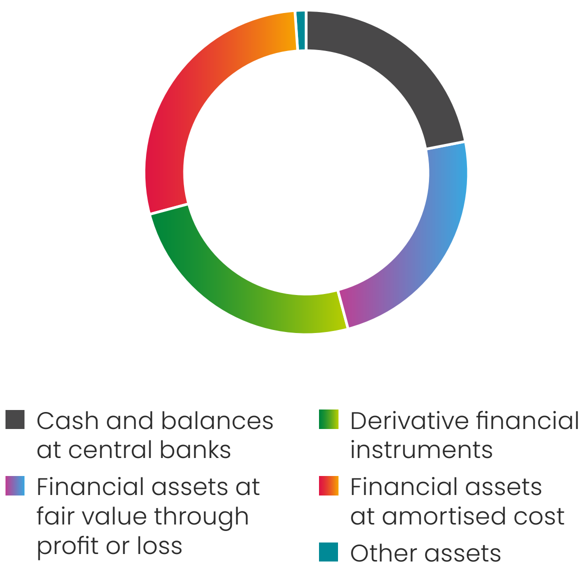
An **impairment** credit of £28 million has been recognised in the period. This expected credit loss income relates to stages 1 and 2 and is driven by the improving macroeconomic conditions. There have been no significant new credit impaired cases (stage 3 impairment) in the year. Please refer to note 14 for more details.

A **tax** charge of £89 million was recorded and more details are contained in note 10.

Financial performance continued

Balance sheet assets

	2023 £m	2022 £m	Movement £m	Movement %
Cash and balances at central banks	**20,201**	19,382	819	4%
Financial assets at fair value through profit or loss	**21,989**	14,780	7,209	49%
Derivative financial instruments	**22,606**	24,621	(2,015)	(8%)
Financial assets at amortised cost	**24,891**	27,424	(2,533)	(9%)
Other assets	**640**	452	188	41%
Total assets	**90,327**	86,659	3,668	4%



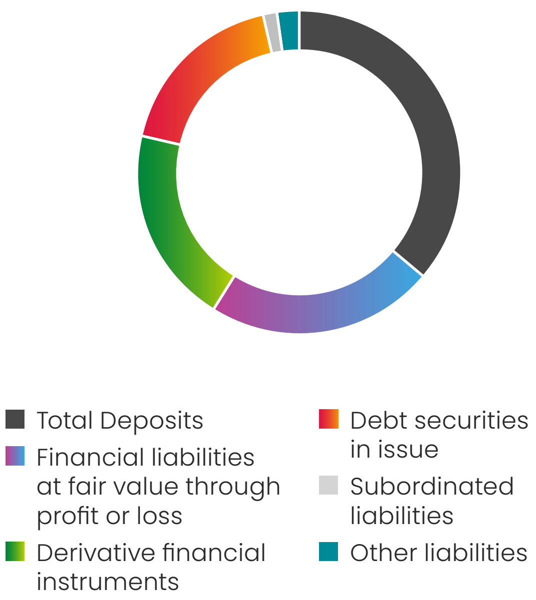
Total assets were £90,327 million at 31 December 2023, an increase of £3,668 million on the prior year. Cash and balances at central banks and financial assets at fair value through profit or loss have increased compared to the prior year end, while derivative financial instruments and financial assets at amortised cost have decreased.

The increase in **cash and balances at central banks** is as a result of an increase in the liquid asset portfolio. **Financial assets at fair value through profit or loss** increased as a result of planned business growth in the reverse repurchase agreements and gilts business area. While **derivative financial instruments** decreased largely due to changes in fair value.

Financial assets at amortised cost includes loans and advances to banks of £1,753 million, loans and advance to customers of £16,447 million and reverse repurchase agreements of £6,020 million. The overall decrease noted is driven by a reduction in lending to customers, plus the strengthening of the period end Sterling rate against US Dollar from December 2022 to 2023.

Balance sheet liabilities

	2023 £m	2022 £m	Movement £m	Movement %
Deposits from banks	**2,078**	2,456	(378)	(15%)
Deposits from customers	**29,439**	29,152	287	1%
Due to fellow LBG undertakings	**1,213**	1,481	(268)	(18%)
Financial liabilities at fair value through profit or loss	**19,686**	12,578	7,108	57%
Derivative financial instruments	**17,576**	20,070	(2,494)	(12%)
Debt securities in issue	**15,378**	16,131	(753)	(5%)
Subordinated liabilities	**755**	761	(6)	(1%)
Other liabilities	**326**	635	(309)	(49%)
Total liabilities	**86,451**	83,264	3,187	4%



Total liabilities were £86,451 million at 31 December 2023, compared to £83,264 million at 31 December 2022. Deposits from customers and financial liabilities at fair value through profit and loss have increased compared to the prior year. Deposits from banks along with derivative financial instruments and debt securities in issue have reduced

Deposits from customers increased year-on-year in line with LBCM's strategy to grow deposits. The increase in **financial liabilities at fair value through profit or loss** is a result of planned business growth in repurchase agreements over the year.

Derivative financial instruments decreased largely due to movements in the fair value. **Debt securities in issue** include commercial paper, certificates of deposit and Euro Medium Term Notes and reduced as a result of maturities in the period and a reduced funding requirement.

Financial performance continued

Balance sheet equity

	2023 £m	2022 £m	Movement £m
Share capital	**370**	370	–
Other reserves	**(313)**	(525)	212
Retained profits	**3,011**	2,768	243
Ordinary shareholder equity	**3,068**	2,613	455
Other equity instruments	**808**	782	26
Total equity	**3,876**	3,395	481

Total equity at year end was £3,876 million compared to £3,395 million at 31 December 2022. The increase in **retained profits** reflects the profit for the period after tax, attributable to shareholders.

The movement in **other reserves** of £212 million mainly relates to the cash flow hedging reserve, representing the fair value movements and transfers to income statement on the structural hedge. More details are contained in note 23.

Balance sheet equity 2023

Share capital
Other reserves
Retained profits
Other equity instruments

Regulatory capital

The capital position of Lloyds Bank Corporate Markets plc (the Bank) is presented on an unconsolidated basis.

	2023 £m	2022 £m	Movement £m
Common equity tier 1 capital	**2,725**	2,948	(223)
Tier 1 capital	**3,508**	3,705	(197)
Total capital	**4,109**	4,285	(176)
Total risk-weighted assets	**20,492**	20,195	297
CET1 %	**13.3%**	14.6%	(1.3)pp
Leverage %	**4.7%**	5.4%	(0.7)pp

The Bank's common equity tier 1 (CET1) capital ratio decreased to 13.3 per cent (31 December 2022: 14.6 per cent). Profit for the year was offset by an accrual for the foreseeable ordinary dividend for 2023 of £450 million to be paid to the Bank's parent company and a slight increase in risk-weighted assets (RWAs).

The Bank's **total capital** ratio decreased to 20.1 per cent (31 December 2022: 21.2 per cent), largely reflecting the accrual for the foreseeable dividend and increase in risk-weighted assets.

RWAs increased by £297 million, or 1.5 per cent, to £20,492 million at 31 December 2023 (31 December 2022 £20,195 million), largely reflecting an increase in RWAs relating to operational and market risk, partially offset by a decrease in credit risk. Full details are included within the LBCM 2023 year-end Pillar 3 report.

Financial performance continued

The Bank's UK leverage ratio decreased to 4.7 per cent at 31 December 2023 (31 December 2022: 5.4 per cent). This largely reflects the accrual for the foreseeable dividend and an increase in the exposure measure, as a result of the planned business growth in securities financing transactions and gilts and an increase in off-balance sheet items, partially offset by the decrease in derivatives and lending to customers.

The Bank's capital position as at 31 December 2023, after applying IFRS9 transitional arrangements, is set out in the following table.

Capital resources of the Bank (audited)	At 31 December 2023 £m	At 31 December 2022 £m
Common equity tier 1		
Shareholders' equity per balance sheet	**3,091**	2,650
Adjustment to retained earnings for foreseeable dividends	**(450)**	–
Cash flow hedging reserve	**289**	519
Debit valuation adjustment	**(22)**	(34)
Other adjustments[1]	**-**	7
	2,908	3,142
Less: deductions from common equity tier 1		
Prudent valuation adjustment	**(142)**	(162)
Excess of expected losses over impairment provisions and value adjustments	**(41)**	(32)
Common equity tier 1 capital	**2,725**	2,948
Additional tier 1		
Additional tier 1 instruments	**783**	757
Total tier 1 capital	**3,508**	3,705
Tier 2		
Tier 2 instruments	**699**	706
Other adjustments	**(98)**	(126)
Total tier 2 capital	**601**	580
Total capital resources	**4,109**	4,285
Risk-weighted assets of the Bank (unaudited)	**20,492**	20,195
Capital ratios of the Bank (unaudited)		
Common equity tier 1 capital ratio	**13.3%**	14.6%
Tier 1 capital ratio	**17.1%**	18.3%
Total capital ratio	**20.1%**	21.2%

1 No relief under the IFRS9 transitional arrangements for capital was applied at 31 December 2023. The comparatives for 31 December 2022 include an adjustment applied to reserves to reflect the application of the IFRS 9 transitional arrangements for capital.

The importance of people and culture

As part of LBG, we will continue to support our colleagues and create a fully-inclusive organisation that is representative of modern-day Britain, where differences are embraced and everyone can reach their potential.


LBCM colleague photo competition winner

13%

Black, Asian and Minority Ethnic colleagues representation at senior management levels by 2025

During 2023, LBG has increased the representation of Black, Asian and Minority Ethnic colleagues in senior roles from 10.2 to 11.3 per cent and increased the representation of Black Heritage colleagues in senior roles by 0.3 to 1.7 per cent.

The LBG Race Action Plan was launched in 2020 to drive recruitment, progression, cultural change and focus across the organisation.

12%

Colleagues with disabilities

In April 2023 LBG committed to doubling the number of colleagues with disabilities in senior management roles by 2025.

Since launching our goal, we have seen a significant uplift in colleagues sharing their disability data. We believe the announcement of our goal has played a key role in this, raising awareness and encouraging colleagues to share their disability data with us.

At the time of setting our goal, 6 per cent of our senior management colleagues had shared that they had a disability, making our ambition to double representation feel like the right first step.

At the end of 2023, 12.4 per cent of our senior management colleagues have shared their disability, meaning that LBG has achieved its representation of senior colleagues with disabilities goal earlier than anticipated.

50%

Women in senior roles by 2025

LBG has seen an increase in women in senior roles to 40 per cent during 2023, showing progress towards meeting our 2025 ambition. We set our ambition to achieve gender diversity in our senior leadership knowing it was stretching and ambitious.

We recognise that the journey to 50 per cent will be challenging and we may not reach total parity by 2025, but we remain focused on actions that support this ambition and which will help us achieve this as soon as we can.

Diversity, equity and inclusion

LBCM, as part of LBG, aims to create a fully-inclusive environment for all our colleagues, customers and communities. Getting this right is at the heart of Helping Britain Prosper.

Our dedicated **LBCM Diversity, Equity and Inclusion forum** continues to implement LBCM specific actions, while leveraging LBG and CIB initiatives.

Key LBCM priorities in 2023 included making progress on diverse recruitment, **disability awareness** campaigns, the launch of the 'Women in Markets' initiative including senior management hosted breakfasts, for line managers **culture training** and the role out of psychological safety workshops for leaders.

Read more about our aspirations relating to diversity, equity and inclusion in LBG 2023 annual report and accounts.

Recognition plays an important role in LBCM, helping us cultivate a purpose-led culture and embedding our values.

Our values

They are the foundation of our culture and guide how our colleagues work together to deliver our growth strategy. Throughout the year, we have been further embedding our purpose and values across LBCM, helping colleagues understand how our values guide not only the way we work together, but also how we make decisions.

In driving the change, senior leaders are supported by a movement of **catalysts** across LBCM. These changemakers role model our values and purpose, share stories and drive improvements by challenging the status quo. They have helped unblock issues that get in the way of how we work, whilst instilling a growth mindset as we transform the business. LBCM is benefitting from this investment in our people and enabling us to grow with purpose.

Delighting the client award winners

Delighting the Client is LBCM's unique recognition programme that celebrates colleagues and teams going further for our clients. LBCM's Executive Committee regularly chooses a colleague or team from the many nominations submitted from across our business.

Congratulations and thank you to our winners who have demonstrated our values and delivered a first-class service to our customers.

"I am passionate about LBCM colleagues going the extra mile to provide a top class service to our customers and it is a pleasure to congratulate the winners on behalf of the Board."

Lord Lupton CBE
Chair of the Board

Our winners
Arne Almasi
Chiamaka Attuh
Alex Bennett
Joerg Ehm
Hannah Jones
Eve Marlborough
Ram Narayanaswamy
Mark Timberlake
Chelsie Watterson
Ross Willard

Our values

People-first
We put **people first** to go further for customers. We listen and care for people as individuals.

Trust
We **trust** each other to achieve more together. We give each other the space and support to take things on and see them through.

Sustainable
We champion **sustainability** to care for our planet. We take responsibility for the impact of our actions on nature and Britain's transition to net zero.

Bold
We're **bold** and take action. We innovate and do things differently to better serve our customers and grow with purpose.

Inclusive
We're **inclusive** to value everyone. We learn about and embrace our differences, and seek out diverse perspectives.

Principal risks and uncertainties

The principal risks that could impact LBCM's ability to deliver its long-term strategic objectives and the approach to managing each risk is reviewed and reported to the Board Risk Committee regularly, in alignment with the risk management framework.

Our enterprise risk management framework

The LBG enterprise risk management framework (ERMF) applies to all legal entities and is the foundation for the delivery of effective and consistent risk control. It enables proactive identification, active management and monitoring of LBCM's risks, which is supported by our One Risk and Control Self-Assessment (RCSA) approach.

LBCM has adopted the ERMF, supplemented with additional tailored practices set out to address LBCM-specific requirements. The ERMF and the LBCM RMF applies to LBCM business across all legal entities and locations.

LBG is in the process of conducting a detailed review of the ERMF, which will result in a reclassification of our principal risks in 2024.

LBCM's risk appetite, principles, policies, procedures, controls and reporting are regularly reviewed and updated to ensure they remain in line with regulation, law, corporate governance and industry good practice.

Risk appetite is defined within LBCM as the amount and type of risk that it is prepared to seek, accept or tolerate in delivering its strategy. As a separate legal group with its own Board, LBCM maintains its own risk appetite which is aligned to the LBG approach but is adjusted to reflect the specific characteristics of LBCM's balance sheet and portfolio, including its international presence. The LBCM Board is responsible for annually approving LBCM's risk appetite statement. Board-level risk appetite metrics are supported by executive-level metrics and cascaded into more detailed business metrics and limits.

Regular close monitoring and comprehensive reporting to management and the Board ensures risk appetite limits are maintained and subject to stress analysis at a risk type and portfolio level, as appropriate.

Enterprise risk management framework

1	Role of the Board and senior management	The Board delegates executive authorities to ensure there is effective oversight of risk management. LBCM operates its own Board separate from LBG.
2	Risk culture and the customer	The appropriate culture ensures performance, risk and reward are aligned. LBCM follows the same approach as set out in the ERMF.
3	Risk appetite	The framework ensures our risks are managed in line with our risk appetite. LBCM has its own risk appetite which is approved by the LBCM Board and noted by the LBG Board, but follows the same approach as set out in the ERMF
4	Risk and control self-assessment	The identification, measurement and control of our risks form an integral part of our RCSA. LBCM follows the same approach as set out in the ERMF.
5	Risk governance	The governance framework supports a consistent approach to enterprise-wide behaviour and decision-making. LBCM has its own risk management committee structure.
6	Three lines of defence	The robust approach to monitoring oversight and assurance ensures effective risk management across LBG. LBCM follows the same approach as set out in the ERMF.

Governance is maintained through delegation of authority from the Board down to subsidiary boards and to individuals. Senior executives are supported by a committee-based structure which is designed to ensure open challenge and enable effective Board engagement and decision-making.

The Board and senior management play a vital role in shaping and embedding a supportive risk culture. Senior leaders set a clear tone from the top and lead by example reflecting LBG values, encouraging a culture of intellectual curiosity, innovation and proactive risk management amongst all colleagues.

Principal risks and uncertainties continued

Emerging risks

Emerging risks are a key component of LBCM's risk framework. LBCM's horizon scanning activity enables identification of the most pertinent internal and external operating trends. This insight informs LBCM's strategy, which in turn impacts LBCM's risk profile.

As part of its risk framework, LBCM needs to identify risks and opportunities, and to respond through strategic planning and appropriate risk mitigation. Although emerging risks are not principal risks, if left undetected emerging risks have the potential to adversely impact LBCM or result in missed opportunities. Where an emerging risk is considered material enough in its own right, LBCM may choose to recognise the risk as a principal risk. Such elevations are considered and approved through the Board as part of the annual refresh of the enterprise risk management framework.

LBCM's focus on the emerging risk landscape and assessment approach has evolved during 2023 to reflect the scale of transformation LBG is delivering. A review of the key emerging risks has taken place during the year and the following table illustrates LBCM's key emerging risks, enabling greater management concentration on developing the appropriate responses.

LBCM continues to explore how existing and new emerging risks may impact its future strategy, and how it can continue to best protect its customers, colleagues and shareholders.

Other areas of focus in 2023

In addition to the emerging risks mentioned above, and in line with LBG, LBCM continues to focus on model risk as the risks associated with the use of proprietary models have increased in recent years due to the limitations of historical data, the recent extreme market volatility, and the risk of ineffectiveness in parameterisation, implementation, oversight and monitoring.

Emerging risks

Emerging risk theme	Concerns for LBCM and key considerations
Customer propositions & market competition	The potential impacts of a failure to adapt our propositions to the continually evolving expectations and demographic of consumers, the evolution of and expectations relating to cyber crime, the threats posed by technology-enabled players and the risk of market disintermediation.
Generative AI and ethical data practices	Failure to keep pace with technological advancements relating to generative AI and machine learning whilst balancing the competing requirements to: i) maximise customer opportunities through adoption, ii) maintain trust and confidence in customer data privacy, iii) protect our customers from fraud and economic crime, iv) ensure transparency on data ethics practices, v) adhere to evolving data protection regulations, and vi) prepare for potential business model disruptions caused by adoption of the technology.
Global macroeconomic & political environment	Inability to navigate changing international regulations, including sanction and trade compliance, economic fragmentation, deglobalisation, and geopolitical events that may impact operations, customers and suppliers.
Operational elasticity	Failure to adequately prepare for the aggregate threat posed by cyber-attacks, disruption of service including shared services, third-or fourth-party supplier failure, technology outages or severe data loss.
Regulatory landscape	Failure to keep pace with the rapidly evolving regulatory reforms across various jurisdictions. We continue to monitor for reforms likely to increase cost and complexity for LBCM, including divergence between UK, EU and US. Additionally, with the emergence of artificial intelligence, digital currencies and distributed ledger technologies for example, regulators are preparing new regulatory regimes to optimise opportunities against the perceived risks.
Strategic workforce vision	Failure to evolve the structure and skillset of a dynamic workforce both within LBCM and through the shared services in line with LBG's strategy, whilst maintaining pace with the industry and delivering strong customer outcomes.
Sustainability expectations	Investor, shareholder and public perception of LBCM's: i) awareness of the ecological and environmental impacts associated with its operations and investments, ii) ability to offer sustainable financing options and services at pace, against a continuously evolving environmental and regulatory backdrop, and iii) role in supporting the UK to transition to a low-carbon economy.
Technological advances	Failure to: i) adopt new technologies, streamline and transform group operations and customer propositions, and to ii) create a competitive advantage through the use of and continual investment into technological development directly or through the LBG shared services.
UK economic environment	Failure to anticipate the longer-term impacts of a weak UK economy, quantitative tightening, change in government and the resulting policy and regulatory shifts and the potential consequences of the UK becoming less attractive to external investors.

Principal risks and uncertainties continued

Risk category	Risk description	Key mitigating actions
Capital risk	The risk that an insufficient quantity or quality of capital is held to meet regulatory requirements or to support business strategy, an inefficient level of capital is held or that capital is inefficiently deployed across LBCM.	• A comprehensive capital management framework that includes setting of capital risk appetite, capital planning and stress-testing activities, with well-established capital policies and procedures that are well established and subject to independent oversight. • Monitoring of capital and leverage ratios to ensure that LBCM meets regulatory requirements, remains within Board risk appetite and which results in efficient deployment of capital resources. • Maintaining a recovery plan setting out a range of potential mitigating actions that could be taken in response to a stress, including the capital contingency framework designed to identify emerging capital concerns at an early stage. • Managing the demand for capital through management actions including adjusting the lending strategy, risk hedging strategies and through business disposals.
Change & execution risk	The risk that, in delivering its change agenda, LBCM fails to ensure compliance with laws and regulations, maintain available and effective customer and colleague services, and/or operate within LBCM's risk appetite.	• Setting (and operating within) the Board level risk appetite for change and execution risk. LBCM monitors metrics provided by LBG as service provider at Board and sub-Board level. Change and execution risk is measured through a combination of risk indicators and quality & delivery indicators. These are under evolution and enhancement to ensure ongoing support of the change and transformation agenda. • Ensuring compliance with the change policy and associated policies and procedures, which set out the principles and key controls that apply across the business and are aligned to LBCM's risk appetite. • Assessment by the business of the potential impacts of undertaking change activity on its ability to execute effectively, on customers and colleagues and the potential consequences for the existing risk profiles. • Implementation of effective governance and control frameworks to ensure the adequacy of controls to manage the change activity and act to mitigate the change/execution risks identified. These controls are monitored in line with the change policy and enterprise risk management framework. • Escalation of events related to change activities to ensure that they are managed appropriately in line with risk framework guidance.

Risk category	Risk description	Key mitigating actions
Conduct risk	The risk of detriment across the customer life cycle 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. Customer harm or detriment is defined as consumer loss, distress or inconvenience to customers due to breaches of regulatory or internal requirements or our wider duty to act fairly and reasonably. The introduction of Consumer Duty has increased regulatory expectations in relation to customer outcomes for consumers. The direct impact for LBCM, considering its business and customer base, is limited, however LBCM reflects LBG standards where appropriate.	• Conduct risk appetite and associated metrics provide a granular view of how LBCM's products and services are performing for customers through the customer life cycle. • Conduct policies and procedures are in place to ensure appropriate controls and systems that deliver fair customer outcomes and support market integrity and competition requirements. • Customer needs are considered through customer plans, which have an integral conduct lens. • Create a values-led culture through a focus on behaviours to ensure LBCM is transforming its culture for success in a digital world. This is supported by strong direction and tone from senior executives and the Board. • Robust product governance framework to ensure products continue to offer customers fair value, and consistently meet their needs throughout their product lifecycle. • Root cause analysis, complaint management and customer accountabilities for colleagues, with rewards driven by customer-centric metrics. • Ongoing enhancements and embedding of LBCM's framework to support customers, in particular those in vulnerable circumstances. • Continued focus on market conduct; membership to the Fixed Income, Currencies and Commodities Markets Standard Board; and commitment to conducting market activities consistent with the principles of the UK Money Markets Code, the Global Precious Metals Code and the FX Global Code. • Adoption of robust change delivery methodology to enable prioritisation and delivery of initiatives to address conduct challenges. • Continued focus on proactive identification and mitigation of conduct risk in LBCM's strategy. • Active engagement with regulatory bodies and other stakeholders to develop understanding of concerns related to customer treatment, effective competition and market integrity, to ensure that LBCM's strategic conduct focus continues to meet evolving stakeholder expectations. • Review and oversight of thematic conduct agenda items at senior committees, ensuring holistic consideration of key conduct risks. • Robust recruitment and training, with a continued focus on how LBCM manages colleagues' performance with clear customer accountabilities. • Ongoing engagement with third parties involved in serving LBCM's customers to ensure consistent delivery.

Principal risks and uncertainties continued

Risk category	Risk description	Key mitigating actions
Credit risk	The risk that parties with whom LBCM has contracted fail to meet their financial obligations (both on and off-balance sheet).	• Prudent, through-the-cycle credit principles, risk policies and appetite statements to manage risk effectively. • Robust risk assessment and credit sanctioning to ensure appropriate and responsible lending. • Extensive and thorough credit processes and controls to ensure effective and timely risk identification, management and oversight. • Early identification of signs of stress leading to engagement with customers. • Regular and robust independent credit risk assurance.
Data risk	The risk of LBCM failing to effectively govern, manage and control its data, including data processed by third-party suppliers, or failure to drive value from data; leading to unethical decisions making, poor customer outcomes, loss of value to LBCM and mistrust.	Mitigation strategies are adopted to reduce data governance, management, privacy and ethical risks. Control assessments are logged and tracked on the RCSA system with supporting metrics. Investment continues to be made to deliver a comprehensive data strategy to: • Embed a data-led culture. • Build robust data foundations with front-to-back controls, quality and governance. • Invest in fit for purpose, scalable data platforms and analytical tooling. • Deliver real-time data insight capability and increase data value-generation.
Funding and liquidity risk	The risk that LBCM does not have sufficiently stable and diverse sources of funding or that the funding structure is inefficient; and the risk that financial resources are insufficient to meet commitments as they fall due or can only be obtained at excessive cost.	• Ensuring that LBCM's liquidity risk management framework is adequate regarding the internal risk appetite, strategy and regulatory requirements. Liquidity policies and procedures are subject to independent internal oversight by the risk team. • Holding a liquidity buffer to cover potential cash and collateral net outflows calibrated to support strategic and operational needs as well as regulatory requirements and internal risk appetite. • Undertaking monitoring against a number of market and entity-specific early warning indicators complemented with stress-testing analysis. • Maintaining a contingency funding plan detailing actions and strategies available in stressed conditions. • Maintaining diversified funding sources including a 'Euro Medium Term Note' programme.
Market risk	The risk that LBCM's capital or earnings profile is affected by adverse moves in market rates, in particular changes and volatility in interest and foreign exchange rates, inflation rates, commodity prices and credit spreads in the banking and markets businesses.	• Setting an appropriate market risk policy in line with risk appetite, operating within its parameters and the supplementary procedures that underpin it. • Undertaking regular monitoring of market risk positions versus limits and triggers to ensure they remain within limits which are calibrated in line with risk appetite. • Reducing risk in a cost-effective manner including the externalisation to financial markets where market liquidity allows. • Structural hedge programmes implemented to manage liability margins and the risk of margin compression.

Risk category	Risk description	Key mitigating actions
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.	• A comprehensive model risk management framework provides the foundation for managing and mitigating model risk within LBCM. • Defined roles and responsibilities, including clear ownership and accountability, independent oversight and approval. • Principles and controls regarding data integrity, development, validation, implementation, on-going maintenance and revalidation, monitoring, and the process for non-compliance. • Model monitoring, independent review and periodic validation and re-approval.
Operational resilience risk	The risk that LBCM fails to design resilience into business operations (including those that are outsourced), underlying infrastructure and controls (people, property, processes and technology) to withstand external or internal events that could impact the continuity of operations and fails to respond in a way which meets customer and stakeholder expectations and needs when the continuity of operations is compromised.	• Designing resilience into LBCM's operations through embedding of an enhanced target operating model. • Identification of LBCM's important business services and impact tolerance for disruption. • Continued optimisation of LBCM's approach to IT and operational resilience, through LBG, by investing in technology improvements and enhancing the resilience of systems that support LBCM's critical business processes and important business services. • Investment continues to improve LBCM's approach to identity and access management, capability to detect, respond and recover from cyber-attacks and ability to manage vulnerabilities across the estate. • Ensuring that the operational resilience risk profile needs are reassessed and prioritised in line with strategic change. • Setting and monitoring Board level risk appetite, and testing ability to remain within impact tolerance. • Continued optimisation and investment in people controls and processes, property and sourcing assets supporting important business services.

Principal risks and uncertainties continued

Risk category	Risk description	Key mitigating actions
Operational risk	The risk of inadequate or failed internal processes, people or systems, or external events, leading to loss such as cyber-attack, internal and/or external fraud or financial crime, IT systems failures as well as failure to ensure compliance with regulation. This includes the provision of services to LBCM (including people, systems and processes) outsourced to Lloyds Bank plc via a shared service provision model or by external providers via Lloyds Bank plc.	• The risk management framework establishes robust arrangements for risk governance, in particular through clear definition of individual and collective accountabilities for risk management, risk oversight and risk assurance through a three lines of defence model which supports the discharge of responsibilities to customers, shareholders and regulators. • Service provision arrangements to assess, monitor and act on risks arising from the shared service model, governed by an intra-group agreement (IGA). • Continued investment in the control environment by both LBCM and its shared service provider, included third-party providers, with a focus on moving towards automated preventative and real-time detective controls. • Manual and detective controls deployed on an interim basis to prevent gaps as more strategic automated controls are developed and deployed. • Deployment of enhanced cyber controls to detect, protect against and respond to threats to the confidentiality or integrity of information assets, or the availability of systems, and to ensure effective assurance of third-party provision. • Enhancing technology infrastructure and the resilience of systems (including focus on simplification of IT architecture and the decommissioning of legacy systems) that support critical business processes. • Application of a risk-based approach to mitigate financial crime and both internal and external fraud risk. • Working with industry bodies and law enforcement agencies to identify and combat fraud and money laundering. • Rigorous oversight of relevant management at business area and entity-level committees.

Risk category	Risk description	Key mitigating actions
People risk	The risk that LBCM 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.	LBCM has sought to implement mitigating actions with respect to people risk. Key areas of focus include: • Focusing on leadership and colleague engagement, through targeted strategies to attract, retain and develop high-calibre people together with implementation of effective succession planning. • Continued focus on LBCM's culture and inclusivity strategy by developing and delivering initiatives that reinforce the appropriate behaviours which generate the best possible long-term outcomes for customers and colleagues. • Managing organisational capability and capacity to ensure that LBCM has the right skills and resources to meet customer needs and deliver its strategic plan. • Maintaining remuneration arrangements to ensure they promote an appropriate culture and colleague behaviours that meet customer needs and regulatory expectations. • Ensuring colleague wellbeing strategies and support are in place to meet colleague needs and alongside skills and capability growth required to maximise the potential of our people. • Ensuring compliance with legal and regulatory requirements related to SM&CR, embedding compliant and appropriate colleague behaviours in line with LBG policies, values and its people risk priorities. • Reviewing and enhancing people processes to ensure they are fit for purpose and operationally resilient. • Key people resources provided under the shared service model are managed under an adequate people services agreement.

Risk category	Risk description	Key mitigating actions
Regulatory and legal risk	The risk arising from the failure to identify, assess, correctly interpret or, comply with regulatory and/or legal requirements, leading to customer detriment, failure to prevent and/or detect economic crime, financial penalties, regulatory censure, criminal or civil enforcement action.	• The Board has an established risk appetite and metrics for regulatory and legal risk. • Compliance and legal risk management policies and procedures are designed to ensure appropriate controls and systems are in place to comply with applicable laws, rules and regulations. • Framework and processes are in place to monitor ongoing compliance with new legislation. • Ongoing investment in people, processes, training and IT is being made to impact assess and help meet its legal and regulatory commitments. • Ongoing horizon scanning is undertaken to identify and address changes in regulatory and legal requirements. • Engagement with regulatory authorities and industry bodies on forthcoming regulatory changes, market reviews and investigations is taking place. • Mechanisms for the business are in place to identify, assess and monitor risks, providing appropriate management information, and with robust oversight and escalation routes. • Oversight, proactive support and constructive challenge to the business in identifying and managing regulatory and legal issues is undertaken by the compliance and legal functions. • Thematic reviews of regulatory compliance and oversight of regulatory compliance assessments across businesses and divisions are undertaken where appropriate.
Strategic risk	The risk which results from: • Incorrect assessments of internal or external operating environments. • Failure to understand the potential impact of strategic responses and business plans on existing risk types. • Failure to respond appropriately to material changes in the external or internal operating environments.	• Horizon scanning is conducted across LBCM to identify potential threats, risks, emerging issues and opportunities and to explore future trends. • LBCM's business planning processes include formal assessment of the strategic risk implications of new business, product entries and other strategic initiatives. • LBCM's governance framework mandates individuals' and committees' responsibilities and decision-making rights, to ensure that strategic risks are appropriately reported and escalated.

Financial risk management objectives and policies

Information regarding the financial risk management objectives and policies of LBCM, in relation to the use of financial instruments, is given in notes 31 and 33 to the accounts. LBCM's approach to risk management including risk policies, risk appetite, measurement bases and sensitivities, in particular for credit risk, market risk and liquidity risk, is aligned to those of Lloyds Banking Group plc, the Bank's ultimate parent. Further information can be found in the Lloyds Banking Group plc annual report.

LBCM maintains risk management systems and internal controls relating to the financial reporting processes designed to:

- Ensure that accounting policies are appropriately and consistently applied.
- Enable the calculation, preparation and reporting of financial outcomes in line with applicable standards.
- Ensure that disclosures are made on a timely basis in accordance with statutory and regulatory requirements.

Governance

LBCM Head Office,
10 Gresham St, London

The directors present their annual report and audited consolidated financial statements for the year ended 31 December 2023.

Information included in the strategic report incorporated in the directors' report by reference:

- Statement of employee engagement: page 8
- Statement of other stakeholder engagement: pages 6–11
- Principal risks and uncertainties: pages 31–37
- Environmental, social and corporate governance: pages 21–22

Our Board

Good corporate governance underpins LBCM's ability to support our customers and to meet the needs of our stakeholders.

The role of the Board

The Board is collectively responsible for promoting and assessing the long-term, sustainable success of LBCM, generating value and contributing to wider society. The Board establishes the purpose, values and strategy and seeks to ensure that LBCM is Helping Britain Prosper by connecting the UK and LBG with the world.

The key decisions and matters reserved for the Board's approval, such as LBCM's long-term strategy and priorities, are set out in the Corporate Governance Framework, which is reviewed periodically by the Board and was refreshed in 2023. The Board is supported by its committees which make decisions or recommendations on matters as delegated to them under the Corporate Governance Framework, including Board appointments, the effectiveness of internal controls and the risk management framework, financial reporting, governance and remuneration policies.

Following a successful pilot, the Board has adopted a new approach to its meetings which allows for fewer but deeper conversations. These 'cornerstone conversations' are allocated material time on the agenda and anchor the meeting focusing on what is important for the Bank and its Board. This enables the Board to spend a greater proportion of its time on strategic, forward-looking matters.

LBCM Board and governance structure

Board

Chair
Lord Lupton CBE

Executive directors

Chief Executive Officer
Carla Antunes da Silva

Chief Financial Officer
Julienne Daglish

Non-executive directors

Mark Basten
Eve Henrikson
Cecile Hillary
Andrew McIntyre
John Owen*
Rose St Louis

* Senior independent director

Company Secretary

Sharon Slattery

Board committees

- Nomination and Governance Committee
- Audit Committee
- Board Risk Committee
- Remuneration Committee

Board Committees

Nomination and Governance Committee

Succession planning of the executive and Board remains a key focus of the Committee.

Committee purpose and responsibilities

The purpose of the Committee is to keep the Board's governance, composition, skills, experience, knowledge, independence and succession arrangements under review and to make appropriate recommendations to the Board to ensure the Bank's arrangements are consistent with the highest corporate governance standards.

Committee composition, skills, experience and operation

The Committee comprises three independent non-executive directors and is chaired by Lord Lupton whose biography can be found on page 42.

Audit Committee

Ensuring oversight of financial and narrative reporting and the internal control environment.

Committee purpose and responsibilities

The purpose of the Committee is to monitor and review the formal arrangements established by the Board in respect to the integrity of the financial and narrative reporting of the Bank and Group, the independence and effectiveness of the internal and external audit functions, the effectiveness of the internal controls and the risk management framework and the adequacy and security of the arrangements for whistleblowing. This includes the statutory audit of the consolidated financial statements.

Committee composition, skills, experience and operation

The Committee comprises four independent non-executive directors and is chaired by Andrew McIntyre. See his biography on page 42. The Committee held separate sessions with the audit teams, without members of the executive management present.

Board Risk Committee

Effective risk management is core to successful delivery of the Bank's strategy which is aligned with the strategy of the wider Lloyds Banking Group.

Committee purpose and responsibilities

The Board Risk Committee is responsible for assisting the Board in fulfilling its risk governance and oversight responsibilities. It is also responsible for providing advice, oversight and challenge to the Board to embed and maintain a supportive risk culture throughout the Bank and Group and supports the Bank's agreed risk appetite, policies and procedures including the appropriateness of LBG policies for the Bank. The Committee is responsible for reviewing and reporting its conclusions to the Board on the Bank's risk management framework, which captures all risk policies and principles. It also provides oversight and challenge on the quality of services provided by the Ring-fenced Bank through the IGA and where needed, facilitate escalation to the Board.

Committee composition, skills, experience and operation

The Committee comprises five independent non-executive directors. It is chaired by Mark Basten who joined the Board in February 2023 and became Chair of the Board Risk Committee, to succeed Rupert Mingay who became Chief Risk Officer in September 2022. See his biography on page 43.

Remuneration Committee

Ensuring oversight of the reward package to ensure it supports the delivery of LBG's purpose of Helping Britain Prosper and encourages effective risk disciplines.

Committee purpose and responsibilities

The Remuneration Committee is responsible for reviewing and making recommendations to the Board on the remuneration policy for LBCM; reviewing performance and approving remuneration arrangements for LBCM colleagues under the Committee's purview; and for performing other regulator-prescribed duties for remuneration committees, taking into account the principles, policies and governance requirements of LBG and the recommendations of LBG's Group Remuneration Committee. The Committee also reviews the remuneration opportunities for colleagues under the Committee's purview to ensure they remain reflective of contribution and aligned to market.

Committee composition, skills, experience and operation

The Committee comprises three independent non-executive directors and is chaired by John Owen. See his biography on page 42.

The LBCM Board

Establishing our purpose, values and strategy

- Committee Chair
- A Audit Committee member
- BR Board Risk Committee member
- NG Nomination and Governance Committee member
- Re Remuneration Committee member

Lord Lupton CBE
Chair
A BR NG Re

John Owen
Senior independent non-executive director
A BR NG Re

Cecile Hillary
Internal non-executive director

Rose St Louis
Internal non-executive director

Andrew McIntyre
Independent non-executive director
AC BR NG

Mark Basten
Independent non-executive director
A BR Re

Carla Antunes da Silva
Executive director and Chief Executive Officer

Julienne Daglish
Executive director and Chief Financial Officer

Sharon Slattery
Company Secretary

Eve Henrikson
Independent non-executive director
BR

The LBCM Board continued

Establishing our purpose, values and strategy

Lord Lupton CBE
Chair

Appointed: August 2017
Lord Lupton has extensive international corporate experience having advised UK and international companies on a wide variety of major transactions. He was Deputy Chairman of Baring Brothers for three years, until 1998. He went on to co-found the London office of Greenhill & Co. and was Chairman of Greenhill Europe until May 2017. A former Treasurer of the Conservative Party, he became a Life Peer in 2015, serving on the House of Lords Select Committee on Charities.

External appointments:
Senior Advisor to Greenhill Europe; Trustee of The Lovington Foundation; Chairman of the Board of Visitors of The Ashmolean Museum.

John Owen
Senior independent non-executive director

Appointed: September 2017
John has extensive international banking experience. He worked for the Bank of America in London and UBS in both the UK and Switzerland before spending 13 years in various senior management positions at Credit Suisse. In 2011, he joined RBS where he was the Head of EMEA and then CEO International Banking, responsible for client coverage teams, the international network, lending and transaction services products as well as the provision of Markets products.

External appointments:
Local Authority Governor for Mayflower Primary School, Tower Hamlets.

Cecile Hillary
Internal non-executive director

Appointed: November 2022
Cecile became LBG's Treasurer in October 2021, having joined as Deputy Treasurer in March 2021. Prior to that, she had a 24-year career in banking at JPMorgan, Morgan Stanley and Barclays, based in London. During that time, she worked and ran businesses across client advisory, securitisation, capital markets and derivatives.

External appointments:
None.

Rose St Louis
Internal non-executive director

Appointed: September 2022
Rose joined Lloyds Banking Group in March 2021 as a Protection Director responsible for leading the Group's protection business across the intermediary, retail and digital channels. She has over 25 years' experience in the financial services industry in a diverse range of roles from insurance to wealth management. Rose is a leading figure in the UK protection market and is recognised for her inclusive approach to customer delivery underpinned by purpose and culture.

External appointments:
Member of the Association of British Insurers Health and Protection Board; member of the Insurance United Against Dementia board.

Andrew McIntyre
Independent non-executive director

Appointed: September 2017
Andrew is a Chartered Accountant and has broad boardroom experience with major public companies. He chaired the board of Southern Housing Group for nine years and has served as a non-executive director at both the Centre for Economic Policy Research and National Bank of Greece. He spent most of his executive career at Ernst & Young, acting for many of the firm's largest financial services clients.

External appointments:
Senior Independent Director, Non-Executive Director and Audit/Risk Committee Chair at C. Hoare & Co; Audit Committee Chair Cavamont Holdings Limited; Non-Executive Director and Audit Committee Chair at Target Group Limited; member of the Federated Hermes Property Unit Trust Appointments Committee and Chair of the Federated Hermes Property Unit Trust Audit Committee; and Trustee Treasurer of the Foundling Museum.

The LBCM Board continued

Establishing our purpose, values and strategy

Mark Basten
Independent non-executive director

Appointed: February 2023
Mark is an experienced risk management professional, with a broad range of experience across a variety of sectors, geographies and risk disciplines including governance forums. He's led risk management functions at international banks for more than 25 years. He was Group Head of Credit for Nomura Securities and Head of Risk for Nomura International until 2011, when he went on to serve as Chief Risk Officer for ICBC Standard Bank plc until 2020.

External appointments:
None.

Carla Antunes da Silva
Executive director and Chief Executive Officer

Appointed: February 2023
Carla was appointed as the CEO for LBCM in February 2023, having previously served as internal non-executive director for five years. From 2015 to January 2023, Carla led LBG's strategic work as Group Strategy, Corporate Development and IR Director in the Group Executive Committee. She was responsible for making recommendations on all areas of major strategic significance for LBG including M&A and fintech investments, and managing relationships with the wider investment community. Prior to that, Carla spent 18 years as an Equity Analyst covering European banks, working for Deutsche Bank, JP Morgan and Credit Suisse.

External appointments:
Non-Executive Director and member of Nomination & Governance Committee of Novo Banco and Member of the Investment Committee, St. Edmund Hall, University of Oxford.

Julienne Daglish
Executive director and Chief Financial Officer

Appointed: April 2021
Julienne was appointed Chief Financial Officer LBCM in April 2021. She previously held the role of Chief Risk Officer for LBCM. She has more than 25 years of Markets experience, where she ran Structured Products within Trading before taking on the role of Chief Operating Officer for Financial Markets in LBG. In addition, she has held customer facing roles in Commercial Banking and International Private Banking and spent time in Strategic Development.

External appointments:
Member and Deputy Chair of the Audit Risk and Compliance Committee for King's College London; Co-Optee on Audit Investment and Risk Committee for Lloyds Bank Foundation for England and Wales.

Sharon Slattery
Company Secretary

Appointed: August 2017
Sharon joined Lloyds Banking Group over 25 years ago following its acquisition of Lloyds Abbey life in 1996. She has over 30 years' experience in corporate governance and company secretarial practice. Sharon has held a variety of roles within LBG as secretary to boards, board committees and senior management committees at all levels of the organisation. She has broad UK listed company experience from managing continuing obligation requirements, annual reporting and AGM project management through to share capital and employee share plan administration. During her career she has worked on a number of corporate actions including the acquisitions of Lloyds Abbey Life, Scottish Widows and HBOS.

External appointments:
None.

Eve Henrikson
Independent non-executive director

Appointed: September 2020
Eve has extensive experience in Digital in a variety of industries and international markets, spanning Europe, the US and Asia. She has been leading Digital businesses and transformation for over 20 years, including large online operations and P&Ls at Tesco and Uber. She is currently managing Europe, Middle East and Africa for Uber Eats. In her non-executive career, she has held roles with Scout Shop Limited and World Scout Shops Limited.

External appointments:
Regional General Manager Delivery EMEA, Uber Portier B.V. (Uber Eats); Non-Executive Director and Member of the Board and Audit & Financial and Remuneration Committees of Sonae, GSPS, SA.

The LBCM Executive Committee

Delivering our strategy and day-to-day management

Committee chair
M Committee member
A Committee attendee

The executive directors make decisions within the parameters and principles set out in the Corporate Governance Framework, which aims to ensure that decisions are made by management under the correct authority. There are executive committees established to support and advise the Chief Executive Officer, in particular the Executive Committee. The other committees which bring subject matter expertise and analysis are the Asset and Liability, Operating and Risk Committees.

Carla Antunes da Silva
Executive director and Chief Executive Officer
C

Julienne Daglish
Executive director and Chief Financial Officer
M

Jon Alexander
General Counsel
A

Adele Bohlen
Chief Executive Officer Crown Dependencies
M

Stephen Ellis
Chief Operating Officer
M

Rob Hale
Managing Director – Head of Financial Markets
M

Nick Hughes
Head of Capital Markets and LBCMW
M

Samir Lalvani
Chief Executive and Country Head, North America
M

Rupert Mingay
Chief Risk Officer
M

Fiona Murtagh
People Director
M

Sharon Slattery
Company Secretary
A

Linda Rae Winter
Chief Internal Auditor
A

The LBCM Executive Committee continued

Delivering our strategy and day-to-day management

Carla Antunes da Silva
Executive director and Chief Executive Officer

Read her biography on page 43.

Julienne Daglish
Executive director and Chief Financial Officer

Read her biography on page 43.

Jon Alexander
General Counsel

Jon has over 25 years' experience working in private practice law firms and in-house and he is qualified to practise law in England and Wales, New South Wales, Australia and Scotland. As General Counsel for LBCM, Jon provides advice to the Executive Committee, Board and wider business on corporate-level and business-specific issues. He commenced his role with LBCM in 2020 having joined LBG in 2004, and he previously held various leadership roles in the Group's Retail and Commercial Banking Legal teams. Before joining the Group, he worked in private practice law firms in Edinburgh and Sydney.

Adele Bohlen
Chief Executive Officer Crown Dependencies

Adele joined LBCM in 2023 as Crown Dependencies Director and CEO. With over 30 years' experience in the finance industry gained across a number of clients segments and disciplines both on and offshore, Adele is passionate about ensuring the focus is on clients and building long-term mutually beneficial relationships.

Prior to joining LBCM, Adele worked for Barclays International for over seven years, where she was Country Head for the Isle of Man Business and Global Head of Fiduciary Business. Adele holds the Step Diploma in International Trust Management, is a Chartered Member of the Institute of Securities and Investments. She also holds a Diploma in International Anti Money Laundering and has attained Private Client Investment Advice and Management – Level 6.

Stephen Ellis
Chief Operating Officer

Stephen is the SMF 24, Chief Operations function role holder for LBCM. He is responsible for supporting and delivering the LBCM operating model. Stephen has over 20 years' experience with Lloyds Banking Group and spent time in leadership roles in London, Tokyo, Hong Kong and New York, where he gained a US Broker Dealer Principal license while serving as Head of Treasury and Trading North America. Stephen has sat on the board of two Lloyds Bank subsidiary companies and is a member of the Technology & Operations Committee of the Association for Financial Markets in Europe.

Rob Hale
Managing Director - Head of Financial Markets

Rob started his career in derivatives trading in the late 1990s and has worked at a number of Investment banks before joining Lloyds in 2007 to build out the Rates Trading business and establish Lloyds as a GEMM (Gilt Edged Market Maker). He went on to lead the FX & Commodities business from 2015, before becoming Head of Traded Products for LBCM in 2018. Rob was also the Accountable Executive for Ring Fencing Delivery, responsible for the design and delivery of LBCM Markets in the Commercial Bank. Since 2021, Rob has been Head of Financial Markets, responsible for all Financial Markets activity across London and New York. Additionally, he is also jointly accountable for the Markets Platform and delivery of transformation and technology programmes for LBCM, which are key to our strategic ambitions and future growth. Externally, Rob sits on the Global Foreign Exchange Division Board and Financial Markets Standard Board helping to establish global standards for fair and effective markets.

The LBCM Executive Committee continued

Delivering our strategy and day-to-day management

Nick Hughes
Head of Capital Markets and LBCMW

Nick leads LBCM's Capital Markets business globally. The Capital Markets business provides Corporate and Institutional clients with comprehensive debt capital markets, financing and risk management expertise from locations in the UK, US and Germany. Products and activities include primary market bond issuances and US private placements, liability management and balance sheet advisory, securitised products, secondary market credit sales and trading, and interest rate and inflation risk management. Nick started his career at Lloyds in 1999 and has worked in the Markets business since 2006 in various client facing and structuring roles serving Corporate and Institutional clients. In August 2021 Nick was appointed as head of the Capital Markets business within LBCM, prior to which he was responsible for the Derivative Sales and Structuring business within LBCM.

Samir Lalvani
Chief Executive and Country Head, North America

Samir joined LBG in 2009 from Citigroup, where he worked for 10 years in Structured Corporate Finance and the Markets businesses. Prior to Citigroup, Samir spent eight years in the branded consumer industry, working at Procter & Gamble and Nabisco. Samir served as President of Lloyds Securities Inc. and Head of Capital Markets, playing an instrumental role in establishing Lloyds Securities Inc. and developing the Bank's product capabilities in the US. In 2015, Samir joined ANZ Banking Group, where he was Head of Coverage, International Banking and Deputy CEO, North America. He returned to LBG in 2016, where he resumed his role as President of Lloyds Securities Inc. and served as Head of Corporate and Institutional Coverage before becoming Country Head and CEO in March 2022.

Rupert Mingay
Chief Risk Officer

Rupert joined LBCM as a non-executive director and Chair of the Board Risk Committee in 2022 before becoming CRO. He was previously Treasurer of NatWest Markets during the implementation of ring-fencing, Brexit and the onset of COVID. Prior to that, he was Group Treasurer of Standard Chartered and held other senior roles in London and Singapore in Group corporate development, consumer and private banking and treasury. Rupert has more than 30 years' experience in banking, starting his career in investment banking at Goldman Sachs and JPMorgan. He also co-founded an advisory firm in Hungary in partnership with the European Bank for Reconstruction and Development.

Fiona Murtagh
People Director

Fiona has spent her career in Human Resources, having held a number of generalist HR roles as well as leading large scale People change projects, including the successful integration of Lloyds TSB and Halifax Bank of Scotland. She spent a number of years specialising in the areas of Talent & Development, supporting the Commercial Banking business. Following this, she was appointed as Head of Human Resources for North America (NA) and Global Large Corporates, covering North America, Asia and Europe. Fiona's role subsequently expanded and is currently the People Director for LBCM. Fiona played netball for England for over 13 years, obtained over 100 caps, and was awarded an MBE for services to netball.

Sharon Slattery
Company Secretary

Read her biography on page 43.

Linda Rae Winter
Chief Internal Auditor

Linda is the Chief Internal Auditor for LBCM, a position she has held since April 2018. In this role she is responsible for challenging LBCM executive management to improve the effectiveness of LBCM governance, risk management and internal controls, consistent with the LBCM risk management framework. Prior to joining LBG, Linda held a senior position in Barclay heading up a first line controls function across Barclays Corporate product and sales divisions and gained considerable global experience. In her career with American Express Bank and JP Morgan, she worked in Audit building her extensive knowledge of numerous banking products and helping to improve risk management and control disciplines.

LBCM's corporate governance statement

Approach to corporate governance

Fundamental to LBCM's strategy are high standards of corporate governance.

A Corporate Governance Framework is in place for the Bank, which sets the approach and applicable standards in respect of the Bank's corporate governance arrangements whilst addressing the matters set out in the Wates Corporate Governance Principles for Large Private Companies (the Principles). This includes the matters reserved to the Board, and the matters the Board has chosen to delegate to management, including decision-making on operational matters such as those relating to credit, liquidity and the day-to-day management of risk, and the governance requirements of the operation of the Bank as an entity outside of LBG's Ring-Fenced Bank.

In accordance with the Large and Medium-sized Companies and Group (Accounts and Reports) Regulations 2008 (as amended by the Companies (Miscellaneous Reporting) Regulations 2018) (the Regulations), for the year ended 31 December 2023, LBCM plc and its subsidiaries have in their corporate governance arrangements applied the Wates Corporate Governance Principles for Large Private Companies (the Principles) which are available at www.frc.org.uk. The following section explains the Bank's approach to corporate governance and its application of the Principles.

Governance arrangements, including the Corporate Governance Framework, are reviewed to ensure they remain fit for purpose. The Corporate Governance Framework of the Bank further addresses the requirements of the Principles as follows.

Principle one – purpose and leadership

The Board is collectively responsible for the long-term success of the Bank. It achieves this by agreeing the Bank's strategy, within the wider strategy of LBG, and overseeing delivery against it. The Bank's strategy is discussed further in the strategic report. The Board also assumes responsibilities for setting the culture, values and wider standards of the Bank, within the equivalent standards set by LBG.

Consideration of the needs of all stakeholders is fundamental to the way the Bank operates, as is maintaining the highest standards of business conduct, which along with ensuring delivery for customers is a vital part of the corporate culture. The Bank's approach is further influenced by the need to build a culture in which everyone feels included, empowered and inspired to do the right thing for customers. To this end, the Board plays a lead role in establishing, promoting and monitoring the Bank's corporate culture and values, with the Corporate Governance Framework ensuring such matters receive the level of prominence in Board and executive decision-making which they require. The Board receives regular updates on LBCM's culture including progress on the cultural transformation journey, which is closely aligned to those of LBG, which are discussed in more detail in the LBG annual report and accounts for 2023.

Principle two – Board composition

The Board is chaired by a non-executive member of the LBG Board and contains a balance of independent non-executive directors (iNED), LBG executives (serving as non-executives) and executive directors. This composition supports its legal and regulatory requirements for independent decision-making within the overall framework of LBG policies and controls. Further details of the directors can be found within this annual report. There were two changes to the Board during the year which were overseen by the Nomination and Governance Committee.

On 1 February 2023, Carla Antunes da Silva was appointed CEO following Eduardo Stock da Cunha's retirement. Carla had served on the Board for five years as one of the Bank's two internal NEDs and was LBG's Group Strategy, Corporate Development and Investor Relations Director until her appointment as the Bank's CEO. Carla's strategic thinking and customer orientation is providing the leadership needed to deliver on the Bank's medium and long-term plans for growth, including delivering for the Bank a sustainable strategy, a people culture and continuing to integrate the Bank within the wider LBG. Carla continues to deliver the strategy to extend digitisation, especially in the Bank's Retail and Financial Markets businesses, as well as growing Capital Markets and banking presence both in the UK and internationally in Europe and the US.

On 9 February 2023, Mark Basten joined the Board as an independent non-executive director, member of the Audit and Remuneration Committees and Chair of Board Risk Committee to succeed Rupert Mingay who stepped down from the Board in September 2022 to take up the position as the Bank's Chief Risk Officer.

Mark brings strong experience in both credit and operational risk areas which are important to the Board.

The Nomination and Governance Committee continues to keep under review, on an ongoing basis, the structure, size and composition of the Board and its committees, making recommendations to the LBCM Board as appropriate.

Consideration is given to the need to ensure the appropriate mix of knowledge, skills and experience, and diversity. The Board has adopted the LBG Board Diversity Policy and LBG Board Diversity Objectives as applicable to the Bank and reflecting the relative size of the Board. The Board's commitment is to maintain at least three women Board members so long as the Board size is nine directors.

The Board structure is nine directors: a Chair independent on appointment, four iNEDs, two internal NEDs and two executive directors. The Board has made good progress on diversity at Board-level in its broadest sense – gender,

LBCM's corporate governance statement continued

race, nationality, social mobility and age. It is a multinational Board (German, French, Portuguese and British), with age diversity from 43 years upwards, Black, Asian and Minority Ethnic representation of 11 per cent, 55 per cent of the Board currently comprising women directors and LGBTQ+ 11 per cent.

Both the CEO and CFO are women and the Board therefore continues to exceed the FTSE Women Leaders Review recommendation of 40 per cent board and leadership positions held by women and at least one woman appointed as chair, senior independent director, CEO or CFO by the end of 2025.

The Board meets the objective of the Parker Review of having at least one Black, Asian and Minority Ethnic Board member and continues its ambition to achieve the LBG Diversity objectives relative to its size and reflecting the Bank is a subsidiary and not a listed entity.

Reflecting the size and complexity of the business, the Board has established a Committee structure comprising a Board Risk Committee, Audit Committee, Remuneration Committee and Nomination and Governance Committee ('the Committees'). The Committees make recommendations to the Board on matters delegated to them, in particular in relation to internal control, risk, financial reporting and remuneration matters. Each committee has written terms of reference setting out its delegated responsibilities and comprises iNEDs with appropriate skills and experiences and chaired by an experienced Chair. The Committee Chairs report to the Board at each Board meeting.

The Board undertakes an annual review of its effectiveness, which provides an opportunity to consider ways of identifying greater efficiencies, ways to maximise strengths and highlights areas of further development. Given the appointment of a new Chief Executive Officer in February 2023 and ongoing strategy development, the Board agreed that it was too soon for an external evaluation and an internal evaluation, overseen by the Nomination and Governance Committee and conducted by the Company Secretary, was undertaken in 2023 with consideration for an external evaluation at a future date.

The internal review process included a confidential open-ended questionnaire to the Board and its committees, seeking views on what's working well and areas for improvement. Time was set aside on the agenda of the Board and each committee for an open discussion of the key themes and outputs from the questionnaire. Alongside this, the Chair undertook individual assessments of the non-executive directors, with the performance evaluation of the Chair carried out by the non-executive directors, led by the senior independent director, considering the views of the executive directors.

The evaluation concluded that the performance of the Board, its committees, the Chair and each of the directors continues to be effective. All directors demonstrated commitment to their roles and contributed effectively. The Board is regarded as very able, with good diversity of expertise and skills and trusted relationships amongst the directors, led by the Chair, leading to open and honest conversations and strong governance, challenge and debate.

The key findings and areas for consideration include: (1) further enhancements to sharpen the focus of Board papers for even greater openness and transparency especially for complex matters and demonstrating how learnings are being applied; (2) being more creative and allowing more time for focus on strategic thinking and key topics; (3) more visibility of the wider senior management population at Board; and (4) looking for opportunities to further streamline meetings to make them more effective.

In response to the findings from the 2022 evaluation, the main focus in improvements to Board effectiveness in 2023 has been on creating room for more forward-looking and strategic discussions and building a sense of 'team'. These enhancements have been achieved by: (1) adoption of a new Board agenda, with time allocated for focused 'cornerstone' conversations on substantive strategic and supervisory topics; (2) deepening Bank and LBG collaboration and relationships through LBG directors and senior management attending LBCM Board meetings and other LBCM events; (3) further enhancements to Board paper templates to encourage more openness and how decision-making process is shaped by LBCM's values to benefit its stakeholders, and to deliver LBCM's purpose; (4) strengthening Board relationships, with a particular focus on welcoming new Board members and offering support through in-depth and tailored inductions; and (5) a comprehensive non-executive directors training programme delivered in 2023 on topics important to the Board including data ethics, sustainability and consumer duty. The Board was pleased with the progress against the actions from the 2022 review.

LBCM's corporate governance statement continued

Principle three – director responsibilities
The Board has established and maintains corporate governance practices that provide clear lines of accountability and responsibility to support effective decision-making through the Corporate Governance Framework. This also helps clarify the relationship between the Bank and its parent company in order to deliver long-term sustainable success. Policies are also in place in relation to potential conflicts of interest which may arise. All directors have access to the services of the Company Secretary, and independent professional advice is available to the directors at the expense of LBG, where they judge it necessary to discharge their duties as directors.

The Board is supported by its Committees which make recommendations on matters delegated to them under the Corporate Governance Framework which was refreshed in 2023. The management of all committees is in keeping with the basis on which meetings of the Board are managed, with open debate and adequate time for members to consider proposals which are put forward. The Chair of the Board and each of its Committees assumes responsibility with support from the Company Secretary for the provision to each meeting of accurate and timely information.

Principle four – opportunity and risk
The Board oversees the development and implementation of the Bank's strategy, within the context of the wider strategy of LBG. Consideration is given to strategic opportunities, and the Board's annual cycle of meetings includes 'steering' agenda items dedicated to debating the Bank's strategic priorities and business updates and key risk areas, as well as one meeting focused on strategy.

The Board is also responsible for the long-term sustainable success of the Bank, ensuring it generates value for its shareholder and delivers a positive contribution to society.

The Board agrees the Bank's culture, purpose, values and strategy within those set by LBG, and sets expectations for risk management, financial performance and reporting. The specific aims and objectives of the Board are formalised within the Bank's Corporate Governance Framework, which also sets out the key decisions and matters reserved for the Board's approval.

Strong risk management is central to the Bank's strategy along with a robust risk control framework which acts as the foundation for sustainable business growth. The Board agrees the Bank's risk appetite, within the overarching risk appetite of LBG, and monitors the effectiveness of risk management with the support of the Board Risk Committee. Board-level engagement, coupled with the direct involvement of senior management ensures that escalated risk issues are promptly addressed and remediation plans are initiated where required.

The Bank's risk appetite, principles, policies, procedures, controls and reporting are managed in conjunction with those of LBG and are regularly reviewed to ensure they remain in line with regulations, law, corporate governance, and industry best practice. The Bank's principal risks are discussed further in the strategic report.

Principle five – remuneration
The Remuneration Committee of the Board is responsible for reviewing and making recommendations to the Board on the remuneration policy for the Bank. This includes reviewing performance and approving remuneration arrangements ranging from the remuneration of directors and members of the executive to that of all other colleagues where the regulators require the Bank to implement a specific approach to their remuneration, such as senior managers and other material risk takers. The activities of the Remuneration Committee extend to matters of remuneration relevant to subsidiaries of LBCM, taking into account the principles, policies and governance requirements of LBG and the recommendations of LBG's Group Remuneration Committee.

Principle six – stakeholders
The Bank, as part of LBG, operates under LBG's wider responsible business approach, which acknowledges that the Bank has a responsibility to help address the economic, social and environmental challenges which the UK faces, and as part of this understand the needs of the Bank's external stakeholders, including in the development and implementation of strategy. Central to this is LBG's purpose Helping Britain Prosper by connecting the UK and LBG with the world by building a more inclusive, sustainable future for all: driving long-term, profitable growth by shaping finance as a force for good.

The workforce, as a key stakeholder, includes the Bank's permanent employees, contingent workers and third-party suppliers delivering services to customers and supporting key business operations. This also includes LBG colleagues providing services to the Bank under the shared service model. The Board's approach to workforce engagement includes an annual programme of engagement activity and oversight of policies on remuneration structures and practices that take account of the broader operating context, including the pay and conditions of the wider workforce and the Bank's response to matters such as any gender pay gap.

Other disclosures relating to directors

Appointment and retirement of directors

The appointment of directors is governed by the Bank's articles of association and the Companies Act 2006. The Bank's articles of association may only be amended by a special resolution of the shareholder in a general meeting.

Directors

The names of the current directors are shown in this report on pages 41 to 43. Changes to the composition of the Board since 1 January 2023 up to the date of this report are shown in the table below.

	Joined the Board	Left the Board
Carla Antunes da Silva (executive director)	1 February 2023	
Mark C Basten	9 February 2023	
Eduardo J Stock da Cunha		31 January 2023

In February 2024, Lord Lupton announced his decision to retire from his position with LBG and as Chair of the Bank at the close of LBG's AGM on 16 May 2024. Lord Lupton is the inaugural Chair of the Bank having led the Board since LBCM's inception and has steered it through the early years as it developed, grew and matured. John Owen, Senior Independent Director, who has also been a non-executive director of LBCM since inception, will take on the position of Interim Chair until Lord Lupton's successor, Nathan Bostock, commences in role as Chair with effect from 1 August 2024 (subject to regulatory approval). Nathan has worked in financial services for four decades and brings a wealth of experience from his previous roles including, most recently, CEO of Santander UK from 2014 to 2022. He previously held executive roles at RBS and, before that, served on the board of Abbey National. The Board looks forward to welcoming Nathan to LBCM.

Directors' indemnities and directors' and officers' liability insurance

The directors of the Bank, including the former director who resigned during the year, have entered into individual deeds of indemnity with LBG which constitute 'qualifying third-party indemnity provisions' for the purposes of the Companies Act 2006. The deeds were in force during the whole of the financial year or from the date of appointment in respect of the directors who joined the Board during 2023. Directors no longer in office but who served on the Board at any time in the financial year had the benefit of this deed of indemnity during that period of service. The indemnity remains in force for the duration of a director's period of office. The deeds indemnify the directors to the maximum extent permitted by law. In addition, LBG has appropriate directors and officers liability insurance cover which was in place throughout the financial year. Deeds for existing directors are available for inspection at the Bank's registered office.

LBG has also granted deeds of indemnity by deed poll and by way of entering into individual deeds, which constitute 'qualifying third-party indemnity provisions' to the Directors of LBG's subsidiary companies, including former directors who retired during the year, and to colleagues subject to the provisions of the Senior Managers and Certification Regime. Such deeds were in force during the financial year ended 31 December 2023 and remain in force as at the date of this report. Qualifying pension scheme indemnities were granted to the Trustees of the Lloyds Banking Group's Pension Scheme relevant to the Bank, which were in force during the financial year ended 31 December 2023 and remain in force as at the date of this report.

Change of control

The Bank is not party to any significant agreements which take effect, alter or terminate upon a change of control of the Bank following a takeover bid. There are no agreements between the Bank and its directors or employees providing compensation for loss of office or employment that occurs because of a takeover bid.

Directors' interests

The directors do not have any direct interest in the shares of the Bank. Lord Lupton is also a director of LBG. Lord Lupton's interest in shares of LBG is shown in the report and accounts of that company.

Conflicts of interest

The Board has a comprehensive procedure for reviewing and, as permitted by the Companies Act 2006 and the Bank's articles of association, approving actual and potential conflicts of interest. Directors have a continuing duty to notify the Chair and the Company Secretary as soon as they become aware of actual or potential conflict situations. Changes to the commitments of all directors are reported to the Board via Nomination and Governance Committee and a register of potential conflicts and time commitments is regularly reviewed and authorised by that Committee on behalf of the Board to ensure the authorisation status remains appropriate.

Lord Lupton is a senior adviser to Greenhill Europe, an investment bank focused on providing financial advice on significant mergers, acquisitions, restructurings, financings and capital raising to corporations, partnerships, institutions and governments. The Board has recognised that potential conflicts may arise as a result of this position. The Board has authorised the potential conflicts and requires Lord Lupton to recuse himself from discussions, should the need arise.

Andrew McIntyre is NED, senior independent director and Chair of the Audit and Risk Committee of C. Hoare & Co., a UK regulated private bank, and NED and Chair of Audit Committees of Target Group Limited and its subsidiaries, a wholly owned subsidiary group of Tech Mahindra Limited based in India which provides transformational outsourcing, business process management and managed services to the financial services sector. The Board has recognised that potential conflicts may arise in relation to these positions. The Board has authorised the potential conflicts and requires Andrew McIntyre to recuse himself from discussions, should the need arise.

Other disclosures relating to directors continued

"LBCM's growth opportunity, as an integral part of CIB and LBG, is focused on meeting more needs of our corporate and institutional clients, as well as connecting more of these relationships to the rest of our LBG offering."

John Winter,
Corporate and Institutional Banking CEO

Eve Henrikson is NED and member of the Audit & Financial and Remuneration Committees of Sonae, SGOS, SA, a Portuguese publicly listed entity which is a diversified enterprise with presence in a number of areas including financial services. The Board did not consider that the position would result in any actual conflict of interest but, for the sake of good order, authorised the potential conflicts and time commitments.

Carla Antunes da Silva is an executive director and CEO of the Bank and has also taken on a role to provide guidance and advice on strategy to the LBG Corporate and Institutional Banking business unit which includes the Bank and Ring-Fenced Bank. Whilst this is a permitted interest under the Bank's articles of association, for the sake of good order the Board authorised the potential conflict and time commitment that may arise as a result of the role and requires Carla to recuse herself from discussions should the need arise.

The following NEDs hold executive roles within LBG and whilst these are permitted interests under the Bank's articles of association, for the sake of good order the Board authorised the potential conflicts that may arise as a result of those roles and required the individuals listed below to recuse themselves from discussions, should the need arise. These individuals do not act as representative of LBCM's sole shareholder, LBG, in their capacity as NEDs of the Bank's Board:

Name	LBG Role
Cecile Hillary	Group Treasurer, Lloyds Banking Group
Rose M St Louis	Protection Director, Insurance Pensions and Investments and Chief Executive of Cavendish Online Limited

Other statutory and regulatory reporting

Results
The consolidated income statement on page 63 in this annual report and accounts shows a statutory profit before tax for the year ended 31 December 2023 of £427 million (year ended 31 December 2022: £477 million).

Dividends
During the year the Bank did not pay an interim dividend (2022: £220 million). The directors have not recommended a final dividend for the year ended 31 December 2023. In March 2024 the directors approved the payment of an interim dividend of £450 million which will be paid by the end of April 2024. Refer note 26 on page 93.

Share capital
Information about share capital is shown in note 22 on page 92. This information is incorporated into this report by reference.

The Bank did not repurchase any of its own shares during the year and there are no restrictions on the transfer of shares in the Bank other than set out in the articles of association and certain restrictions which may from time to time be imposed by law and regulations.

Post balance sheet events
Details of events after the balance sheet date are set out in note 36 on page 126.

Going concern
The going concern of the Bank and LBCM Group is dependent on successfully funding their respective balance sheets and maintaining adequate levels of capital.

In order to satisfy themselves that the Bank and LBCM Group have adequate resources to continue to operate for the foreseeable future, the directors have reviewed the Bank and LBCM Group's operating plan and its funding and capital positions, including a consideration of the implications of climate change. The directors have also taken into account the impact of further stress scenarios. Accordingly, the directors conclude that the Bank and LBCM Group have adequate resources to continue in operational existence for a period of at least 12 months from the date of the approval of the financial statements and therefore it is appropriate to continue to adopt the going concern basis in preparing the accounts.

Branches, future developments and financial risk management objectives and policies
LBCM provides a wide range of banking and financial services through branches and offices in the UK, US, Germany, and the Crown Dependencies. The Bank has six branches in the Crown Dependencies following a strategic review in 2022 to reduce the branches footprint from nine to six. The banking licence for the Singapore branch was surrendered at the end of 2022 with all activities ceasing in early 2023.

Information regarding future developments and financial risk management objectives and policies of LBCM in relation to the use of financial instruments that would otherwise be required to be disclosed in the directors' report, and which is incorporated into this report by reference, can be found in the strategic report.

Information required under DTR 7.2
Certain information is incorporated into this report by reference. Information about internal control and risk management systems relating to the financial reporting process can be found on page 37.

Information about share capital is shown in the notes to these accounts. The Bank is a wholly owned subsidiary of LBG, which holds all of the Bank's issued ordinary share capital.

The directors manage the business of the Bank under the powers set out in the Companies Act 2006 and the Bank's articles of association. These powers include those in relation to the issue or buy back of the Bank's shares.

Research and development activities
During the ordinary course of business, LBCM develops new products and services within its business units.

Employees
LBCM employed an average of 837 colleagues (note 7) during 2023 (2022: 850) reflecting colleagues based in the US, Germany and Crown Dependencies. Information concerning the employees of LBG is available in the LBG's 2023 annual report and accounts.

Supporting disability
As part of LBG, the Bank aims to be a leader in disability inclusion and to create an inclusive and accessible working environment in which all colleagues feel psychologically and physically safe, have access to equal opportunities and where everyone is supported to reach their full potential. LBG continues to hold the Business Disability Forum Gold Standard accreditation and Leading Disability Confident status from the Department for Work and Pensions. LBG offers bespoke training, career development and adjustments for colleagues and applicants with disabilities, including those who became disabled while employed. LBCM leverages the activities within LBG whenever possible. For more details on this refer to page 31 of the LBG annual report and accounts. During 2023 there has been additional focus on increasing the awareness and understanding of visible and non-visible disabilities, with bespoke content delivered to all colleagues, including a spotlight on the support available.

Sustainability
Refer to the sustainbility section within the strategic report (pages 21–22) for details of LBCM's sustainability progress, along with references to LBG's sustainability report. The report covers LBG's progress against the Task Force on Climate related Financial Disclosures (TCFD) recommendations and recommended disclosures, along with our approach to addressing the broader environmental and associated governance areas. Alongside TCFD disclosures, the report includes the LBG climate transition plan, which is informed by emerging guidance.

LBCM have taken advantage of the exemption from the Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022 reporting requirements in respect of its own Strategic Report, as the required disclosures are included in the 2023 annual report and accounts of its ultimate parent company, Lloyds Banking Group plc, available at www.lloydsbankinggroup.com/investors/financial-downloads.html.

Other statutory and regulatory reporting continued

Streamlined energy and carbon reporting
The Bank has taken advantage of the exemption from Streamlined Energy and Carbon Reporting (SECR) reporting requirements in its own directors' report as it is covered by the LBG SECR report in the Lloyds Banking Group plc 2023 annual report and accounts available at www.lloydsbankinggroup.com/investors/financial-downloads.html.

Significant contracts
LBCM has a shared service contract with Lloyds Bank plc for the provision of services (note 7). Details of related party transactions are set out in note 28.

Statement of directors' responsibilities
The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors are required to prepare the Bank's and the Group's financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Bank and the Group and of the profit or loss of the Bank and the Group for that period. In preparing these financial statements, the directors are required to properly select and apply accounting policies; present information, including accounting policies in a manner that provides relevant, reliable, comparable and understandable information; provide additional disclosures when compliance with the specific requirements in international accounting standards in conformity with the requirements of the Companies Act 2006 are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and make an assessment of the Bank's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Bank and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

A copy of the financial statements is placed on the website www.lloydsbankinggroup.com/investors/financial-downloads.html. The directors are responsible for the maintenance and integrity of all information relating to the Bank on that website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the current directors who are in office as at the date of this report, and whose names and functions are listed in the directors' report on pages 41 to 43, confirm that, to the best of his or her knowledge:

- The Bank's and the Group's financial statements, which have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 give a true and fair view of the assets, liabilities, financial position and profit or loss of the Bank and the Group.
- The strategic report and the directors' report, includes a fair review of the development and performance of the business and the position of the Bank and the Group together with a description of the principal risks and uncertainties they face.
- The annual report and accounts, taken as a whole, are fair, balanced, and understandable and provides the information necessary for shareholders to assess the Bank's and the Group's position, performance, business model and strategy. The directors have also separately reviewed and approved the strategic report.

Independent auditors and audit information
Each person who is a director at the date of approval of this report confirms that, so far as the director is aware, there is no relevant audit information which the Bank's auditor is unaware and each director has taken all the steps that he or she ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the Bank's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of the Companies Act 2006.

Deloitte LLP were re-appointed as external auditors at the annual general meeting on 14 June 2023 and will hold office until conclusion of the next general meeting at which accounts are laid before the Bank.

Financial statements
The financial statements were approved by the Board and signed on its behalf by

Julienne Daglish

Julienne Daglish
Director
19 March 2024

Lloyds Bank Corporate Markets plc
Registered in England and Wales
Company number 10399850

Financial statements

Financial statements and notes to the consolidated financial statements for the year ended 31 December 2023

Independent auditor's report

to the members of Lloyds Bank Corporate Markets plc

Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of Lloyds Bank Corporate Markets plc (the 'Bank') and its subsidiaries (the 'Group' or 'LBCM') give a true and fair view of the state of the Group's and of the Bank's affairs as at 31 December 2023 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board ('IASB');
- the Bank financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise the:

- consolidated income statement;
- consolidated and Bank statements of comprehensive income;
- consolidated and Bank balance sheets;
- consolidated and Bank statements of changes in equity;
- consolidated and Bank cash flow statements; and
- notes 1 to 37 to the financial statements, which include the accounting principles and policies.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law, United Kingdom adopted international accounting standards, and as regards the Bank's financial statements, as applied in accordance with the provisions of the Companies Act 2006.

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Group and Bank for the year are disclosed in note 8 to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the Group or the Bank.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: i. expected credit losses (Group and Bank); ii. valuation of complex and illiquid financial instruments held at fair value (Group and Bank); and iii. IT systems that impact financial reporting (Group and Bank). Our assessment of the level of risk for each of these areas has remained consistent with the prior year.
Materiality	Overall materiality used for the Group consolidated financial statements was £38.8 million, which was determined on the basis of net assets. Overall materiality used for the Bank financial statements was £38.8 million, which was determined on the basis of net assets and capped at Group materiality.
Scoping	Our audit scope covers 99 per cent of the Group's revenue, 94 per cent of the Group's profit before tax, 99 per cent of the Group's total assets and 99 per cent of the Group's total liabilities.

Our audit approach

Our audit approach is risk focused and structured to reflect the Group's organisation. It can be summarised into the following key activities that we used to obtain sufficient audit evidence required to form our opinion on the Group and Bank financial statements:

- **Audit planning and risk assessment**

Our audit planning procedures considered the impact of internal and external factors affecting the Group's profitability and operations, key audit matters most relevant to the users of the financial statements, the appropriate scope of audit work performed as well as the expectations and requirements of the Group's investors and regulators.

In performing our audit risk assessments, we considered the impact of macroeconomic factors on the Group's key accounting judgements and sources of estimation uncertainty. The key factors considered in our risk assessments were:

i. the impact of high interest rates, high inflation and cost of living pressures on the Group's ECL and valuation of certain illiquid and complex financial instruments; and

ii. changes to the regulatory and litigation environment affecting the Group's financial reporting.

We obtained the knowledge and information required to inform our audit planning and risk assessment decision making through regular meetings with Group Finance and the extensive use of data and technology.

- **Audit work executed at component level**

We have identified components based on the Group's operating segments. The following components were subject to audit procedures; the overseas component teams based in US, and Crown Dependencies. The Group audit team was in active dialogue throughout the audit with the component audit teams responsible for the audit work under the direction and supervision of the Group audit team. This included determining whether the work was planned and performed in accordance with the overall Group audit strategy and the requirements of our Group audit instructions to the components. We were able to satisfy ourselves that our oversight and supervision was appropriate through in-person meetings, video-conferencing, direct onsite reviews of work completed and we have continued to attend the quarterly meetings that our components have held with the local management.

- **Audit procedures undertaken at both Group level and Bank level**

We also performed audit work on the Group and Bank financial statements, including the consolidation of the Group's results, and the preparation of the financial statements, as well as the Group's entity level and oversight controls relevant to financial reporting. Entities not covered by our audit scope are subject to analytical procedures to confirm our conclusion that there were no significant risks of material misstatement in the aggregated financial information.

- **Internal controls testing approach**

Our internal controls testing approach was informed by our scoping and risk assessment activities. We have assessed the Group's end-to-end financial reporting processes supporting all in-scope financial statement balances and identified relevant controls to test. This included the testing of general IT controls, process level controls and entity level controls at the Group-level.

- **The impact of climate change on our audit**

In planning our audit, we have considered the impact of climate change on the Group's operations and subsequent impact on its financial statements. The Group sets out its assessment of the potential impact in note 3 of the Annual Report.

In conjunction with our climate risk specialists, we have held discussions with the Group to understand their:

– process for identifying affected operations, including the governance and controls over this process, and the subsequent effect on the financial reporting for the Group; and

– long-term strategy to respond to climate change risks and how this is factored into the Group's forecasts.

Our audit work has involved:

– evaluating climate risk as a factor in risk assessment for potentially affected balances;

– challenging the completeness of the physical and transition risks identified and considered in the Group's climate risk assessment and the conclusion that there is no material impact of climate change risk on the current year financial reporting;

– reviewing the Group's qualitative portfolio analysis, and challenging the key assumptions used by the Group with reference to our own understanding of the portfolios and publicly available documentation; and

– assessing disclosures in the Annual Report, and challenging the consistency between the financial statements and the remainder of the Annual Report.

We have not been engaged to provide assurance over the accuracy of climate change disclosures. As part of our audit procedures we are required to read and consider these disclosures to consider whether they are materially inconsistent with the financial statements or knowledge obtained in the audit and we did not identify any material inconsistencies as a result of these procedures.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the Group's and the Bank's ability to continue to adopt the going concern basis of accounting included:

- using our knowledge of the Group and Bank, the financial services industry, the financial services regulatory environment and the general economic environment including, macroeconomic pressures affecting the Group's operations, to identify inherent risks in the business model and how such risks might affect the financial resources or ability to continue operations over the going concern period;
- making enquiries of Group management about the assumptions, including climate risk considerations, used in their going concern models, and assessing the reasonableness of those assumptions and historical forecasting accuracy;
- evaluating the Group's strategic plans in light of the changing macroeconomic environment, short and longer term financial budgets, funding, liquidity and capital adequacy plans including internal stress tests;
- considering the Group's and the Bank's operational resilience;
- reading industry data, Bank of England reports and other external information to determine if it provided corroborative or contradictory evidence in relation to the Group's and the Bank's assumptions;
- reviewing correspondence and meeting with prudential and conduct regulators to assess whether there are any matters that may impact the going concern assessment;
- testing the underlying data generated to prepare the forecast scenarios and determined whether there was adequate support for the assumptions underlying the forecasts; and
- evaluating the Group's disclosures on going concern against the requirements of IAS 1 - *Presentation of Financial Statements.*

Based on the work we have performed. we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and Bank's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Expected credit losses (Group and Bank)

Key audit matter description	How the scope of our audit responded to the key audit matter
Refer to notes 2, 3, 9, 12, 14 and 33 in the financial statements The Group has recognised £30.8 million of expected credit losses ("ECL") as at 31 December 2023. The determination of ECL consists of a number of assumptions that are inherently uncertain and require a high degree of complex and subjective auditor judgement, specialised skills and knowledge, complex impairment modelling. Specifically, the impact of high interest rates and inflation, including refinancing risk on the ECL have been particularly judgemental in the current economic environment. The key areas we identified as having the most significant level of management judgement were in respect of: • Multiple Economic Scenarios ('MES'); • Collectively assessed loans; and • In-model adjustments ('IMA's') and post-model adjustments ('PMA')	

Key audit matter description (continued)	How the scope of our audit responded to the key audit matter (continued)
Multiple economic scenarios The measurement of expected credit losses is required to reflect an unbiased probability-weighted range of possible future outcomes. The Group's economics team develops the future economic scenarios. Firstly, a base case forecast is produced based on a set of conditioning assumptions, which are designed to reflect the Group's best view of future events. A full distribution of economic scenarios around this base case is produced using a Monte Carlo simulation and scenarios within that distribution are ranked using estimated relationships with industry-wide historical loss data. In addition to the base case, three scenarios are derived from the distribution as averages of constituent modelled scenarios around the 15th, 75th and 95th percentiles of the distribution which corresponds to an upside, a downside and a severe downside, respectively. The severe downside is then adjusted to incorporate non-modelled paths for inflation and interest rate assumptions. The upside, base case and downside scenarios are weighted at 30 per cent and the severe downside at 10 per cent. These four scenarios are then used as key assumptions in the determination of the ECL allowance. The development of these multiple economic scenarios is inherently uncertain, highly-complex and requires significant judgement. The principal consideration for our determination that the multiple economic scenarios is a key audit matter was the high degree of management judgement which required specialised auditor knowledge and a high degree of audit effort in areas such as evaluating the forward-looking information used by management and the weighting applied.	We performed the following procedures: • Tested the controls over the generation of the multiple economic scenarios including those over the Group's governance processes to determine the base case, different scenarios and the weightings applied to each scenario; • Working with our internal economic specialists: ◦ challenged and evaluated economic forecasts in the base scenario such as the UK and US unemployment rate, commercial real estate price growth, inflation and forecasted interest rates, and Gross Domestic Product in the UK and in the US through comparison to independent economic outlooks, external analysts and market data; ◦ challenged and evaluated the appropriateness of management's change in both assumptions and the model; ◦ challenged and evaluated the appropriateness of the methodology applied to generate alternative macroeconomic scenarios, and including associated weightings and assumptions within; and ◦ independently replicated the multiple economic scenario model for UK variables and compared the outputs of our independent model to the Group's output to re-test scenario generation; • tested the completeness and accuracy of the data used by the model; • performed a stand-back assessment of the appropriateness of the weightings applied to each of the scenarios based on publicly available data; and • evaluated the appropriateness of disclosures in respect of significant judgements and sources of estimation uncertainty, including macroeconomic scenarios.

Key audit matter description (continued)	How the scope of our audit responded to the key audit matter (continued)
Collectively assessed ECL Except for individually assessed stage 3, The ECL is determined on a collective basis using impairment models. These models use a number of significant judgements to calculate a probability weighted estimate by applying a probability of default, exposure at default and a loss given default, taking account of collateral held or other loss mitigants, discounted using the effective interest rate. The key judgements and estimates in determining the ECL include: • modelling approach, modelling simplifications and judgements, and selection of modelling data; • credit risk ratings which are performed on a counterparty basis for larger exposures by a credit officer; and • the appropriate allocation of assets into the correct staging taking into account any significant deterioration	We tested the controls across the process to determine the ECL provisions including: • model governance including model validation; • model assumptions; • the allocation of assets into stages, including those to determine the credit risk rating; and • data accuracy and completeness Working with our internal modelling specialists, our audit procedures over the key areas of estimation covered the following: • model estimations, where we: – evaluated the appropriateness of the modelling approach and assumptions used; – independently replicated the models for a sample of portfolios and compared the outputs of our independent models to the Group's outputs; – assessed model performance by evaluating variations between observed data and model predictions; – developed an understanding and assessed model limitations and remedial actions' and – tested the completeness and accuracy of the data used in model execution and calibration. • allocation of assets into stages, where we: – evaluated the appropriateness of quantitative and qualitative criteria used for allocation into IFRS 9 stages, including independently assessing the credit rating of loans; – tested the appropriateness of the stage allocation for a sample of exposures; and – tested the data used by models in assigning IFRS 9 stages and evaluated the appropriateness of the model logic used.

Key audit matter description (continued)	How the scope of our audit responded to the key audit matter (continued)
In-model adjustments ('IMAs') and post-model adjustments ('PMA') and loans individually assessed Adjustments are made to models to address known model and data limitations, and emerging or non-modelled risks. The current economic environment, characterised by elevated cost of living pressures on borrowers and high inflation, has increased the uncertainty of credit losses. As a result, the amount and timing of adjustments recognised in the model to account for the impacts of the current economic environment are highly judgemental and inherently uncertain. These adjustments require specialist auditor judgement when evaluating the: • completeness of adjustments; and • methodology, models and inputs used in determining the relevant adjustments. Where impairment models do not incorporate all factors relevant to estimating the ECL, adjustments are made to address known model limitations and data limitations, emerging or non-modelled risks and the impact of economic uncertainty on different industry sectors. The measurement of judgements around model adjustments to evaluate the completeness of adjustments, methodology and model inputs for these adjustments is highly judgemental and inherently uncertain.	We tested the controls over the valuation of in-model and post-model adjustments. We performed the following audit procedures over a sample of model adjustments: • evaluated the methodology, approach and assumptions in developing the adjustments, and evaluated the Group's selection of approach; • assessed the appropriateness of the model methodologies, approach and assumptions, including those used in developing the internal model adjustments and post model adjustments; • tested the completeness and accuracy of key data used in formulating the judgements; • performed a recalculation of adjustments; and • evaluated the completeness of adjustments based on our understanding of both model and data limitations, including those related to high interest rate and high inflationary pressures.

Key observations communicated to the Audit Committee

We are satisfied that the ECL provisions are reasonable and recognised in accordance with the requirements of IFRS 9. The calculations are based on appropriate methodologies using reasonable modelled assumptions, including IMAs and PMAs addressing model shortcomings. Overall, we are comfortable with the Group's conclusions in respect of ECL.

Valuation of certain complex and illiquid financial instruments held at fair value (Group and the Bank)

Key audit matter description	How the scope of our audit responded to the key audit matter
Refer to notes 2, 3, 11, 31 and 33 in the financial statements Financial instruments are classified as Level 1, 2 or 3 in accordance with IFRS 13 '*Fair value measurement*'. The fair value of complex and illiquid financial instruments, involves significant judgement. The extent of judgment applied by the Group in valuing the Group's financial investments varies with the nature of assets held, the markets in which they are traded, and the valuation methodology applied. As at 31 December 2023, the Group has £940 million of complex and illiquid financial instruments, consisting of long-dated derivative contracts, illiquid debt securities and loans to customers. The valuation of these Level 3 financial instruments uses complex valuation models as these are without readily determinable market values and were valued using significant unobservable inputs that involved considerable judgment by management. We consider these judgements to be at risk of management bias, giving rise to a potential risk of fraud.	We tested the controls over the valuation of financial instruments, including controls over independent price verification and model validation controls. We utilised our valuation specialists in our audit of the valuation of the Level 3 portfolios and we performed the following procedures: • evaluated the appropriateness of derivative contracts and illiquid debt and loans valuation methodologies; • calculated an independent valuation for a sample of modelled Level 3 financial instruments and compared results of our independent estimates with the valuation recognised by the Group; • evaluated the consistency and appropriateness of inputs and assumptions over time, challenging both significant movements and non-movements where we expected change; • performed a stand back assessment of the appropriateness of the assumptions, and input data used in the valuation of Level 3 financial instruments; and • assessed the appropriateness of financial instruments disclosures.

Key observation communicated to the Audit Committee

We are satisfied that the valuation of complex and illiquid financial instruments is reasonable and in accordance with IFRS 13 *Fair value measurement*.

IT systems that impact financial reporting (Group and Bank)

Key audit matter description	How the scope of our audit responded to the key audit matter
The Group's IT environment is inherently complex due to the number of systems it operates and its reliance on automated and IT dependent manual controls. Together, these support a broad range of commercial, treasury and trading products as well as the processing of the Group's significant volume of transactions, which impact all account balances. As such, IT systems within the Group form a critical component of the Group's financial reporting activities. Due to the significant reliance on IT systems, effective General IT Controls (GITCs) are critical to allow reliance to be placed on the completeness and accuracy of financial data and the integrity of automated system functionality, such as system calculations. We identified the IT systems that impact financial reporting as a key audit matter because of the: • pervasive reliance on complex technology that is integral to the operation of key business processes and financial reporting; • reliance on technology which continues to develop in line with the business strategy, such as the increase in the use of automation across the Group and increasing reliance on third parties; and • importance of the IT controls in maintaining an effective control environment. A key interdependency exists between the ability to rely on IT controls and the ability to rely on financial data, system configured automated controls and system reports. IT controls, in the context of our audit scope, primarily relate to privileged access at the infrastructure level, user access security at the application level and change control.	Our IT audit scope included testing the Group's IT controls over information systems deemed relevant to the audit based on the financial data, system configured automated controls and/or key financial reports that reside within it. We used IT specialists to support our evaluation of the risks associated with IT in the following areas: • general IT controls, including user access and change management controls; • key financial reports and system configured automated controls; and • cyber security risk assessment. Where deficiencies in the IT control environment were identified, our risk assessment procedures included an assessment of those deficiencies to determine the impact on our audit plan. Where relevant, the audit plan was adjusted to mitigate the unaddressed IT risk. Where we were able to identify and test appropriate mitigating controls over affected financial statement line items, our testing approach remained unchanged. In a limited number of areas, we adopted a non-controls reliance approach and we therefore performed additional substantive procedures.

Key observations communicated to the Audit Committee

We are satisfied that the Group's overall IT control environment appropriately supports the financial reporting process and control deficiencies identified in respect of privileged user access to IT infrastructure and in application user access management were mitigated by compensating business controls.

6. Our application of materiality

6.1 Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Bank financial statements
Materiality	£38.8 million (2022: £33.9 million).	£38.8 million (2022: £33.9 million).
Basis for determining materiality	In determining our benchmark for materiality, we have considered the metrics used by investors and other users of the financial statements. We have determined net assets to be the most relevant to users of the financial statements. The Group's materiality represents 1 per cent of net assets.	The Bank's materiality represents 1 per cent of net assets, and is capped at Group materiality.
Rationale for the benchmark applied	Given the importance of these measures to investors and users of the financial statements, we have used net assets as the primary benchmark for our determination of materiality. Net assets is a key metric within the financial statements on which the users, being the owner of the Group, lenders and regulatory body tends to focus. Component materiality allocated across all two components range between £11.6 million and £12.8 million (2022: £10.2 million and £13.6 million).	Given the importance of these measures to investors and users of the financial statements, we have used net assets as the primary benchmark for our determination of materiality. Net assets is a key metric within the financial statements on which the users, being the owner of the Bank, lenders, and regulatory body tends to focus. Component materiality allocated across all two components range between £11.6 million and £12.8 million (2022: £10.2 million and £13.6 million).

6.2 Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Bank financial statements
Performance materiality	60 per cent of Group materiality at £23.3 million (2022: 60 per cent of Group materiality at £20.4 million).	60 per cent of Bank materiality at £23.2 million (2022: 60 per cent of Bank materiality at £20.4 million).
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the following factors: a. the quality of the control environment and whether we were able to rely on controls; b. degree of centralisation and commonality of controls and processes; c. the uncertain economic environment; d. the nature, volume and size of uncorrected misstatements arising in the previous audit; and e. the nature, volume and size of uncorrected misstatements that remain uncorrected in the current period.	

6.3 Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £1.9 million (2022: £1.7 million), as well as any differences below this threshold, which in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. Other information

The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the Annual Report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in course of the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

8. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Bank's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Bank or to cease operations, or have no realistic alternative but to do so.

9. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

10. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Identifying and assessing potential risks related to irregularities

In identifying and assessing the risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, in-house legal counsel, internal audit and the Audit Committee, including obtaining and reviewing supporting documentation, concerning the Group's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussion among the engagement team including significant component audit teams and involving relevant internal specialists, including tax, valuations, economic, credit risk, IT and industry specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud; and
- understanding of the legal and regulatory frameworks that the Group operates in, focusing on those laws and regulations that had a direct effect on the financial statements, such as provisions of the UK Companies Act, pensions legislation and tax legislation or that had a fundamental effect on the operations of the Group, including regulation and supervisory requirements of the Prudential Regulation Authority, Financial Reporting Council and Financial Conduct Authority.

Audit response to risks identified

As a result of performing the above, we identified the Group's determination of 'expected credit loss' and 'valuation of complex and illiquid financial instruments held at fair value' as key audit matter related to the potential risk of fraud.

The key audit matters section of our report explains the matter in more detail and also describes the specific procedures in response to those key audit matter. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and correspondence with regulators including Prudential Regulation Authority and Financial Conduct Authority; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including specialists, and component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

11. Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and of the Bank and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

12. Matters on which we are required to report by exception

Adequacy of explanations received and accounting records Under the Companies Act 2006 we are required to report to you if, in our opinion: • we have not received all the information and explanations we require for our audit; or • adequate accounting records have not been kept by the Bank, or returns adequate for our audit have not been received from branches not visited by us; or • the Bank's financial statements are not in agreement with the accounting records and returns.	**We have nothing to report in respect of these matters.**
Directors' remuneration Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.	**We have nothing to report in respect of this matter.**

13. Other matters which we are required to address

Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by shareholders at its annual general meeting on 18th May 2023 to audit the financial statements of Lloyds Bank Corporate Markets plc for the year ended 31 December 2023 and subsequent financial periods. The period of total uninterrupted engagement of the firm is accordingly three years.

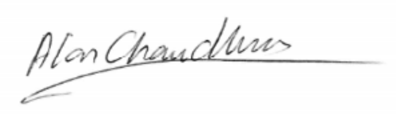
Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

14. Use of our report

This report is made solely to the Bank's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Bank's members those matters we are required to state to them in an auditor's 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 and the Bank's members as a body, for our audit work, for this report, or for the opinions we have formed.

As required by the Financial Conduct Authority (FCA) Disclosure Guidance and Transparency Rule (DTR) 4.1.15R – DTR 4.1.18R, these financial statements will form part of the Electronic Format Annual Financial Report filed on the National Storage Mechanism of the FCA in accordance with DTR 4.1.15R – DTR 4.1.18R. This auditor's report provides no assurance over whether the Electronic Format Annual Financial Report has been prepared in compliance with DTR 4.1.15R – DTR 4.1.18R.



Alan Chaudhuri (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
19 March 2024

Consolidated income statement

for the year ended 31 December

	Note	2023 £m	2022 £m
Interest income		**2,696**	1,087
Interest expense		**(2,498)**	(812)
Net interest income	4	**198**	275
Fee and commission income		**303**	228
Fee and commission expense		**(39)**	(36)
Net fee and commission income	5	**264**	192
Net trading income	6	**442**	495
Other operating income		**4**	5
Other income		**710**	692
Total income		**908**	967
Operating expenses	7	**(509)**	(444)
Impairment credit (charge)	9	**28**	(46)
Profit before tax		**427**	477
Tax expense	10	**(89)**	(97)
Profit for the year		**338**	380
Profit attributable to ordinary shareholders		**258**	337
Profit attributable to other equity holders		**80**	43
Profit for the year		**338**	380

The accompanying notes are an integral part of the financial statements.

Statements of comprehensive income

for the year ended 31 December

		The Group		The Bank	
	Note	2023 £m	2022 £m	2023 £m	2022 £m
Profit for the year		**338**	380	**320**	348
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, net of tax	23	**2**	–	**2**	–
Movements in cash flow hedging reserve, net of tax	23	**230**	(471)	**230**	(471)
Movements in foreign currency translation reserve, net of tax	23	**(20)**	10	**(16)**	3
Total other comprehensive income/(loss) for the year, net of tax		**212**	(461)	**216**	(468)
Total comprehensive income/(loss) for the year		**550**	(81)	**536**	(120)
Total comprehensive income/(loss) attributable to ordinary shareholders		**470**	(124)	**456**	(163)
Total comprehensive income attributable to other equity holders		**80**	43	**80**	43
Total comprehensive income/(loss) for the year		**550**	(81)	**536**	(120)

The accompanying notes are an integral part of the financial statements.

Balance sheets

at 31 December

	Note	The Group 2023 £m	The Group 2022 £m	The Bank 2023 £m	The Bank 2022 £m
Assets					
Cash and balances at central banks		**20,201**	19,382	**20,201**	19,382
Financial assets at fair value through profit or loss	31	**21,989**	14,780	**21,847**	14,642
Derivative financial instruments	11	**22,606**	24,621	**22,606**	24,647
Loans and advances to banks		**1,753**	2,117	**1,726**	2,063
Loans and advances to customers	12	**16,447**	19,127	**16,167**	18,864
Reverse repurchase agreements		**6,020**	5,606	**6,020**	5,606
Debt securities		**374**	305	**374**	305
Due from fellow Lloyds Banking Group undertakings		**297**	269	**629**	593
Financial assets at amortised cost		**24,891**	27,424	**24,916**	27,431
Financial assets at fair value through other comprehensive income	31	**–**	6	**–**	6
Property, plant and equipment	15	**48**	56	**38**	45
Current tax recoverable		**14**	5	**10**	2
Deferred tax assets	10	**108**	213	**128**	226
Investment in subsidiary undertakings	16	**–**	–	**180**	180
Other assets	17	**470**	172	**449**	164
Total assets		**90,327**	86,659	**90,375**	86,725
Liabilities					
Deposits from banks		**2,078**	2,456	**2,078**	2,456
Customer deposits		**29,439**	29,152	**29,439**	29,152
Repurchase agreements		**1**	7	**1**	7
Due to fellow Lloyds Banking Group undertakings		**1,213**	1,481	**1,256**	1,526
Financial liabilities at fair value through profit or loss	31	**19,686**	12,578	**19,686**	12,578
Derivative financial instruments	11	**17,576**	20,070	**17,576**	20,070
Debt securities in issue	18	**15,378**	16,131	**15,378**	16,131
Other liabilities	19	**297**	574	**280**	558
Current tax liabilities		**12**	28	**12**	29
Other provisions	20	**16**	26	**15**	25
Subordinated liabilities	21	**755**	761	**755**	761
Total liabilities		**86,451**	83,264	**86,476**	83,293

	Note	The Group 2023 £m	The Group 2022 £m	The Bank 2023 £m	The Bank 2022 £m
Equity					
Share capital	22	**370**	370	**370**	370
Other reserves	23	**(313)**	(525)	**(314)**	(530)
Retained profits[1]	24	**3,011**	2,768	**3,035**	2,810
Ordinary shareholder's equity		**3,068**	2,613	**3,091**	2,650
Other equity instruments	25	**808**	782	**808**	782
Total equity		**3,876**	3,395	**3,899**	3,432
Total equity and liabilities		**90,327**	86,659	**90,375**	86,725

1 The Bank recorded a profit after tax for the year of £320 million (2022: £348 million).

The accompanying notes are an integral part of the financial statements.

The Directors approved the financial statements on 19 March 2024.

Carla Antunes da Silva
Director

Julienne C Daglish
Director

Statements of changes in equity

for the year ended 31 December

The Group	Share capital £m	Other reserves £m	Retained profits £m	Total £m	Other equity instruments £m	Total £m
	Attributable to ordinary shareholders					
At 1 January 2022	120	(64)	2,651	2,707	782	3,489
Comprehensive income						
Profit for the year	–	–	337	337	43	380
Other comprehensive income/(loss)						
Movements in revaluation reserve in respect of debt securities held at fair value through other comprehensive income, net of tax	–	–	–	–	–	–
Movements in cash flow hedging reserve, net of tax	–	(471)	–	(471)	–	(471)
Movements in foreign currency translation reserve, net of tax	–	10	–	10	–	10
Total other comprehensive (loss)	–	(461)	–	(461)	–	(461)
Total comprehensive income/(loss)	–	(461)	337	(124)	43	(81)
Transactions with owners						
Dividends (note 26)	–	–	(220)	(220)	–	(220)
Distributions on other equity instruments	–	–	–	–	(43)	(43)
Issue of ordinary shares	250	–	–	250	–	250
Total transactions with owners	250	–	(220)	30	(43)	(13)
At 31 December 2022	370	(525)	2,768	2,613	782	3,395
Comprehensive income						
Profit for the period	**–**	**–**	**258**	**258**	**80**	**338**
Other comprehensive income/(loss)						
Movements in revaluation reserve in respect of debt securities held at fair value through other comprehensive income, net of tax	**–**	**2**	**–**	**2**	**–**	**2**
Movements in cash flow hedging reserve, net of tax	**–**	**230**	**–**	**230**	**–**	**230**
Movements in foreign currency translation reserve, net of tax	**–**	**(20)**	**–**	**(20)**	**–**	**(20)**
Total other comprehensive income	**–**	**212**	**–**	**212**	**–**	**212**
Total comprehensive income[1]	**–**	**212**	**258**	**470**	**80**	**550**
Transactions with owners						
Distributions on other equity instruments	**–**	**–**	**–**	**–**	**(80)**	**(80)**
Net issuance of other equity instruments (note 25)	**–**	**–**	**–**	**–**	**26**	**26**
Loss on repayment of other equity instruments	**–**	**–**	**(15)**	**(15)**	**–**	**(15)**
Total transactions with owners	**–**	**–**	**(15)**	**(15)**	**(54)**	**(69)**
At 31 December 2023	**370**	**(313)**	**3,011**	**3,068**	**808**	**3,876**

1 Total comprehensive income attributable to owners of the parent was £550 million (2022: loss of £81 million).

Statements of changes in equity continued

The Bank	Share capital £m	Other reserves £m	Retained profits £m	Total £m	Other equity instruments £m	Total £m
	Attributable to ordinary shareholders					
At 1 January 2022	120	(62)	2,725	2,783	782	3,565
Comprehensive income						
Profit for the year	–	–	305	305	43	348
Other comprehensive income/(loss)						
Movements in revaluation reserve in respect of debt securities held at fair value through other comprehensive income, net of tax	–	–	–	–	–	–
Movements in cash flow hedging reserve, net of tax	–	(471)	–	(471)	–	(471)
Movements in foreign currency translation reserve, net of tax	–	3	–	3	–	3
Total other comprehensive (loss)	–	(468)	–	(468)	–	(468)
Total comprehensive income/(loss)	–	(468)	305	(163)	43	(120)
Transactions with owners						
Dividends (note 26)	–	–	(220)	(220)	–	(220)
Distributions on other equity instruments	–	–	–	–	(43)	(43)
Issue of ordinary shares	250	–	–	250	–	250
Total transactions with owners	250	–	(220)	30	(43)	(13)
At 31 December 2022	370	(530)	2,810	2,650	782	3,432
Comprehensive income						
Profit for the year	**–**	**–**	**240**	**240**	**80**	**320**
Other comprehensive income/(loss)						
Movements in revaluation reserve in respect of debt securities held at fair value through other comprehensive income, net of tax	**–**	**2**	**–**	**2**	**–**	**2**
Movements in cash flow hedging reserve, net of tax	**–**	**230**	**–**	**230**	**–**	**230**
Movements in foreign currency translation reserve, net of tax	**–**	**(16)**	**–**	**(16)**	**–**	**(16)**
Total other comprehensive income	**–**	**216**	**–**	**216**	**–**	**216**
Total comprehensive income	**–**	**216**	**240**	**456**	**80**	**536**
Transactions with owners						
Distributions on other equity instruments	**–**	**–**	**–**		**(80)**	**(80)**
Net issuance of other equity instruments (note 25)	**–**	**–**	**–**	**–**	**26**	**26**
Loss on repayment of other equity instruments	**–**	**–**	**(15)**	**(15)**	**–**	**(15)**
Total transactions with owners	**–**	**–**	**(15)**	**(15)**	**(54)**	**(69)**
At 31 December 2023	**370**	**(314)**	**3,035**	**3,091**	**808**	**3,899**

1 Total comprehensive income attributable to owners of the parent was £536 million (2022: loss of £120 million).

The accompanying notes are an integral part of the financial statements. Further details of movements in LBCM's share capital and reserves are provided in notes 22, 23, 24 and 25.

Cash flow statements

for the year ended 31 December

	Note	The Group 2023 £m	The Group 2022 £m	The Bank 2023 £m	The Bank 2022 £m
Cash flows from operating activities					
Profit before tax		**427**	477	**399**	436
Adjustments for:					
Change in operating assets	35(A)	**(3,390)**	(1,652)	**(3,331)**	(1,657)
Change in operating liabilities	35(B)	**3,618**	(2,865)	**3,614**	(2,881)
Non-cash and other items	35(C)	**707**	(302)	**702**	(296)
Tax paid		**(98)**	(57)	**(96)**	(58)
Net cash (used in)/provided by operating activities		**1,264**	(4,399)	**1,288**	(4,456)
Cash flows from investing activities					
Purchase of financial assets		**(2)**	(26)	**(3)**	(27)
Proceeds from sale and maturity of financial assets		**10**	131	**10**	132
Purchase of fixed assets		**(2)**	(7)	**(2)**	(5)
Dividends received from subsidiaries		**–**	–	**–**	22
Net cash (used in)/provided by investing activities		**6**	98	**5**	122
Cash flows from financing activities					
Dividends paid to ordinary shareholders	26	**–**	(220)	**–**	(220)
Distributions on other equity instruments	25	**(80)**	(43)	**(80)**	(43)
Issue of ordinary shares		**—**	250	**—**	250
Interest paid on subordinated liabilities		**(58)**	(25)	**(58)**	(25)
Finance Leases		**(6)**	(10)	**(5)**	(8)
Proceeds from issue of subordinated liabilities	21	**299**	–	**299**	–
Repayment of subordinated liabilities	21	**(284)**	–	**(284)**	–
Loss on repayment of other equity instruments	24	**(15)**	–	**(15)**	–
Issue of other equity instruments	25	**289**	–	**289**	–
Repurchases and redemptions of other equity instruments	25	**(263)**	–	**(263)**	–
Net cash (used in)/provided by financing activities		**(118)**	(48)	**(117)**	(46)
Effect of exchange rate changes on cash and cash equivalents		**(405)**	695	**(403)**	693
Change in cash and cash equivalents		**747**	(3,654)	**773**	(3,687)
Cash and cash equivalents at beginning of year		**19,449**	23,103	**19,396**	23,083
Cash and cash equivalents at end of year	35(D)	**20,196**	19,449	**20,169**	19,396

The accompanying notes are an integral part of the financial statements.

Notes to the accounts

Note 1: Basis of preparation

The consolidated financial statements of Lloyds Bank Corporate Markets plc and its subsidiary undertakings have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. The financial statements have also been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The financial information has been prepared under the historical cost convention, as modified by the revaluation financial assets measured at fair value through other comprehensive income, trading securities and certain other financial assets and liabilities at fair value through profit or loss and all derivative contracts. The Directors consider that it is appropriate to continue to adopt the going concern basis in preparing the financial statements. In reaching this assessment, the Directors have considered the implications of climate change upon LBCM's performance and projected funding and capital position. The Directors have also taken into account the impact of further stress scenarios.

With the exception of the minor amendments detailed below, as at 19 March 2024 these pronouncements have been endorsed for use in the UK.

Future accounting developments

The following pronouncements are not applicable for the year ending 31 December 2023 and have not been applied in preparing these financial statements. Save as disclosed below, the impact of these accounting changes is still being assessed by the Group and reliable estimates cannot be made at this stage.

Minor amendments to other accounting standards

The IASB has issued a number of minor amendments to IFRSs effective 1 January 2024, including IFRS 16 *Lease Liability in a Sale and Leaseback*, IAS 1 *Non-current Liabilities with Covenants*, and IAS 1 *Classification of Liabilities as Current or Non-current*. These amendments are not expected to have a significant impact on the Group and have been endorsed for use in the UK.

Note 2: Accounting policies

The accounting policies are set out below. These accounting policies have been applied consistently.

(A) Consolidation

The assets, liabilities and results of Group undertakings are included in the financial statements on the basis of accounts made up to the reporting date. Group undertakings include subsidiaries. Details of LBCM's subsidiaries and related undertakings are given in the other information section of the report.

(1) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it has power over the entity, is exposed to, or has rights to, variable returns from its involvement with the entity, and has the ability to affect those returns through the exercise of its power. This generally accompanies a shareholding of more than one half of the voting rights although in certain circumstances a holding of less than one half of the voting rights may still result in the ability of the Group to exercise control. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group reassesses whether or not it controls an entity if facts and circumstances indicate that there have been changes to any of the above elements. Subsidiaries are fully consolidated from the date on which control is transferred to the Group; they are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated.

(B) Revenue recognition

(1) Net interest income

Interest income and expense are recognised in the income statement using the effective interest method for all interest-bearing financial instruments, except for those classified at fair value through profit or loss. The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the expected life of the financial instrument. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument to the gross carrying amount of the financial asset (before adjusting for expected credit losses) or to the amortised cost of the financial liability, including early redemption fees, other fees, and premiums and discounts that are an integral part of the overall return. In the case of financial assets that are purchased or originated credit-impaired, the effective interest rate is the rate that discounts the estimated future cash flows to the amortised cost of the instrument. Direct incremental transaction costs related to the acquisition, issue or disposal of a financial instrument are also taken into account. Interest income from non-credit impaired financial assets is recognised by applying the effective interest rate to the gross carrying amount of the asset; for credit impaired financial assets, the effective interest rate is applied to the net carrying amount after deducting the allowance for expected credit losses. Impairment policies are set out in (F) below.

(2) Fee and commission income and expense

Fees and commissions receivable which are not an integral part of the effective interest rate are recognised as income as LBCM fulfils its performance obligations. LBCM receives certain fees in respect of its asset finance business where the performance obligations are typically fulfilled towards the end of the customer contract; these fees are recognised in income on this basis. Where it is unlikely that the loan commitments will be drawn, loan commitment fees are recognised in fee and commission income over the life of the facility, rather than as an adjustment to the effective interest rate for loans expected to be drawn. Incremental costs incurred to generate fee and commission income are charged to fees and commissions expense as they are incurred.

(3) Other

Dividend income is recognised when the right to receive payment is established. Revenue recognition policies specific to trading income are set out in (C)(3) below; those relating to leases are set out in (H)(1) below.

(C) Financial assets and liabilities

On initial recognition, financial assets are classified as measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss, depending on LBCM's business model for managing those financial assets and whether the resultant cash flows represent solely payments of principal and interest. LBCM assesses its business models at a portfolio level based on its objectives for the relevant portfolio, how the performance of the portfolio is managed and reported, and the frequency of asset sales. Financial assets with embedded derivatives are considered in their entirety when considering their cash flow characteristics. LBCM reclassifies financial assets only when its business model for managing those assets changes. A reclassification will only take place when the change is significant to LBCM's operations and will occur at a portfolio level and not for individual instruments; reclassifications are expected to be rare. Equity investments are measured at fair value through profit or loss unless LBCM elects at initial recognition to account for the instruments at fair value through other comprehensive income. For these instruments, principally strategic investments, dividends are recognised in profit or loss but fair value gains and losses are not subsequently reclassified to profit or loss following derecognition of the investment.

LBCM initially recognises loans and advances, deposits, debt securities in issue and subordinated liabilities when it becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of securities and other financial assets and trading liabilities are recognised on trade date, being the date that LBCM is committed to purchase or sell an asset.

Note 2: Accounting policies continued

Financial assets are derecognised when the contractual right to receive cash flows from those assets has expired or when LBCM has transferred its contractual right to receive the cash flows from the assets and either: substantially all of the risks and rewards of ownership have been transferred; or LBCM has neither retained nor transferred substantially all of the risks and rewards, but has transferred control.

Financial liabilities are derecognised when the obligation is discharged, cancelled or expires.

(1) Financial instruments measured at amortised cost

Financial assets that are held to collect contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A basic lending arrangement results in contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. Where the contractual cash flows introduce exposure to risks or volatility unrelated to a basic lending arrangement such as changes in equity prices or commodity prices, the payments do not comprise solely principal and interest. Financial assets measured at amortised cost are predominantly loans and advances to customers and banks together with certain debt securities used by LBCM to manage its liquidity. Loans and advances are initially recognised when cash is advanced to the borrower at fair value inclusive of transaction costs. Interest income is accounted for using the effective interest method (see (B) above).

Financial liabilities are measured at amortised cost, except for trading liabilities and other financial liabilities designated at fair value through profit or loss on initial recognition which are held at fair value.

(2) Financial assets measured at fair value through other comprehensive income

Financial assets that are held to collect contractual cash flows and for subsequent sale, where the assets' cash flows represent solely payments of principal and interest, are recognised in the balance sheet at their fair value, inclusive of transaction costs. Interest calculated using the effective interest method and foreign exchange gains and losses on assets denominated in foreign currencies are recognised in the income statement. All other gains and losses arising from changes in fair value are recognised directly in other comprehensive income, until the financial asset is either sold or matures, at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in the income statement other than in respect of equity shares, for which the cumulative revaluation amount is transferred directly to retained profits. LBCM recognises a charge for expected credit losses in the income statement (see (F) below). As the asset is measured at fair value, the charge does not adjust the carrying value of the asset, it is reflected in other comprehensive income.

(3) Financial instruments measured at fair value through profit or loss

Financial assets are classified at fair value through profit or loss where they do not meet the criteria to be measured at amortised cost or fair value through other comprehensive income. All derivatives are carried at fair value through profit or loss. Derivatives are carried on the balance sheet as assets when their fair value is positive and as liabilities when their fair value is negative. Refer to note 31 (2) (Fair values of financial assets and liabilities: Financial assets and liabilities carried at fair value) for details of valuation techniques and significant inputs to valuation models.

Derivatives embedded in a financial asset are not considered separately; the financial asset is considered in its entirety when determining whether its cash flows are solely payments of principal and interest. Derivatives embedded in financial liabilities are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

Trading securities, which are debt securities and equity shares acquired principally for the purpose of selling in the short term or which are part of a portfolio which is managed for short-term gains, do not meet these criteria and are also measured at fair value through profit or loss. Financial assets measured at fair value through profit or loss are recognised in the balance sheet at their fair value. Fair value gains and losses together with interest coupons and dividend income are recognised in the income statement within net trading income.

Financial liabilities are measured at fair value through profit or loss where they are trading liabilities and are recognised in the balance sheet at their fair value. Fair value gains and losses are recognised in the income statement within net trading income in the period in which they occur.

The fair values of assets and liabilities traded in active markets are based on current bid and offer prices, respectively, which include the expected effects of potential changes to laws and regulations, risks associated with climate change and other factors. If the market is not active LBCM establishes a fair value by using valuation techniques. The fair values of derivative financial instruments are adjusted where appropriate to reflect credit risk (via credit valuation adjustments (CVAs), debit valuation adjustments (DVAs) and funding valuation adjustments (FVAs)), market liquidity and other risks.

(4) Borrowings

Borrowings (which include deposits from banks, customer deposits, repurchase agreements, debt securities in issue and subordinated liabilities) are recognised initially at fair value, being their issue proceeds net of transaction costs incurred. These instruments are subsequently stated at amortised cost using the effective interest method.

Preference shares and other instruments which carry a mandatory coupon or are redeemable on a specific date are classified as financial liabilities. The coupon on these instruments is recognised in the income statement as interest expense. Securities which carry a discretionary coupon and have no fixed maturity or redemption date are classified as other equity instruments. Interest payments on these securities are recognised as distributions from equity in the period in which they are paid. An exchange of financial liabilities on substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The difference between the carrying amount of a financial liability extinguished and the new financial liability is recognised in profit or loss together with any related costs or fees incurred.

When a financial liability is exchanged for an equity instrument, the new equity instrument is recognised at fair value and any difference between the carrying value of the liability and the fair value of the new equity instrument is recognised in profit or loss.

(5) Sale and repurchase agreements (including securities lending and borrowing)

Securities sold subject to repurchase agreements (repos) continue to be recognised on the balance sheet where substantially all of the risks and rewards are retained. Funds received for repos carried at fair value are included within trading liabilities. Conversely, securities purchased under agreements to resell (reverse repos), where LBCM does not acquire substantially all of the risks and rewards of ownership, are measured at amortised cost or at fair value. Those measured at fair value are recognised within trading securities. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

Securities borrowing and lending transactions are typically secured; collateral takes the form of securities or cash advanced or received. Securities lent to counterparties are retained on the balance sheet. Securities borrowed are not recognised on the balance sheet, unless these are sold to third parties, in which case the obligation to return them is recorded at fair value as a trading liability. Cash collateral given or received is treated as a loan and advance measured at amortised cost or customer deposit.

(D) Hedge accounting

As permitted by IFRS 9, LBCM continues to apply the requirements of IAS 39 to its hedging relationships.

Changes in the fair value of all derivative instruments, other than those in effective cash flow hedging relationships, are recognised immediately in the income statement. As noted in (1) and (2) below, the change in fair value of a derivative in an effective cash flow or net investment hedging relationship is allocated between the income statement and other comprehensive income.

Note 2: Accounting policies continued

Hedge accounting allows one financial instrument, generally a derivative such as a swap, to be designated as a hedge of another financial instrument such as a loan or deposit or a portfolio of such instruments. At the inception of the hedge relationship, formal documentation is drawn up specifying the hedging strategy, the hedged item, the hedging instrument and the methodology that will be used to measure the effectiveness of the hedge relationship in offsetting changes in the fair value or cash flow of the hedged risk. The effectiveness of the hedging relationship is tested both at inception and throughout its life and if at any point it is concluded that it is no longer highly effective in achieving its documented objective, hedge accounting is discontinued. Note 11 provides details of the types of derivatives held by LBCM and presents separately those designated in hedge relationships.

Where there is uncertainty arising from interest rate benchmark reform, LBCM assumes that the interest rate benchmark on which the hedged cash flows and/or the hedged risk are based, or the interest rate benchmark on which the cash flows of the hedging instrument are based, are not altered as a result of interest rate benchmark reform. LBCM does not discontinue a hedging relationship during the period of uncertainty arising from the interest rate benchmark reform solely because the actual results of the hedge are not highly effective.

Where the contractual terms of a financial asset, financial liability or derivative are amended, on an economically equivalent basis, as a direct consequence of interest rate benchmark reform, the uncertainty arising from the reform is no longer present. In these circumstances, LBCM amends the hedge documentation to reflect the changes required by the reform; these changes to the documentation do not in and of themselves result in the discontinuation of hedge accounting or require the designation of a new hedge relationship.

(1) Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk; this also applies if the hedged asset is classified as a financial asset at fair value through other comprehensive income. If the hedge no longer meets the criteria for hedge accounting, changes in the fair value of the hedged item attributable to the hedged risk are no longer recognised in the income statement. The cumulative adjustment that has been made to the carrying amount of the hedged item is amortised to the income statement using the effective interest method over the period to maturity.

(2) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income in the cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are reclassified to the income statement in the periods in which the hedged item affects profit or loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the income statement when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(E) Offset

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right of offset and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. Cash collateral on exchange traded derivative transactions is presented gross unless the collateral cash flows are always settled net with the derivative cash flows. In certain situations, even though master netting agreements exist, the lack of management intention to settle on a net basis results in the financial assets and liabilities being reported gross on the balance sheet.

(F) Impairment of financial assets

The impairment charge in the income statement reflects the change in expected credit losses, including those arising from fraud. Expected credit losses are recognised for loans and advances to customers and banks, other financial assets held at amortised cost, financial assets (other than equity investments) measured at fair value through other comprehensive income, and certain loan commitments and financial guarantee contracts. Expected credit losses are calculated as an unbiased and probability-weighted estimate using an appropriate probability of default, adjusted to take into account a range of possible future economic scenarios and applying this to the estimated exposure of LBCM at the point of default after taking into account the value of any collateral held, repayments or other mitigants of loss and including the impact of discounting using the effective interest rate.

At initial recognition, allowance (or provision in the case of some loan commitments and financial guarantees) is made for expected credit losses resulting from default events that are possible within the next 12 months (12-month expected credit losses). In the event of a significant increase in credit risk since origination, allowance (or provision) is made for expected credit losses resulting from all possible default events over the expected life of the financial instrument (lifetime expected credit losses). Financial assets where 12-month expected credit losses are recognised are considered to be Stage 1; financial assets which are considered to have experienced a significant increase in credit risk since initial recognition are in Stage 2; and financial assets which have defaulted or are otherwise considered to be credit-impaired are allocated to Stage 3. Some Stage 3 assets are subject to individual rather than collective assessment. Such cases are subject to a risk-based impairment sanctioning process, and these are reviewed and updated at least quarterly, or more frequently if there is a significant change in the credit profile. The collective assessment of impairment aggregates financial instruments with similar risk characteristics, such as whether the facility is revolving in nature or secured and the type of security held against financial assets.

An assessment of whether credit risk has increased significantly since initial recognition considers the change in the risk of default occurring over the remaining expected life of the financial instrument. In determining whether there has been a significant increase in credit risk, LBCM uses quantitative tests based on relative and absolute probability of default (PD) movements linked to internal credit ratings together with qualitative indicators such as watchlists and other indicators of historical delinquency, credit weakness or financial difficulty. The use of internal credit ratings and qualitative indicators ensures alignment between the assessment of staging and LBCM's management of credit risk which utilises these internal metrics within distinct retail and commercial portfolio risk management practices. However, unless identified at an earlier stage, the credit risk of financial assets is deemed to have increased significantly when more than 30 days past due. The use of a payment holiday in and of itself has not been judged to indicate a significant increase in credit risk, with the underlying long-term credit risk deemed to be driven by economic conditions and captured through the use of forward-looking models. These portfolio-level models are capturing the anticipated volume of increased defaults and therefore an appropriate assessment of staging and expected credit loss. Where the credit risk subsequently improves such that it no longer represents a significant increase in credit risk since initial recognition, the asset is transferred back to Stage 1.

Assets are transferred to Stage 3 when they have defaulted or are otherwise considered to be credit-impaired. Default is considered to have occurred when there is evidence that the customer is experiencing financial difficulty which is likely to affect significantly the ability to repay the amount due. IFRS 9 contains a rebuttable presumption that default occurs no later than when a payment is 90 days past due. LBCM uses this 90-day backstop for all its products. Key differences between Stage 3 balances and non-performing loans relate to the cure periods applied to forbearance exposures. The use of payment holidays is not considered to be an automatic trigger of regulatory default and therefore does not automatically trigger Stage 3. Days past due will also not accumulate on any accounts that have taken a payment holiday including those already past due.

Note 2: Accounting policies continued

In certain circumstances, LBCM will renegotiate the original terms of a customer's loan, either as part of an ongoing customer relationship or in response to adverse changes in the circumstances of the borrower. In the latter circumstances, the loan will remain classified as either Stage 2 or Stage 3 until the credit risk has improved such that it no longer represents a significant increase since origination (for a return to Stage 1), or the loan is no longer credit-impaired (for a return to Stage 2). On renegotiation the gross carrying amount of the loan is recalculated as the present value of the renegotiated or modified contractual cash flows, which are discounted at the original effective interest rate. Renegotiation may also lead to the loan and associated allowance being derecognised and a new loan being recognised initially at fair value.

A loan or advance is normally written off, either partially or in full, against the related allowance when the proceeds from realising any available security have been received or there is no realistic prospect of recovery and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses recorded in the income statement. For both secured and unsecured retail balances, the write-off takes place only once an extensive set of collections processes has been completed, or the status of the account reaches a point where policy dictates that continuing attempts to recover are no longer appropriate. For commercial lending, a write-off occurs if the loan facility with the customer is restructured, the asset is under administration and the only monies that can be received are the amounts estimated by the administrator, the underlying assets are disposed and a decision is made that no further settlement monies will be received, or external evidence (for example, third-party valuations) is available that there has been an irreversible decline in expected cash flows.

(G) Property, plant and equipment

Property, plant and equipment (other than investment property) is included at cost less accumulated depreciation. The value of land (included in premises) is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate the difference between the cost and the residual value over their estimated useful lives, as follows: the shorter of 50 years and the remaining period of the lease for freehold/long and short leasehold premises; the shorter of 10 years and, if lease renewal is not likely, the remaining period of the lease for leasehold improvements; 10 to 20 years for fixtures and furnishings; and 2 to 8 years for other equipment.

The assets' residual values and useful lives are reviewed and, if appropriate, revised at each balance sheet date.

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In assessing the recoverable amount of assets LBCM considers the effects of potential or actual changes in legislation, customer behaviour, climate-related risks and other factors on the asset's CGU. In the event that an asset's CGU carrying amount is determined to be greater than its recoverable amount the asset is written down immediately.

(H) Leases

Under IFRS 16, a lessor is required to determine whether a lease is a finance or operating lease. A lessee is not required to make this determination.

(1) As lessor

Assets leased to customers are classified as finance leases if the lease agreements transfer substantially all of the risks and rewards of ownership to the lessee but not necessarily legal title. All other leases are classified as operating leases. When assets are subject to finance leases, the present value of the lease payments, together with any unguaranteed residual value, is recognised as a receivable, net of allowances for expected credit losses and residual value impairment, within loans and advances to banks and customers. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance lease income. Finance lease income is recognised in interest income over the term of the lease using the net investment method (before tax) so as to give a constant rate of return on the net investment in the lease. Unguaranteed residual values are reviewed regularly to identify any impairment.

LBCM evaluates non-lease arrangements such as outsourcing and similar contracts to determine if they contain a lease which is then accounted for separately.

(2) As lessee

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by LBCM. Assets and liabilities arising from a lease are initially measured on a present value basis. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or LBCM's incremental borrowing rate appropriate for the right-of-use asset arising from the lease, and the liability recognised within other liabilities.

Lease payments are allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

(I) Taxation

Tax expense comprises current and deferred tax. Current and deferred tax are charged or credited in the income statement except to the extent that the tax arises from a transaction or event which is recognised, in the same or a different period, outside the income statement (either in other comprehensive income, directly in equity or through a business combination), in which case the tax appears in the same statement as the transaction that gave rise to it. The tax consequences of LBCM's dividend payments (including distributions on other equity instruments), if any, are charged or credited to the statement in which the profit distributed originally arose.

Current tax is the amount of corporate income taxes expected to be payable or recoverable based on the profit for the period as adjusted for items that are not taxable or not deductible, and is calculated using tax rates and laws that were enacted or substantively enacted at the balance sheet date.

Current tax includes amounts provided in respect of uncertain tax positions when management expects that, upon examination of the uncertainty by His Majesty's Revenue and Customs (HMRC) or other relevant tax authority, it is more likely than not that an economic outflow will occur. Provisions reflect management's best estimate of the ultimate liability based on their interpretation of tax law, precedent and guidance, informed by external tax advice as necessary. Changes in facts and circumstances underlying these provisions are reassessed at each balance sheet date and the provisions are remeasured as required to reflect current information.

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the balance sheet. Deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted at the balance sheet date, and which are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax liabilities are generally recognised for all taxable temporary differences but not recognised for taxable temporary differences arising on investments in subsidiaries where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future. Deferred tax liabilities are not recognised on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred tax assets are recognised to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilised, and are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are not recognised in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination. Deferred tax is not discounted.

Note 2: Accounting policies continued

(J) Foreign currency translation

Items included in the financial statements of each of LBCM's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). Foreign currency transactions are translated into the appropriate functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when recognised in other comprehensive income as qualifying cash flow or net investment hedges. Non-monetary assets that are measured at fair value are translated using the exchange rate at the date that the fair value was determined. Translation differences on equities and similar non-monetary items held at fair value through profit and loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets measured at fair value through other comprehensive income, such as equity shares, are included in the fair value reserve in equity unless the asset is a hedged item in a fair value hedge.

The results and financial position of all LBCM entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows: the assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on the acquisition of a foreign entity, are translated into Sterling at foreign exchange rates ruling at the balance sheet date; and the income and expenses of foreign operations are translated into Sterling at average exchange rates unless these do not approximate to the foreign exchange rates ruling at the dates of the transactions, in which case income and expenses are translated at the dates of the transactions.

Foreign exchange differences arising on the translation of a foreign operation are recognised in other comprehensive income and accumulated in a separate component of equity together with exchange differences arising from the translation of borrowings and other currency instruments designated as hedges of such investments. On disposal or liquidation of a foreign operation, the cumulative amount of exchange differences relating to that foreign operation is reclassified from equity and included in determining the profit or loss arising on disposal or liquidation.

(K) Provisions and contingent liabilities

Provisions are recognised in respect of present obligations arising from past events where it is probable that outflows of resources will be required to settle the obligations and they can be reliably estimated.

Contingent liabilities are possible obligations whose existence depends on the outcome of uncertain future events or those present obligations where the outflows of resources are uncertain or cannot be measured reliably. Contingent liabilities are not recognised in the financial statements but are disclosed unless they are remote.

Provision is made for expected credit losses in respect of irrevocable undrawn loan commitments and financial guarantee contracts (see (F) above).

(L) Share capital

Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds. Dividends paid on LBCM's ordinary shares are recognised as a reduction in equity in the period in which they are paid.

(M) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash and non-mandatory deposits held with central banks, mandatory deposits held with central banks in demand accounts and amounts due from banks with an original maturity of less than three months that are available to finance LBCM's day-to-day operations.

(N) Investment in subsidiaries

Investments in subsidiaries are carried at historical cost, less any provisions for impairment.

Note 3: Critical accounting judgements and key sources of estimation uncertainty

The preparation of LBCM's financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions in applying the accounting policies that affect the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, actual results reported in future periods may be based upon 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. In preparing the financial statements, LBCM has considered the impact of climate-related risks on its financial position and performance. While the effects of climate change represent a source of uncertainty, LBCM does not consider there to be a material impact on its judgements and estimates from the physical, transition and other climate-related risks in the short term.

The significant judgements, apart from those involving estimation, made by management in applying LBCM's accounting policies in these financial statements (critical judgements) and the key sources of estimation uncertainty that may have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year (key sources of estimation uncertainty), which together are considered critical to LBCM's results and financial position, are as follows:

- Allowance for expected credit loss (note 14).
- Fair value of financial assets and liabilities (note 31).

Note 4: Net interest income

	2023 £m	2022 £m
Interest income:		
Loans and advances to banks	**1,066**	360
Loans and advances to customers	**1,430**	698
Reverse repurchase agreements	**179**	23
Debt securities	**21**	6
Total interest income[1]	**2,696**	1,087
Interest expense:		
Deposits from banks	**(78)**	(71)
Customer deposits	**(1,224)**	(351)
Repurchase agreements at amortised cost	**–**	(14)
Debt securities in issue[2]	**(1,136)**	(345)
Lease liabilities	**(2)**	(2)
Subordinated liabilities	**(58)**	(29)
Total interest expense[3]	**(2,498)**	(812)
Net interest income	**198**	275

1 Includes £nil (2022: £9 million) of interest income on liabilities with negative interest rates and £32 million (2022: £7 million) in respect of interest income on finance leases.

2 The impact of LBCM's hedging arrangements is included on this line, of which a charge of £388 million (2022: charge of £59 million) is transferred from the cash flow hedging reserve (see note 23).

3 Includes £nil (2022: £20 million) of interest expense on assets with negative interest rates.

Included within interest income is £nil (2022: £1 million) in respect of credit-impaired financial assets.

Note 5: Net fee and commission income

	2023 £m	2022 £m
Fee and commission income:		
Current accounts	**3**	4
Debit card fees	**5**	5
Commercial banking and treasury fees	**292**	217
Other fees and commissions	**3**	2
Total fee and commission income	**303**	228
Fee and commission expense	**(39)**	(36)
Net fee and commission income	**264**	192

Fees and commissions are an integral part of the effective interest rate and form part of net interest income shown in note 4. Fees and commissions relating to instruments that are held at fair value through profit or loss are included within net trading income shown in note 6.

In determining the disaggregation of fees and commissions LBCM has considered how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors, including those that are impacted by climate-related factors. It has determined that the above disaggregation by product type provides useful information that does not aggregate items that have substantially different characteristics and is not too detailed.

At 31 December 2023, LBCM held on its balance sheet £4 million (31 December 2022: £6 million) in respect of services provided to customers and £nil (31 December 2022: £nil) in respect of amounts received from customers for services to be provided after the balance sheet date.

Note 6: Net trading income

	2023 £m	2022 £m
Net gains (losses) arising on assets and liabilities held at fair value through profit or loss:		
Financial instruments held for trading	**270**	306
Other financial instruments mandatorily held at fair value through profit or loss	**28**	(16)
Net losses arising on liabilities designated at fair value through profit or loss	**(1)**	–
	297	290
Foreign exchange	**145**	205
Net trading income	**442**	495

Note 7: Operating expenses

	2023 £m	2022 £m
Staff costs:		
Salaries	**(167)**	(148)
Social security costs	**(17)**	(15)
Pensions and other post-retirement benefit schemes	**(15)**	(15)
Restructuring costs	**(3)**	(14)
Other staff costs	**(9)**	(6)
	(211)	(198)
Management charges payable	**(228)**	(178)
Depreciation and amortisation	**(10)**	(16)
Premises and equipment	**(6)**	(5)
Communications and data processing	**(18)**	(16)
Professional fees	**(9)**	(9)
Other operating expenses	**(27)**	(22)
Total operating expenses	**(509)**	(444)

Services are received by LBCM from other parts of the Lloyds Banking Group via a shared service provision model. This is governed via Intra Group Agreement (IGA) contracts and includes the provision of services supporting the business, operations and support functions. Management charges payable were paid to Lloyds Bank plc in respect of these services.

LBCM had an average of 837 (2022: 850) employees during the year based in the USA, Germany and the Crown Dependencies (excluding UK colleagues). UK-based colleagues are employed through other Lloyds Banking Group companies and associated costs are recharged via the IGA. The terms of the contract are negotiated and renewable to ensure market rate expense for services provided.

Note 8: Auditors' remuneration

Fees payable to the Banks' auditors are as follows:

	2023 £m	2022 £m
Fees payable for the:		
– the audit of the Bank's current year Annual Report	**2.4**	2.3
– the audits of the Bank's subsidiaries	**0.5**	0.4
– total audit fees in respect of the statutory audit of Group entities	**2.9**	2.7
Total audit fees	**2.9**	2.7
Other audit-related fees	**0.3**	0.4
All other fees	**0.3**	0.3
Total non-audit services	**0.6**	0.7
Total fees payable to the Bank's auditors by the Group	**3.5**	3.4

The following types of services are included in the categories listed above:

Audit fees: This category includes fees in respect of the audit of LBCM's annual financial statements and other services in connection with regulatory filings.

Other audit-related fees: This category includes fees in respect of services for assurance and related services that are reasonably related to the performance of the audit or review of the financial statements, for example, acting as reporting accountants in respect of debt prospectuses required by the Listing Rules.

All other fees: This category includes other assurance services not related to the performance of the audit or review of the financial statements, for example, the review of controls operated by LBCM on behalf of a third party. The auditors are not engaged to provide tax services.

It is LBCM's policy to use the auditors only on assignments in cases where their knowledge of LBCM means that it is neither efficient nor cost effective to employ another firm of accountants.

LBCM has procedures that are designed to ensure auditor independence, including prohibiting certain non-audit services. All audit and non-audit assignments must be pre-approved by the Audit Committee on an individual engagement basis.

Note 9: Impairment

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Year ended 31 December 2023				
In respect of:				
Loans and advances to banks	–	2	–	2
Loans and advances to customers	9	10	(1)	18
Debt securities	–	(2)	–	(2)
Financial assets at amortised cost	9	10	(1)	18
Impairment charge on drawn balances	9	10	(1)	18
Loan commitments and financial guarantees	4	6	–	10
Total impairment credit (charge)	13	16	(1)	28

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Year ended 31 December 2022				
In respect of:				
Loans and advances to banks	(1)	(2)	–	(3)
Loans and advances to customers	(16)	(14)	(2)	(32)
Debt securities	–	–	–	–
Financial assets at amortised cost	(17)	(16)	(2)	(35)
Impairment charge on drawn balances	(17)	(16)	(2)	(35)
Loan commitments and financial guarantees	(4)	(7)	–	(11)
Total impairment charge	(21)	(23)	(2)	(46)

Note 10: Tax

(A) Analysis of tax expense for the year

	2023 £m	2022 £m
UK corporation tax:		
Current tax on profit for the year	(19)	(43)
Adjustments in respect of prior years	–	(1)
	(19)	(44)
Foreign tax:		
Current tax on profit for the year	(57)	(47)
Adjustments in respect of prior years	1	1
	(56)	(46)
Current tax expense	(75)	(90)
UK deferred tax:		
Origination and reversal of temporary differences	(7)	(8)
Adjustments in respect of prior years	(3)	–
	(10)	(8)
Foreign deferred tax:		
Origination and reversal of temporary differences	(4)	2
Adjustments in respect of prior years	–	(1)
	(4)	1
Deferred tax expense	(14)	(7)
Tax expense	(89)	(97)

Note 10: Tax continued

(B) Factors affecting the tax expense for the year

The UK corporation tax rate for the year was 23.5 per cent (2022: 19 per cent). The increase in applicable tax rate from 2022 relates to the change in statutory tax rate effective from 1 April 2023. An explanation of the relationship between tax expense and accounting profit is set out below.

	2023 £m	2022 £m
Profit before tax	**427**	477
UK corporation tax thereon	**(100)**	(91)
Impact of surcharge on banking profits	**(3)**	(13)
Non-deductible costs: bank levy	**(5)**	(3)
Other non-deductible costs	**(10)**	(7)
Non-taxable income	**–**	15
Tax relief on coupons on other equity instruments	**19**	8
Remeasurement of deferred tax due to rate changes	**(1)**	(2)
Differences in overseas tax rates	**14**	(4)
Other adjustments in respect of prior years	**(2)**	(1)
Other	**(1)**	1
Tax expense	**(89)**	(97)
Effective tax rate	**20.8%**	20.3%

(C) Deferred tax

LBCM's deferred tax assets and liabilities are as follows:

	The Group		The Bank	
	2023 £m	2022 £m	**2023 £m**	2022 £m
Statutory position				
Deferred tax assets	**108**	213	**128**	226
Deferred tax liabilities	**–**	–	**–**	–
Net deferred tax asset (liability) at 31 December	**108**	213	**128**	226
Tax disclosure				
Deferred tax assets	**129**	233	**128**	226
Deferred tax liabilities	**(21)**	(20)	**–**	–
Net deferred tax asset (liability) at 31 December	**108**	213	**128**	226

The statutory position reflects the deferred tax assets and liabilities as disclosed in the consolidated balance sheet and takes into account the ability of the Group to net assets and liabilities where there is a legally enforceable right of offset. The tax disclosure of deferred tax assets and liabilities ties to the amounts outlined in the tables below which splits the deferred tax assets and liabilities by type, before such netting.

Note 10: Tax continued

Movements in deferred tax assets and liabilities (before taking into consideration the offsetting of balances within the same taxing jurisdiction) can be summarised as follows:

The Group Deferred tax assets	Tax losses £m	IFRS 9 impairments deductible in the future £m	Cash flow hedges £m	Other internal derivatives £m	Fair value through other comprehensive income £m	Other temporary differences £m	Total £m
At 1 January 2022	3	3	21	13	1	15	56
(Charge) credit to the income statement	(1)	2	–	(7)	–	–	(6)
Credit (charge) to other comprehensive income	–	–	181	–	–	–	181
Exchange and other adjustments	—	—	–	–	–	2	2
At 31 December 2022	2	5	202	6	1	17	233
(Charge) credit to the income statement	**(2)**	**(3)**	**–**	**(6)**	**–**	**(2)**	**(13)**
(Charge) credit to other comprehensive income	**–**	**–**	**(90)**	**–**	**(1)**	**–**	**(91)**
Exchange and other adjustments	**–**	**–**	**–**	**–**	**–**	**–**	**–**
At 31 December 2023	**–**	**2**	**112**	**–**	**–**	**15**	**129**

The Group Deferred tax liabilities	Accelerated capital allowances £m	Cash flow hedges £m	Other internal derivatives £m	Fair value through other comprehensive income £m	Other temporary differences £m	Total £m
At 1 January 2022	(19)	–	–	–	–	(19)
(Charge) credit to the income statement	(1)	–	–	–	–	(1)
(Charge) credit to other comprehensive income	–	–	–	–	–	–
At 31 December 2022	(20)	–	–	–	–	(20)
(Charge) credit to the income statement	**(1)**	**–**	**–**	**–**	**–**	**(1)**
(Charge) credit to other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**
Exchange and other adjustments	**–**	**–**	**–**	**–**	**–**	**–**
At 31 December 2023	**(21)**	**–**	**–**	**–**	**–**	**(21)**

Note 10: Tax continued

The Bank Deferred tax assets	Tax losses £m	IFRS 9 Impairments deductible in the future £m	Cash flow hedges £m	Fair value through other comprehensive income £m	Other temporary differences £m	Total £m
At 1 January 2022	1	3	21	1	14	40
(Charge) credit to the income statement	(1)	2	–	–	–	1
Credit (charge) to other comprehensive income	–	–	181	–	–	181
Exchange and other adjustments	1	—	—	–	3	4
At 31 December 2022	1	5	202	1	17	226
(Charge) credit to the income statement	**(1)**	**(3)**	**–**	**–**	**(2)**	**(6)**
(Charge) credit to other comprehensive income	**–**	**–**	**(90)**	**(1)**	**–**	**(91)**
Exchange and other adjustments	**–**	**–**	**–**	**–**	**(1)**	**(1)**
At 31 December 2023	**–**	**2**	**112**	**–**	**14**	**128**

Deferred tax not recognised

Deferred tax assets of approximately £1 million (2022: £1 million) for the Group and £nil (2022: £nil) for the Bank have not been recognised in respect of overseas tax losses and other temporary differences where it is currently not probable that there will be future profits against which they can be used.

As a result of parent company exemptions on dividends from subsidiaries and on capital gains on disposal there are no significant taxable temporary differences associated with investments in subsidiaries and branches.

Note 11: Derivative financial instruments

The fair values and notional amounts of derivative instruments are set out in the following table:

The Group	2023 Contract/notional amount £m	2023 Fair value assets £m	2023 Fair value liabilities £m
Trading and other			
Exchange rate contracts	**553,753**	**5,954**	**5,662**
Interest rate contracts	**6,905,990**	**16,232**	**11,450**
Credit derivatives	**1,684**	**2**	**50**
Commodity and other contracts	**5,520**	**409**	**378**
Total derivative assets/liabilities – trading and other	**7,466,947**	**22,597**	**17,540**
Hedging			
Derivatives designated as fair value hedges	**4,200**	**–**	**28**
Derivatives designated as cash flow hedges	**13,963**	**9**	**8**
Total derivative assets/liabilities – hedging	**18,163**	**9**	**36**
Total recognised derivative assets/liabilities	**7,485,110**	**22,606**	**17,576**

The Bank	2023 Contract/notional amount £m	2023 Fair value assets £m	2023 Fair value liabilities £m
Trading and other			
Exchange rate contracts	**553,753**	**5,954**	**5,662**
Interest rate contracts	**6,905,990**	**16,232**	**11,450**
Credit derivatives	**1,684**	**2**	**50**
Equity and other contracts	**5,520**	**409**	**378**
Total derivative assets/liabilities – trading and other	**7,466,947**	**22,597**	**17,540**
Hedging			
Derivatives designated as fair value hedges	**4,200**	**–**	**28**
Derivatives designated as cash flow hedges	**13,963**	**9**	**8**
Total derivative assets/liabilities – hedging	**18,163**	**9**	**36**
Total recognised derivative assets/liabilities	**7,485,110**	**22,606**	**17,576**

The Group	2022 Contract/notional amount £m	2022 Fair value assets £m	2022 Fair value liabilities £m
Trading and other			
Exchange rate contracts	453,082	7,707	7,535
Interest rate contracts	5,209,757	16,119	11,769
Credit derivatives	2,363	28	21
Commodity and other contracts	11,565	766	696
Total derivative assets/liabilities – trading and other	5,676,767	24,620	20,021
Hedging			
Derivatives designated as fair value hedges	4,636	–	45
Derivatives designated as cash flow hedges	16,331	1	4
Total derivative assets/liabilities – hedging	20,967	1	49
Total recognised derivative assets/liabilities	5,697,734	24,621	20,070

The Bank	2022 Contract/notional amount £m	2022 Fair value assets £m	2022 Fair value liabilities £m
Trading and other			
Exchange rate contracts	453,082	7,707	7,535
Interest rate contracts	5,209,868	16,145	11,769
Credit derivatives	2,363	28	21
Equity and other contracts	11,565	766	696
Total derivative assets/liabilities – trading and other	5,676,878	24,646	20,021
Hedging			
Derivatives designated as fair value hedges	4,636	–	45
Derivatives designated as cash flow hedges	16,331	1	4
Total derivative assets/liabilities – hedging	20,967	1	49
Total recognised derivative assets/liabilities	5,697,845	24,647	20,070

Note 11: Derivative financial instruments continued

The notional amount of the contract does not represent LBCM's exposure to credit risk, which is limited to the current cost of replacing contracts with a positive value to LBCM should the counterparty default. To reduce credit risk LBCM uses a variety of credit enhancement techniques such as netting and collateralisation, where security is provided against the exposure; a large proportion of LBCM's derivatives are held through exchanges such as London Clearing House and are collateralised through those exchanges. Further details are provided in note 33 Credit Risk section.

LBCM holds derivatives as part of the following strategies:

- Customer-driven, where derivatives are held as part of the provision of risk management products to LBCM customers.
- To manage and hedge LBCM's interest rate and foreign exchange risk arising from normal banking business. The hedge accounting strategy adopted by LBCM is to utilise a combination of fair value and cash flow hedge approaches as described in note 33.

The principal derivatives used by LBCM are as follows:

- Interest rate related contracts include interest rate swaps, forward rate agreements and options. An interest rate swap is an agreement between two parties to exchange fixed and floating interest payments, based upon interest rates defined in the contract, without the exchange of the underlying principal amounts. Forward rate agreements are contracts for the payment of the difference between a specified rate of interest and a reference rate, applied to a notional principal amount at a specific date in the future. An interest rate option gives the buyer, on payment of a premium, the right, but not the obligation, to fix the rate of interest on a future loan or deposit, for a specified period and commencing on a specified future date.
- Exchange rate related contracts include forward foreign exchange contracts, currency swaps and options. A forward foreign exchange contract is an agreement to buy or sell a specified amount of foreign currency on a specified future date at an agreed rate. Currency swaps generally involve the exchange of interest payment obligations denominated in different currencies; the exchange of principal can be notional or actual. A currency option gives the buyer, on payment of a premium, the right, but not the obligation, to sell specified amounts of currency at agreed rates of exchange on or before a specified future date.

Details of LBCM's hedging instruments are set out below:

	Maturity					
The Group and the Bank At 31 December 2023	**Up to 1 month £m**	**1-3 months £m**	**3-12 months £m**	**1-5 years £m**	**Over 5 years £m**	**Total £m**
Fair value hedges						
Interest rate						
Interest rate swap						
Notional	**–**	**–**	**755**	**3,445**	**–**	**4,200**
Average fixed interest rate	**—%**	**—%**	**0.26%**	**1.04%**	**—%**	
Cash flow hedges						
Interest rate						
Interest rate swap						
Notional	**353**	**838**	**2,486**	**8,280**	**2,006**	**13,963**
Average fixed interest rate	**3.77%**	**0.71%**	**1.58%**	**1.52%**	**1.66%**	

	Maturity					
The Group and the Bank At 31 December 2022	Up to 1 month £m	1-3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	Total £m
Fair value hedges						
Interest rate						
Interest rate swap						
Notional	–	–	1,422	3,214	–	4,636
Average fixed interest rate	—%	—%	0.38%	0.19%	—%	
Cash flow hedges						
Interest rate						
Interest rate swap						
Notional	708	2,571	1,468	9,338	2,246	16,331
Average fixed interest rate	0.17%	0.38%	0.86%	1.28%	0.93%	

The carrying amounts of LBCM's hedging instruments are as follows:

	Carrying amount of the hedging instrument			
The Group and the Bank At 31 December 2023	**Contract/ notional amount £m**	**Assets £m**	**Liabilities £m**	**Changes in fair value used for calculating hedge ineffectiveness £m**
Fair value hedges				
Interest rate				
Interest rate swaps	**4,200**	**–**	**28**	**158**
Cash flow hedges				
Interest rate				
Interest rate swaps	**13,963**	**9**	**8**	**360**

	Carrying amount of the hedging instrument			
The Group and the Bank At 31 December 2022	Contract/ notional amount £m	Assets £m	Liabilities £m	Changes in fair value used for calculating hedge ineffectiveness £m
Fair value hedges				
Interest rate				
Interest rate swaps	4,636	–	45	(278)
Cash flow hedges				
Interest rate				
Interest rate swaps	16,331	1	4	(656)

All amounts are held within derivative financial instruments on the balance sheet.

Note 11: Derivative financial instruments continued

LBCM's hedged items are as follows:

The Group and the Bank At 31 December 2023	Carrying amount of the hedged item Assets £m	 Liabilities £m	Accumulated amount of fair value adjustment on the hedged item Assets £m	 Liabilities £m	Change in fair value of hedged item for ineffectiveness assessment £m	Cash flow hedging reserve Continuing hedges £m	 Discontinued hedges £m
Fair value hedges							
Interest rate							
Fixed rate issuance[1]	–	4,065	–	111	(157)		
Cash flow hedges							
Interest rate							
Customer loans[2]					(123)	(20)	(2)
Central bank balances[3]					(180)	(352)	(37)
Customer deposits[4]					18	5	5

The Group and the Bank At 31 December 2022	Carrying amount of the hedged item Assets £m	 Liabilities £m	Accumulated amount of fair value adjustment on the hedged item Assets £m	 Liabilities £m	Change in fair value of hedged item for ineffectiveness assessment £m	Cash flow hedging reserve Continuing hedges £m	 Discontinued hedges £m
Fair value hedges							
Interest rate							
Fixed rate issuance[1]	–	4,497	–	274	280		
Cash flow hedges							
Interest rate							
Customer loans[2]					173	(197)	27
Central bank balances[3]					509	(534)	(49)
Customer deposits[4]					(32)	31	1

1 Included within debt securities in issue.
2 Included within loans and advances to customers.
3 Included within cash and balances at central banks.
4 Included within customer deposits.

The accumulated amount of fair value hedge adjustments remaining on the balance sheet for hedged items that have ceased to be adjusted for hedging gains and losses is £nil (2022: £nil).

Gains and losses arising from hedge accounting are summarised as follows:

The Group and the Bank At 31 December 2023	Gain (loss) recognised in other comprehensive income £m	Hedge ineffectiveness recognised in the income statement[1] £m	Amounts reclassified from reserves to income statement as: Hedged cash flows will no longer occur £m	 Hedged item affected income statement £m	 Income statement line item that includes reclassified amount
Fair value hedges					
Interest rate					
Fixed rate issuance		1			
Cash flow hedges					
Interest rate					
Customer loans	126	2	–	22	Interest income
Central bank balances	(182)	(1)	–	376	Interest income
Customer deposits	(12)	–	–	(10)	Interest expense

The Group and the Bank At 31 December 2022	Gain (loss) recognised in other comprehensive income £m	Hedge ineffectiveness recognised in the income statement[1] £m	Amounts reclassified from reserves to income statement as: Hedged cash flows will no longer occur £m	 Hedged item affected income statement £m	 Income statement line item that includes reclassified amount
Fair value hedges					
Interest rate					
Fixed rate issuance		2			
Cash flow hedges					
Interest rate					
Customer loans	(189)	(4)	–	14	Interest income
Central bank balances	(558)	(1)	–	48	Interest income
Customer deposits	36	1	–	(3)	Interest expense

1 Hedge ineffectiveness is included in the income statement within net trading income.

Note 12: Loans and advances to customers

The Group	Gross carrying amount Stage 1 £m	Gross carrying amount Stage 2 £m	Gross carrying amount Stage 3 £m	Gross carrying amount Total £m	Allowance for expected credit losses Stage 1 £m	Allowance for expected credit losses Stage 2 £m	Allowance for expected credit losses Stage 3 £m	Allowance for expected credit losses Total £m
Loans and advances to customers								
At 1 January 2023	18,084	1,060	22	19,166	23	15	1	39
Exchange and other adjustments[1]	(603)	(15)	–	(618)	–	–	(1)	(1)
Transfers to Stage 1	636	(636)	–	–	8	(8)	–	–
Transfers to Stage 2	(47)	47	–	–	–	–	–	–
Transfers to Stage 3	(2)	–	2	–	–	–	–	–
Impact of transfers between stages	587	(589)	2	–	(6)	1	–	(5)
					2	(7)	–	(5)
Other changes in credit quality					(1)	–	2	1
Additions and repayments	(1,804)	(263)	(14)	(2,081)	(10)	(3)	(1)	(14)
(Credit) Charge to the income statement					(9)	(10)	1	(18)
Advances written off			(2)	(2)			(2)	(2)
Recoveries of advances written off in previous years			1	1			1	1
At 31 December 2023	16,264	193	9	16,466	14	5	–	19
Allowance for impairment losses	(14)	(5)	–	(19)				
Net carrying amount	16,250	188	9	16,447				

1. Exchange and other adjustments includes the impact of movements in exchange rates, discount unwind and derecognising assets as a result of modifications.

The Group	Gross carrying amount Stage 1 £m	Gross carrying amount Stage 2 £m	Gross carrying amount Stage 3 £m	Gross carrying amount Total £m	Allowance for expected credit losses Stage 1 £m	Allowance for expected credit losses Stage 2 £m	Allowance for expected credit losses Stage 3 £m	Allowance for expected credit losses Total £m
Loans and advances to customers								
At 1 January 2022	17,366	47	29	17,442	7	2	1	10
Exchange and other adjustments[1]	1,183	(10)	–	1,173	–	(1)	(1)	(2)
Transfers to Stage 1	1	(1)	–		–	–	–	–
Transfers to Stage 2	(157)	157	–		–	–	–	–
Transfers to Stage 3	(16)	–	16		–	–	–	–
Impact of transfers between stages	(172)	156	16		–	3	–	3
					–	3	–	3
Other changes in credit quality					3	–	2	5
Additions and repayments	(293)	867	(22)	552	13	11	–	24
Charge to the income statement					16	14	2	32
Advances written off			(1)	(1)			(1)	(1)
At 31 December 2022	18,084	1,060	22	19,166	23	15	1	39
Allowance for impairment losses	(23)	(15)	(1)	(39)				
Net carrying amount	18,061	1,045	21	19,127				

1 Exchange and other adjustments includes the impact of movements in exchange rates, discount unwind and derecognising assets as a result of modifications

Note 12: Loans and advances to customers continued

The Bank	Gross carrying amount Stage 1 £m	Gross carrying amount Stage 2 £m	Gross carrying amount Stage 3 £m	Gross carrying amount Total £m	Allowance for expected credit losses Stage 1 £m	Allowance for expected credit losses Stage 2 £m	Allowance for expected credit losses Stage 3 £m	Allowance for expected credit losses Total £m
Loans and advances to customers								
At 1 January 2023	**17,851**	**1,029**	**22**	**18,902**	**22**	**15**	**1**	**38**
Exchange and other adjustments[1]	**(604)**	**(13)**	**1**	**(616)**	**–**	**–**	**(1)**	**(1)**
Transfers to Stage 1	**622**	**(622)**	**–**	**–**	**8**	**(8)**	**–**	**–**
Transfers to Stage 2	**(42)**	**42**	**–**	**–**	**–**	**–**	**–**	**–**
Transfers to Stage 3	**(2)**	**–**	**2**	**–**	**–**	**–**	**–**	**–**
Impact of transfers between stages	**578**	**(580)**	**2**	**–**	**(6)**	**1**	**–**	**(5)**
					2	**(7)**	**–**	**(5)**
Other changes in credit quality					**(2)**	**1**	**2**	**1**
Additions and repayments	**(1,829)**	**(256)**	**(14)**	**(2,099)**	**(9)**	**(4)**	**–**	**(13)**
(Credit) Charge to the income statement					**(9)**	**(10)**	**2**	**(17)**
Advances written off			**(2)**	**(2)**			**(2)**	**(2)**
At 31 December 2023	**15,996**	**180**	**9**	**16,185**	**13**	**5**	**–**	**18**
Allowance for impairment losses	**(13)**	**(5)**	**–**	**(18)**				
Net carrying amount	**15,983**	**175**	**9**	**16,167**				

1. Exchange and other adjustments includes the impact of movements in exchange rates, discount unwind and derecognising assets as a result of modifications.

The Bank	Gross carrying amount Stage 1 £m	Gross carrying amount Stage 2 £m	Gross carrying amount Stage 3 £m	Gross carrying amount Total £m	Allowance for expected credit losses Stage 1 £m	Allowance for expected credit losses Stage 2 £m	Allowance for expected credit losses Stage 3 £m	Allowance for expected credit losses Total £m
Loans and advances to customers								
At 1 January 2022	17,119	38	29	17,186	7	2	1	10
Exchange and other adjustments[1]	1,182	(10)	–	1,172	–	(1)	(1)	(2)
Transfers to Stage 1	1	(1)	–	–	–	–	–	–
Transfers to Stage 2	(135)	135	–	–	–	–	–	–
Transfers to Stage 3	(16)	–	16	–	–	–	–	–
Impact of transfers between stages	(150)	134	16	–	–	3	–	3
					–	3	–	3
Other changes in credit quality					2	–	2	4
Additions and repayments	(300)	867	(22)	545	13	11	–	24
Charge to the income statement					15	14	2	31
Advances written off			(1)	(1)			(1)	(1)
At 31 December 2022	17,851	1,029	22	18,902	22	15	1	38
Allowance for impairment losses	(22)	(15)	(1)	(38)				
Net carrying amount	17,829	1,014	21	18,864				

1 Exchange and other adjustments includes the impact of movements in exchange rates, discount unwind and derecognising assets as a result of modifications.

The movement tables are compiled by comparing the position at 31 December 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 31 December.

Additions and repayments comprise new loans originated and repayments of outstanding balances throughout the reporting period.

LBCM's impairment charge comprises impact of transfers between stages, other changes in credit quality and additions and repayments.

Advances written off have first been transferred to Stage 3 and then acquired a full allowance through other changes in credit quality.

Note 13: Finance lease receivables

Finance lease receivables are classified as loans and advances to customers and accounted for at amortised cost.

The balance is analysed as follows:

	The Group	
	2023 £m	2022 £m
Not later than 1 year	**15**	7
Later than 1 year and not later than 2 years	**10**	8
Later than 2 years and not later than 3 years	**10**	8
Later than 3 years and not later than 4 years	**11**	9
Later than 4 years and not later than 5 years	**11**	9
Later than 5 years	**190**	178
Gross investment in finance leases	**247**	219
Unearned future finance income on finance leases	**(85)**	(75)
Rentals received in advance	**(2)**	(2)
Net investment in finance leases	**160**	142

The net investment represents amounts recoverable as follows:

	The Group	
	2023 £m	2022 £m
Not later than 1 year	**5**	2
Later than 1 year and not later than 2 years	**2**	2
Later than 2 years and not later than 3 years	**3**	2
Later than 3 years and not later than 4 years	**4**	3
Later than 4 years and not later than 5 years	**4**	3
Later than 5 years	**142**	130
Net investment in finance leases	**160**	142

Equipment leased to customers under finance leases primarily relates to structured financing transactions in connection with infrastructure assets.

Note 14: Allowance for expected credit losses

LBCM recognises an allowance for expected credit losses (ECLs) for loans and advances to banks and customers, debt securities held at amortised cost and certain loan commitment and financial guarantee contracts. At 31 December 2023, the Group's expected credit loss allowance was £31 million (2022: £61 million), of which £23 million (2022: £43 million) was in respect of drawn balances. At 31 December 2023, the Bank's expected credit loss allowance was £30 million (2022: £60 million), of which £22 million (2022: £42 million) was in respect of drawn balances.

The Group's total impairment allowances were as follows:

	Allowance for expected credit losses			
At 31 December 2023	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Total £m**
In respect of:				
Loans and advances to banks	**2**	**–**	**–**	**2**
Loans and advances to customers	**14**	**5**	**–**	**19**
Debt securities	**–**	**2**	**–**	**2**
Financial assets at amortised cost	**16**	**7**	**–**	**23**
Provisions in relation to loan commitments and financial guarantees	**7**	**1**	**–**	**8**
Total	**23**	**8**	**—**	**31**

	Allowance for expected credit losses			
At 31 December 2022	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
In respect of:				
Loans and advances to banks	2	2	–	4
Loans and advances to customers	23	15	1	39
Debt securities	–	–	–	–
Financial assets at amortised cost	25	17	1	43
Provisions in relation to loan commitments and financial guarantees	11	7	–	18
Total	36	24	1	61

Note 14: Allowance for expected credit losses continued

The Bank's total impairment allowances were as follows:

	Allowance for expected credit losses			
At 31 December 2023	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Total £m**
In respect of:				
Loans and advances to banks	**2**	**–**	**–**	**2**
Loans and advances to customers	**13**	**5**	**–**	**18**
Debt securities	**–**	**2**	**–**	**2**
Financial assets at amortised cost	**15**	**7**	**–**	**22**
Provisions in relation to loan commitments and financial guarantees	**7**	**1**	**–**	**8**
Total	**22**	**8**	**—**	**30**

	Allowance for expected credit losses			
At 31 December 2022	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
In respect of:				
Loans and advances to banks	2	2	–	4
Loans and advances to customers	22	15	1	38
Debt securities	–	–	–	–
Financial assets at amortised cost	24	17	1	42
Provisions in relation to loan commitments and financial guarantees	11	7	–	18
Total	35	24	1	60

The calculation of the Group's expected credit loss allowances and provisions against loan commitments and guarantees, which are set out above, under IFRS 9 requires the Group to make a number of judgements, assumptions and estimates. The most significant are set out below:

Critical accounting judgements and key sources of estimation uncertainty

Critical judgements:	Determining an appropriate definition of default against which a probability of default, exposure at default and loss given default parameter can be evaluated. Establishing the criteria for a significant increase in credit risk (SICR). The use of judgemental adjustments made to impairment modelling processes that adjust inputs, parameters and outputs to reflect risks not captured by models.
Key source of estimation uncertainty	Base case and multiple economic scenarios (MES) assumptions, including the rate of unemployment, required for creation of MES scenarios and forward-looking credit parameters.

Definition of default

The probability of default (PD) of an exposure, both over a 12-month period and over its lifetime, is a key input to the measurement of the ECL allowance. Default has occurred when there is evidence that the customer is experiencing significant financial difficulty which is likely to affect the ability to repay amounts due. The definition of default adopted by LBCM is described in note 2.

Significant increase in credit risk

Performing assets are classified as either Stage 1 or Stage 2. An ECL allowance equivalent to 12 months' expected losses is established against assets in Stage 1; assets classified as Stage 2 carry an ECL allowance equivalent to lifetime expected losses. Assets are transferred from Stage 1 to Stage 2 when there has been a significant increase in credit risk (SICR) since initial recognition. Credit-impaired assets are transferred to Stage 3 with a lifetime expected losses allowance. LBCM uses both quantitative and qualitative indicators to determine whether there has been a SICR for an asset.

A doubling of PD with a minimum increase in PD of 1 percentage point and a resulting change in the underlying grade is treated as a SICR. LBCM uses the internal credit risk classification and watchlist as qualitative indicators to identify a SICR. LBCM does not use the low credit risk exemption in its staging assessments.

All financial assets are assumed to have suffered a SICR if they are more than 30 days past due. Financial assets are classified as credit-impaired if they are 90 days past due.

A Stage 3 asset that is no longer credit-impaired is transferred back to Stage 2 as no general probation period is applied to assets in Stage 3. If an exposure that is classified as Stage 2 no longer meets the SICR criteria, which in some cases capture customer behaviour in previous periods, it is moved back to Stage 1.

The setting of precise trigger points combined with risk indicators requires judgement. The use of different trigger points may have a material impact upon the size of the ECL allowance. LBCM monitors the effectiveness of SICR criteria on an ongoing basis.

Lifetime of an exposure

A range of approaches, segmented by product type, has been adopted by LBCM to estimate a product's expected life. These include using the full contractual life and taking into account behavioural factors such as early repayments, extensions and refinancing. Changes to the assumed expected lives of LBCM's assets could impact the ECL allowance recognised by LBCM. The assessment of SICR and corresponding lifetime loss, and the PD, of a financial asset deemed to be Stage 2 or Stage 3, is dependent on its expected life.

Individual assessments and application of judgement in adjustments to modelled ECL

The table below analyses total ECL allowances by portfolio, separately identifying the amounts that have been modelled, those that have been individually assessed and those arising through the application of judgemental adjustments.

	Modelled ECL £m	Individually assessed £m	Other judgements £m	Total ECL £m
At 31 December 2023	**34**	**—**	**(3)**	**31**
At 31 December 2022	61	1	—	62

Individual assessed ECL

Stage 3 ECL in Commercial Banking is largely assessed on an individual basis using bespoke assessment of loss for each specific customer. These assessments are carried out by the Business Support Unit based on detailed reviews and expected recovery strategies. While these assessments are based on LBCM's latest economic view, the use of LBCM-wide multiple economic scenarios and weightings is not considered appropriate for these cases due to their individual characteristics. In place of this, a range of case-specific outcomes are considered with any alternative

Note 14: Allowance for expected credit losses continued

better or worse outcomes that carry a 25 per cent likelihood taken into account in establishing a probability-weighted ECL. At 31 December 2023 individually assessed provisions for LBCM were £nil (2022: £1 million) with no additional range for alternative outcomes.

Application of judgement in adjustments to modelled ECL

Impairment models fall within LBCM's model risk framework with model monitoring, periodic validation and back testing performed on model components (i.e. probability of default, exposure at default and loss given default). Limitations in LBCM's impairment models or data inputs may be identified through the ongoing assessment and validation of the output of the models. In these circumstances, management make appropriate adjustments to LBCM's allowance for impairment losses to ensure that the overall provision adequately reflects all material risks. These adjustments are determined by considering the particular attributes of exposures which have not been adequately captured by the impairment models and range from changes to model inputs and parameters, at account level, through to more qualitative post-model adjustments.

Post-model adjustments are not typically calculated under each distinct economic scenario used to generate ECL, but on final modelled ECL. All adjustments are reviewed quarterly and are subject to internal review and challenge, including by the Audit Committee, to ensure that amounts are appropriately calculated and that there are specific release criteria identified.

Other judgements

Other judgements include corporate insolvency rates of £(5) million (2022: nil) During 2023, the volume of UK corporate insolvencies continued to exhibit an increasing trend beyond December 2019 levels, revealing a marked misalignment between observed UK corporate insolvencies and the Group's credit performance. This dislocation gives rise to uncertainty over the drivers of observed trends and the appropriateness of the Group's Commercial Banking model response which uses observed UK corporate insolvencies data to anchor future loss estimates to. Given the Group's asset quality remains strong with low new defaults, a negative adjustment is applied by using the long-term average rate. The larger negative adjustment in the period reflects the widening gap between the increasing industry level and the long-term average rate used.

Generation of multiple economic scenarios

The estimate of expected credit losses is required to be based on an unbiased expectation of future economic scenarios. The approach used to generate the range of future economic scenarios depends on the methodology and judgements adopted. LBCM's approach is to start from a defined base case scenario, used for planning purposes, and to generate alternative economic scenarios around this base case. The base case scenario is a conditional forecast underpinned by a number of conditioning assumptions that reflect LBCM's best view of key future developments. If circumstances appear likely to materially deviate from the conditioning assumptions, then the base case scenario is updated.

The base case scenario is central to a range of future economic scenarios generated by simulation of an economic model, for which the same conditioning assumptions apply as in the base case scenario. These scenarios are ranked by using estimated relationships with industry-wide historical loss data. With the base case already pre-defined, three other scenarios are identified as averages of constituent scenarios located around the 15th, 75th and 95th percentiles of the distribution. The full distribution is therefore summarised by a practical number of scenarios to run through ECL models representing an upside, the base case, and a downside scenario weighted at 30 per cent each, together with a severe downside scenario weighted at 10 per cent. The scenario weights represent the distribution of economic scenarios and not subjective views on likelihood. The inclusion of a severe downside scenario with a smaller weighting ensures that the non-linearity of losses in the tail of the distribution is adequately captured. Macroeconomic projections may employ reversionary techniques to adjust the paths of economic drivers towards long-run equilibria after a reasonable forecast horizon. The Group does not use such techniques to force the MES scenarios to revert to the base case planning view. Utilising such techniques would be expected to be immaterial for expected credit losses since loss sensitivity is highest over the initial five years of the projections. Most assets are expected to have matured, or reached the end of their behavioural life before the five-year horizon.

A forum under the chairmanship of the LBG Chief Economist meets at least quarterly to review and, if appropriate, recommend changes to the method by which economic scenarios for LBG and LBCM are generated, for approval by the LBG Chief Financial Officer and LBG Chief Risk Officer. In June 2022, LBCM judged it appropriate to include an adjusted severe downside scenario to incorporate a high CPI inflation and UK Bank Rate profiles and to adopt this adjusted severe downside scenario to calculate LBCM's ECL. This is because the historic UK macroeconomic and loan loss data upon which the scenario model is calibrated imply an association of downside economic outcomes with easier monetary policy, and therefore low interest rates. The adjustment is considered to better reflect the risks around LBCM's base case view in an economic environment where the potential for supply shocks remains an elevated concern. LBCM has continued to include a non-modelled severe downside scenario for ECL calculations for 31 December 2023 reporting.

Base case and MES economic assumptions

LBCM's base case economic scenario has been updated to reflect ongoing geopolitical developments, and further evidence of easing of inflationary pressures allowing shifts to less restrictive monetary policies globally. LBCM's updated base case scenario has three conditioning assumptions: first, the wars in Ukraine and the Middle East remain geographically contained and do not lead to a major escalation in energy prices; second, China's economic stabilisation policy is effective; and third, less restrictive monetary and fiscal policy throughout this year.

Based on these assumptions and incorporating the economic data published in the fourth quarter, LBCM's base case scenario is for slow expansion in GDP and a rise in the unemployment rate alongside modest changes in residential and commercial property prices. Following a reduction in inflationary pressures, UK Bank Rate is expected to be lowered during 2024. Risks around this base case economic view lie in both directions and are largely captured by the generation of alternative economic scenarios.

LBCM has accommodated 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 fourth quarter of 2023, for which actuals may have since emerged prior to publication.

Scenarios by year

The key UK economic assumptions made by LBCM are shown in the following tables across a number of measures explained below.

Annual assumptions

Gross domestic product (GDP) is presented as an annual change, with commercial real estate price growth presented as the growth in the index over each year. Unemployment rate and UK Bank Rate are averages over the year.

Five-year average

The five-year average reflects the average annual growth rate, or level, over the five-year period. It includes movements within the current reporting year, such that the position as at 31 December 2023 covers the five years 2023 to 2027. The inclusion of the reporting year within the five-year period reflects the need to predict variables which remain unpublished at the reporting date and recognises that credit models utilise both level and annual changes. The use of calendar years maintains a comparability between the annual assumptions presented.

Five-year start to peak and trough

The peak or trough for any metric may occur intra-year and therefore not be identifiable from the annual assumptions, so they are also disclosed. For GDP and commercial real estate price growth, the peak, or trough, reflects the highest, or lowest cumulative quarterly position reached relative to the start of the five-year period, which as at 31 December 2023 is 1 January 2023. Given these metrics may exhibit increases followed by greater falls, the start to trough movements quoted may be smaller than the equivalent 'peak to trough' movement (and vice versa for start to peak). Unemployment and UK Bank Rate reflect the highest or lowest quarterly level reached in the five-year period.

Note 14: Allowance for expected credit losses continued

At 31 December 2023	2023 %	2024 %	2025 %	2026 %	2027 %	2023 to 2027 average %	Start to peak %	Start to trough %
Upside								
UK Gross domestic product	0.3	1.5	1.7	1.7	1.9	1.4	8.1	0.2
UK Bank Rate	4.94	5.72	5.61	5.38	5.18	5.37	5.79	4.25
UK Unemployment rate	4.0	3.3	3.1	3.1	3.1	3.3	4.2	3.0
UK Commercial real estate price growth	(3.9)	9.0	3.8	1.3	1.3	2.2	11.5	(3.9)
US Gross domestic product	2.5	2.7	3.1	1.7	0.5	2.0	10.2	0.6
US Unemployment rate	3.6	3.9	3.3	3.0	3.4	3.4	4.0	3.0
Base case								
UK Gross domestic product	0.3	0.5	1.2	1.7	1.9	1.1	6.4	0.2
UK Bank Rate	4.94	4.88	4.00	3.50	3.06	4.08	5.25	3.00
UK Unemployment rate	4.2	4.9	5.2	5.2	5.0	4.9	5.2	3.9
UK Commercial real estate price growth	(5.1)	(0.2)	0.1	0.0	0.8	(0.9)	(1.2)	(5.3)
US Gross domestic product	2.4	1.0	1.4	1.7	1.6	1.6	8.0	0.6
US Unemployment rate	3.6	4.3	4.5	4.4	4.3	4.2	4.5	3.5
Downside								
UK Gross domestic product	0.2	(1.0)	(0.1)	1.5	2.0	0.5	3.4	(1.2)
UK Bank Rate	4.94	3.95	1.96	1.13	0.55	2.51	5.25	0.43
UK Unemployment rate	4.3	6.5	7.8	7.9	7.6	6.8	8.0	3.9
UK Commercial real estate price growth	(6.0)	(8.7)	(4.0)	(2.1)	(1.2)	(4.4)	(1.2)	(20.4)
US Gross domestic product	2.3	(0.4)	(0.6)	1.0	2.1	0.9	4.4	0.4
US Unemployment rate	3.7	4.8	6.1	6.6	6.4	5.5	6.6	3.5

At 31 December 2023	2023 %	2024 %	2025 %	2026 %	2027 %	2023 to 2027 average %	Start to peak %	Start to trough %
Severe downside								
UK Gross domestic product	0.1	(2.3)	(0.5)	1.3	1.8	0.1	1.0	(2.9)
UK Bank Rate - modelled	4.94	2.75	0.49	0.13	0.03	1.67	5.25	0.02
UK Bank Rate - adjusted[1]	4.94	6.56	4.56	3.63	3.13	4.56	6.75	3.00
UK Unemployment rate	4.5	8.7	10.4	10.5	10.1	8.8	10.5	3.9
UK Commercial real estate price growth	(7.7)	(19.5)	(10.6)	(7.7)	(5.2)	(10.3)	(1.2)	(41.8)
US Gross domestic product	2.2	(2.2)	(3.0)	0.1	2.5	0.0	2.3	(4.2)
US Unemployment rate	3.7	5.5	8.2	9.3	9.0	7.1	9.4	3.5
Probability-weighted								
UK Gross domestic product	0.3	0.1	0.8	1.6	1.9	0.9	5.4	0.1
UK Bank Rate - modelled	4.94	4.64	3.52	3.02	2.64	3.75	5.25	2.59
UK Bank Rate - adjusted[1]	4.94	5.02	3.93	3.37	2.95	4.04	5.42	2.89
UK Unemployment rate	4.2	5.3	5.9	5.9	5.7	5.4	6.0	3.9
UK Commercial real estate price growth	(5.3)	(1.9)	(1.1)	(1.0)	(0.2)	(1.9)	(1.2)	(9.9)
US Gross domestic product	2.4	0.8	0.8	1.3	1.5	1.3	6.8	0.6
US Unemployment rate	3.7	4.5	5.0	5.1	5.2	4.7	5.2	3.5

1 The adjustment to UK Bank Rate in the severe downside is considered to better reflect the risks around LBCM's base case view in an economic environment where supply shocks are the principal concern.

Note 14: Allowance for expected credit losses continued

At 31 December 2022	2022 %	2023 %	2024 %	2025 %	2026 %	2022 to 2026 average %	Start to peak %	Start to trough %
Upside								
UK Gross domestic product	4.1	0.1	1.1	1.7	2.1	1.8	6.5	0.4
UK Bank Rate	1.94	4.95	4.98	4.63	4.58	4.22	5.39	0.75
UK Unemployment rate	3.5	2.8	3.0	3.3	3.4	3.2	3.8	2.8
UK Commercial real estate price growth	(9.4)	8.5	3.5	2.6	2.3	1.3	7.2	(9.4)
US Gross domestic product	1.9	1.9	3.2	1.5	0.1	1.7	6.8	(0.6)
US Unemployment rate	3.7	3.9	3.1	2.9	3.4	3.4	4.0	2.8
Base case								
UK Gross domestic product	4.0	(1.2)	0.5	1.6	2.1	1.4	4.3	(1.1)
UK Bank Rate	1.94	4.0	3.38	3.0	3.0	3.06	4.0	0.75
UK Unemployment rate	3.7	4.5	5.1	5.3	5.1	4.8	5.3	3.6
UK Commercial real estate price growth	(11.8)	(3.3)	0.9	2.8	3.1	(1.2)	7.2	(14.8)
US Gross domestic product	1.8	0.4	1.4	1.4	1.2	1.2	4.7	(0.6)
US Unemployment rate	3.7	4.4	4.5	4.5	4.4	4.3	4.6	3.5
Downside								
UK Gross domestic product	3.9	(3)	(0.5)	1.4	2.1	0.8	1.2	(3.6)
UK Bank Rate	1.94	2.93	1.39	0.98	1.04	1.65	3.62	0.75
UK Unemployment rate	3.8	6.3	7.5	7.6	7.2	6.5	7.7	3.6
UK Commercial real estate price growth	(13.9)	(15)	(3.7)	0.4	1.4	(6.4)	7.2	(29.6)
US Gross domestic product	1.7	(0.9)	(0.6)	0.9	2.0	0.6	1.9	(1.8)
US Unemployment rate	3.7	4.9	6.2	6.5	6.0	5.5	6.6	3.5

At 31 December 2022	2022 %	2023 %	2024 %	2025 %	2026 %	2022 to 2026 average %	Start to peak %	Start to trough %
Severe downside								
UK Gross domestic product	3.7	(5.2)	(1)	1.3	2.1	0.1	0.7	(6.4)
UK Bank Rate - modelled	1.94	1.41	0.2	0.13	0.14	0.76	3.5	0.12
UK Bank Rate - adjusted[1]	2.44	7.0	4.88	3.31	3.25	4.18	7.0	0.75
UK Unemployment rate	4.1	9.0	10.7	10.4	9.7	8.8	10.7	3.6
UK Commercial real estate price growth	(17.3)	(28.8)	(9.9)	(1.3)	3.2	(11.6)	7.2	(47.8)
US Gross domestic product	1.7	(2.5)	(3.1)	0.2	2.8	(0.2)	0.1	(6.4)
US Unemployment rate	3.7	5.7	8.4	9.3	8.3	7.1	9.4	3.5
Probability-weighted								
UK Gross domestic product	4.0	(1.8)	0.2	1.5	2.1	1.2	3.4	(1.8)
UK Bank Rate - modelled	1.94	3.7	2.94	2.59	2.6	2.76	3.89	0.75
UK Bank Rate - adjusted[1]	1.99	4.26	3.41	2.91	2.91	3.1	4.31	0.75
UK Unemployment rate	3.7	5.0	5.8	5.9	5.7	5.2	5.9	3.6
UK Commercial real estate price growth	(12.3)	(5.8)	(0.8)	1.6	2.3	(3.1)	7.2	(18.6)
US Gross domestic product	1.8	0.2	0.9	1.2	1.3	1.1	3.8	(0.6)
US Unemployment rate	3.7	4.5	5.0	5.1	5.0	4.7	5.1	3.5

1 The adjustment to UK Bank Rate in the severe downside is considered to better reflect the risks around LBCM's base case view in an economic environment where supply shocks are the principal concern.

Note 14: Allowance for expected credit losses continued

Base case scenario by quarter[1] At 31 December 2023	First quarter 2023 %	Second quarter 2023 %	Third quarter 2023 %	Fourth quarter 2023 %	First quarter 2024 %	Second quarter 2024 %	Third quarter 2024 %	Fourth quarter 2024 %
UK Gross domestic product	0.3	0.0	(0.1)	0.0	0.1	0.2	0.3	0.3
UK Bank Rate	4.25	5.00	5.25	5.25	5.25	5.00	4.75	4.50
UK Unemployment rate	3.9	4.2	4.2	4.3	4.5	4.8	5.0	5.2
UK Commercial real estate price growth	(18.8)	(21.2)	(18.2)	(5.1)	(4.1)	(3.8)	(2.2)	(0.2)
US Gross domestic product	0.6	0.5	1.3	0.0	0.0	0.1	0.2	0.3
US Unemployment rate	3.5	3.5	3.7	3.9	4.1	4.3	4.4	4.5

1 Gross domestic product presented quarter on quarter and commercial real estate growth presented year-on-year - i.e. from the equivalent quarter the previous year. Bank Rate is presented at the end of each quarter.

Base case scenario by quarter[1] At 31 December 2022	First quarter 2022 %	Second quarter 2022 %	Third quarter 2022 %	Fourth quarter 2022 %	First quarter 2023 %	Second quarter 2023 %	Third quarter 2023 %	Fourth quarter 2023 %
UK Gross domestic product	0.6	0.1	(0.3)	(0.4)	(0.4)	(0.4)	(0.2)	(0.1)
UK Bank Rate	0.75	1.25	2.25	3.50	4.00	4.00	4.00	4.00
UK Unemployment rate	3.7	3.8	3.6	3.7	4.0	4.4	4.7	4.9
UK Commercial real estate price growth	18.0	18.0	8.4	(11.8)	(16.9)	(19.8)	(15.9)	(3.3)
US Gross domestic product	(0.4)	(0.1)	0.6	(0.1)	(0.1)	0.1	0.2	0.3
US Unemployment rate	3.8	3.6	3.5	3.8	4.1	4.4	4.5	4.6

1 Gross domestic product presented quarter on quarter and commercial real estate growth presented year-on-year - i.e. from the equivalent quarter the previous year. Bank Rate is presented at the end of each quarter.

ECL sensitivity to economic assumptions

The table below shows LBCM'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 staging of assets is typically constant across all the scenarios. ECL for post-model adjustments have been apportioned relative to their sensitivity in each scenario.

Judgements applied through changes to inputs are reflected in the scenario sensitivities.

	Probability-weighted £m	Upside £m	Base case £m	Downside £m	Severe downside £m
At 31 December 2023	**31**	**17**	**24**	**38**	**68**
At 31 December 2022	61	25	39	74	199

The table below shows LBCM's ECL for the upside, base case, downside and severe downside scenarios, with staging of assets based on each specific scenario probability of default. ECL for post-model adjustments have been apportioned relative to their sensitivity in each scenario.

	Upside £m	Base case £m	Downside £m	Severe downside £m
At 31 December 2023	**15**	**22**	**38**	**129**
At 31 December 2022	22	33	97	517

The table below shows the percentage of assets that would be recorded in Stage 2 for the upside, base case, downside and severe downside scenarios, if stage allocation was based on each specific scenario.

	Upside %	Base case %	Downside %	Severe downside %
At 31 December 2023	**0.5**	**0.6**	**1.8**	**6.3**
At 31 December 2022	0.8	1.1	14.3	60.0

Note 15: Property, plant and equipment

	The Group			
	Premises £m	Equipment £m	Right-of-use asset[1] £m	Total £m
Cost or valuation:				
At 1 January 2022	14	30	84	128
Exchange and other adjustments	–	1	7	8
Additions	3	3	1	7
Disposals	–	(3)	(4)	(7)
At 31 December 2022	17	31	88	136
Exchange and other adjustments	**–**	**–**	**(3)**	**(3)**
Additions	**–**	**2**	**–**	**2**
Disposals	**(2)**	**(3)**	**–**	**(5)**
At 31 December 2023	**15**	**30**	**85**	**130**
Accumulated depreciation and impairment:				
At 1 January 2022	3	24	34	61
Exchange and other adjustments	–	1	3	4
Depreciation charge for the year	1	2	13	16
Disposals	–	(1)	–	(1)
At 31 December 2022	4	26	50	80
Exchange and other adjustments	**–**	**(1)**	**(2)**	**(3)**
Depreciation charge for the year (note 7)	**2**	**2**	**6**	**10**
Disposals	**(2)**	**(3)**	**–**	**(5)**
At 31 December 2023	**4**	**24**	**54**	**82**
Balance sheet amount at 31 December 2023	**11**	**6**	**31**	**48**
Balance sheet amount at 31 December 2022	13	5	38	56

1 Relates to premises.

	The Bank			
	Premises £m	Equipment £m	Right-of-use asset[1] £m	Total £m
Cost or valuation:				
At 1 January 2022	5	29	70	104
Exchange and other adjustments	–	1	7	8
Additions	3	2	–	5
Disposals	–	(3)	(3)	(6)
At 31 December 2022	8	29	74	111
Exchange and other adjustments	**–**		**(3)**	**(3)**
Additions		**1**	**–**	**1**
Disposals	**–**	**(2)**	**–**	**(2)**
At 31 December 2023	**8**	**28**	**71**	**107**
Accumulated depreciation and impairment:				
At 1 January 2022	–	25	26	51
Exchange and other adjustments	–	(1)	3	2
Depreciation charge for the year	1	2	12	15
Disposals	–	(2)	–	(2)
At 31 December 2022	1	24	41	66
Exchange and other adjustments	**–**	**(1)**	**(2)**	**(3)**
Depreciation charge for the year (note 7)	**1**	**2**	**5**	**8**
Disposals	**–**	**(2)**	**–**	**(2)**
At 31 December 2023	**2**	**23**	**44**	**69**
Balance sheet amount at 31 December 2023	**6**	**5**	**27**	**38**
Balance sheet amount at 31 December 2022	7	5	33	45

1 Relates to premises.

The total cash outflow for right-of-use assets in the year ended 31 December 2023 was £(4)million. The amount recognised within interest expense in respect of lease liabilities is disclosed in note 4.

Note 16: Investment in subsidiary undertakings of the Bank

	The Bank	
	2023 £m	2022 £m
At 1 January	**180**	203
Impairment	**–**	(23)
At 31 December	**180**	180

Details of the subsidiaries and related undertakings are given in the other information section of the report and are incorporated by reference.

Certain subsidiary companies currently have insufficient distributable reserves to make dividend payments, however, there were no further significant restrictions on any of the Bank's subsidiaries in paying dividends or repaying loans and advances. All regulated banking subsidiaries are required to maintain capital at levels agreed with the regulators; this may impact those subsidiaries' ability to make distributions.

During the year, Blackhorse Offshore Limited became a directly owned subsidiary of LBCM.

Note 17: Other assets

	The Group		The Bank	
	2023 £m	2022 £m	**2023 £m**	2022 £m
Settlement balances	**426**	124	**411**	124
Prepayments and accrued income	**25**	25	**21**	19
Other assets	**19**	23	**17**	21
Total other assets	**470**	172	**449**	164

Note 18: Debt securities in issue

	The Group and the Bank	
	2023 £m	2022 £m
Medium-term notes issued	**3,837**	3,403
Certificates of deposit issued	**4,963**	5,618
Commercial paper	**3,858**	3,700
Amounts due to fellow Group undertakings	**2,720**	3,410
Total debt securities in issue	**15,378**	16,131

At 31 December 2023 £5,806 million (2022: £4,733 million) of debt securities in issue at amortised cost of the Group and the Bank had a contractual residual maturity of greater than one year.

Note 19: Other liabilities

	The Group		The Bank	
	2023 £m	2022 £m	**2023 £m**	2022 £m
Settlement balances	**173**	384	**170**	383
Lease liabilities	**38**	45	**30**	36
Other creditors and accruals	**86**	145	**80**	139
Total other liabilities	**297**	574	**280**	558

The maturity analysis of LBCM's lease liabilities on an undiscounted basis is set out in the liquidity risk section of note 33.

Note 20: Other provisions

	The Group		
	Provisions for financial commitments and guarantees £m	**Other £m**	**Total £m**
At 1 January 2023	**18**	**8**	**26**
Exchange and other adjustments	**–**	**–**	**–**
Provisions applied	**–**	**(2)**	**(2)**
Charge (credit) for the year	**(10)**	**2**	**(8)**
At 31 December 2023	**8**	**8**	**16**

	The Bank		
	Provisions for financial commitments and guarantees £m	**Other £m**	**Total £m**
At 1 January 2023	**18**	**7**	**25**
Exchange and other adjustments	**–**	**–**	**–**
Provisions applied	**–**	**(2)**	**(2)**
Charge (credit) for the year	**(10)**	**2**	**(8)**
At 31 December 2023	**8**	**7**	**15**

Provisions for financial commitments and guarantees

Provisions are recognised for expected credit losses on undrawn loan commitments and financial guarantees. See also note 14.

Note 21: Subordinated liabilities

The movement in subordinated liabilities during the year was as follows:

	The Group and the Bank	
Dated subordinated liabilities	**2023 £m**	2022 £m
At 1 January	**761**	684
Issued during the year	**299**	–
Repurchases and redemptions during the year	**(284)**	–
Foreign exchange movements	**(28)**	73
Other movements (all non-cash)	**7**	4
At 31 December	**755**	761

Note 22: Share capital

(1) Issued and fully paid ordinary shares

	The Group and the Bank			
	2023 Number of shares	2022 Number of shares	**2023 £m**	2022 £m
Ordinary shares of £1 each				
At 1 January	**370,050,000**	120,050,000	**370**	120
Issue of ordinary shares	**–**	250,000,000	**–**	250
At 31 December	**370,050,000**	370,050,000	**370**	370

(2) Share capital and control

There are no limitations on voting rights or restrictions on the transfer of shares in the Bank other than as set out in the articles of association, and certain restrictions which may from time to time be imposed by law and regulations (for example, insider trading laws).

Ordinary shares

The holders of ordinary shares, who held 100 per cent of the total ordinary share capital at 31 December 2023, are entitled to receive the Bank's report and accounts, attend, speak and vote at general meetings and appoint proxies to exercise voting rights. Holders of ordinary shares may also receive a dividend (subject to the provisions of the Bank's articles of association) and on a winding up may share in the assets of the Bank.

Note 23: Other reserves

	The Group		The Bank	
	2023 £m	2022 £m	**2023 £m**	2022 £m
Revaluation reserve in respect of debt securities held at fair value through other comprehensive income	**–**	(2)	**–**	(2)
Cash flow hedging reserve	**(289)**	(519)	**(289)**	(519)
Foreign currency translation reserve	**(24)**	(4)	**(25)**	(9)
At 31 December	**(313)**	(525)	**(314)**	(530)

The revaluation reserves in respect of debt securities and equity shares held at fair value through other comprehensive income represent the cumulative after-tax unrealised change in the fair value of financial assets so classified since initial recognition; or in the case of financial assets obtained on acquisitions of businesses, since the date of acquisition.

The cash flow hedging reserve represents the cumulative after-tax gains and losses on effective cash flow hedging instruments that will be reclassified to the income statement in the periods in which the hedged item affects profit or loss.

The foreign currency translation reserve represents the cumulative after-tax gains and losses on the translation of foreign operations and exchange differences arising on financial instruments designated as hedges of LBCM's net investment in foreign operations.

Movements in other reserves were as follows:

	The Group		The Bank	
Revaluation reserve in respect of debt securities held at fair value through other comprehensive income	**2023 £m**	2022 £m	**2023 £m**	2022 £m
At 1 January	**(2)**	(2)	**(2)**	(2)
Change in fair value	**3**	–	**3**	–
Deferred tax	**(1)**	–	**(1)**	–
	2	–	**2**	–
Income statement transfers in respect of disposals	**–**	–	**–**	–
Deferred tax	**–**	–	**–**	–
	–	–	**–**	–
At 31 December	**–**	(2)	**–**	(2)

Note 23: Other reserves continued

Cash flow hedging reserve	The Group 2023 £m	The Group 2022 £m	The Bank 2023 £m	The Bank 2022 £m
At 1 January	**(519)**	(48)	**(519)**	(48)
Change in fair value of hedging derivatives	**(68)**	(711)	**(68)**	(711)
Deferred tax	**18**	197	**18**	197
	(50)	(514)	**(50)**	(514)
Net income statement transfers	**388**	59	**388**	59
Deferred tax	**(108)**	(16)	**(108)**	(16)
	280	43	**280**	43
At 31 December	**(289)**	(519)	**(289)**	(519)

Foreign currency translation reserve	The Group 2023 £m	The Group 2022 £m	The Bank 2023 £m	The Bank 2022 £m
At 1 January	**(4)**	(14)	**(9)**	(12)
Currency translation differences arising in the year	**(20)**	10	**(16)**	3
At 31 December	**(24)**	(4)	**(25)**	(9)

Note 24: Retained profits

	The Group 2023 £m	The Group 2022 £m	The Bank 2023 £m	The Bank 2022 £m
At 1 January	**2,768**	2,651	**2,810**	2,725
Profit attributable to ordinary shareholders[1]	**258**	337	**240**	305
Dividends paid (note 26)	**–**	(220)	**–**	(220)
Loss on repayment of other equity instruments	**(15)**	–	**(15)**	–
At 31 December	**3,011**	2,768	**3,035**	2,810

No income statement has been shown for the Bank, as permitted by Section 408 of the Companies Act 2006.

Note 25: Other equity instruments

	The Group and the Bank 2023 £m	The Group and the Bank 2022 £m
At 1 January	**782**	782
Issued during the year	**289**	–
Repurchases and redemptions during the year	**(263)**	–
Profit for the year attributable to other equity holders	**80**	43
Distributions on other equity instruments	**(80)**	(43)
At 31 December	**808**	782

The Bank has in issue £808 million of US Dollar and Euro Additional Tier 1 (AT1) securities to Lloyds Banking Group plc.

The AT1 securities are floating rate perpetual subordinated permanent write-down securities with no fixed maturity or redemption date.

The principal terms of the AT1 securities are described below:

- The securities rank behind the claims against the Bank of unsubordinated creditors on a winding-up.
- The floating rate AT1 securities will be reset quarterly both prior to and following the first call date.
- Interest on the securities will be due and payable only at the sole discretion of the Bank and the Bank may at any time elect to cancel any Interest Payment (or any part thereof) which would otherwise be payable on any Interest Payment Date. There are also certain restrictions on the payment of interest as specified in the terms.
- The securities are undated and are repayable, at the option of the Bank, in whole at the first call date, or at any Interest Payment date thereafter. In addition, the AT1 securities are repayable, at the option of the Bank, in whole for certain regulatory or tax reasons. Any repayments require the prior consent of the PRA.
- The securities will be subject to a permanent write down should the fully loaded common equity Tier 1 ratio of the Bank fall below 7.0 per cent.

Note 26: Dividends on ordinary shares

The Bank did not pay a dividend in the period to 31 December 2023 (2022: £220 million)

The Directors have proposed an interim dividend of £450 million to be paid by April 2024.

Note 27: Share-based payments

During the year ended 31 December 2023 Lloyds Banking Group plc operated a number of share-based payment schemes for which employees of LBCM were eligible and all of which are equity settled. Details of all schemes operated by Lloyds Banking Group are set out below; these are managed and operated on a Lloyds Banking Group-wide basis. The amount charged to LBCM's income statement in respect of Lloyds Banking Group share-based payment schemes, and which is included within staff costs (note 7) was £26 million (2022: £25 million).

During the year ended 31 December 2023 Lloyds Banking Group operated the following share-based payment schemes, all of which are mainly equity-settled.

Note 27: Share-based payments continued

Lloyds Banking Group Performance Share plan

Lloyds Banking Group operates a Group Performance Share plan that is part equity-settled. Bonuses in respect of employee service in 2023 have been recognised in the charge in line with the proportion of the deferral period completed.

Save-As-You-Earn schemes

Eligible employees may enter into contracts through the Save-As-You-Earn (SAYE) schemes to save up to £500 per month and, at the expiry of a fixed term of three years, have the option to use these savings within six months of the expiry of the fixed term to acquire shares in the Lloyds Banking Group at a discounted price of no less than 90 per cent of the market price at the start of the invitation period.

Movements in the number of share options outstanding under the SAYE schemes are set out below:

	2023		2022	
LBG	Number of options	Weighted average exercise price (pence)	Number of options	Weighted average exercise price (pence)
Outstanding at 1 January	**1,256,918,075**	**31.30**	1,180,563,291	30.63
Granted	**287,984,574**	**38.55**	217,611,519	39.38
Exercised	**(164,709,399)**	**38.55**	(23,359,526)	37.75
Forfeited	**(12,862,726)**	**31.78**	(20,961,259)	29.20
Cancelled	**(45,807,000)**	**37.65**	(47,687,607)	33.88
Expired	**(10,318,376)**	**38.25**	(49,248,343)	46.29
Outstanding at 31 December	**1,311,205,148**	**31.70**	1,256,918,075	31.30
Exercisable at 31 December	**410,368**	**39.87**	263,302	47.92

The weighted average share price at the time that the options were exercised during 2023 was £0.48 (2022: £0.49). The weighted average remaining contractual life of options outstanding at the end of the year was 1.58 years (2022: 1.88 years).

The weighted average fair value of SAYE options granted during 2023 was £0.09 (2022: £0.07). The fair values of the SAYE options have been determined using a standard Black-Scholes model.

Other share option plans

Executive Share Plans – buyout and retention awards

Share options may be granted to senior employees under the Lloyds Banking Group Executive Share Plan 2003, Lloyds Banking Group Executive Group Ownership Share Plan and Deferred Bonus Scheme 2021 specifically to facilitate recruitment (to compensate new recruits for any lost share awards), and also to make grants to key individuals for retention purposes. In some instances, grants may be made subject to individual performance conditions.

Participants are not entitled to any dividends paid during the vesting period.

	2023		2022	
LBG	Number of options	Weighted average exercise price (pence)	Number of options	Weighted average exercise price (pence)
Outstanding at 1 January	**20,466,471**	**Nil**	14,032,762	Nil
Granted	**15,198,717**	**Nil**	10,278,224	Nil
Exercised	**(8,739,497)**	**Nil**	(3,333,322)	Nil
Vested	**(765,247)**	**Nil**	–	Nil
Forfeited	**(8,216)**	**Nil**	(33,409)	Nil
Lapsed	**(20,973)**	**Nil**	(477,784)	Nil
Outstanding at 31 December	**26,131,255**	**Nil**	20,466,471	Nil
Exercisable at 31 December	**1,148,770**	**Nil**	1,638,202	Nil

The weighted average fair value of options granted in the year was £0.41 (2022: £0.44). The fair values of options granted have been determined using a standard Black-Scholes model. The weighted average share price at the time that the options were exercised during 2023 was £0.46 (2022: £0.46). The weighted average remaining contractual life of options outstanding at the end of the year was 6.3 years (2022: 6.0 years).

Other share plans

Lloyds Banking Group Executive Group Ownership Share Plan

The plan, introduced in 2006, is aimed at delivering shareholder value by linking the receipt of shares to an improvement in the performance of the Lloyds Banking Group over a three-year period. Awards are made within limits set by the rules of the plan, with the limits determining the maximum number of shares that can be awarded equating to three times annual salary. In exceptional circumstances this may increase to four times annual salary.

At the end of the performance period for the 2021 grant, the targets had not been fully met and therefore these awards vested in 2023 at a rate of 43.70 per cent.

The Executive Group Ownership awards were replaced by Long Term Share Plan awards in 2021.

LBG	2023 Number of shares	2022 Number of shares
Outstanding at 1 January	**202,394,509**	350,873,627
Vested	**(66,555,435)**	(50,703,778)
Forfeited	**(96,034,781)**	(98,741,356)
Dividend award	**–**	966,016
Outstanding at 31 December	**39,804,293**	202,394,509

Lloyds Banking Group Long Term Share Plan

The plan, introduced in 2021, replaced the Executive Group Ownership Share Plan and is intended to provide alignment to the Group's aim of delivering sustainable returns to shareholders, supported by its values and behaviours.

The awards in respect of the 2021 grant are due to vest in 2024 at a rate of 100 per cent. Details in relation to the plan are provided in the LBG directors' remuneration report.

Note 27: Share-based payments continued

LBG	2023 Number of shares	2022 Number of shares
Outstanding at 1 January	**171,947,743**	77,883,068
Granted	**108,551,439**	108,513,202
Forfeited	**(18,089,793)**	(14,448,527)
Outstanding at 31 December	**262,409,389**	171,947,743

The weighted average fair value of awards granted in the year was £0.42 (2022: £0.36).

Assumptions at 31 December 2023

The fair value calculations at 31 December 2023 for grants made in the year, using Black-Scholes models and Monte Carlo simulation, are based on the following assumptions:

	SAYE	Executive Share Plans	Long Term Share Plan
Weighted average risk-free interest rate	**4.52%**	**4.36%**	**3.71%**
Weighted average expected life	**3.3 years**	**1.9 years**	**3.6 years**
Weighted average expected volatility	**28%**	**30%**	**34%**
Weighted average expected dividend yield	**6.0%**	**6.0%**	**6.0%**
Weighted average share price	**£0.44**	**£0.46**	**£0.52**
Weighted average exercise price	**£0.39**	**Nil**	**Nil**

Expected volatility is a measure of the amount by which the Group's shares are expected to fluctuate during the life of an option. The expected volatility is estimated based on the historical volatility of the closing daily share price over the most recent period that is commensurate with the expected life of the option. The historical volatility is compared to the implied volatility generated from market traded options in the Group's shares to assess the reasonableness of the historical volatility and adjustments made where appropriate.

Share Incentive Plans

Matching shares

The Group undertakes to match shares purchased by employees up to the value of £45 per month; these matching shares are held in trust for a mandatory period of three years on the employee's behalf, during which period the employee is entitled to any dividends paid on such shares. The award is subject to a non-market-based condition: if an employee leaves within this three-year period for other than a 'good' reason, all of the matching shares are forfeited. Similarly, if the employees sell their purchased shares within three years, their matching shares are forfeited.

The number of shares awarded relating to matching shares in 2023 was 43,945,238 (2022: 43,378,504), with an average fair value of £0.46 (2022: £0.45), based on market prices at the date of award.

Fixed share awards

Fixed share awards were introduced in 2014 in order to ensure that total fixed remuneration is commensurate with role and to provide a competitive reward package for certain Lloyds Banking Group employees, with an appropriate balance of fixed and variable remuneration, in line with regulatory requirements. The fixed share awards are delivered in Lloyds Banking Group plc shares, and were initially released over five years with 20 per cent being released each year following the year of award. From June 2020, the fixed share awards are released over three years with one-third being released each year following the year of award. The number of shares purchased in relation to fixed share awards in 2023 was 1,790,243 (2022: 7,261,080) with an average fair value of £0.46 (2022: £0.47) based on market prices at the date of the award.

The fixed share award is not subject to any performance conditions, performance adjustment or clawback. On an employee leaving the Group, there is no change to the timeline for which shares will become unrestricted.

Since the beginning of 2023 the number of recipients of these awards has been reduced to the executive directors only.

Free shares

An award of shares may be made annually to employees up to a maximum of £3,600. The shares awarded are held in trust for a mandatory period of three years on the employee's behalf, during which period the employee is entitled to any dividends paid on such shares. The award is subject to a non-market-based condition. If an employee leaves the Group within this three-year period for other than a 'good' reason, all of the shares awarded will be forfeited.

There have not been any awards made since 2021.

Note 28: Related party transactions

Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of an entity, LBCM's key management personnel are the members of the Lloyds Bank Corporate Markets plc board.

The table below represents key management emoluments:

	2023 £000	2022 £000
Compensation		
Salaries and other short-term benefits	**2,823**	2,284
Post-employment benefits	**76**	74
Total compensation	**2,899**	2,358

The aggregate of the emoluments of the directors was £2,899,000 (2022: £2,358,000). The total for the highest paid director was £1,199,000 (2022: £1,027,000).

The amounts disclosed above relate wholly to directors of LBCM.

	2023 £m	2022 £m
Deposits		
At 1 January	**3**	–
Placed (includes deposits of appointed key management personnel)	**1**	6
Withdrawn (includes deposits of former key management personnel)	**(1)**	(3)
At 31 December	**3**	3

Deposits placed by key management personnel attracted interest rates of up to 4.73 per cent.

Note 28: Related party transactions continued

Balances and transactions with fellow Lloyds Banking Group undertakings

Balances and transactions between members of the Lloyds Bank Corporate Markets Group

In accordance with IFRS 10 *Consolidated Financial Statements*, transactions and balances between the Bank and its subsidiary undertakings, and between those subsidiary undertakings, have all been eliminated on consolidation and thus are not reported as related party transactions of the Group.

The Bank, as a result of its position as parent of a banking group, has a large number of transactions with various of its subsidiary undertakings; these are included on the balance sheet of the Bank as follows:

	2023 £m	2022 £m
Assets, included within:		
Derivative financial instruments	–	26
Financial assets at amortised cost: due from fellow Lloyds Bank Corporate Markets Group undertakings	359	350
	359	376
Liabilities, included within:		
Due to fellow Lloyds Bank Corporate Markets Group undertakings	45	47
	45	47

Due to the size and volume of transactions passing through these accounts, it is neither practical nor meaningful to disclose information on gross inflows and outflows. During 2023 the Bank earned interest income on the above asset balances of £nil (2022: £8 million) and incurred interest expense on the above liability balances of £nil (2022: £1 million).

Balances and transactions with Lloyds Banking Group plc and fellow subsidiaries of the Bank

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

	The Group		The Bank	
	2023 £m	2022 £m	2023 £m	2022 £m
Assets, included within:				
Financial assets at fair value through profit or loss	54	22	54	22
Derivative financial instruments	3,173	3,397	3,173	3,397
Financial assets at amortised cost: due from fellow Lloyds Banking Group undertakings	297	269	270	243
	3,524	3,688	3,497	3,662
Liabilities, included within:				
Due to fellow Lloyds Banking Group undertakings	1,213	1,481	1,211	1,479
Financial liabilities at fair value through profit or loss	45	2	45	2
Derivative financial instruments	2,291	2,662	2,291	2,662
Debt securities in issue	2,720	3,410	2,720	3,410
Subordinated liabilities	748	761	748	761
	7,017	8,316	7,015	8,314
Other equity instruments:				
Additional tier 1 instruments	808	782	808	782
	808	782	808	782

These balances include Lloyds Banking Group plc's banking arrangements and, due to the size and volume of transactions passing through these accounts, it is neither practical nor meaningful to disclose information on gross inflows and outflows. During 2023 the Group and the Bank earned £12 million of interest income on the above asset balances (2022: Group and the Bank £9 million); the Group and the Bank incurred £225 million of interest expense on the above liability balances (2022: Group and the Bank £134 million).

The Group earned £132 million and the Bank earned £126 million of fee and commission income (2022: Group £104 million, Bank £99 million); the Group and the Bank incurred £nil of fee and commission expense (2022: Group and the Bank £1 million) both in respect of transactions with Lloyds Bank plc.

Management charges payable to Lloyds Bank plc of £228 million (2022: £178 million) have been incurred in the year. See note 7 for further detail.

Note 29: Contingent liabilities, commitments and guarantees

Legal actions and regulatory matters

During the ordinary course of business LBCM 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, which could relate to a number of issues, including financial, environmental or other regulatory matters, both in the UK and overseas. Where material, such matters are periodically reassessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of LBCM 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 based on 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 assess properly 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, LBCM 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 31 December 2023 total contingent liabilities were £94 million (31 December 2022: £86 million). Total commitments and guarantees were £21,627 million (31 December 2022: £17,174 million) of which £21,157 million (31 December 2022: £16,619 million) was irrevocable.

Capital commitments

There were no contracted capital commitments at the balance sheet date.

Note 30: Measurement basis of financial assets and liabilities

The accounting policies in note 2 describe how different classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of the financial assets and liabilities by category and by balance sheet heading.

The Group	Derivatives designated as hedging instruments £m	Mandatorily held at fair value through profit or loss: Held for trading £m	Mandatorily held at fair value through profit or loss: Other £m	Designated at fair value through profit or loss £m	At fair value through other comprehensive income £m	Held at amortised cost £m	Total £m
At 31 December 2023							
Financial assets							
Cash and balances at central banks	–	–	–	–	–	20,201	20,201
Financial assets at fair value through profit or loss	–	21,692	297	–	–	–	21,989
Derivative financial instruments	9	22,597	–	–	–	–	22,606
Loans and advances to banks	–	–	–	–	–	1,753	1,753
Loans and advances to customers	–	–	–	–	–	16,447	16,447
Reverse repurchase agreements	–	–	–	–	–	6,020	6,020
Debt securities	–	–	–	–	–	374	374
Due from fellow Lloyds Banking Group undertakings	–	–	–	–	–	297	297
Financial assets at amortised cost	–	–	–	–	–	24,891	24,891
Financial assets at fair value through other comprehensive income	–	–	–	–	–	–	–
Total financial assets	**9**	**44,289**	**297**	**–**	**–**	**45,092**	**89,687**
Financial liabilities							
Deposits from banks	–	–	–	–	–	2,078	2,078
Customer deposits	–	–	–	–	–	29,439	29,439
Repurchase agreements	–	–	–	–	–	1	1
Due to fellow Lloyds Banking Group undertakings	–	–	–	–	–	1,213	1,213
Financial liabilities at fair value through profit or loss	–	19,675	–	11	–	–	19,686
Derivative financial instruments	36	17,540	–	–	–	–	17,576
Debt securities in issue	–	–	–	–	–	15,378	15,378
Other	–	–	–	–	–	38	38
Subordinated liabilities	–	–	–	–	–	755	755
Total financial liabilities	**36**	**37,215**	**–**	**11**	**–**	**48,902**	**86,164**

Note 30: Measurement basis of financial assets and liabilities continued

The Group	Derivatives designated as hedging instruments £m	Mandatorily held at fair value through profit or loss: Held for trading £m	Mandatorily held at fair value through profit or loss: Other £m	Designated at fair value through profit or loss £m	At fair value through other comprehensive income £m	Held at amortised cost £m	Total £m
At 31 December 2022							
Financial assets							
Cash and balances at central banks	–	–	–	–	–	19,382	19,382
Financial assets at fair value through profit or loss	–	14,235	545	–	–	–	14,780
Derivative financial instruments	1	24,620	–	–	–	–	24,621
Loans and advances to banks	–	–	–	–	–	2,117	2,117
Loans and advances to customers	–	–	–	–	–	19,127	19,127
Reverse repurchase agreements	–	–	–	–	–	5,606	5,606
Debt securities	–	–	–	–	–	305	305
Due from fellow Lloyds Banking Group undertakings	–	–	–	–	–	269	269
Financial assets at amortised cost	–	–	–	–	–	27,424	27,424
Financial assets at fair value through other comprehensive income	–	–	–	–	6	–	6
Total financial assets	1	38,855	545	–	6	46,806	86,213
Financial liabilities							
Deposits from banks	–	–	–	–	–	2,456	2,456
Customer deposits	–	–	–	–	–	29,152	29,152
Repurchase agreements	–	–	–	–	–	7	7
Due to fellow Lloyds Banking Group undertakings	–	–	–	–	–	1,481	1,481
Financial liabilities at fair value through profit or loss	–	12,578	–	–	–	–	12,578
Derivative financial instruments	49	20,021	–	–	–	–	20,070
Debt securities in issue	–	–	–	–	–	16,131	16,131
Other	–	–	–	–	–	45	45
Subordinated liabilities	–	–	–	–	–	761	761
Total financial liabilities	49	32,599	–	–	–	50,033	82,681

Note 30: Measurement basis of financial assets and liabilities continued

The Bank	Derivatives designated as hedging instruments £m	Mandatorily held at fair value through profit or loss: Held for trading £m	Mandatorily held at fair value through profit or loss: Other £m	Designated at fair value through profit or loss £m	At fair value through other comprehensive income £m	Held at amortised cost £m	Total £m
At 31 December 2023							
Financial assets							
Cash and balances at central banks	–	–	–	–	–	20,201	20,201
Financial assets at fair value through profit or loss	–	21,692	155	–	–	–	21,847
Derivative financial instruments	9	22,597	–	–	–	–	22,606
Loans and advances to banks	–	–	–	–	–	1,726	1,726
Loans and advances to customers	–	–	–	–	–	16,167	16,167
Reverse repurchase agreements	–	–	–	–	–	6,020	6,020
Debt securities	–	–	–	–	–	374	374
Due from fellow Lloyds Banking Group undertakings	–	–	–	–	–	629	629
Financial assets at amortised cost	–	–	–	–	–	24,916	24,916
Financial assets at fair value through other comprehensive income	–	–	–	–	–	–	–
Total financial assets	**9**	**44,289**	**155**	**–**	**–**	**45,117**	**89,570**
Financial liabilities							
Deposits from banks	–	–	–	–	–	2,078	2,078
Customer deposits	–	–	–	–	–	29,439	29,439
Repurchase agreements	–	–	–	–	–	1	1
Due to fellow Lloyds Banking Group undertakings	–	–	–	–	–	1,256	1,256
Financial liabilities at fair value through profit or loss	–	19,675	–	11	–	–	19,686
Derivative financial instruments	36	17,540	–	–	–	–	17,576
Debt securities in issue	–	–	–	–	–	15,378	15,378
Other	–	–	–	–	–	30	30
Subordinated liabilities	–	–	–	–	–	755	755
Total financial liabilities	**36**	**37,215**	**–**	**11**	**–**	**48,937**	**86,199**

Note 30: Measurement basis of financial assets and liabilities continued

The Bank	Derivatives designated as hedging instruments £m	Mandatorily held at fair value through profit or loss: Held for trading £m	Mandatorily held at fair value through profit or loss: Other £m	Designated at fair value through profit or loss £m	At fair value through other comprehensive income £m	Held at amortised cost £m	Total £m
At 31 December 2022							
Financial assets							
Cash and balances at central banks	–	–	–	–	–	19,382	19,382
Financial assets at fair value through profit or loss	–	14,235	407	–	–	–	14,642
Derivative financial instruments	1	24,646	–	–	–	–	24,647
Loans and advances to banks	–	–	–	–	–	2,063	2,063
Loans and advances to customers	–	–	–	–	–	18,864	18,864
Reverse repurchase agreements	–	–	–	–	–	5,606	5,606
Debt securities	–	–	–	–	–	305	305
Due from fellow Lloyds Banking Group undertakings	–	–	–	–	–	593	593
Financial assets at amortised cost	–	–	–	–	–	27,431	27,431
Financial assets at fair value through other comprehensive income	–	–	–	–	6	–	6
Total financial assets	1	38,881	407	–	6	46,813	86,108
Financial liabilities							
Deposits from banks	–	–	–	–	–	2,456	2,456
Customer deposits	–	–	–	–	–	29,152	29,152
Repurchase agreements	–	–	–	–	–	7	7
Due to fellow Lloyds Banking Group undertakings	–	–	–	–	–	1,526	1,526
Financial liabilities at fair value through profit or loss	–	12,578	–	–	–	–	12,578
Derivative financial instruments	49	20,021	–	–	–	–	20,070
Debt securities in issue	–	–	–	–	–	16,131	16,131
Other	–	–	–	–	–	36	36
Subordinated liabilities	–	–	–	–	–	761	761
Total financial liabilities	49	32,599	–	–	–	50,069	82,717

Note 31: Fair values of financial assets and liabilities

(1) Fair value measurement

Fair value is the price that would be received on sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is a measure as at a specific date and may be significantly different from the amount which will actually be paid or received on maturity or settlement date.

Wherever possible, fair values have been calculated using unadjusted quoted market prices in active markets for identical instruments to those held by LBCM. Where quoted market prices are not available, or are unreliable because of poor liquidity, fair values have been determined using valuation techniques which, to the extent possible, use market observable inputs, but in some cases use non-market observable inputs. Valuation techniques used include discounted cash flow analysis and pricing models and, where appropriate, comparison to instruments with characteristics similar to those of the instruments held by LBCM. LBCM measures valuation adjustments for its derivative exposures on the same basis as the derivatives are managed.

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.

Because a variety of estimation techniques are employed and significant estimates made, comparisons of fair values between financial institutions may not be meaningful. Readers of these financial statements are thus advised to use caution when using this data to evaluate LBCM's financial position.

Fair value information is not provided for items that are not financial instruments or for other assets and liabilities which are not carried at fair value in LBCM's consolidated balance sheet. These items include premises and equipment; and shareholders' equity. These items are material and accordingly LBCM believes that any fair value information presented would not represent the underlying value of LBCM.

Valuation control framework

The key elements of the control framework for the valuation of financial instruments include model validation, product implementation review and independent price verification. These functions are carried out by appropriately skilled risk and finance teams, independent of the business area responsible for the products.

Model validation covers both qualitative and quantitative elements relating to new models. In respect of new products, a product implementation review is conducted pre- and post-trading. Pre-trade testing ensures that the new model is integrated into LBCM's systems and that the profit and loss and risk reporting are consistent throughout the trade lifecycle. Post-trade testing examines the explanatory power of the implemented model, actively monitoring model parameters and comparing in-house pricing to external sources. Independent price verification procedures cover financial instruments carried at fair value. The frequency of the review is matched to the availability of independent data, monthly being the minimum. Valuation differences in breach of established thresholds are escalated to senior management. The results from independent pricing and valuation reserves are reviewed monthly by senior management.

Formal committees, consisting of senior risk, finance and business management, meet at least quarterly to discuss and approve valuations in more judgemental areas, in particular for unquoted equities, structured credit, over-the-counter options and the credit valuation adjustment (CVA), funding valuation adjustment (FVA) and other valuation adjustments.

Valuation of financial assets and liabilities

Assets and liabilities carried at fair value or for which fair values are disclosed have been classified into three levels according to the quality and reliability of information used to determine the fair values.

Level 1

Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 predominantly comprise listed equity shares, treasury bills and other government securities.

Level 2

Level 2 valuations are those where quoted market prices are not available, for example where the instrument is traded in a market that is not considered to be active or valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data. Examples of such financial instruments include most over-the-counter derivatives, financial institution issued securities, certificates of deposit and certain asset-backed securities.

Level 3

Level 3 portfolios are those where at least one input which could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unlisted equity investments which are valued using various valuation techniques that require significant management judgement in determining appropriate assumptions, including earnings multiples and estimated future cash flows. Certain of LBCM's asset-backed securities, loans and advances recognised at fair value and derivatives are also classified as level 3. For information on key estimates surrounding financial instruments, see note 3.

Transfers out of the level 3 portfolio arise when inputs that could have a significant impact on the instrument's valuation become market observable after previously having been non-market observable. In the case of asset-backed securities this can arise if more than one consistent independent source of data becomes available. Conversely, transfers into the portfolio arise when consistent sources of data cease to be available.

(2) Financial assets and liabilities carried at fair value

(A) Financial assets (excluding derivatives)

Valuation hierarchy

At 31 December 2023, LBCM's financial assets carried at fair value, excluding derivatives, totalled £21,989 million (2022: £14,786 million); and for the Bank totalled £21,847 million (2022: £14,648 million). The table below analyses these financial assets by balance sheet classification, asset type and valuation methodology (level 1, 2 or 3, as described above). The fair value measurement approach is recurring in nature. There were no significant transfers between levels 1 and 2 during the year.

Note 31: Fair values of financial assets and liabilities continued

The Group	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 31 December 2023				
Financial assets at fair value through profit or loss				
Loans and advances to banks	–	4	–	4
Loans and advances to customers	–	17,433	2	17,435
Debt securities:				
Government securities	3,596	–	–	3,596
Bank and building society certificates of deposit	–	91	–	91
Asset-backed securities:				
Mortgage-backed securities	–	15	–	15
Other asset-backed securities	–	61	7	68
Corporate and other debt securities	–	583	146	729
	3,596	750	153	4,499
Treasury and other bills	51	–	–	51
Total financial assets at fair value through profit or loss	3,647	18,187	155	21,989
Financial assets at fair value through other comprehensive income				
Debt securities:				
Asset-backed securities:				
Other asset-backed securities	–	–	–	–
	–	–	–	–
Total financial assets at fair value through other comprehensive income	–	–	–	–
Total financial assets carried at fair value, excluding derivatives	3,647	18,187	155	21,989

The Group	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 31 December 2022				
Financial assets at fair value through profit or loss				
Loans and advances to banks	–	16	–	16
Loans and advances to customers	–	12,015	2	12,017
Debt securities:				
Government securities	2,182	–	–	2,182
Bank and building society certificates of deposit	–	76	–	76
Asset-backed securities:				
Mortgage-backed securities	–	7	–	7
Other asset-backed securities	–	14	–	14
Corporate and other debt securities	–	250	156	406
	2,182	347	156	2,685
Treasury and other bills	62	–	–	62
Total financial assets at fair value through profit or loss	2,244	12,378	158	14,780
Financial assets at fair value through other comprehensive income				
Debt securities:				
Asset-backed securities:				
Other asset-backed securities	–	–	6	6
	–	–	6	6
Total financial assets at fair value through other comprehensive income	–	–	6	6
Total financial assets carried at fair value, excluding derivatives	2,244	12,378	164	14,786

Note 31: Fair values of financial assets and liabilities continued

The Bank	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 31 December 2023				
Financial assets at fair value through profit or loss				
Loans and advances to banks	–	4	–	4
Loans and advances to customers	–	17,433	2	17,435
Debt securities:				
Government securities	3,596	–	–	3,596
Asset-backed securities:				
Mortgage-backed securities	–	15	–	15
Other asset-backed securities	–	61	7	68
Corporate and other debt securities	–	583	146	729
	3,596	659	153	4,408
Total financial assets at fair value through profit or loss	3,596	18,096	155	21,847
Financial assets at fair value through other comprehensive income				
Debt securities:				
Asset-backed securities:				
Other asset-backed securities	–	–	–	–
	–	–	–	–
Total financial assets at fair value through other comprehensive income	–	–	–	–
Total financial assets carried at fair value, excluding derivatives	3,596	18,096	155	21,847

The Bank	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 31 December 2022				
Financial assets at fair value through profit or loss				
Loans and advances to banks	–	16	–	16
Loans and advances to customers	–	12,015	2	12,017
Debt securities:				
Government securities	2,182	–	–	2,182
Asset-backed securities:				
Mortgage-backed securities	–	7	–	7
Other asset-backed securities	–	14	–	14
Corporate and other debt securities	–	250	156	406
	2,182	271	156	2,609
Total financial assets at fair value through profit or loss	2,182	12,302	158	14,642
Financial assets at fair value through other comprehensive income				
Debt securities:				
Asset-backed securities:				
Other asset-backed securities	–	–	6	6
	–	–	6	6
Total financial assets at fair value through other comprehensive income	–	–	6	6
Total financial assets carried at fair value, excluding derivatives	2,182	12,302	164	14,648

Note 31: Fair values of financial assets and liabilities continued

Movements in level 3 portfolio

The table below analyses movements in level 3 financial assets (excluding derivatives) at fair value, recurring basis.

The Group and the Bank	2023 Financial assets at fair value through profit or loss £m	2023 Financial assets at fair value through other comprehensive income £m	2023 Total level 3 assets carried at fair value, excluding derivatives (recurring basis) £m	2022 Financial assets at fair value through profit or loss £m	2022 Financial assets at fair value through other comprehensive income £m	2022 Total level 3 assets carried at fair value, excluding derivatives (recurring basis) £m
At 1 January	**158**	**6**	**164**	190	15	205
Exchange and other adjustments	**(5)**	**–**	**(5)**	–	–	–
(Losses) gains recognised in the income statement within other income	**(10)**	**–**	**(10)**	(31)	–	(31)
Gains recognised in other comprehensive income within the revaluation reserve in respect of financial assets at fair value through other comprehensive income	**–**	**–**	**–**	–	1	1
Purchases/increases	**12**	**1**	**13**	3	–	3
Sales/repayments	**–**	**(7)**	**(7)**	(4)	(10)	(14)
Transfers into the level 3 portfolio	**–**	**–**	**–**	–	–	–
Transfers out of the level 3 portfolio	**–**	**–**	**–**	–	–	–
At 31 December	**155**	**–**	**155**	158	6	164
(Losses) gains recognised in the income statement, within other income, relating to the change in fair value of those assets held at 31 December	**(8)**	**–**	**(8)**	(31)	–	(31)

Valuation methodology for financial assets (excluding derivatives)

Loans and advances to customers and banks

The fair value of these assets is determined using discounted cash flow techniques. The discount rates are derived from market observable interest rates, a risk margin that reflects loan credit ratings and an incremental illiquidity premium based on historical spreads at origination on similar loans.

Debt securities

Debt securities measured at fair value and classified as level 2 are valued by discounting expected cash flows using an observable credit spread applicable to the particular instrument.

Where there is limited trading activity in debt securities, LBCM uses valuation models, consensus pricing information from third-party pricing services and broker or lead manager quotes to determine an appropriate valuation. Debt securities are classified as level 3 if there is a significant valuation input that cannot be corroborated through market sources or where there are materially inconsistent values for an input. Asset classes classified as level 3 mainly comprise certain collateralised loan obligations and collateralised debt obligations.

Equity investments

Unlisted equity and fund investments are valued using different techniques in accordance with LBCM's valuation policy and International Private Equity and Venture Capital Guidelines. Equity securities measured at fair value and classified as level 2 are valued by discounting expected cash flows using an observable credit spread applicable to the particular instrument. Where there is limited trading activity in equity securities, LBCM uses valuation models, consensus pricing information from third-party pricing services and broker or lead manager quotes to determine an appropriate valuation.

Note 31: Fair values of financial assets and liabilities continued

(B) Financial liabilities (excluding derivatives)

Valuation hierarchy

At 31 December 2023, the Group and Bank's financial liabilities carried at fair value, excluding derivatives, comprised its financial liabilities at fair value through profit or loss and totalled £19,686 million (2022: £12,578 million). The table below analyses these financial liabilities by balance sheet classification and valuation methodology (level 1, 2 or 3, as described in note 31). The fair value measurement approach is recurring in nature. There were no significant transfers between levels 1 and 2 during the year.

The Group and the Bank	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 31 December 2023				
Financial liabilities at fair value through profit or loss				
Liabilities designated at fair value through profit or loss	**–**	**11**	**–**	**11**
Trading liabilities:				
Liabilities in respect of securities sold under repurchase agreements	**–**	**18,101**	**–**	**18,101**
Short positions in securities	**1,569**	**5**	**–**	**1,574**
Total financial liabilities carried at fair value, excluding derivatives	**1,569**	**18,117**	**–**	**19,686**
At 31 December 2022				
Financial liabilities at fair value through profit or loss				
Liabilities designated at fair value through profit or loss	–	–	–	–
Trading liabilities:				
Liabilities in respect of securities sold under repurchase agreements	–	11,038	–	11,038
Short positions in securities	1,504	36	–	1,540
Total financial liabilities carried at fair value, excluding derivatives	1,504	11,074	–	12,578

Valuation methodology for financial liabilities (excluding derivatives)

Trading liabilities in respect of securities sold under repurchase agreements

The fair value of these liabilities is determined using discounted cash flow techniques. The discount rates are derived from observable repurchase agreement rate curves specific to the type of security sold under the repurchase agreement.

(C) Derivatives

Valuation hierarchy

All of the Group and Bank's derivative assets and liabilities are carried at fair value. At 31 December 2023, such assets totalled £22,606 million for the Group and for the Bank (2022: £24,621 million for the Group and £24,647 million for the Bank). Liabilities totalled £17,576 million for the Group and for the Bank (2022: £20,070 million for the Group and Bank). The fair value measurement approach is recurring in nature. There were no significant transfers between level 1 and level 2 during the year. The table below analyses these derivative balances by valuation methodology (level 1, 2 or 3, as described in note 31).

	2023				2022			
The Group	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Derivative assets	**13**	**22,160**	**433**	**22,606**	6	24,050	565	24,621
Derivative liabilities	**(10)**	**(17,213)**	**(353)**	**(17,576)**	(8)	(19,568)	(494)	(20,070)

	2023				2022			
The Bank	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Derivative assets	**13**	**22,160**	**433**	**22,606**	6	24,076	565	24,647
Derivative liabilities	**(10)**	**(17,213)**	**(353)**	**(17,576)**	(8)	(19,568)	(494)	(20,070)

Movements in level 3 portfolio

The table below analyses movements in level 3 derivative assets and liabilities carried at fair value.

	2023		2022	
The Group and the Bank	**Derivative assets £m**	**Derivative liabilities £m**	Derivative assets £m	Derivative liabilities £m
At 1 January	**565**	**(494)**	729	(926)
Exchange and other adjustments	**(8)**	**5**	47	(37)
Gains (losses) recognised in the income statement within other income	**(103)**	**103**	(304)	420
Purchases/increases	**19**	**(14)**	58	(46)
Sales/repayments	**(40)**	**47**	(21)	13
Transfers into the level 3 portfolio	**–**	**–**	347	(205)
Transfers out of the level 3 portfolio	**–**	**–**	(291)	287
At 31 December	**433**	**(353)**	565	(494)
Gains (losses) recognised in the income statement, within other income, relating to the change in fair value of those assets or liabilities held at 31 December	**(72)**	**73**	(125)	329

Note 31: Fair values of financial assets and liabilities continued

Valuation methodology for derivatives

Where derivative assets and liabilities are not traded on an exchange, they are valued using valuation techniques, including discounted cash flow and options pricing models, as appropriate. The types of derivatives classified as level 2 and the valuation techniques used include:

- Interest rate swaps which are valued using discounted cash flow models; the most significant inputs into those models are interest rate yield curves which are developed from publicly quoted rates
- Foreign exchange derivatives that do not contain options which are priced using rates available from publicly quoted sources
- Credit derivatives are valued using standard models with observable inputs, including publicly available yield and credit default swap (CDS) curves
- Less complex interest rate and foreign exchange option products which are valued using volatility surfaces developed from publicly available interest rate cap, interest rate swaption and other option volatilities; option volatility skew information is derived from a market standard consensus pricing service. For more complex option products, models are calibrated using observable at-the-money data; where necessary, out-of-the-money positions are adjusted for using a market standard consensus pricing service

Complex interest rate products where inputs to the valuation are significant and unobservable are classified as level 3.

Where credit protection, usually in the form of credit default swaps, has been purchased or written on asset-backed securities, the security is referred to as a negative basis asset-backed security and the resulting derivative assets or liabilities have been classified as either level 2 or level 3 according to the classification of the underlying asset-backed security.

Certain inputs used to calculate CVA, FVA, and own credit adjustments, are not significant in determining the classification of the derivative and debt instruments. Consequently, these inputs do not form part of the level 3 sensitivities presented.

Derivative valuation adjustments

Derivative financial instruments which are carried in the balance sheet at fair value are adjusted where appropriate to reflect credit risk, market liquidity and other risks.

(i) Uncollateralised derivative valuation adjustments

The following table summarises the movement on this valuation adjustment account during 2022 and 2023:

	2023 £m	2022 £m
At 1 January	**336**	300
Income statement charge (credit)	**(92)**	36
Transfers	**(3)**	–
At 31 December	**241**	336

Represented by:

	2023 £m	2022 £m
Credit Valuation Adjustment	**162**	250
Debit Valuation Adjustment	**(31)**	(48)
Funding Valuation Adjustment	**110**	134
	241	336

Credit and Debit Valuation Adjustments (CVA and DVA) are applied to over-the-counter derivative exposures with counterparties that are not subject to standard interbank collateral arrangements. These exposures largely relate to the provision of risk management solutions.

A CVA is taken where there is a positive future uncollateralised exposure (asset). A DVA is taken where there is a negative future uncollateralised exposure (liability). These adjustments reflect interest rates and expectations of counterparty creditworthiness and LBCM's own credit spread respectively.

The CVA is sensitive to:

- the current size of the mark-to-market position on the uncollateralised asset
- expectations of future market volatility of the underlying asset; and
- expectations of counterparty creditworthiness

In circumstances where exposures to a counterparty become impaired, any associated derivative valuation adjustment is transferred and assessed for specific loss alongside other non-derivative assets and liabilities that the counterparty may have with LBCM.

Market Credit Default Swap (CDS) spreads are used to develop the probability of default for quoted counterparties. For unquoted counterparties, internal credit ratings and market sector CDS curves and recovery rates are used. The loss given default (LGD) is based on market recovery rates and internal credit assessments.

The combination of a one notch deterioration in the credit rating of derivative counterparties and a ten per cent increase in LGD increases the CVA by £41 million. Current market value is used to estimate the projected exposure for products not supported by the model, which are principally complex interest rate options that are traded in very low volumes. For these, the CVA is calculated on an add-on basis (although no such adjustment was required at 31 December 2023).

The DVA is sensitive to:

- the current size of the mark-to-market position on the uncollateralised liability
- expectations of future market volatility of the underlying liability; and
- LBG's own CDS spread

A one per cent rise in the CDS spread would lead to an increase in the DVA of £66 million to £97 million.

The risk exposures that are used for the CVA and DVA calculations are strongly influenced by interest rates. Due to the nature of LBCM's business the CVA/DVA exposures tend to be on average the same way around such that the valuation adjustments fall when interest rates rise. A one per cent rise in interest rates would lead to a £24 million fall in the overall valuation adjustment to £107 million. The CVA model used by LBCM does not assume any correlation between the level of interest rates and default rates.

LBCM has also recognised a Funding Valuation Adjustment to adjust for the net cost of funding uncollateralised derivative positions. This adjustment is calculated on the expected future exposure discounted at a suitable cost of funds. A ten basis points increase in the cost of funds will increase the funding valuation adjustment by £12 million.

Note 31: Fair values of financial assets and liabilities continued

(ii) Market liquidity

LBCM includes mid to bid-offer valuation adjustments against the expected cost of closing out the net market risk in LBCM's trading positions within a time frame that is consistent with historical trading activity and spreads that the trading desks have accessed historically during the ordinary course of business in normal market conditions.

At 31 December 2023, the LBCM's derivative trading business held mid to bid-offer valuation adjustments of £48 million (2022: £55 million).

(iii) Day 1 P&L reserves

LBCM defers Day 1 gain/losses when the initial fair value of a financial instrument held at fair value through profit or loss relies on unobservable inputs. At 31 December 2023, LBCM's derivative trading business held deferred day 1 P&L valuation adjustment of £11 million (2022: £10 million)

Key source of estimation uncertainty:	Interest rate spreads and interest rate volatility

LBCM's valuation control framework and a description of level 1, 2 and 3 financial assets and liabilities are set out above. The valuation techniques for level 3 financial instruments involve management judgement and estimates, the extent of which depends on the complexity of the instrument and the availability of market observable information. In addition, in line with market practice, LBCM applies credit, debit and funding valuation adjustments in determining the fair value of its uncollateralised derivative positions. A description of these adjustments is set out in note 33.

(D) Sensitivity of level 3 valuations

The Group and the Bank		**2023**			2022		
			Effect of reasonably possible alternative assumptions[1]			Effect of reasonably possible alternative assumptions[1]	
	Valuation techniques	**Carrying value £m**	**Favourable changes £m**	**Unfavourable changes £m**	Carrying value £m	Favourable changes £m	Unfavourable changes £m
Financial assets at fair value through profit or loss							
Loans and advances to customers	Comparable pricing	**2**	**–**	**–**	2	–	–
Debt securities	Discounted cash flows	**153**	**30**	**(30)**	156	10	(10)
		155	**30**	**(30)**	158	10	(10)
Financial assets at fair value through other comprehensive income							
Asset-backed securities	Comparable pricing	**–**	**–**	**–**	6	–	–
		–	**–**	**–**	6	–	–
Derivative financial assets							
Interest rate derivatives	Option pricing model	**433**	**6**	**(3)**	565	9	(7)
		433	**6**	**(3)**	565	9	(7)
Level 3 financial assets carried at fair value		**588**	**36**	**(33)**	729	19	(17)
Derivative financial liabilities							
Interest rate derivatives	Option pricing model	**(353)**	**14**	**(15)**	(494)	17	(19)
Level 3 financial liabilities carried at fair value		**(353)**	**14**	**(15)**	(494)	17	(19)

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

Note 31: Fair values of financial assets and liabilities continued

Significant unobservable inputs

Significant unobservable inputs affecting the valuation of debt securities and derivatives are as follows:

- Interest rates and inflation rates are referenced in some derivatives where the payoff that the holder of the derivative receives depends on the behaviour of those underlying references through time.

Credit spreads represent the premium above the benchmark reference instrument required to compensate for lower credit quality; higher spreads lead to a lower fair value.

- Volatility parameters represent key attributes of option behaviour; higher volatilities typically denote a wider range of possible outcomes.

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

Loans and advances to customers

Spread (-/+ 19bps).

Debt Securities

Credit spreads (discount factor) and inflation volatility (-/+ 19bps).

Interest rate derivatives

Interest Rate Volatility (12.8-200bps).

Reasonably possible alternative assumptions

Valuation techniques applied to many 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.

Debt securities

Reasonably possible alternative assumptions have been determined in respect of LBCM's structured credit investments by flexing credit spreads.

Derivatives

Reasonably possible alternative assumptions have been determined in respect of swaptions in LBCM's derivative portfolios which are priced using industry standard option pricing models. Such models require interest rate volatilities which may be unobservable at longer maturities. To derive reasonably possible alternative valuations these volatilities have been flexed within a range.

(3) Financial assets and liabilities carried at amortised cost

(A) Financial assets

Valuation hierarchy

The table below analyses the fair values of the financial assets of LBCM which are carried at amortised cost by valuation methodology (level 1, 2 or 3, as described in note 31). Financial assets carried at amortised cost are mainly classified as level 3 due to significant unobservable inputs used in the valuation models. Where inputs are observable, debt securities are classified as level 1 or 2.

			Valuation hierarchy		
The Group	Carrying value £m	Fair value £m	Level 1 £m	Level 2 £m	Level 3 £m
At 31 December 2023					
Loans and advances to banks	**1,753**	**1,753**	**–**	**–**	**1,753**
Loans and advances to customers	**16,447**	**16,376**	**–**	**–**	**16,376**
Reverse repurchase agreements	**6,020**	**6,020**	**–**	**6,020**	**–**
Debt securities	**374**	**368**	**–**	**184**	**184**
Due from fellow Lloyds Banking Group undertakings	**297**	**297**	**–**	**–**	**297**
At 31 December 2022					
Loans and advances to banks	2,117	2,117	–	–	2,117
Loans and advances to customers	19,127	19,237	–	–	19,237
Reverse repurchase agreements	5,606	5,606	–	5,606	–
Debt securities	305	305	–	201	104
Due from fellow Lloyds Banking Group undertakings	269	269	–	–	269

			Valuation hierarchy		
The Bank	Carrying value £m	Fair value £m	Level 1 £m	Level 2 £m	Level 3 £m
At 31 December 2023					
Loans and advances to banks	**1,726**	**1,726**	**–**	**–**	**1,726**
Loans and advances to customers	**16,167**	**16,095**	**–**	**–**	**16,095**
Reverse repurchase agreements	**6,020**	**6,020**	**–**	**6,020**	**–**
Debt securities	**374**	**368**	**–**	**184**	**184**
Due from fellow Lloyds Banking Group undertakings	**629**	**629**	**–**	**–**	**629**
At 31 December 2022					
Loans and advances to banks	2,063	2,063	–	–	2,063
Loans and advances to customers	18,864	18,974	–	–	18,974
Reverse repurchase agreements	5,606	5,606		5,606	–
Debt securities	305	305	–	201	104
Due from fellow Lloyds Banking Group undertakings	593	593	–	–	593

Note 31: Fair values of financial assets and liabilities continued

Valuation methodology

Loans and advances to banks

The carrying value of short-dated loans and advances to banks is assumed to be their fair value. The fair value of other loans and advances to banks is estimated by discounting the anticipated cash flows at a market discount rate adjusted for the credit spread of the obligor or, where not observable, the credit spread of borrowers of similar credit quality.

Loans and advances to customers

LBCM provides loans and advances to commercial, corporate and personal customers at both fixed and variable rates. Due to their short-term nature, the carrying value of variable rate loans and balances relating to lease financing is assumed to be their fair value.

To determine the fair value of loans and advances to customers, loans are segregated into portfolios of similar characteristics. A number of techniques are used to estimate the fair value of fixed rate lending; these take account of expected credit losses based on historic trends, prevailing market interest rates and expected future cash flows. For retail exposures, fair value is usually estimated by discounting anticipated cash flows (including interest at contractual rates) at market rates for similar loans offered by LBCM and other financial institutions. Certain loans secured on residential properties are made at a fixed rate for a limited period, typically 2 to 5 years, after which the loans revert to the relevant variable rate. The fair value of such loans is estimated by reference to market rates for similar loans of maturity equal to the remaining fixed interest rate period. The fair value of commercial loans is estimated by discounting anticipated cash flows at a rate which reflects the effects of interest rate changes, adjusted for changes in credit risk.

Reverse repurchase agreements

The carrying amount is deemed a reasonable approximation of fair value given the short-term nature of these instruments.

Debt securities

The fair values of debt securities are determined predominantly from lead manager quotes and, where these are not available, by alternative techniques including reference to credit spreads on similar assets with the same obligor, market standard consensus pricing services, broker quotes and other research data.

(B) Financial liabilities

Valuation hierarchy

The table below analyses the fair values of the financial liabilities of LBCM which are carried at amortised cost by valuation methodology (level 1, 2 or 3, as described in note 31).

The Group	Carrying value £m	Fair value £m	Valuation hierarchy Level 1 £m	Level 2 £m	Level 3 £m
At 31 December 2023					
Deposits from banks	**2,078**	**2,078**	**–**	**2,078**	**–**
Customer deposits	**29,439**	**29,462**	**–**	**29,462**	**–**
Repurchase agreements	**1**	**1**	**–**	**1**	**–**
Due to fellow Lloyds Banking Group undertakings	**1,213**	**1,213**	**–**	**1,213**	**–**
Debt securities in issue	**15,378**	**15,273**	**–**	**15,273**	**–**
Subordinated liabilities	**755**	**755**	**–**	**755**	**–**
At 31 December 2022					
Deposits from banks	2,456	2,456	–	2,456	–
Customer deposits	29,152	29,224	–	29,224	–
Repurchase agreements	7	7	–	7	–
Due to fellow Lloyds Banking Group undertakings	1,481	1,481	–	1,481	–
Debt securities in issue	16,131	15,970	–	15,970	–
Subordinated liabilities	761	761	–	761	–

The Bank	Carrying value £m	Fair value £m	Valuation hierarchy Level 1 £m	Level 2 £m	Level 3 £m
At 31 December 2023					
Deposits from banks	**2,078**	**2,078**	**–**	**2,078**	**–**
Customer deposits	**29,439**	**29,462**	**–**	**29,462**	**–**
Repurchase agreements	**1**	**1**	**–**	**1**	**–**
Due to fellow Lloyds Banking Group undertakings	**1,256**	**1,256**	**–**	**1,256**	**–**
Debt securities in issue	**15,378**	**15,273**	**–**	**15,273**	**–**
Subordinated liabilities	**755**	**755**	**–**	**755**	**–**
At 31 December 2022					
Deposits from banks	2,456	2,456	–	2,456	–
Customer deposits	29,152	29,224	–	29,224	–
Repurchase agreements	7	7	–	7	–
Due to fellow Lloyds Banking Group undertakings	1,526	1,526	–	1,526	–
Debt securities in issue	16,131	15,970	–	15,970	–
Subordinated liabilities	761	761	–	761	–

Note 31: Fair values of financial assets and liabilities continued

Valuation methodology

Deposits from banks and customer deposits

The fair value of bank and customer deposits repayable on demand is assumed to be equal to their carrying value.

The fair value for all other deposits is estimated using discounted cash flows applying either market rates, where applicable, or current rates for deposits of similar remaining maturities.

Repurchase agreements

The carrying amount is deemed a reasonable approximation of fair value given the short-term nature of these instruments.

Debt securities in issue at amortised cost

The fair value of short-term debt securities in issue is approximately equal to their carrying value. Fair value for other debt securities in issue is calculated based on quoted market prices where available. Where quoted market prices are not available, fair value is estimated using discounted cash flow techniques at a rate which reflects market rates of interest and LBCM's own credit spread.

Subordinated liabilities

The fair value of subordinated liabilities is determined by reference to quoted market prices where available or by reference to quoted market prices of similar instruments. Subordinated liabilities are classified as level 2, since the inputs used to determine their fair value are largely observable.

(4) Reclassifications of financial assets

There have been no reclassifications of financial assets in 2022 or 2023.

Note 32: Offsetting of financial assets and liabilities

The following information relates to financial assets and liabilities which have been offset in the balance sheet and those which have not been offset but for which LBCM has enforceable master netting agreements or collateral arrangements in place with counterparties.

				Related amounts where set off in the balance sheet not permitted[3]		
The Group	Gross amounts of assets and liabilities[1] £m	Amount offset in the balance sheet[2] £m	Net amounts presented in the balance sheet £m	Cash collateral received/ pledged £m	Non-cash collateral received/ pledged £m	Potential net amounts if offset of related amounts permitted £m
At 31 December 2023						
Financial assets						
Financial assets at fair value through profit or loss:						
Excluding reverse repurchase agreements	4,576	–	4,576	–	(2,448)	2,128
Reverse repurchase agreements	30,029	(12,616)	17,413	(75)	(17,226)	112
	34,605	(12,616)	21,989	(75)	(19,674)	2,240
Derivative financial instruments	22,606	–	22,606	(2,970)	(13,516)	6,120
Financial assets at amortised cost:						
Loans and advances to banks	1,753	–	1,753	(1,550)	–	203
Loans and advances to customers	16,447	–	16,447	(663)	–	15,784
Reverse repurchase agreements	6,020	–	6,020	12	(6,021)	11
Debt securities	374	–	374	–	–	374
	24,594	–	24,594	(2,201)	(6,021)	16,372
Financial assets at fair value through other comprehensive income	–	–	–	–	–	–
Financial liabilities						
Deposits from banks	2,078	–	2,078	(1,432)	–	646
Customer deposits	29,439	–	29,439	(1,791)	–	27,648
Repurchase agreements at amortised cost	1	–	1	–	(1)	–
Financial liabilities at fair value through profit or loss:						
Excluding repurchase agreements	1,585	–	1,585	–	–	1,585
Repurchase agreements	30,717	(12,616)	18,101	102	(18,087)	116
	32,302	(12,616)	19,686	102	(18,087)	1,701
Derivative financial instruments	17,576	–	17,576	(2,125)	(11,341)	4,110

Note 32: Offsetting of financial assets and liabilities continued

The Group	Gross amounts of assets and liabilities[1] £m	Amount offset in the balance sheet[2] £m	Net amounts presented in the balance sheet £m	Related amounts where set off in the balance sheet not permitted[3] Cash collateral received/ pledged £m	Non-cash collateral received/ pledged £m	Potential net amounts if offset of related amounts permitted £m
At 31 December 2022						
Financial assets						
Financial assets at fair value through profit or loss:						
Excluding reverse repurchase agreements	2,998	–	2,998	–	(1,163)	1,835
Reverse repurchase agreements	32,927	(21,145)	11,782	–	(11,782)	–
	35,925	(21,145)	14,780	–	(12,945)	1,835
Derivative financial instruments	24,621	–	24,621	(3,814)	(16,687)	4,120
Financial assets at amortised cost:						
Loans and advances to banks	2,117	–	2,117	(1,702)	–	415
Loans and advances to customers	19,127	–	19,127	(798)	–	18,329
Reverse repurchase agreements	5,981	(375)	5,606	–	(5,606)	–
Debt securities	305	–	305	–	–	305
	27,530	(375)	27,155	(2,500)	(5,606)	19,049
Financial assets at fair value through other comprehensive income	6	–	6	–	–	6
Financial liabilities						
Deposits from banks	2,456	–	2,456	(1,504)	–	952
Customer deposits	29,152	–	29,152	(2,310)	–	26,842
Repurchase agreements at amortised cost	382	(375)	7	–	(7)	–
Financial liabilities at fair value through profit or loss:						
Excluding repurchase agreements	1,540	–	1,540	–	–	1,540
Repurchase agreements	32,183	(21,145)	11,038	–	(11,038)	–
	33,723	(21,145)	12,578	–	(11,038)	1,540
Derivative financial instruments	20,070	–	20,070	(2,500)	(13,855)	3,715

1 After impairment allowance.
2 The amounts offset in the balance sheet as shown above mainly represent derivatives and repurchase agreements with central clearing houses which meet the criteria for offsetting under IAS 32.
3 The Group enters into derivatives and repurchase and reverse repurchase agreements with various counterparties which are governed by industry standard master netting agreements. The Group holds and provides cash and securities collateral in respective of derivative transactions covered by these agreements. The right to set off balances under these master netting agreements or to set off cash and securities collateral only arises in the event of non-payment or default and, as a result, these arrangements do not qualify for offsetting under IAS 32.

The effects of over-collateralisation have not been taken into account in the above table.

Note 33: Financial risk management

Financial instruments are fundamental to LBCM's activities and, as a consequence, the risks associated with financial instruments represent a significant component of the risks faced by LBCM.

The primary risks affecting LBCM through its use of financial instruments are: credit risk; market risk, which includes interest rate risk and foreign exchange risk; and liquidity risk. The following disclosures provide quantitative and qualitative information about LBCM's exposure to these risks.

Credit risk

LBCM'S credit risk exposure arises in respect of the instruments below and predominantly in the UK. Credit risk appetite is set at Board-level and is described and reported through a suite of metrics devised from a combination of accounting and credit portfolio performance measures, which include the use of various credit risk rating systems as inputs and assess credit risk at a counterparty level using three components: (i) the probability of default by the counterparty on its contractual obligations; (ii) the current exposures to the counterparty and their likely future development, from which LBCM derives the exposure at default; and (iii) the likely loss ratio on the defaulted obligations, the loss given default. LBCM uses a range of approaches to mitigate credit risk, including internal control policies, obtaining collateral, using master netting agreements and other credit risk transfers, such as asset sales and credit derivatives based transactions

(A) Maximum credit exposure

The maximum credit risk exposure of LBCM in the event of other parties failing to perform their obligations is detailed below. No account is taken of any collateral held and the maximum exposure to loss is considered to be the balance sheet carrying amount or, for non-derivative off-balance sheet transactions and financial guarantees, their contractual nominal amounts.

	2023			2022		
The Group	**Maximum exposure £m**	**Offset[1] £m**	**Net exposure £m**	Maximum exposure £m	Offset[1] £m	Net exposure £m
Financial assets at fair value through profit or loss[2]	**21,989**	**–**	**21,989**	14,780	–	14,780
Derivative financial instruments	**22,606**	**(9,948)**	**12,658**	24,621	(12,407)	12,214
Financial assets at amortised cost, net[3]						
Loans and advances to banks, net[3]	**1,753**	**–**	**1,753**	2,117	–	2,117
Loans and advances to customers, net[3]	**16,447**	**–**	**16,447**	19,127	–	19,127
Reverse repurchase agreements, net[3]	**6,020**	**–**	**6,020**	5,606	–	5,606
Debt securities, net[3]	**374**	**–**	**374**	305	–	305
	24,594	**–**	**24,594**	27,155	–	27,155
Financial assets at fair value through other comprehensive income	**–**	**–**	**–**	6	–	6
Off-balance sheet items:						
Performance bonds, including letters of credit, and other transaction-related contingencies	**94**	**–**	**94**	86	–	86
Irrevocable commitments and guarantees	**21,157**	**–**	**21,157**	16,619	–	16,619
	21,251	**–**	**21,251**	16,705	–	16,705
	90,440	**(9,948)**	**80,492**	83,267	(12,407)	70,860

1 Offset items comprise deposit amounts available for offset, and amounts available for offset under master netting arrangements, that do not meet the criteria under IAS 32 to enable loans and advances and derivative assets respectively to be presented net of these balances in the financial statements.

2 Excluding equity shares.

3 Amounts shown net of related impairment allowances.

Note 33: Financial risk management continued

The Bank	2023 Maximum exposure £m	2023 Offset[1] £m	2023 Net exposure £m	2022 Maximum exposure £m	2022 Offset[1] £m	2022 Net exposure £m
Financial assets at fair value through profit or loss[2]	**21,847**	**–**	**21,847**	14,642	–	14,642
Derivative financial instruments	**22,606**	**(9,948)**	**12,658**	24,647	(12,407)	12,240
Financial assets at amortised cost, net[3]						
Loans and advances to banks, net[3]	**1,726**	**–**	**1,726**	2,063	–	2,063
Loans and advances to customers, net[3]	**16,167**	**–**	**16,167**	18,864	–	18,864
Reverse repurchase agreements, net[3]	**6,020**	**–**	**6,020**	5,606	–	5,606
Debt securities, net[3]	**374**	**–**	**374**	305	–	305
	24,287	**–**	**24,287**	26,838	–	26,838
Financial assets at fair value through other comprehensive income	**–**	**–**	**–**	6	–	6
Off-balance sheet items:						
Performance bonds, including letters of credit, and other transaction-related contingencies	**94**	**–**	**94**	86	–	86
Irrevocable commitments and guarantees	**21,157**	**–**	**21,157**	16,619	–	16,619
	21,251		**21,251**	16,705	–	16,705
	89,991	**(9,948)**	**80,043**	82,838	(12,407)	70,431

1 Offset items comprise deposit amounts available for offset, and amounts available for offset under master netting arrangements, that do not meet the criteria under IAS 32 to enable loans and advances and derivative assets respectively to be presented net of these balances in the financial statements.

2 Excluding equity shares.

3 Amounts shown net of related impairment allowances.

(B) Concentrations of exposure

LBCM's management of concentration risk includes single name, industry sector and country limits as well as controls over LBCM's overall exposure to certain products. As part of its credit risk policy, LBCM considers sustainability (which incorporates Environmental (including climate), Social and Governance) in the assessment of Commercial Banking facilities.

At 31 December 2023 the most significant concentration of exposure was in financial, business and other services (comprising 82 per cent of total loans and advances to customers).

Loans and advances to customers

	The Group 2023 £m	The Group 2022 £m	The Bank 2023 £m	The Bank 2022 £m
Agriculture, forestry and fishing	**1**	1	**1**	1
Energy and water supply	**32**	37	**32**	37
Manufacturing	**259**	308	**259**	308
Construction	**22**	9	**22**	9
Transport, distribution and hotels	**71**	108	**71**	108
Postal and telecommunications	**172**	117	**172**	117
Property companies	**604**	625	**604**	625
Financial, business and other services	**13,500**	16,242	**13,500**	16,242
Personal:				
Mortgages	**1,514**	1,443	**1,514**	1,443
Other	**52**	55	**10**	12
Lease financing	**160**	142	**–**	–
Hire purchase	**79**	79	**–**	–
Total loans and advances to customers before allowance for impairment losses	**16,466**	19,166	**16,185**	18,902
Allowance for impairment losses (note 14)	**(19)**	(39)	**(18)**	(38)
Total loans and advances to customers	**16,447**	19,127	**16,167**	18,864

(C) Credit quality of assets

Loans and advances banks

All of LBCM's loans and advances to banks are assessed as Stage 1 in 2023. In 2022, there was £22 million assessed as Stage 2.

Loans and advances to customers

The analysis of lending has been prepared with the business segment in which the exposure is recorded reflected in the ratings system applied. The internal credit ratings systems used by LBCM for commercial business reflects the characteristics of these exposures and the way that they are managed internally; these credit ratings are set out below. All probabilities of default (PDs) include forward-looking information and are based on 12-month values, with the exception of credit impaired.

Commercial	
Quality classification	**IFRS 9 PD Range**
CMS 1–10	0.00–0.50%
CMS 11–14	0.51–3.00%
CMS 15–18	3.01–20.00%
CMS 19	20.01–99.99%
CMS 20–23	100.00%

Note 33: Financial risk management continued

The Group	Gross Drawn exposures Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Expected credit loss allowance Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
At 31 December 2023								
CMS 1–10	**15,315**	**9**	**–**	**15,324**	**9**	**–**	**–**	**9**
CMS 11–14	**846**	**134**	**–**	**980**	**3**	**2**	**–**	**5**
CMS 15–18	**101**	**45**	**–**	**146**	**2**	**2**	**–**	**4**
CMS 19	**2**	**5**	**–**	**7**	**–**	**1**	**–**	**1**
CMS 20–23	**–**	**–**	**9**	**9**	**–**	**–**	**–**	**–**
	16,264	**193**	**9**	**16,466**	**14**	**5**	**–**	**19**

The Group	Gross Drawn exposures Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Expected credit loss allowance Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
At 31 December 2022								
CMS 1–10	17,108	239	–	17,347	17	1	–	18
CMS 11–14	969	662	–	1,631	6	10	–	16
CMS 15–18	3	156	–	159	–	4	–	4
CMS 19	4	3	–	7	–	–	–	–
CMS 20–23	–	–	22	22	–	–	1	1
	18,084	1,060	22	19,166	23	15	1	39

The Bank	Gross Drawn exposures Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Expected credit loss allowance Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
At 31 December 2023								
CMS 1–10	**15,052**	**3**	**–**	**15,055**	**8**	**–**	**–**	**8**
CMS 11–14	**843**	**130**	**–**	**973**	**3**	**2**	**–**	**5**
CMS 15–18	**101**	**43**	**–**	**144**	**2**	**2**	**–**	**4**
CMS 19	**–**	**4**	**–**	**4**	**–**	**1**	**–**	**1**
CMS 20–23	**–**	**–**	**9**	**9**	**–**	**–**	**–**	**–**
	15,996	**180**	**9**	**16,185**	**13**	**5**	**–**	**18**

The Bank	Gross Drawn exposures Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Expected credit loss allowance Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
At 31 December 2022								
CMS 1–10	16,880	220	–	17,100	16	1	–	17
CMS 11–14	968	655	–	1,623	6	9	–	15
CMS 15–18	3	154	–	157	–	5	–	5
CMS 19	–	–	–	–	–	–	–	–
CMS 20–23	–	–	22	22	–	–	1	1
	17,851	1,029	22	18,902	22	15	1	38

Reverse repurchase agreement held at amortised cost

All of LBCM's reverse repurchase agreements are assessed as Stage 1.

Debt securities held at amortised cost

At 31 December 2023 £376 million (2022: £305 million) of gross debt securities held at amortised cost were of investment grade where credit ratings are equal to or better than 'BBB'.

Financial assets at fair value through other comprehensive income (excluding equity shares)

At 31 December 2023 £nil (2022: £6 million) of financial assets at fair value through other comprehensive income (excluding equity shares) were of investment grade where credit ratings are equal to or better than 'BBB'.

Debt securities, treasury and other bills held at fair value through profit or loss

Substantially all of the loans and advances to customers and banks recognised at fair value through profit or loss have an investment grade rating. The credit quality of debt securities, treasury and other bills held at fair value through profit or loss is set out below:

Note 33: Financial risk management continued

The Group	2023 Investment grade[1] £m	2023 Other[2] £m	2023 Total £m	2022 Investment grade[1] £m	2022 Other[2] £m	2022 Total £m
Trading assets:						
Debt securities:						
Government securities	**3,596**	**–**	**3,596**	2,182	–	2,182
Asset-backed securities:						
Mortgage-backed securities	**15**	**–**	**15**	7	–	7
Other asset-backed securities	**61**	**–**	**61**	14	–	14
	76	**–**	**76**	21	–	21
Corporate and other debt securities	**471**	**58**	**529**	219	9	228
Total trading assets	**4,143**	**58**	**4,201**	2,422	9	2,431
Other financial assets mandatorily at fair value through profit or loss:						
Debt securities:						
Bank and building society certificates of deposit	**91**	**–**	**91**	76	–	76
Asset-backed securities	**–**	**7**	**7**	–	–	–
Corporate and other debt securities	**–**	**146**	**146**	–	156	156
	91	**153**	**244**	76	156	232
Treasury and other bills	**51**	**–**	**51**	62	–	62
Total other financial assets mandatorily at fair value through profit or loss	**142**	**153**	**295**	138	156	294
	4,285	**211**	**4,496**	2,560	165	2,725
Due from fellow Lloyds Banking Group undertakings:						
Corporate and other debt securities			**54**			22
Total held at fair value through profit or loss			**4,550**			2,747

1 Credit ratings equal to or better than 'BBB'.
2 Other comprises sub-investment grade (2023: £155 million; 2022: £156 million) and not rated (2023: £56 million; 2022: £9 million).

The Bank	2023 Investment grade[1] £m	2023 Other[2] £m	2023 Total £m	2022 Investment grade[1] £m	2022 Other[2] £m	2022 Total £m
Trading assets:						
Debt securities:						
Government securities	**3,596**	**–**	**3,596**	2,182	–	2,182
Asset-backed securities:						
Mortgage-backed securities	**15**	**–**	**15**	7	–	7
Other asset-backed securities	**61**	**–**	**61**	14	–	14
	76	**–**	**76**	21	–	21
Corporate and other debt securities	**471**	**58**	**529**	219	9	228
Total trading assets	**4,143**	**58**	**4,201**	2,422	9	2,431
Other financial assets mandatorily at fair value through profit or loss:						
Debt securities:						
Asset-backed securities	**–**	**7**	**7**	–	–	–
Corporate and other debt securities	**–**	**146**	**146**	–	156	156
Total other financial assets mandatorily at fair value through profit or loss	**–**	**153**	**153**	–	156	156
	4,143	**211**	**4,354**	2,422	165	2,587
Due from fellow Lloyds Banking Group undertakings:						
Corporate and other debt securities			**54**			22
Total held at fair value through profit or loss			**4,408**			2,609

1 Credit ratings equal to or better than 'BBB'.
2 Other comprises sub-investment grade (2023: £155 million; 2022: £156 million) and not rated (2023: £56 million; 2022: £9 million).

Note 33: Financial risk management continued

Derivative assets

An analysis of derivative assets is given in note 11. The credit quality of derivatives are set out below.

The Group	2023 Investment grade[1] £m	2023 Other[2] £m	2023 Total £m	2022 Investment grade[1] £m	2022 Other[2] £m	2022 Total £m
Trading and other	18,667	757	19,424	20,235	988	21,223
Hedging	9	–	9	1	–	1
	18,676	757	19,433	20,236	988	21,224
Due from fellow Lloyds Banking Group undertakings			3,173			3,397
Total derivative financial instruments			22,606			24,621

1 Credit ratings equal to or better than 'BBB'.
2 Other comprises sub-investment grade (2023: £731 million; 2022: £920 million) and not rated (2023: £26 million; 2022: £68 million).

The Bank	2023 Investment grade[1] £m	2023 Other[2] £m	2023 Total £m	2022 Investment grade[1] £m	2022 Other[2] £m	2022 Total £m
Trading and other	18,667	757	19,424	20,235	988	21,223
Hedging	9	–	9	1	–	1
	18,676	757	19,433	20,236	988	21,224
Due from fellow Lloyds Banking Group undertakings			3,173			3,423
Total derivative financial instruments			22,606			24,647

1 Credit ratings equal to or better than 'BBB'.
2 Other comprises sub-investment grade (2023: £731 million; 2022: £920 million) and not rated (2023: £26 million; 2022: £68 million).

Financial guarantees and irrevocable loan commitments

Financial guarantees represent undertakings that LBCM will meet a customer's obligation to third parties if the customer fails to do so. Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. LBCM is theoretically exposed to loss in an amount equal to the total guarantees or unused commitments, however, the likely amount of loss is expected to be significantly less. Most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The Group and The Bank	Gross Undrawn exposures Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Expected credit loss allowance Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
At 31 December 2023								
CMS 1–10	21,054	–	–	21,054	6	–	–	6
CMS 11–14	506	17	–	523	1	–	–	1
CMS 15–18	13	37	–	50	–	1	–	1
CMS 19	–	–	–	–	–	–	–	–
CMS 20–23	–	–	–	–	–	–	–	–
	21,573	54	–	21,627	7	1	–	8

The Group and The Bank	Gross Undrawn exposures Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Expected credit loss allowance Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
At 31 December 2022								
CMS 1–10	15,570	103	–	15,673	9	1	–	10
CMS 11–14	1,150	351	–	1,501	2	6	–	8
CMS 15–18	–	–	–	–	–	–	–	–
CMS 19	–	–	–	–	–	–	–	–
CMS 20–23	–	–	–	–	–	–	–	–
	16,720	454	–	17,174	11	7	–	18

(D) Collateral held as security for financial assets

The types of collateral accepted by LBCM include: residential and commercial properties; charges over business assets such as premises, inventory and accounts receivable; financial instruments, cash and guarantees from third parties. The terms and conditions associated with the use of the collateral are varied and are dependent on the type of agreement and the counterparty. LBCM holds collateral against loans and advances and irrevocable loan commitments; qualitative and, where appropriate, quantitative information is provided in respect of this collateral below. Collateral held as security for financial assets at fair value through profit or loss and for derivative assets is also shown below.

LBCM holds collateral in respect of loans and advances to banks and customers as set out below. LBCM does not hold collateral against debt securities, comprising asset-backed securities and corporate and other debt securities, which are classified as financial assets held at amortised cost.

Loans and advances to customers

Stage 3 secured lending

At 31 December 2023, Stage 3 secured commercial lending amounted to £9 million, net of an impairment allowance of £nil for the Group and the Bank (2022: £21 million, net of an impairment allowance of £1 million for the Group and the Bank). In determining the fair value of collateral, no specific amounts have been attributed to the costs of realisation. For the purposes of determining the total collateral held by the Group and the Bank in respect of impaired secured commercial lending, the value of collateral for each loan has been limited to the principal amount of the outstanding advance in order to eliminate the effects of any over-collateralisation and to provide a clearer representation of LBCM's exposure.

Note 33: Financial risk management continued

Reverse repurchase agreements

There were reverse repurchase agreements which are accounted for as collateralised loans with a carrying value of £6,020 million (2022: £5,606 million) against which the Group and the Bank held collateral with a fair value of £6,009 million, capped at the reverse repurchase agreement carrying value (2022: £5,472 million). These transactions were generally conducted under terms that are usual and customary for standard secured lending activities.

Financial assets at fair value through profit or loss (excluding equity shares)

Included in financial assets at fair value through profit or loss are reverse repurchase agreements treated as collateralised loans with a carrying value of £17,413 million for the Group and the Bank (2022: £11,782 million). Collateral is held with a fair value of £17,301 million for the Group and the Bank, capped at the reverse repurchase agreement carrying value, all of which the Group is able to repledge (2022: £10,334 million for the Group and the Bank). At 31 December 2023, £14,505 million had been repledged (2022: £7,898 million).

In addition, securities held as collateral in the form of stock borrowed amounted to £9,739 million for the Group and the Bank (2022: £12,737 million for the Group and the Bank). Of this amount, £7,711 million for the Group and the Bank (2022: £9,736 million for the Group and the Bank) had been resold or repledged as collateral for the Group's own transactions.

These transactions were generally conducted under terms that are usual and customary for standard secured lending activities.

Derivative assets, after offsetting of amounts under master netting arrangements

LBCM reduces exposure to credit risk by using master netting agreements and by obtaining collateral in the form of cash or highly-rated securities. In respect of the net derivative assets after offsetting of amounts under master netting arrangements of £12,658 million for the Group and the Bank (2022: £12,214 million for the Group and £12,240 million for the Bank), cash collateral of £2,970 million for the Group and the Bank (2022: £3,814 million for the Group and the Bank) was held.

Irrevocable loan commitments and other credit-related contingencies

At 31 December 2023, there were irrevocable loan commitments and other credit-related contingencies of £21,251 million for the Group and Bank (2022: £16,705 million for the Group and the Bank).

(E) Collateral pledged as security

LBCM pledges assets primarily for repurchase agreements and securities lending transactions which are generally conducted under terms that are usual and customary for standard securitised borrowing contracts.

Repurchase transactions

Amortised cost

There are balances arising from repurchase transactions with customers of £1 million (2022: £7 million); the fair value of the collateral provided under these agreements at 31 December 2023 was £1 million, capped at the repurchase agreement carrying value (2022: £22 million including over collateralisation).

Financial liabilities at fair value through profit or loss

The fair value of collateral pledged in respect of repurchase transactions, accounted for as secured borrowing, where the secured party is permitted by contract or custom to repledge was £17,985 million, capped at the repurchase agreement carrying value (2022: £10,427 million).

Securities lending transactions

The following on-balance sheet financial assets have been lent to counterparties under securities lending transactions:

	The Group and the Bank	
	2023 £m	2022 £m
Financial assets at fair value through profit or loss	**512**	1,052

Market risk

Trading Portfolios

Exposures

LBCM's trading activity is modest relative to its peers and is primarily undertaken to meet the financial requirements of customers for foreign exchange, credit, interest rate and inflation products. These activities support customer flow and market making activities.

While the trading positions taken are generally small, any extreme moves in the main risk factors and other related risk factors could cause significant losses in the trading book depending on the positions at the time. The average 95 per cent 1-day trading VaR (Value at Risk; diversified across risk factors) was £2.2 million for 31 December 2023 compared to £1.5 million for 31 December 2022.

Trading market risk measures are applied to all of LBCM's regulatory trading books and they include daily VaR, sensitivity-based measures and stress testing calculations.

Measurement

LBCM internally uses VaR as the primary risk measure for all trading book positions.

The risk of loss measured by the VaR model is the loss in earnings which is not expected to be exceeded with 95 per cent confidence.

Trading portfolios: VaR (1-day 95 per cent confidence level)

	At 31 December 2023				At 31 December 2022			
	Close £m	**Average £m**	**Maximum £m**	**Minimum £m**	Close £m	Average £m	Maximum £m	Minimum £m
Interest rate risk	**1.6**	**2.0**	**3.8**	**0.9**	1.3	1.3	3.9	0.5
Foreign exchange risk	**0.1**	**0.3**	**0.9**	**0.1**	0.1	0.1	0.4	–
Equity risk	**–**	**–**	**–**	**–**	–	–	–	–
Credit spread risk	**0.2**	**0.3**	**0.5**	**0.1**	0.1	0.1	0.3	–
Inflation risk	**0.5**	**0.5**	**1.0**	**0.2**	0.6	0.4	1.1	0.2
All risk factors before diversification	**2.5**	**3.1**	**5.0**	**1.9**	2.1	1.9	5.0	0.9
Portfolio diversification	**(0.9)**	**(0.8)**	**–**	**–**	(0.5)	(0.4)	–	–
Total VaR	**1.6**	**2.2**	**4.0**	**1.2**	1.6	1.5	3.9	0.6

The market risk for the trading book continues to be low relative to the size of LBCM and in comparison to peers. This reflects the fact that trading operations are customer-centric and focused on hedging and recycling customer risks.

Although it is an important market standard measure of risk, VaR has limitations. One of them is the use of a limited historical data sample which influences the output by the implicit assumption that future market behaviour will not differ greatly from the historically observed period. Another known limitation is the use of defined holding periods which assumes that the risk can be liquidated or hedged within that holding period. Also calculating the VaR at the chosen confidence interval does not give enough information about potential losses which may occur if this level is

Note 33: Financial risk management continued

exceeded. LBCM fully recognises these limitations and supplements the use of VaR with a variety of other measurements which reflect the nature of the business activity. These include detailed sensitivity analysis, position reporting and a stress-testing programme.

Trading book VaR (1-day 99 per cent) is compared daily against both hypothetical and actual profit and loss. The 1-day 99 per cent VaR charts for LBG can be found in Lloyds Banking Group's Pillar 3 Report.

Mitigation

The level of exposure is controlled by establishing and communicating the approved risk limits and controls through policies and procedures that define the responsibility and authority for risk taking. Market risk limits are clearly and consistently communicated to the business. Any new or emerging risks are brought within risk reporting and defined limits.

Monitoring

Trading risk appetite is monitored daily with 1-day 95 per cent VaR and stress testing limits. These limits are complemented with position level action triggers and profit and loss referrals. Risk and position limits are set and managed at both desk and overall trading book levels. They are reviewed at least annually and can be changed as required within the overall Group risk appetite framework.

Banking Activities

Exposures

LBCM's banking activities expose it to the risk of adverse movements in market rates or prices, predominantly interest rates, credit spread and exchange rates. The volatility of market rates or prices can be affected by both the transparency of prices and the amount of liquidity in the market for the relevant asset, liability or instrument.

Interest rate risk

Yield curve risk in LBCM's international portfolios, and in LBCM's capital and funding activities, arises from the different repricing characteristics of LBCM's non-trading assets, liabilities and off-balance sheet positions.

Basis risk arises from the potential changes in spreads between indices, for example, where the bank lends with reference to a central bank rate but funds with reference to a market rate, e.g. SONIA, and the spread between these two rates widens or tightens.

Optionality risk arises predominantly from embedded optionality within assets, liabilities or off-balance sheet items where either LBCM or the customer can affect the size or timing of cash flows.

Foreign exchange risk

Economic foreign exchange exposure arises from LBCM's investment in its overseas operations. In addition, LBCM incurs foreign exchange risk through non-functional currency flows from services provided by customer-facing divisions, LBCM's debt and capital management programmes and is exposed to volatility in its CET1 ratio, due to the impact of changes in foreign exchange rates on the retranslation of non-Sterling-denominated risk-weighted assets.

Credit spread risk

Credit spread risk arises largely from: (i) the Credit Valuation Adjustment (CVA), Debit Valuation Adjustment (DVA) and Funding Valuation Adjustment (FVA) sensitivity to credit spreads; and (ii) banking book assets held at fair value under IFRS 9.

Measurement

Interest rate risk exposure is monitored monthly using, primarily:

Market value sensitivity: this methodology considers all repricing mismatches (behaviourally adjusted where appropriate) in the current balance sheet and calculates the change in market value that would result from an instantaneous 25, 100 and 200 basis points parallel rise or fall in the yield curve. Sterling interest rates are modelled with a floor below zero per cent, with negative rate floors also modelled for non-Sterling currencies where appropriate (product-specific floors apply). The market value sensitivities are calculated on a static balance sheet using principal cash flows excluding interest, commercial margins and other spread components and are therefore discounted at the risk-free rate.

Interest income sensitivity: this measures the impact on future net interest income arising from various economic scenarios. These include instantaneous 25, 100 and 200 basis point parallel shifts in all yield curves and the Group economic scenarios. Sterling interest rates are modelled with a floor below zero per cent, with negative rate floors also modelled for non-Sterling currencies where appropriate (product-specific floors apply). These scenarios are reviewed every year and are designed to replicate severe but plausible economic events, capturing risks that would not be evident through the use of parallel shocks alone such as basis risk and steepening or flattening of the yield curve. Additional negative rate scenarios are also used, where floors are removed, to ensure that this risk is monitored; however, these are not measured against the limit framework for the purposes of risk appetite.

Unlike the market value sensitivities, the interest income sensitivities incorporate additional behavioural assumptions as to how and when individual products would reprice in response to changing rates.

Reported sensitivities are not necessarily predictive of future performance as they do not capture additional management actions that would likely be taken in response to an immediate, large movement in interest rates. These actions could reduce the net interest income sensitivity, help mitigate any adverse impacts or they may result in changes to total income that are not captured in the net interest income.

Structural hedge: the structural hedging programme managing interest rate risk in the banking book relies on assumptions made around customer behaviour. A number of metrics are in place to monitor the risks within the portfolio.

LBCM has an integrated Asset and Liability Management (ALM) system which supports non-traded asset and liability management of LBCM. This provides a single consolidated tool to measure and manage interest rate repricing profiles (including behavioural assumptions), perform stress testing and produce forecast outputs. LBCM is aware that any assumptions-based model is open to challenge. A full behavioural review is performed annually, or in response to changing market conditions, to ensure the assumptions remain appropriate and the model itself is subject to annual re-validation, as required under Lloyds Banking Group's model governance policy. The key behavioural assumptions are:

- Embedded optionality within products
- The duration of balances that are contractually repayable on demand, such as current accounts and overdrafts, together with net free reserves of LBCM
- The re-pricing behaviour of managed rate liabilities, such as variable rate savings

The table below shows, split by material currency, LBCM's market value sensitivities to an instantaneous parallel up and down 25 and 100 basis points change to all interest rates.

Banking activities: market value sensitivity

	2023				2022			
	Up 25bps £m	**Down 25bps £m**	**Up 100bps £m**	**Down 100bps £m**	Up 25bps £m	Down 25bps £m	Up 100bps £m	Down 100bps £m
Sterling	**0.1**	**(0.1)**	**0.4**	**(0.6)**	(0.1)	0.1	(0.3)	0.4
US Dollar	**(0.1)**	**0.1**	**(0.3)**	**0.3**	1.1	(1.1)	4.5	(4.5)
Euro	**(0.4)**	**0.4**	**(1.7)**	**1.7**	0.3	(0.3)	1.0	(1.0)
Other	**–**	**–**	**–**	**–**	–	–	–	–
Total	**(0.4)**	**0.4**	**(1.6)**	**1.4**	1.3	(1.3)	5.2	(5.1)

Note 33: Financial risk management continued

This is a risk-based disclosure and the amounts shown would be amortised in the income statement over the duration of the portfolio.

The market value sensitivity to an up 100 basis points shock has increased due to the impacts of mortgage hedging and changes to the treatment of customer balances.

The table below shows supplementary value sensitivity to a steepening and flattening (c.100 basis points around the three-year point) in the yield curve. This ensures there are no unintended consequences to managing risk to parallel shifts in rates.

Banking activities: market value sensitivity to a steepening and flattening of the yield curve

	2023		2022	
	Steepener £m	Flattener £m	Steepener £m	Flattener £m
Sterling	1.9	(2.0)	(1.6)	1.6
US Dollar	0.3	(0.3)	(2.6)	2.6
Euro	0.8	(0.8)	(0.9)	0.8
Other	–	–	–	–
Total	3.0	(3.1)	(5.1)	5.0

The table below shows the banking book one year net interest income sensitivity to an instantaneous parallel up and down 25 basis points change to all interest rates.

Banking activities: net interest income sensitivity

	2023		2022	
	Up 25bps £m	Down 25bps £m	Up 25bps £m	Down 25bps £m
Customer-facing activity and associated hedges	0.5	(2.4)	2.7	(4.3)

The table below shows supplementary income sensitivity on a one- to three-year forward-looking basis to an instantaneous parallel up 25, down 25 and up 50 basis points change to all interest rates.

Banking activities: three-year net interest income sensitivity

	Up 25bps			Down 25bps			Up 50bps		
Customer-facing activity and associated hedges	Year 1 £m	Year 2 £m	Year 3 £m	Year 1 £m	Year 2 £m	Year 3 £m	Year 1 £m	Year 2 £m	Year 3 £m
2023	0.5	3.7	5.5	(2.4)	(5.2)	(6.9)	0.9	7.4	10.9
2022	2.7	3.8	9.4	(4.3)	(4.7)	(10.3)	7.1	7.5	18.8

The increase in risk sensitivity year-on-year, to down 25 basis points, is driven by greater modelled margin compression risk following the rise in interest rates in December 2021. This results in the full 25 basis points downshock being applied at December 2021 whereas a 10 basis points shock was applied at December 2020 due to the Group's assumption, at the time, for modelling Sterling interest rates with a floor of zero per cent (product-specific floors apply).

The three-year net interest income sensitivity to a down 25 basis points shock is driven predominantly by margin compression. The sensitivity to an up 25 basis points and 50 basis points shock is largely due to reinvestment of structural hedge maturities.

The sensitivities are illustrative and do not reflect new business margin implications and/or pricing actions, other than as outlined.

The following assumptions have been applied:

– Instantaneous parallel shift in interest rate curve, including bank base rate

– Balance sheet remains constant

– Illustrative 50 per cent deposit pass-through

Basis risk, foreign exchange and credit spread risks are measured primarily through scenario analysis by assessing the impact on profit before tax over a 12-month horizon arising from a change in market rates, and reported within the Board risk appetite on a monthly basis. Supplementary measures such as sensitivity and exposure limits are applied where they provide greater insight into risk positions. Frequency of reporting supplementary measures varies from daily to quarterly appropriate to each risk type.

Mitigation

LBCM's policy is to optimise reward while managing its market risk exposures within the risk appetite defined by the Board. Lloyds Banking Group's market risk policy and procedures outlines the hedging process and the centralisation of risk from divisions into Group Corporate Treasury (GCT), e.g. via the transfer pricing framework. GCT is responsible for managing the centralised risk and does this through natural offsets of matching assets and liabilities, and appropriate hedging activity of the residual exposures, subject to the authorisation and mandate of LBCM ALCO within the Board risk appetite. The hedges are externalised to the market through LBCM Treasury and trading desks. LBCM mitigates income statement volatility through hedge accounting. This reduces the accounting volatility arising from the Group's economic hedging activities and any hedge accounting ineffectiveness is continuously monitored.

The largest residual risk exposure arises from balances that are deemed to be insensitive to changes in market rates (including current accounts, a portion of variable rate deposits and investable equity), and is managed through LBCM's structural hedge. Consistent with LBCM's strategy to deliver stable returns, LBCM ALCO seeks to minimise large reinvestment risk and to smooth earnings over a range of investment tenors. The structural hedge consists of longer-term fixed rate assets or interest rate swaps and the amount and duration of the hedging activity is reviewed regularly by LBCM ALCO.

While the bank faces margin compression in low rate environments, its exposure to pipeline and prepayment risk are not considered material and are hedged in line with expected customer behaviour. These are appropriately monitored and controlled through international Asset and Liability Committees (ALCOs).

Net investment foreign exchange exposures are managed centrally by GCT, by hedging non-Sterling asset values with currency borrowing. Economic foreign exchange exposures arising from non-functional currency flows are identified by international locations and transferred and managed centrally. LBCM also has a policy of forward hedging its forecast currency profit and loss to year-end. LBCM makes use of both accounting and economic foreign exchange exposures, as an offset against the impact of changes in foreign exchange rates on the value of non-Sterling-denominated risk-weighted assets. This involves the holding of a structurally open currency position; this includes the management of CET1 position.

Monitoring

The appropriate limits and triggers are monitored by LBCM ALCO and approved by the Board. Banking assets, liabilities and associated hedging are actively monitored and if necessary rebalanced to be within agreed tolerances.

(A) Interest rate risk

Interest rate risk arises from the different repricing characteristics of LBCM's assets and liabilities. Liabilities are generally either insensitive to interest rate movements, for example interest free or very low interest customer deposits, or are sensitive to interest rate changes but bear rates which may be varied at LBCM's discretion and that for competitive reasons generally reflect changes in the UK Bank Rate, set by the Bank of England. The rates on the remaining liabilities are contractually fixed for their term to maturity.

Note 33: Financial risk management continued

LBCM's risk management policy is to optimise reward while managing its market risk exposures within the risk appetite defined by the Board. The largest residual risk exposure arises from balances that are deemed to be insensitive to changes in market rates (including current accounts, a portion of variable rate deposits and investable equity), and is managed through LBCM's structural hedge. The structural hedge consists of longer-term fixed rate assets or interest rate swaps and the amount and duration of the hedging activity is reviewed regularly by LBCM ALCO.

LBCM establishes hedge accounting relationships for interest rate risk components using cash flow hedges and fair value hedges. LBCM is exposed to cash flow interest rate risk on its variable rate loans and deposits together with its floating rate subordinated debt. The derivatives used to manage the structural hedge may be designated into cash flow hedges to manage income statement volatility. The economic items related to the structural hedge, for example current accounts, are not eligible hedged items under IAS 39 for inclusion into accounting hedge relationships. LBCM is exposed to fair value interest rate risk on its fixed rate customer loans, its fixed rate customer deposits and the majority of its subordinated debt, and to cash flow interest rate risk on its variable rate loans and deposits together with its floating rate subordinated debt. LBCM applies netting between similar risks before applying hedge accounting.

Hedge ineffectiveness arises during the management of interest rate risk due to residual unhedged risk. Sources of ineffectiveness, which LBCM may decide to not fully mitigate, can include basis differences, timing differences and notional amount differences. The effectiveness of accounting hedge relationships is assessed between the hedging derivatives and the documented hedged item, which can differ to the underlying economically hedged item.

At 31 December 2023 the aggregate notional principal of interest rate and other swaps (predominantly interest rate) designated as fair value hedges was £4,200 million (2022: £4,636 million) with a net fair value liability of £28 million (2022: liability of £45 million) (note 11). The gains on the hedging instruments were £158 million (2022: losses of £278 million). The losses on the hedged items attributable to the hedged risk were £157 million (2022: gains of £280 million). The gains and losses relating to the fair value hedges are recorded in net trading income.

The notional principal of the interest rate swaps designated as cash flow hedges at 31 December 2023 was £13,963 million (2022: £16,331 million) with a net fair value asset of £1 million (2022: liability of £3 million). In 2023, ineffectiveness recognised in the income statement that arises from cash flow hedges was £1 million (2022: loss of £4 million).

Interest rate benchmark reform

Following the completion of industry events, including the two London Clearing House USD derivatives transition events in the second quarter of the year, together with bilateral customer consents, the Group has transitioned materially all of its LIBOR-linked products. We continue to work with customers to transition a small number of remaining contracts that were not subject to the above events and either have a future dated transition trigger or have defaulted to the relevant synthetic LIBOR benchmark in the interim. Each remaining contract has a known path to transition which is not expected to have a material impact on the Group's financial statements.

(B) Foreign exchange risk

The corporate and retail businesses incur foreign exchange risk in the course of providing services to their customers. All non-structural foreign exchange exposures in the non-trading book are transferred to the trading area where they are monitored and controlled. These risks reside in the authorised trading centres who are allocated exposure limits. The limits are monitored daily by the local centres and reported to the central market and liquidity risk function in London. LBCM also manages foreign currency risk via cash flow hedge accounting, utilising currency swaps.

Risk arises from the LBCM's investments in its overseas operations. LBCM's structural foreign currency exposure is represented by the net asset value of the foreign currency equity and subordinated debt investments in its subsidiaries and branches. Gains or losses on structural foreign currency exposures are taken to reserves.

Details of LBCM's structural foreign currency exposures are as follows:

	2023		2022	
The Group and the Bank	US Dollar £m	EUR £m	US Dollar £m	US Dollar £m
Exposure	155	29	151	26

(C) Credit spread risk

Credit spread risk arises primarily from:

(i) the Markets business;

(ii) the Credit Valuation Adjustment (CVA), Debt Valuation Adjustment (DVA) and Funding Valuation Adjustment (FVA) sensitivity to credit spreads;

(iii) fair value positions in the banking book; and

(iv) debt securities holdings in the liquid asset portfolio in management of liquidity.

Credit spread risks are measured primarily through scenario analysis and Value at Risk (VaR) measures, which are reported within the Board risk appetite framework on a monthly basis. Supplementary measures such as sensitivity and exposure limits are also applied where they provide greater insight into risk positions. The frequency of reporting supplementary risk measures varies from daily to monthly.

Liquidity risk

Liquidity risk is defined as the risk that LBCM has insufficient financial resources to meet its commitments as they fall due, or can only secure them at excessive cost. Liquidity risk is managed through a series of measures, tests and reports that are primarily based on contractual maturity. LBCM carries out monthly stress testing of its liquidity position against a range of scenarios, including those prescribed by the PRA. LBCM's liquidity risk appetite is also calibrated against a number of stressed liquidity metrics.

The tables below analyse financial instrument liabilities of the Group and the Bank on an undiscounted future cash flow basis according to contractual maturity, into relevant maturity categories based on the remaining period at the balance sheet date; balances with no fixed maturity are included in the over 5 years category. Interest Rate Swaps are included in the up to one month category. Certain balances, included in the table below on the basis of their residual maturity, are repayable on demand upon payment of a penalty.

Note 33: Financial risk management continued

The Group	Up to 1 month £m	1-3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	Total £m
At 31 December 2023						
Deposits from banks	**148**	**126**	**381**	**1,434**	**–**	**2,089**
Customer deposits	**14,889**	**5,343**	**7,025**	**2,197**	**70**	**29,524**
Repurchase agreements	**1**	**–**	**–**	**–**	**–**	**1**
Financial liabilities at fair value through profit or loss	**8,728**	**4,109**	**5,273**	**706**	**1,421**	**20,237**
Debt securities in issue	**958**	**1,389**	**8,080**	**5,777**	**–**	**16,204**
Lease liabilities	**–**	**2**	**5**	**24**	**11**	**42**
Subordinated liabilities	**6**	**8**	**44**	**849**	**–**	**907**
Total non-derivative financial liabilities	**24,730**	**10,977**	**20,808**	**10,987**	**1,502**	**69,004**
Derivative financial liabilities:						
Gross-settled derivatives – outflows	**81,583**	**50,528**	**42,176**	**30,881**	**13,769**	**218,937**
Gross-settled derivatives – inflows	**(79,683)**	**(48,953)**	**(41,035)**	**(30,685)**	**(14,102)**	**(214,458)**
Gross-settled derivatives – net flows	**1,900**	**1,575**	**1,141**	**196**	**(333)**	**4,479**
Net-settled derivative liabilities	**11,913**	**–**	**–**	**–**	**–**	**11,913**
Total derivative financial liabilities	**13,813**	**1,575**	**1,141**	**196**	**(333)**	**16,392**
At 31 December 2022						
Deposits from banks	45	341	535	1,555	52	2,528
Customer deposits	18,986	3,152	4,471	2,534	78	29,221
Repurchase agreements	7	–	–	–	–	7
Financial liabilities at fair value through profit or loss	5,212	2,337	3,625	710	1,011	12,895
Debt securities in issue	1,639	1,898	8,489	3,756	1,322	17,104
Lease liabilities	–	2	4	24	18	48
Subordinated liabilities	–	–	293	334	134	761
Total non-derivative financial liabilities	25,889	7,730	17,417	8,913	2,615	62,564
Derivative financial liabilities:						
Gross-settled derivatives – outflows	52,851	40,126	37,271	26,580	13,372	170,200
Gross-settled derivatives – inflows	(50,453)	(38,250)	(35,721)	(25,918)	(13,329)	(163,671)
Gross-settled derivatives – net flows	2,398	1,876	1,550	662	43	6,529
Net-settled derivative liabilities	10,259	–	–	–	–	10,259
Total derivative financial liabilities	12,657	1,876	1,550	662	43	16,788

The Bank	Up to 1 month £m	1-3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	Total £m
At 31 December 2023						
Deposits from banks	**148**	**126**	**381**	**1,434**	**–**	**2,089**
Customer deposits	**14,889**	**5,343**	**7,025**	**2,197**	**70**	**29,524**
Repurchase agreements	**1**	**–**	**–**	**–**	**–**	**1**
Financial liabilities at fair value through profit or loss	**8,728**	**4,109**	**5,273**	**706**	**1,421**	**20,237**
Debt securities in issue	**958**	**1,389**	**8,080**	**5,777**	**–**	**16,204**
Lease liabilities	**–**	**1**	**3**	**20**	**6**	**30**
Subordinated liabilities	**6**	**8**	**44**	**849**	**–**	**907**
Total non-derivative financial liabilities	**24,730**	**10,976**	**20,806**	**10,983**	**1,497**	**68,992**
Derivative financial liabilities:						
Gross-settled derivatives – outflows	**81,583**	**50,528**	**42,176**	**30,881**	**13,769**	**218,937**
Gross-settled derivatives – inflows	**(79,683)**	**(48,953)**	**(41,035)**	**(30,685)**	**(14,102)**	**(214,458)**
Gross-settled derivatives – net flows	**1,900**	**1,575**	**1,141**	**196**	**(333)**	**4,479**
Net-settled derivative liabilities	**11,913**	**–**	**–**	**–**	**–**	**11,913**
Total derivative financial liabilities	**13,813**	**1,575**	**1,141**	**196**	**(333)**	**16,392**
At 31 December 2022						
Deposits from banks	45	341	535	1,555	52	2,528
Customer deposits	18,986	3,152	4,471	2,534	78	29,221
Repurchase agreements	7	–	–	–	–	7
Financial liabilities at fair value through profit or loss	5,212	2,337	3,625	710	1,011	12,895
Debt securities in issue	1,639	1,898	8,489	3,756	1,322	17,104
Lease liabilities	–	1	3	20	12	36
Subordinated liabilities	–	–	293	334	134	761
Total non-derivative financial liabilities	25,889	7,729	17,416	8,909	2,609	62,552
Derivative financial liabilities:						
Gross-settled derivatives – outflows	52,851	40,126	37,271	26,580	13,372	170,200
Gross-settled derivatives – inflows	(50,453)	(38,250)	(35,721)	(25,918)	(13,329)	(163,671)
Gross-settled derivatives – net flows	2,398	1,876	1,550	662	43	6,529
Net-settled derivative liabilities	10,259	–	–	–	–	10,259
Total derivative financial liabilities	12,657	1,876	1,550	662	43	16,788

Note 33: Financial risk management continued

The following tables set out the amounts and residual maturities of off-balance sheet contingent liabilities, commitments and guarantees.

The Group and the Bank	Within 1 year £m	1-3 years £m	3-5 years £m	Over 5 years £m	Total £m
At 31 December 2023					
Other contingent liabilities	**84**	**3**	**7**	**–**	**94**
Total contingent liabilities	**84**	**3**	**7**	**–**	**94**
Lending commitments and guarantees	**12,350**	**6,531**	**2,552**	**194**	**21,627**
Total commitments and guarantees	**12,350**	**6,531**	**2,552**	**194**	**21,627**
Total contingents, commitments and guarantees	**12,434**	**6,534**	**2,559**	**194**	**21,721**
At 31 December 2022					
Other contingent liabilities	79	7	–	–	86
Total contingent liabilities	79	7	–	–	86
Lending commitments and guarantees	9,721	5,147	2,186	120	17,174
Total commitments and guarantees	9,721	5,147	2,186	120	17,174
Total contingents, commitments and guarantees	9,800	5,154	2,186	120	17,260

Note 34: Capital

Capital management

Capital is actively managed on an ongoing basis for both the Bank and its regulated subsidiaries, with associated capital policies and procedures subjected to regular review. Regulatory capital ratios are considered a key part of the budgeting and planning processes and forecast ratios are reviewed by the LBCM Asset and Liability Committee and the Board. Target capital levels take account of current and future regulatory requirements, capacity for growth and to cover economic and business uncertainties.

The Bank assesses both its regulatory capital requirements and the quantity and quality of capital resources it holds to meet those requirements in accordance with the relevant provisions of the Capital Requirements Directive (CRD V) and Capital Requirements Regulation (UK CRR). This is supplemented through additional regulation set out under the PRA Rulebook and through associated statements of policy, supervisory statements and other regulatory guidance.

The minimum amount of total capital required, under Pillar 1 of the regulatory capital framework, is set at 8 per cent of total risk-weighted assets. At least 4.5 per cent of risk-weighted assets are required to be met with common equity tier 1 (CET1) capital and at least 6 per cent of risk-weighted assets are required to be met with tier 1 capital. Minimum Pillar 1 capital requirements are supplemented by additional minimum capital requirements under Pillar 2A of the regulatory capital framework, the aggregate of which is referred to as the Bank's Total Capital Requirement (TCR).

Additional minimum capital requirements under Pillar 2A are set by the PRA as a firm-specific Individual Capital Requirement (ICR) reflecting a point in time estimate, which may change over time, of the minimum amount of capital to cover risks that are not fully covered by Pillar 1, such as credit concentration, and those risks not covered at all by Pillar 1, such as interest rate risk in the banking book (IRRBB). This is set as a variable amount for Pillar 2A (being a set percentage of risk-weighted assets), with fixed add-ons for certain risk types. The Bank's Pillar 2A capital requirement is currently the equivalent of around 4.9 per cent of risk-weighted assets, of which the minimum amount to be met with CET1 capital is the equivalent of around 2.7 per cent of risk-weighted assets.

A range of additional bank specific regulatory capital buffers apply under the capital rules, which are required to be met with CET1 capital. These include a capital conservation buffer (2.5 per cent of risk-weighted assets) and a time-varying countercyclical capital buffer (CCyB) which is currently around 1.0 per cent of risk-weighted assets following the increase in the UK CCyB rate (which is set by the Bank of England's Financial Policy Committee) to 2 per cent in July 2023.

The Bank applies the full extent of the IFRS 9 transitional arrangements for capital as set out under CRR Article 473a (revised). Specifically, the Bank has opted to apply paragraph 4 of CRR Article 473a (dynamic relief) and in addition to apply a 100 per cent risk weight to the consequential Standardised credit risk exposure add-back as permitted under paragraph 7a of the revisions. As at 31 December 2023, no dynamic relief (applicable from 1 January 2020) under the transitional arrangements has been recognised through CET1 capital (31 December 2022: £7 million).

Regulatory capital development

The regulatory framework within which the Bank operates continues to be developed at a global level through the Financial Stability Board (FSB) and Basel Committee on Banking Supervision (BCBS) and within the UK by the PRA and through directions from the Financial Policy Committee (FPC). The Bank continues to monitor these developments very closely, analysing the potential capital impacts to ensure that, through organic capital generation and management actions, the Bank and its regulated subsidiaries continue to maintain a strong capital position that exceeds both minimum regulatory requirements and the Bank's risk appetite and is consistent with market expectations.

Whilst no relief under the IFRS 9 transitional arrangements was recognised through CET1 capital at 31 December 2023, the transitional factor applied to dynamic relief reduced by a further 25 per cent on 1 January 2024.

Capital resources

Regulatory capital is divided into tiers depending on the degree of permanency and loss absorbency exhibited.

- Common equity tier 1 (CET1) capital represents the strongest form of capital consisting of shareholders' equity (ordinary share capital and reserves) after a number of regulatory adjustments and deductions are applied. These include adjustments for IFRS 9 transitional arrangements, the accrual for foreseeable dividends (where applicable), the elimination of the cash flow hedging reserve, the debit valuation adjustment and deductions for prudent valuation and the excess of expected losses over impairment provisions and value adjustments.
- Fully qualifying additional tier 1 (AT1) capital comprises non-cumulative perpetual securities containing specific provisions to write down the security should the CET1 ratio fall to a defined trigger limit. CET1 and AT1 together form Tier 1 Capital (T1).
- Tier 2 (T2) capital largely comprises certain other subordinated debt securities that do not qualify as AT1. They must have an original term of at least 5 years, cannot normally be redeemed within their first 5 years and are phased out as T2 regulatory capital in the final 5 years before maturity through the application of regulatory amortisation. Tier 1 and Tier 2 together form Total Capital.

The Bank's capital resources are summarised as follows:

	2023 £m	2022 £m
Common equity tier 1 capital	**2,725**	2,948
Additional tier 1 capital	**783**	757
Tier 2 capital	**601**	580
Total capital	**4,109**	4,285

Note 35: Cash flow statements

(A) Change in operating assets

	The Group 2023 £m	The Group 2022 £m	The Bank 2023 £m	The Bank 2022 £m
Change in amounts due from fellow Lloyds Banking Group undertakings	**(28)**	288	**(36)**	269
Change in other financial assets held at amortised cost	**2,221**	(2,390)	**2,236**	(2,384)
Change in financial assets at fair value through profit or loss	**(7,217)**	7,645	**(7,205)**	7,626
Change in derivative financial instruments	**1,947**	(7,342)	**1,973**	(7,316)
Change in other operating assets	**(313)**	147	**(299)**	148
Change in operating assets	**(3,390)**	(1,652)	**(3,331)**	(1,657)

(B) Change in operating liabilities

	The Group 2023 £m	The Group 2022 £m	The Bank 2023 £m	The Bank 2022 £m
Change in deposits from banks	**(375)**	(1,372)	**(375)**	(1,372)
Change in customer deposits and repurchase agreements	**366**	986	**366**	1,400
Change in amounts due to fellow Lloyds Banking Group undertakings	**(268)**	(1,961)	**(270)**	(2,394)
Change in financial liabilities at fair value through profit or loss	**7,108**	(4,004)	**7,108**	(4,004)
Change in derivative financial instruments	**(2,494)**	4,498	**(2,494)**	4,499
Change in debt securities in issue	**(453)**	(1,130)	**(453)**	(1,130)
Change in other operating liabilities[1]	**(266)**	118	**(268)**	120
Change in operating liabilities	**3,618**	(2,865)	**3,614**	(2,881)

1 Includes a decrease of £7 million (2022: increase of £13 million) for the Group and a decrease of £6 million (2022: decrease of £13 million) for the Bank in respect of lease liabilities.

(C) Non-cash and other items

	The Group 2023 £m	The Group 2022 £m	The Bank 2023 £m	The Bank 2022 £m
Depreciation and amortisation	**10**	16	**10**	15
Impairment of investment in subsidiaries	**–**	–	**–**	23
Dividends received from subsidiary undertakings	**–**	–	**–**	(22)
Allowance for loan losses (net of recoveries)	**(18)**	35	**(18)**	33
Impairment charge/(credit) relating to undrawn balances	**(10)**	11	**(10)**	12
Unwind of discount on impairment allowances	**–**	–	**–**	–
Other provision movements	**–**	1	**–**	–
Foreign exchange impact on balance sheet[1]	**273**	(454)	**268**	(442)
Other non-cash items	**452**	89	**452**	77
Non-cash and other items	**707**	(302)	**702**	(296)

1 When considering the movement on each line of the balance sheet, the impact of foreign exchange rate movements is removed in order to show the underlying cash impact.

(D) Analysis of cash and cash equivalents as shown in the balance sheet

	The Group 2023 £m	The Group 2022 £m	The Bank 2023 £m	The Bank 2022 £m
Cash and balances at central banks	**20,201**	19,382	**20,201**	19,382
Less mandatory reserve deposits[1]	**(190)**	(176)	**(190)**	(176)
	20,011	19,206	**20,011**	19,206
Loans and advances to banks and reverse repurchase agreements	**3,662**	2,353	**3,635**	2,299
Less amounts with a maturity of three months or more	**(3,477)**	(2,110)	**(3,477)**	(2,109)
	185	243	**158**	190
Total cash and cash equivalents	**20,196**	19,449	**20,169**	19,396

1 Mandatory reserve deposits are held with local central banks in accordance with statutory requirements; these deposits are not available to finance the Group's day-to-day operations.

Note 36: Events since the balance sheet date

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

Note 37: Other information

Lloyds Bank Corporate Markets plc is incorporated as a public limited company and registered in England with the registered number 10399850. Lloyds Bank Corporate Markets plc's registered office is 25 Gresham Street, London, EC2V 7HN, and its principal executive offices are located at 10 Gresham Street, London, EC2V 7AE.

Lloyds Bank Corporate Markets plc and its subsidiaries form a leading UK-based financial services group, whose businesses provide a wide range of banking and financial services in the UK and overseas.

Lloyds Bank Corporate Markets plc's immediate parent undertaking and ultimate parent undertaking and controlling party is Lloyds Banking Group plc which is incorporated in Scotland. Copies of the consolidated annual report and accounts of Lloyds Banking Group plc may be obtained from Lloyds Banking Group's head office at 25 Gresham Street, London EC2V 7HN or downloaded via www.lloydsbankinggroup.com.

Other information

Subsidiaries and related undertakings

In compliance with Section 409 of the Companies Act 2006, the following comprises a list of all related undertakings of LBCM, as at 31 December 2023. The list includes each undertaking's registered office and the percentage of the class(es) of shares held by LBCM. All shares held are ordinary shares unless indicated otherwise in the notes.

The Bank directly or indirectly holds 100 per cent of the share class and a majority of voting rights in the following undertakings.

Subsidiary undertaking	Registered office address	Bank interest
Black Horse Offshore Limited	9 Broad Street St Helier, Jersey JE2 3RR	100%
Lloyds America Securities Corporation	The Corporation Trust Company Corporation Trust Center 1209 Orange Street Wilmington Delaware 19801	100%[1]
Lloyds International Services Limited	9 Broad Street St Helier, Jersey JE2 3RR	100%
Lloyds Bank Corporate Asset Finance (No.1) Limited	25 Gresham Street London EC2V 7HN	100%
Lloyds Bank Corporate Markets Wertpapierhandelsbank GmbH	Thurn-Und Frankfurt Am Main 60313 Germany	100%
Lloyds International Management Services (Jersey) Limited (formerly Lloyds Bank International Limited)	9 Broad Street St Helier, Jersey JE2 3RR	100%
Lloyds Corporate Services (Jersey) Limited	9 Broad Street St Helier, Jersey JE2 3RR	100%
Lloyds Holdings (Jersey) Limited	9 Broad Street St Helier, Jersey JE2 3RR	100%
Lloyds Securities Inc.	The Corporation Trust Company Corporation Trust Center 1209 Orange Street Wilmington Delaware 19801	100%[2]
Nominees (Jersey) Limited	9 Broad Street St Helier, Jersey JE2 3RR	100%

1 10,000 US Dollars No par value.
2 10 US Dollars 0.1% common.

On the 2nd January 2024 Lloyds International Services Limited, Lloyds Corporate Services (Jersey) Limited, Lloyds Holdings (Jersey) Limited and Nominees (Jersey) Limited merged with Lloyds International Management Services (Jersey) Limited. There is no impact to the value of the investment in subsidiary undertakings of the bank.

Performance measures

The statutory results are supplemented with performance measures that are used internally in LBCM's monthly management reporting. A description is given below.

Return on tangible equity	Profit attributable to ordinary shareholders, divided by average tangible net assets. This measure is useful in providing a consistent basis with which to measure LBCM's performance.

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 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, targets, 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; acts of hostility or terrorism and responses to those acts, or other such events; geopolitical unpredictability; the war between Russia and Ukraine; the conflicts in the Middle East; the tensions between China and Taiwan; political instability including as a result of any UK general election; market-related risks, trends and developments; exposure to counterparty risk; the impact of any regulatory and/or legislative divergence between the UK and EU 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 and other disasters; risks concerning borrower and counterparty credit quality; 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 including risks as a result of the failure of third-party suppliers; 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) and decarbonisation, 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.