

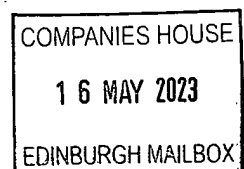


Lloyds Bank Corporate Markets plc

Annual Report and Accounts 2022

Member of Lloyds Banking Group

10399850



LBCM's purpose is Helping Britain Prosper

**By connecting the UK and Lloyds
Banking Group with the world**

**We're building a more inclusive, sustainable
future for all: driving long-term, profitable growth
by shaping finance as a force for good**

Our performance

**Strong financial
performance with
continued business
momentum and good
strategic process**

About Lloyds Bank Corporate Markets

**LBCM provides a wide
range of banking and
financial services through
branches and offices in the
UK, the Crown
Dependencies, the USA
and Germany, supported
by over 1,200 colleagues**

£967m

Total Income

**Improved performance
across our businesses**

>£1bn

Sustainable Financing

Supporting our customers

£477m

Profit Before Tax

**Strong year on year
growth**

14.6%

CET1 ratio

**We are a well
capitalised bank**

Inside this report

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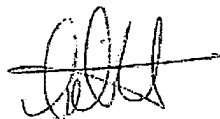
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The 2022 Annual Report and Accounts incorporates the strategic report and the consolidated financial statements, both of which have been approved by the Board of Directors.



On behalf of the Board

Carla Antunes da Silva

Chief Executive Officer (CEO)

Lloyds Bank Corporate Markets plc

21 March 2023

Our Strategy

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Financial Statements

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Our Reporting

Our reporting is designed to facilitate better communication to a range of stakeholders. Our Annual Report provides disclosures relating to our strategic, financial and operational performance and provides detail on our strategy. Supplementary information and disclosures are provided in the Pillar 3 Report.

This Annual Report and Accounts contains forward-looking statements relating to LBCM's future financial condition, performance, results, strategic initiatives and objectives. For further details, please refer to our forward-looking statements on page 141.

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.

LBCM's unique business model

Our purpose

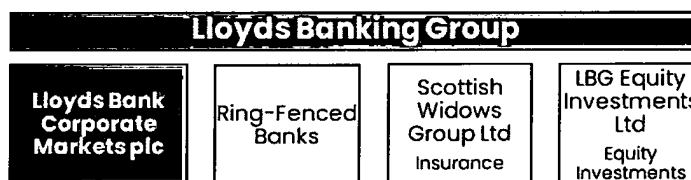
Helping Britain Prosper by connecting the UK and Lloyds Banking Group with the world.

Our strategy

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

Our structure and businesses

Part of LBG, supporting customers in the UK and internationally with a range of products



Risk management

foreign exchange, rates, credit, commodities and liability management

Commercial lending

fixed rate loans, revolving credit facilities, variable loans and business mortgages

Retail banking services

mortgages, current accounts, personal loans and motor finance in the Crown Dependencies

Bonds and structured finance

bonds, structured lending and asset securitisation

Trade and working capital management

trade services, trade finance, asset finance, supply chain finance

ESG product solutions

sustainable financing loans, derivatives, green bonds and carbon trading

Our hubs

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

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 customers in the Crown Dependencies

Our competitive advantages

- 📍 UK centre of excellence with deep customer insight and part of LBG
- 🏦 Diversified business model, meeting wide range of consumer needs
- 📊 Financial strength and disciplined risk management
- 👥 Value driven colleagues with strong purpose and customer excellence

Our values

How we'll work together to achieve our strategy

Trust Sustainable People-first Inclusive Bold

What we do

The Bank was established in response to the Financial Services (Banking Reform) Act 2013 for the purpose of carrying on elements of the commercial banking business of LBG along with the banking business of LBG in territories outside the European Economic Area. LBCM contributes to the financial results of the Commercial Banking Division of LBG.

Our revenues are earned through the provision of debt and risk management solutions to commercial customers; and retail and business banking to Crown Dependencies customers.

As part of LBG, LBCM has an aligned purpose and provides a holistic service to Corporate and Institutional customers, as well as communities in the Crown Dependencies.

LBCM provides financial services to over 250,000 customers and businesses in the UK and abroad

**We've helped customers access financing
and risk management solutions in a
challenging environment.**

**In 2022, we provided customer lending of over
£19 billion to help Britain recover.**

We're listening to and supporting our LBCM colleagues

**We have been engaging with colleagues in
shaping our journey and co-creating new
values to make sure that every colleague is
motivated and excited by the role they can
play in Helping Britain Prosper.**

**We have also been conscious of the continued
impacts of cost of living increases on our
colleagues. In August 2022, LBCM gave the
vast majority of colleagues a £1,000 (or local
currency equivalent) one-off payment to help
with the rising cost of bills, and additional
support.**

Chair's statement

Lord Lupton CBE

Chair

Overview

During 2022, the economic backdrop has created both uncertainty and challenges for our customers and opportunities for us to support them across our banking and markets activities. In such times, the value of a strong and stable partner that shares their long term vision is even more important to those customers. Against this backdrop, LBCM has continued to deliver good business momentum and strong financial performance.

Purpose and Vision

Our 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 positions us well to grow our business in areas of core strategic focus and to deepen our relationships across our global customer base. We remain committed to supporting our customers, we strive to delight them with our service levels, and I am proud of the role LBCM plays in Helping Britain Prosper.

Board of Directors

We review the Board's composition and diversity regularly and are committed to ensuring we have the right balance of skills and experience within the Board. During 2022, there have been a number of changes to the Board and further detail can be found in our governance report.

I would like to thank and pay tribute to Eduardo Stock da Cunha who retired in January 2023 as CEO having led the business for the last three years.

His personal commitment and strong vision have driven a period of success both in supporting our customers and colleagues through a challenging period; creating our strategy for future growth; and improving financial returns culminating in LBCM's strong 2022 results. Succeeding him as CEO from February 2023 is Carla Antunes da Silva, who has served on the LBCM Board for the last five years as a non-executive director. She brings a wealth of knowledge and experience including most recently as LBG's Group Strategy, Corporate Development and Investor Relations Director.

The Board has made good progress on diversity at board level in its broadest sense – gender, race, nationality, and age. It is a multinational board (German, French, Portuguese and British), with age diversity from 40 years upwards and Black, Asian, and Minority Ethnic representation of 11 per cent. With 55 per cent of the Board currently comprising women directors, including both the CEO and Chief Financial Officer (CFO), the Board 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 also meets the objective of the Parker review of having at least one Black, Asian and Minority Ethnic Board member.

Conclusion

Our LBCM business has continued to make strategic progress in 2022, has returned strong results and our growth plans put us at the heart of our ambition to Help Britain Prosper.

CEO's statement

Carla Antunes da Silva

Chief Executive Officer

“Our business has delivered strong results for the 2022 financial year”

Having been a non-executive director on the LBCM Board from 2017 to 2022, I was delighted and honoured to take up the role of CEO of LBCM in February 2023. I join the Chair in paying tribute to my predecessor and thanking him for his support and guidance in my transition to CEO.

Strong financial performance

Against a challenging economic backdrop and significant market volatility, our business has delivered a strong set of financial results. Total income of £967 million is up 51 per cent on 2021 (the highest since the formation of LBCM) and profit before tax is £477 million, which is 7 per cent of LBG (statutory basis). LBCM benefitted from continued balance sheet growth during the year with advances to customers increasing to £19 billion (up 10 per cent on 2021) and sustainable financing of over £1 billion at year end for the first time. Customer deposits increased to £29 billion which is an 8 per cent increase on 2021. You can read more detail on the results in the Financial Performance and Business Review sections of this report.

Ambitious growth plans

LBCM has a clear strategy to build on these strong results and deliver sustainable growth. We will focus on opportunities that are highly aligned to our purpose of Helping Britain Prosper and where we have competitive advantages, investing in core businesses to unlock profitable growth. We will improve and enhance our customer onboarding journey with our Markets customers in the UK and US, and Retail customers in the Crown Dependencies, scale our debt capital markets franchise, deepen customer relationships across our business and develop our sustainability strategy.

To support this growth plan, a capital injection of £250 million was received from our parent company LBG in December 2022. You can read more about our strategy on the following pages.

Values

Our new values, in LBCM and across LBG, guide how we'll work together to achieve our strategy. They will guide our behaviour but also the way we make everyday choices to strategic decisions.

Conclusion

These results are a testament to the hard work of LBCM colleagues across our different businesses and geographies and a great platform on which to continue to grow the business. Although the macroeconomic outlook remains uncertain, our people, business model and financial strength ensure that we can continue to support our customers and Help Britain Prosper.

LBCM Strategy

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

Grow – drive revenue growth and diversification

Focus – strengthen cost and capital efficiency

Change – maximise the potential of people, technology and data

Investing across our Markets and International businesses

- Enhancing our risk management proposition
- Scaling our debt capital markets franchise
- Deepening our footprint in UK, North America and Europe
- Nurturing and growing Crown Dependencies customer relationships

A clear strategy building on strong 2022 performance...

We focus on opportunities that are **highly aligned to our purpose** and where we have **competitive advantages**, investing in core businesses to **unlock profitable growth**

...that will deliver sustainable income growth and returns

Markets

Enhancing our risk management proposition

>5%

Market share of FX swaps traded with LBG customers

Top 5

GBP Interest Rate Swaps

We have been building a **sterling centre of excellence** in G3 rates, G10 FX and Repo, **leveraging our expertise and deep customer franchise** across Corporate and Institutional Banking.

Progress was demonstrated in 2022 by **winning our first Debt Management Office (DMO) duration manager** mandate role supporting the UK government.

We will **continue to scale our platform** through **new products** and **investment in technology**, increasing flow volumes and **transforming how we serve our customers**; all while taking a disciplined approach to capital allocation and returns.

Scaling our debt capital markets franchise

We have a well-established focused debt franchise, with strong relationships in the FTSE 350 across LBG.

Grow in core markets – UK and GBP G3

To meet more of the needs of our customers we will provide an **expanded G3 debt franchise** and bolster desks in London with enhanced capabilities and tools.

We plan to increase client footprint and **expand products with adjacency to our core franchises** to **increase our share** of business with new and existing customers.

We are **developing our sustainability offering** across financing, green bonds and liability management, **supporting customers transition** to net zero and make their businesses more sustainable. This is a key focus of our strategy.

International

Deepening our footprint in North America and Europe

Our operations in New York and Frankfurt allow us to provide our customers access to the deepest capital markets in the world, and is a key area of focus for strategic growth given the interconnectivity to our UK franchise and our expertise in relevant sectors and products.

We will **deepen relationships** and attract new customers by enhancing propositions **where we have expertise**, namely rates and debt capital markets, in addition to **building on our strong foundations** in infrastructure, project finance and financial institutions.

LBCM is **investing in sustainability product innovation**, in particular sustainable lending, supporting our purpose and our customers.

To accelerate growth, we plan to **recycle our balance sheet** by using originate-to-distribute strategies, ensuring capital and RWA efficiency and **improving returns**.

Nurture and grow Crown Dependencies relationships

We start from a **strong position as a market leading franchise** and a critical source of liquidity for LBCM.

There is an opportunity to **build more valuable relationships** by investing in **platforms and products** in our retail, expatriate and mass affluent offerings, whilst continuing to support our local communities, build on the **sustainability agenda and look after vulnerable customers**.

We are investing to deepen our **support for local businesses with first class banking services**, which remains key to our purpose.

A year of great achievement

2022 LBCM Business Review

Key highlights

- Won first duration manager role for UK Government debt
- Prudent management of capital, liquidity and funding maintained in challenging markets
- Crown Dependencies growth plan launched
- Creating workplaces of the future in New York, Jersey and Isle of Man
- Employee engagement improved versus 2021, as measured by the annual colleague survey
- New emerging leaders programme launched
- Supported customers through Interbank Offered Rate (IBOR) cessation
- First customer onboarded to new strategic deposit platform in the Crown Dependencies

We have improved our customer franchise across all businesses. Investment in our FX capability has supported growth in our customer wallet share for FX trading. We are meeting more of our existing customers needs supporting our objective of growing non-lending income.

Our capital efficiency is improving by the further usage of our new originate to distribute capability, for which the first transaction was completed during the year.

LBCM record income and profits

£967m total income

£477m profit before tax

£1bn+

Sustainable financing

Growth in our customer
wallet share for **FX trading**

Financial performance

LBCM has recorded a
**strong financial
performance** in 2022

**Profit before tax has increased by
65 per cent** compared to prior year,
with growth on key customer
balance sheet lines and a **strong
regulatory capital** position.

LBCM delivered income growth in 2022, with total income up 51 per cent on the previous year

**Net
interest
income**

£275m

Up 47%

**Other
income**

£692m

Up 52%

**Total
income**

£967m

Up 51%

Income statement

Total income was £967 million comprising net interest income of £275 million, net fee and commission income of £192 million, net trading income of £495 million and other operating income of £5 million.

Net interest income has performed well which is a result of growth in lending and deposits, increasing interest rates throughout the year (offset by hedging charges), interest earned on deposits with central banks improving, and discipline in the management of margin and returns.

Net fee and commission income has been resilient year on year, with several one off items accounting for the small overall reduction.

Net trading income has improved compared to 2021 as support has been provided to customers during periods of volatility and as business has recovered across both Capital and in particular Financial Markets.

Operating expenses in the year were £444 million and predominantly consist of management charges relating to the intra-group agreement (IGA) and staff costs payable to LBG. Cost management in the year has been diligent and focused with the year on year increase relating to one off costs, including those relating to the IBOR transition, investment cost recharges through the IGA and closure of our Singapore branch.

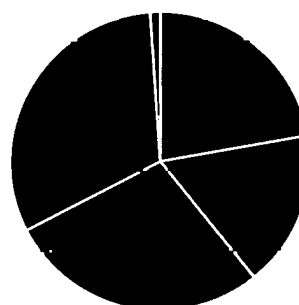
An **impairment charge** of £46 million has been recognised in the period. This expected credit loss (ECL) cost relates to stage 1 and 2 and is driven by the worsening macro economic conditions. There have been no significant new credit impaired cases (stage 3 impairment) in the year. Please refer to note 14 for more details. A **tax charge** of £97 million was recorded which is up year on year due to the increased profitability in 2022. The **other comprehensive income** charge of £461 million mainly relates to the movements on the cash flow hedging reserve. More details are contained in note 27.

Income statement	2022 £m	2021 £m	Mvmt £m	Mvmt %
Net interest income	275	187	88	47
Fee and commission income	192	221	(29)	(13)
Net trading income	495	244	251	103
Other income	5	(1)	16	
Total income	967	641	326	51
Operating expenses	(444)	(414)		
Impairment (charge)/release	(46)	62		
Profit before tax	477	289	188	65
Tax charge	(97)	(5)		
Profit after tax	380	238	142	60

Financial performance continued

Balance sheet assets

	2022 £m	2021 £m	Mvmt £m	Mvmt %
Cash and balances at central banks	19,382	22,140	(2,758)	(12)
Financial assets at fair value through profit or loss	14,780	22,409	(7,629)	(34)
Derivative financial instruments	24,621	17,990	6,631	37
Financial assets at amortised cost	27,424	25,010	2,414	10
Other assets	452	544	(92)	(17)
Total assets	86,659	88,699	(2,040)	(2)



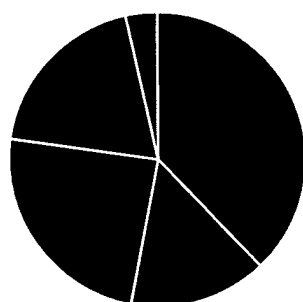
- Cash and balances at central banks
- Financial assets FVTPL
- Derivative financial instruments
- Financial assets at amortised cost
- Other assets

Total assets were £86,659 million at 31 December 2022, a decrease of £2,040 million on the prior year. Cash and balances at central banks and financial assets at fair value through profit or loss have reduced compared to the prior year end, while derivative financial instruments and financial assets at amortised cost have increased.

The decrease in **cash and balances at central banks** is as a result of changes in the liquid asset portfolio mix. The **financial assets at fair value through profit or loss** change is driven by a year on year reduction in reverse repurchase agreements and gilts. **Derivative financial assets** increased mainly due to fair value movements driven by interest rate movements in key markets.

Financial assets at amortised cost includes loans and advances to banks of £2,117 million, loans and advance to customers of £19,127 million and reverse repurchase agreements of £5,606 million. The overall increase noted is driven by increased lending to customers, particularly financial institutions, and the strengthening of the period end US Dollar rate against sterling from December 2021 to 2022.

Balance sheet liabilities



- Total deposits (Banks and Customers)
- Financial liabilities FVTPL
- Derivative financial instruments
- Debt securities in issue
- Other liabilities

	2022 £m	2021 £m	Mvmt £m	Mvmt %
Deposits from banks	2,456	3,821	(1,365)	(36)
Deposits from customers	29,152	26,967	2,185	8
Due to fellow LBG undertakings	1,481	3,442	(1,961)	(57)
Financial liabilities at fair value through profit or loss	12,578	16,582	(4,004)	(24)
Derivative financial instruments	20,070	15,572	4,498	29
Debt securities in issue	16,131	16,644	(513)	(3)
Subordinated liabilities	761	684	77	11
Other liabilities	635	1,498	(863)	(58)
Total liabilities	83,264	85,210	(1,946)	(2)

Total liabilities were £83,264 million at 31 December 2022, compared to £85,210 million at 31 December 2021. Increases in customers deposits and derivative financial instruments have been offset by a decrease in financial liabilities at fair value through profit or loss.

Deposits from customers increased year on year in line with LBCM's strategy to grow deposits in the Crown Dependencies and development of the short terms interest rates business. **Balances due to fellow LBG undertakings** reduced as a result of funding received from our parent company being repaid.

Financial liabilities at fair value through profit or loss decreased due to a reduction in repurchase agreements over the year while **derivative financial instruments** increased due to movements in the fair value. **Debt securities in issue** include commercial paper, certificates of deposit and Euro Medium Term Notes.

Financial performance continued

Balance sheet equity

Total equity at year end was £3,395 million compared to £3,489 million at 31 December 2021. During the period a **capital injection of £250 million** was received from our parent company via the issue of ordinary shares. This increase in share capital is an enabler for growth supporting LBCM's growth plans over the coming years.

Other reserves includes the cash flow hedging reserve and the unrealised marked to market movements on the structural hedge.

	2022 £m	2021 £m	Mvmt £m
Share capital	370	120	250
Other reserves	(525)	(64)	(461)
Retained profits	2,768	2,651	117
Ordinary shareholder equity	2,613	2,707	(94)
Other equity instruments	782	782	—
Total equity	3,395	3,489	(94)

Regulatory capital

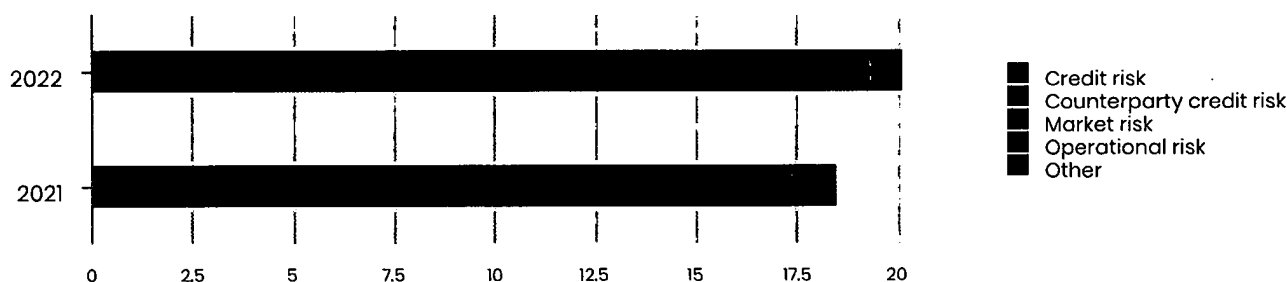
The capital position of Lloyds Bank Corporate Markets plc is presented on an unconsolidated basis.

	2022 £m	2021 £m	Mvmt £m
Common equity tier 1 capital	2,948	2,423	525
Tier 1 capital	3,706	3,180	525
Total capital	4,285	3,709	576
Total risk-weighted assets	20,195	18,436	1,759
CET1%	14.6%	13.1%	1.5pp

Total capital



Total risk-weighted assets (£bn)



The Bank's **common equity tier 1 (CET1)** capital ratio increased to 14.6 per cent (31 December 2021: 13.1 per cent) largely as a result of profits in the year and a £250 million increase in ordinary share capital following a capital injection from the Bank's parent company in the fourth quarter, offset in part by the increase in risk-weighted assets (RWAs).

The Bank's **total capital** ratio increased to 21.2 per cent (31 December 2021: 20.1 per cent), largely reflecting the increase in CET1 capital and an increase in tier 2 capital, partially offset by the increase in risk-weighted assets.

RWAs increased by £1,759 million, or 9.5 per cent, to £20,195 million at 31 December 2022 (31 December 2021: £18,436 million), largely reflecting increased lending to customers and the impact of foreign exchange movements, principally driven by movements in the US Dollar and Euro rates. Also, on 1 January 2022 the Bank implemented the remainder of CRR 2 which included a new standardised approach for measuring counterparty credit risk (SA-CCR). The impact of which was an increase in RWAs of around £1,800 million.

Financial performance continued

The Bank's **UK leverage** ratio increased to 5.4 per cent at 31 December 2022 (31 December 2021 3.5 per cent). This reflected the increase in CET1 capital and a reduction in the exposure measure, largely reflecting the impact of regulatory changes applied under the UK leverage ratio framework on 1 January 2022 which resulted in the exclusion of central bank claims, net of an increase in the derivatives exposure measure following the implementation of SA-CCR. Further reductions in the exposure measure during the year reflected a decrease in securities financing transactions and gilts, partially offset by the increase in derivative valuations and lending to customers.

The Bank's capital position as at 31 December 2022, after applying IFRS9 transitional arrangements, is set out in the following section.

	At 31 Dec 2022 £m	At 31 Dec 2021 £m
Capital resources of the Bank (audited)		
Common equity tier 1		
Shareholders' equity per balance sheet	2,650	2,783
Adjustment to retained earnings for foreseeable dividends	—	(220)
Cash flow hedging reserve	519	48
Debit valuation adjustment	(34)	(16)
Other adjustments ¹	7	—
	3,142	2,595
less: deductions from common equity tier 1		
Prudent valuation adjustment	(162)	(163)
Excess of expected losses over impairment provisions and value adjustments	(32)	(9)
Common equity tier 1 capital	2,948	2,423
Additional tier 1		
Additional tier 1 instruments	757	757
Total tier 1 capital	3,705	3,180
Tier 2		
Tier 2 instruments	706	633
Other adjustments	(126)	(104)
Total tier 2 capital	580	529
Total capital resources	4,285	3,709
Risk-weighted assets of the Bank (unaudited)	20,195	18,436
Capital ratios of the Bank (unaudited)		
Common equity tier 1 capital ratio ²	14.6%	13.1%
Tier 1 capital ratio ²	18.3%	17.7%
Total capital ratio ²	21.2%	20.1%

¹ Includes an adjustment applied to reserves to reflect the application of the IFRS9 9 transitional arrangements for capital.

² Reflecting the full impact of IFRS 9 at 31 December 2022, without the application of transitional arrangements, the Bank's common equity tier 1 capital ratio would be 14.6 per cent, the tier 1 capital ratio would be 18.3 per cent and the total capital ratio would be 21.2 per cent.

Financial performance continued

	At 31 Dec 2022 £m	At 31 Dec 2021 £m
Risk-weighted assets of the Bank (unaudited)		
Foundation internal ratings based (IRB) Approach	8,514	7,665
Other IRB Approach	510	579
IRB Approach	9,024	8,244
Standardised approach ¹	1,085	1,337
Credit risk	10,119	9,581
Securitisation	498	571
Counterparty credit risk	5,213	4,024
Credit valuation adjustment risk	302	472
Operational risk	930	855
Market risk	3,133	2,933
Total risk-weighted assets	20,195	18,436
Of which threshold risk-weighted assets ²	509	555

1. Threshold risk-weighted assets are now included within Other IRB Approach and the Standardised (STA) approach. In addition securitisation risk-weighted assets are now shown separately. Comparatives have been presented on a consistent basis.
2. Threshold risk-weighted assets reflect the element of significant investments and deferred tax assets that are permitted to be risk-weighted instead of being deducted from CET1 capital.

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 are 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 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 operates a Shared Services Model, under which the Ring-Fenced Bank sub-group provides key resources and services (including people, systems and processes) to other sub-groups including LBCM.

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 parent 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 approving LBCM's risk appetite statement annually. Board-level risk appetite metrics are supported by sub-Board 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.

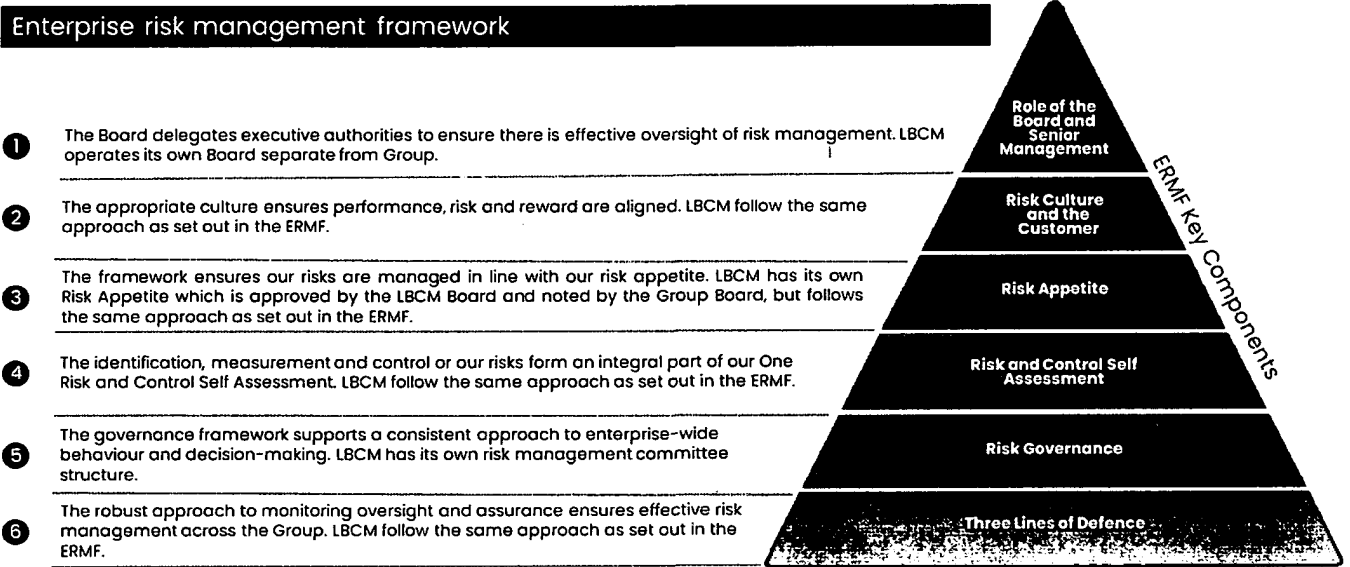
Principal risks and uncertainties continued

Our enterprise risk management framework continued

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.

Risk culture and the customer

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

Current thematic and emerging risks continued

- The extent and rapid pace of **regulatory changes and increased oversight**, which could increase costs and prudential resource requirements for LBCM and result in changes to LBCM's legal and operating structure and create risks from non-compliance that include censure, fines and removal of business permissions to operate
- **Climate risk** is the risk that LBCM experiences losses and /or reputational damage as a result of climate change, either directly or through its customers. LBCM is aligned with LBG, its parent company, with the goal of reducing emissions financing by more than 50 per cent by 2030 and achieving net zero financed emissions by 2050 (refer Lloyds Banking Group annual report 2022 and the LBG environmental sustainability report)
- The **effectiveness of proprietary models** as models are at risk of being insufficiently predictive due to the limitations of historical data, the recent extreme market volatility, and the risk of ineffectiveness in parameterisation, implementation, oversight and monitoring
- **Negotiations that are still in progress between the UK and the EU**, which continues to create uncertainty on the future UK legal and regulatory framework with the potential for the UK to deviate from the EU's legal and regulatory system. The scope of LBCM's business model in the EU includes the LBCM plc EU subsidiary ("Lloyds Bank Corporate Markets Wertpapierhandelsbank GMBH")
- The complexity of the **transition from IBORs to Alternative Risk Free Reference Rates** which could have material adverse impacts such as less liquid interest rates, increased litigation or disputes and higher operational risks
- The complexity of **recruiting and retaining key talent** which has been increased due to changes to employee expectations following the COVID-19 pandemic and significant structural and regulatory change across the industry may adversely impact LBCM

Principal risks and uncertainties continued

Principal risks

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.

Key mitigating actions:

- 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 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

The risk that, in delivering its change agenda, LBCM fails to ensure compliance with laws and regulation, maintain effective customer service and availability, and/or operate within LBCM's risk appetite.

Key mitigating actions:

- 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 and 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

Credit risk

The risk that parties with whom LBCM has contracted fail to meet their financial obligations (both on and off-balance sheet).

Key mitigating actions:

- 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 assurances

Principal risks and uncertainties continued

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 will reflect LBG standards where appropriate.

Key mitigating actions:

- 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, with 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, including 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
- On-going engagement with third-parties involved in serving LBCM's customers to ensure consistent delivery

Data risk

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

Key mitigating actions:

Mitigation strategies are adopted to reduce data governance, management, privacy and ethical risks. Control assessments are logged and tracked on the One Risk and Control Self-Assessment 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

Principal risks and uncertainties continued

Funding / liquidity risk

Funding risk is defined as the risk that LBCM does not have sufficiently stable and diverse sources of funding or that the funding structure is inefficient. Liquidity risk is defined as the risk that financial resources are insufficient to meet commitments as they fall due or can only be obtained at excessive cost.

Key mitigating actions:

- Ensuring that LBCM's liquidity risk management framework is adequate with regard to 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 a 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 market rates, in particular changes and volatility in interest and foreign exchange rates, inflation rates, commodity prices and credit spreads through activity in the banking and markets businesses.

Key mitigating actions:

- 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

Operational resilience risk

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

Key mitigating actions:

- 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 the LBCM 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

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.

Key mitigating actions

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 risk

The risk of inadequate or failed internal processes, people or systems, or external events, leading to loss. This includes cyber-attack, internal and/or external fraud or financial crime, IT systems failures as well as failure to ensure compliance with regulation.

Key mitigating actions

- 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
- Continued investment in the control environment by both LBCM and its shared service provider, including third party providers, with a move towards automated preventative and real-time detective controls
- Manual and detective controls deployed on an interim basis to prevent gaps as more strategic 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

Strategic risk

Strategic risk is defined as the risk which results from:

- **Incorrect assumptions about internal or external operating environments**
- **Failure to understand the potential impact of strategic responses and business plans on existing risk types**
- **Failure to respond or the inappropriate strategic response to material changes in the external or internal operating environments**

Key mitigating actions:

- 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

Principal risks and uncertainties continued

Operational risk: shared services model (SSM)

LBG's chosen ring-fencing operating model introduces risk for LBCM in the execution of that model as a shared service recipient.

Key risks include:

- Key reliance on the SSM creates internal service provision risk. This may be elevated in situations where LBCM's priorities are not wholly aligned with those of the wider LBG
- Business process risk (i.e. non-adherence to key processes, including those relating to market, operational, capital, credit, economic crime prevention and funding and liquidity risk)
- Information security and cyber risk including access management, records, data protection and cyber
- IT systems risk due to reliance on the shared service from LBG's IT department
- Reliance on the SSM to operate a number of key controls and processes designed to detect, prevent and respond to economic crime
- Operational risk around business resilience, change activity and sourcing
- Impact of resourcing challenges LBG faces around attracting and retaining people with the necessary skills

Key mitigating actions:

LBCM has arrangements in place to assess, monitor and take action on risks arising from the SSM which include:

- Service performance and reporting to ensure that management information is provided to the LBCM executive to monitor and respond to the effectiveness of service provision
- An established process put in place to highlight and work through conflicts of interest between LBCM and the wider LBG where they arise and could impact delivery of the SSM
- Service agreements in the form of a legally binding IGA is in place to ensure required standard for services
- Service governance arrangements to ensure that LBCM can manage, monitor and escalate service risks to relevant Boards
- Service audit rights are incorporated within the IGA, allowing LBCM to audit the services provided by LBG

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.

Key mitigating actions:

- 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 senior manager and certification regime, 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 SSM are managed under an adequate people services agreement

Principal risks and uncertainties continued

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.

Key mitigating actions:

- LBCM's Board has established a risk appetite and metric 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 on-going compliance with new legislation and regulation
- Ongoing investment in people, processes, training and IT is being made to assess impact and help meet its legal and regulatory commitments
- On-going horizon scanning is undertaken to identify and address changes in regulatory and legal requirements
- Engagement with regulatory authorities and industry bodies on forthcoming legal and 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

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 34 and 36 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

Section 172(1) statement and statement of engagement with employees and other stakeholders

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 which is ensuring engagement with our stakeholder, and considering in all instances the long-term implications of decisions made, 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.

Key stakeholders

Customers Shareholder Colleagues

Diversity Communities and the environment

Suppliers Regulators

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.

Section 172(1) Statement continued

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. 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 new **Consumer Duty** takes effect in July 2023 and focuses on delivering good outcomes for customers. Whilst only a subset of the Bank's customers will be in scope of the Duty, the Bank is committed to supporting them in accordance with the FCA's cross cutting rules within the Duty: to act in good faith; avoid causing foreseeable harm; and enable and support retail customers to pursue their financial objectives. The LBG Board Consumer Duty Champion represents the Bank in its preparation for compliance with the Duty.

The Bank is a wholly owned subsidiary of LBG, forming part of its Commercial Banking Division. 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 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. The LBG Chief Executive Officer and LBG Chair are invited to attend at least one Bank Board meeting each year to hold an open discussion on such matters as the Bank's strategy in the context of LBG and the operation of the shared service model. **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 2022, available on the LBG website.

Shareholder

Section 172(1) statement continued

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, and to the Bank. Throughout 2022 the Board received regular updates on workforce¹ engagement and on colleague matters through a combination of direct colleague **listening sessions** and updates from the LBCM People Director. Trends identified through the colleague listening sessions included for example, **new ways of working**, specifically in relation to the platform and shared service operating model and compensation in the context of the cost-of-living crisis.

As COVID-19 restrictions on meetings and travel reduced over 2022, the Board was able to resume visiting offices across jurisdictions to hold meetings and engage with colleagues. In addition, the Board continued to engage with the senior management team for ad hoc conversations outside of regular Board activity and held a series of Board and **colleague in-person breakfast events**, allowing for open two-way dialogue with colleagues from across the different business areas and jurisdictions on a range of topics including sustainability, strategy, culture, and inclusion and diversity. To support business as usual activity, Board members took the opportunity to **visit business areas** to speak directly with colleagues to learn more about the business first-hand, hear about their concerns and discuss new ways of working. The Chair continued to proactively engage in congratulating the **winners of monthly awards** for colleagues making a significant difference in delighting customers and reducing bureaucracy.

During the year, the Board gained further understanding of colleague views through surveys completed by colleagues across the Bank. These included **the annual colleague survey**, ad hoc 'Pulse' surveys, and participation by colleagues in the external survey of the Financial Services Culture Board. The Board continues to be updated on the actions arising out of the surveys.

The directors consider these arrangements invaluable in giving them an understanding of the views of the workforce and encouraging meaningful dialogue between the Board and the workforce.

During the year, the Bank also communicated directly with colleagues detailing its performance and that of LBG, changes in the economic and regulatory environment, and updates on key strategic initiatives. The Board was especially mindful of the impacts on colleagues of the **strategic changes** made during 2022 and focus on how the Bank aligns to LBG's strategy remained consistent in communications. Furthermore, with the **launch of the new LBG Values**, communications have sought to embed these as key enablers to driving LBCM's culture.

UK colleagues are remunerated by LBG (and recharged to the Bank), while colleagues based in US, Germany and 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. Further information can be found in the Directors' Remuneration Report within the LBG Annual Report and Accounts for 2022, available on the LBG website.

During 2022, the Bank has continued to provide essential financial services to its customers by implementing business changes to manage the continuing effects of the pandemic and have reviewed every iteration of the government advice in the UK and local advice across the jurisdictions in which it operates.

2022 saw the embedding of the Bank's **future workstyles** and as a result has seen an increase in the number of colleagues returning to the office. The majority of colleagues now operate using a **hybrid working** arrangement which can vary by team and role. Regular and open engagement with colleagues has been crucial, keeping colleagues informed of workstyles in each business as colleagues transitioned to new ways of working. The Board has ensured that the workforce has been supported with this transition and has continued to monitor the approach as they transition back to their offices.

In support of colleagues, **Speak Up** (LBG's whistleblowing programme) enables colleagues to raise matters of concern. Andrew McIntyre is the Bank's Whistleblowing Champion and is responsible for overseeing the integrity, independence, and effectiveness of LBG's whistleblowing procedures for the Bank. The Audit Committee receives reports on whistleblowing to ensure there are arrangements in place which colleagues can use in confidence to report relevant concerns.

1. The definition of 'workforce' as agreed by the Board is permanent employees, contingent workers and third-party suppliers that work on LBG premises delivering services to customers and supporting key business operations.

Diversity

The Board believes a diverse workforce is vital 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 Ethnic Minority colleagues in senior roles to at least 13%, representation of Black heritage colleagues in senior roles to at least 3%, and 50% women in senior roles by 2025 in line with LBG's diversity agenda.

The Board's focus on inclusion and diversity has extended to all the jurisdictions in which LBCM operates which have their own demographic profile. The Bank has successfully launched a dedicated **Inclusion and Diversity 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.

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.

The Bank has aligned with LBG sustainability objectives, including the current **'Net Zero by 2050' climate pledge**, which is a key part of the Bank's ESG strategy and directly supports global external goals. Additionally, the Bank continues to contribute towards LBG's Helping Britain Prosper strategy. The directors actively support the delivery of LBG's ambition to be a leading UK bank in the green/sustainable bonds market through the Bank's **green bond activity**. Throughout 2022, the Bank acted in 11 ESG-linked transactions.

The Bank is also active in reducing its carbon footprint by aligning with **LBG's 3P's campaign, Partnerships, Prioritisation and Pace**.

To achieve this, it has provided additional staff training, promoted alternative business travel transport methods for customer interactions and the use of commuting methods with lower carbon emissions, such as utilising the Cycle to Work scheme, and introduced tools to monitor progress.

The Bank has been actively engaged in **fundraising and volunteering events across its jurisdictions**. The directors receive regular updates on how the Bank is progressing on supporting its communities. Within the Crown Dependencies, the Bank works with the **Lloyds Bank Foundation for the Channel Islands** which supports several charities through grants and a wide range of developmental support to help local communities thrive. In North America, the Bank has completed fundraising to help empower individuals with autism and developmental disabilities to lead fulfilling lives through their partnership with Birch Family Services.

Suppliers

The Board recognises the importance of partners who provide aspects of the Bank's operations and customer service provision through the shared service model with LBG. The Bank's approach to external supplier management follows that of LBG and aligns to the Prudential Regulation Authority (PRA) Supervisory Statement (SS) 2/21 on **Outsourcing and Third-Party Risk Management (TPRM)**, which came into effect on the 31 March 2022. The supply chain is crucial to the way the Bank and LBG serves its customers, and through it the reach is considerable.

The Bank and LBG 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.

Importance is placed on having the right supplier framework to operate responsibly. LBG's **Sourcing and Supply Chain Management Policy** applies to all businesses, divisions, 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.

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 the Bank.

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 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 (FCA) and PRA 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. During the year such changes have included not only the long-term impacts of the COVID-19 pandemic, but the disruption triggered by the Russian and Ukraine conflict, and inflationary pressure.

Regular updates at 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 regulators 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, credit risk including the standardised approach to counterparty credit risk (SA-CCR), and change/execution risk.

The importance of people and culture

LBCM is contributing to LBG diversity aspirations

13%

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

3%

Black heritage representation in senior roles by 2025

50%

Women in senior roles by 2025

Inclusion and diversity

LBCM, as part of LBG, aims to create a more inclusive future for our customers, colleagues and communities. We will continue to create a fully inclusive organisation that is representative of the modern-day countries in which we operate, where differences are embraced, and everyone can reach their potential.

Read more about the aspirations relating to ethnic and gender diversity, disability, sexual orientation and gender identity on page 34 of the LBG 2022 annual report and accounts.

Our values

Our strategy sets out our plan to become a truly purpose-driven organisation and our culture is a fundamental enabler of that.

The 5 values below provide colleagues with a clear and simple framework to guide their behaviours and approach to decision making. Since launching the new values, activities are underway across LBCM and LBG to deepen colleagues' understanding and to ensure everyone is living the values day-to-day and embedding them into decision making – from everyday choices to big strategic decisions.

Recognising our LBCM colleagues

LBCM's 'Delighting the Customer' awards recognise and celebrate key customer activity across LBCM. Every month, LBCM's Executive Committee chooses a **'Colleague of the Month'** from the many nominations submitted from across our business.

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

**Lord Lupton CBE,
Chair of the Board**

Delighting the customer award winners

Congratulations and thank you to our colleagues of the month winners who have demonstrated our values and delivered a first class service to our customers.

Jacqueline Munro
Risk

Mark Stevens
Islands Commercial
Banking

Beatrice Fru Ndi
Financial Markets

Katrina Foulkes
Islands Commercial
Banking

Caitriona Greene
Islands Operations and
Community Banking

Kerry Thompson
Islands Commercial
Banking

David Clarke
Islands Commercial
Banking

Asif Mahmood
Islands Risk

Frank Alfano
New York Risk

Marisa Fershing
New York Risk

Adrian Meade
Islands Commercial
Banking

Sophie Husselbee
Risk

Governance and Directors' Report

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The directors present their annual report and audited consolidated financial statements for the year ended 31 December 2022.

Information included in the Strategic Report incorporated in the Directors' Report by reference:

- Statement of employee engagement: page 27
- Statement of other stakeholder engagement: pages 25-29
- Principal risks and uncertainties: pages 16-24

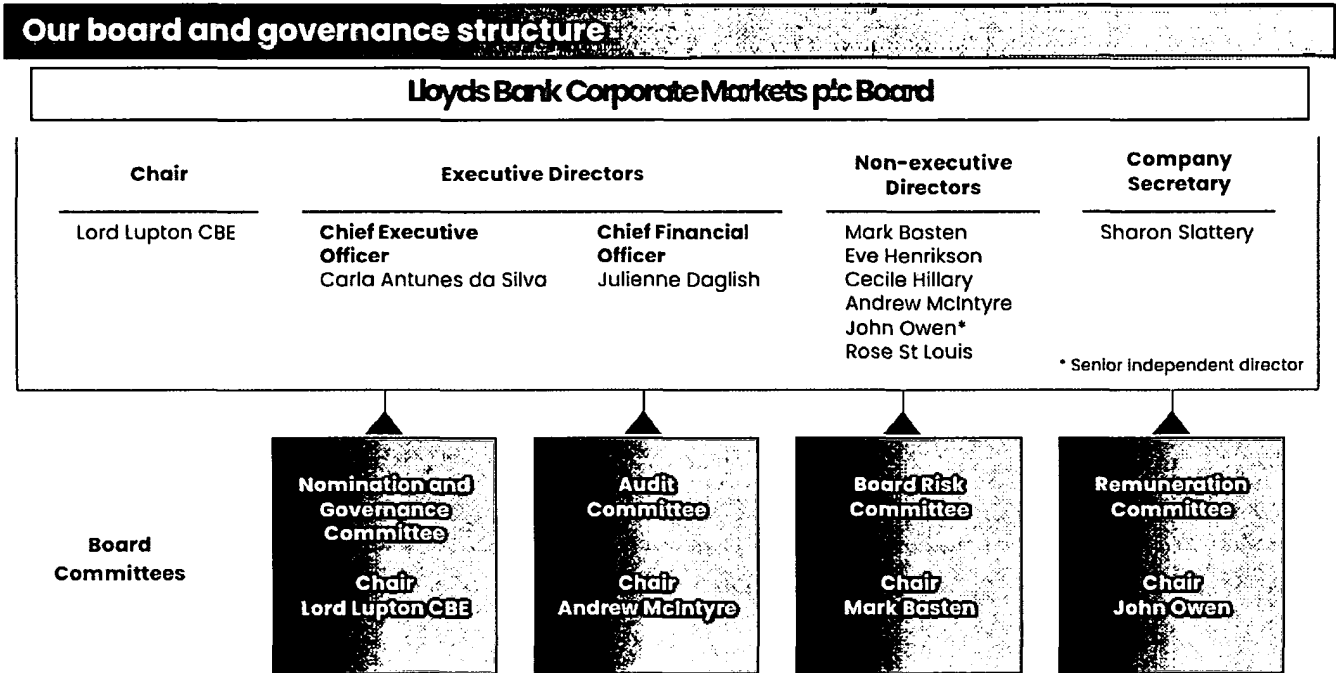
Governance and Directors' Report continued

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.






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. 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. This enables the Board to spend a greater proportion of its time on strategic, forward-looking matters.



Governance and Directors' Report continued

Our Board

Establishing our purpose, values and strategy

	Committee Chair
	Audit Committee member
	Board Risk Committee member
	Nomination and Governance Committee member
	Remuneration Committee member

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 3 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.

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

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 a majority 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 both Benefact Group plc and Target Group Limited; member Federated Hermes Property Unit Trust Appointments Committee and Chair Federated Hermes Property Unit Trust Audit Committee.

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); Fellow – Forward Institute.

Governance and Directors' Report continued

Our Board

Establishing our purpose, values and strategy

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.

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. She was responsible for making recommendations to senior stakeholders of the group on all areas of major strategic significance including M&A, joint ventures and partnerships and managing relationships with the wider investment community.

Prior to that, Carla spent 18 years as an Equity Analyst for European banks, working for Credit Suisse, JP Morgan and Deutsche Bank.

External appointments:

Non-Executive Director, Novo Banco; 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 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 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 the Group 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.

Governance and Directors' Report continued

Executive Committee

Delivering our strategy and day-to-day management

The role of the Executive Committee

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, Product Governance and Risk committees.



Carla Antunes da Silva

Executive director and Chief Executive Officer



Read her biography on page 35

Julienne Daglish

Executive director and Chief Financial Officer



Read her biography on page 35

Sharon Slattery

Company Secretary



Read her biography on page 35

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.

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 and Operations Committee of the Association for Financial Markets in Europe

Alasdair Gardner

Chief Executive Officer Islands



Alasdair has considerable client and leadership experience across a range of client and financing segments. He has held a variety of roles within LBG, including MD for Lloyds Mid Markets business in Scotland and North of England as well as SME for Scotland. He also had sector responsibility for UK Housebuilders and Social Housing. Prior to this he headed the Energy Division of HBOS, which succeeded his role in leading transactional teams delivering funding solutions. Alasdair also held roles as Head of Industrials and Commercial Banking Scotland and Head of Large Corporates North America where he was responsible for heading up the client coverage teams across all sectors in the USA.

Governance and Directors' Report continued

Executive Committee

Delivering our strategy and day-to-day management

Rob Hale

Managing Director – Head of Financial Markets



Rob started his career as a Rates Trader at RBS 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 and Commodities business from 2015 before becoming Head of Traded Products for LBCM in 2018. In addition, Rob was the Accountable Executive for Ring-Fencing Delivery for CBM, 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 governance and delivery of transformation and technology programmes for Markets which are key to our strategic ambitions and future growth.

Nick Hughes

Head of Capital Markets and LBCMw



Nick leads LBCM's Capital Markets business globally, which provides Corporate and Institutional customers with comprehensive financing solutions across its debt capital markets, securitised products group, bond syndicate and credit sales and trading activities. The business also provides the associated risk management services, as well as capital and risk analytics and insights. Capital Markets operates across both primary and secondary markets activities. Nick started his career at LBG in 1999 and in the Markets business since 2006 in various client facing and structuring roles catering for Corporate and Institutional clients, notably in structured finance with a key focus on infrastructure. In August 2021 Nick was appointed as head of the broader 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.

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-19. 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 and 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.

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 Barclays 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.

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 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 2022, LBCM plc (the Bank) and its subsidiaries (LBCM Group) has in its 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 2022.

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 a number of changes to the Board during the year and since the year end, all of which were overseen by the Nomination and Governance Committee.

Governance and Directors' Report continued

In September 2022, **Eduardo Stock da Cunha** announced his intention to retire from LBG and as Chief Executive Officer of LBCM at the end of January 2023 after three years in role to move to the next chapter of his life. Eduardo had spent more than six years with LBG and was instrumental in the development and implementation of the LBG's ring-fencing operating model. He was at the heart of creating the new strategy for LBCM's future growth, where he brought a wealth of commercial experience and leadership.

Carla Antunes da Silva, one of the Bank's two internal NEDs, serving on the Board for the last five years, and LBG's Group Strategy, Corporate Development and Investor Relations Director has been appointed as CEO with effect from 1 February 2023, having received regulatory approval. As LBCM embarks on a new growth period for the business, Carla Antunes da Silva's strategic thinking and customer-orientation will provide the leadership to deliver on medium and long-term plans to extend digitisation, especially in our 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.

John Cummins, having served on the Board since the Bank's set-up, as an iNED and Chair of the Board Risk Committee, resigned from the Board on 28 February 2022 to pursue other opportunities.

On 30 September 2022, **Rupert Mingay**, having joined the Board on 11 April 2022 to succeed John Cummins stepped down from the Board to take up the position of LBCM's Chief Risk Officer. After an extensive selection process of high calibre candidates, **Mark Basten** was appointed as an iNED and Chair of Board Risk Committee with effect from 9 February 2023. He brings strong experience in both credit and operational risk areas which are important to LBCM.

Following the resignation of **Emma Lawrence** from the Board to pursue a career outside of LBG, and the resignation of Carla Antunes da Silva to take up the role of CEO, the Board completed its refresh of internal NEDs with the appointments of **Rose St Louis** from 27 September 2022, and **Cecile Hillary** from 9 November 2022. As Protection Director for LBG and LBG's Group Treasurer respectively, Rose and Cecile complement the existing strengths of 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 9 directors: a Chair independent on appointment, 4 iNEDs, 2 internal NEDs and 2 executive directors. The Board has made good progress on diversity at board level in its broadest sense – gender, race, nationality, and age. It is a multinational Board (German, French, Portuguese and British), with age diversity from 40 years upwards, Black, Asian, and Minority Ethnic representation of 11 per cent and 55 per cent of the Board currently comprising women directors.

Both the CEO and CFO are women and the Board therefore continues to exceed the **FTSE Women Leaders Review** recommendation of 40% 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 ('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. During the year under review, Nomination and Governance Committee provided oversight of an internal review, conducted by the Company Secretary, of the effectiveness of the Board, its committees and the individual directors, having commissioned an external review during 2020 with the next external review due in 2023. The internal review process included a confidential open-ended questionnaire to the Board and its committees, a confidential Chair and peer review and a short pulse survey seeking views of the senior executive population providing a holistic review of performance. The internal evaluation included an appraisal of each director and Lord Lupton, as Chair. The Senior Independent Director led the appraisal of the Bank's Chair.

Governance and Directors' Report continued

The internal evaluation concluded that the Board oversees the management of LBG effectively and has the appropriate skills and expertise to protect the interests of all stakeholders. Its directors benefit from diverse but complementary skills and experience in financial markets and institutions, technology, and consumer-facing businesses in the UK and overseas, and all make valuable contributions to the Board. While the evaluation did not highlight any material weaknesses or concerns, it identified some areas of focus in the future, including: (1) finding more time on the Board agenda for fewer but deeper conversations on substantive topics; (2) deepening Bank and LBG collaboration and relationships; (3) encouraging an environment of even greater openness and transparency, moving toward more holistic reporting of issues; (4) building the Board as a team welcoming its new members; and (5) learning on topics important to the Board in such areas as transformation, data ethics, climate change risk and sustainability. The Board was pleased with the progress against the actions from the 2021 review.

The internal Board evaluation also considered the activities of the Audit, the Board Risk, the Nomination and Governance, and Remuneration Committees. It concluded that the Committees were operating effectively, with the right balance of membership, experience, and skills.

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. 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 sessions dedicated to debating strategic priorities and 'Extended business updates' into business areas 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 fully 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 LBG, 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.

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.

Governance and Directors' Report continued

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 34 and 35. Changes to the composition of the Board since 1 January 2022 up to the date of this report are shown in the table below.

	Joined the Board	Left the Board
Carla Antunes da Silva (non-executive director)		8 September 2022
Carla Antunes da Silva (executive director)	1 February 2023	
Mark C Basten	9 February 2023	
John J Cummins		28 February 2022
Cecile Hillary	9 November 2022	
Emma L Lawrence		7 July 2022
Rupert H Mingay	11 April 2022	30 September 2022
Rose M St Louis	27 September 2022	
Eduardo J Stock da Cunha		31 January 2023

Directors' indemnities and directors' and officers' liability insurance

The directors of the Bank, including the former directors 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 2022 or since the year end. Directors no longer in office but who served on the Board at any time in the financial year and since year end 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 in place 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 2022 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 2022 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.

Governance and Directors' Report continued

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 and a register of potential conflicts and time commitments is regularly reviewed and authorised by 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.

The following NEDs hold/held 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 did not act as representative of LBCM's sole shareholder, LBG, in their capacity as NEDs of the Bank's Board:

Name	LBG Role
Emma L Lawrence	Customer Management Director, Retail Bank until July 2022
Carla Antunes da Silva	Group Strategy, Corporate Development and Investor Relations Director for LBG, and attendee of GEC until September 2022
Cecile Hillary	Group Treasurer
Rose M St Louis	Protection Director, Insurance Pensions and Investments and Chief Executive of Cavendish Online Limited

Governance and Directors' Report continued

LBG environmental sustainability report

LBCM, as part of LBG, contributes towards the targets, goals and ambition of our parent company Lloyds Banking Group plc. More details can be found in the 2022 "Building a sustainable future" LBG Environmental Sustainability Report 2022, which is available to download from the LBG website.

**Tackling the
climate crisis
goes hand in
hand with
delivering LBG's
purpose of
Helping Britain
Prosper**

This 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.

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 2022 Annual Report and Accounts available at www.lloydsbankinggroup.com/investors/financial-downloads.html

Other statutory and regulatory reporting

Results

The consolidated income statement on page 57 in this annual report and accounts shows a statutory profit before tax for the year ended 31 December 2022 of £477 million (year ended 31 December 2021: £289 million).

Dividends

During the year the Bank paid an interim dividend of £220 million, which was paid in April 2022 (2021: £200 million). The directors have not recommended a final dividend for the year ended 31 December 2022. Refer note 30 on page 98.

Share capital

Information about share capital is shown in note 26 on page 96. This information is incorporated into this report by reference.

The Bank issued 250 million ordinary shares of £1 each on 20 December 2022. 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 39 on page 138.

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 and the market events of March 2023 to date. 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.

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.

Governance and Directors' Report continued

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, the USA, Germany, and the Crown Dependencies. The strategic closure of the Singapore office has been completed, with the banking license surrendered. Following a strategic review undertaken in June 2022 to reduce the branches footprint on the Islands, the decision was taken to reduce the number of branches from 9 to 6, in the first review of its kind in over a decade.

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 24.

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 850 colleagues (note 7) during 2022 (2021: 954) reflecting colleagues based in the USA, Germany, Crown Dependencies and Singapore, where the office closed for business in first half of 2022 and the majority of colleagues had left by end of the third quarter of 2022.

In addition, the Crown Dependencies continued to refine its operating model, both of these have impacted the average number of colleagues year on year. Information concerning the employees of LBG is available in the LBG's 2022 Annual Report and Accounts.

Supporting disability

As part of LBG, the Bank is committed to creating an inclusive and diverse organisation where colleagues with disabilities or long-term health conditions feel valued and supported to reach their full potential. The Bank supports colleagues who have disclosed a disability in a range of ways. The Bank ensures full and fair consideration to applications from people with disabilities, and offers bespoke training, career development, promotions and adjustments for colleagues and applicants with disabilities, including those who became disabled while employed. This has been recognised through LBG holding the Business Disability Forum Gold Standard accreditation and retaining Disability Confident Leader status from the Department for Work and Pensions, which recognise the inclusive culture of LBG, and the support provided to our colleagues identified as having a disability including those who became disabled while employed.

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 32.

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.

Governance and Directors' Report continued

Statement of directors' responsibilities continued

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 Directors' Report on pages 34 and 35, 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 25 May 2022 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



Julianne C Daglish

Director

21 March 2023

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

Financial Statements

and notes to the consolidated
financial statements for the year
ended 31 December 2022

Financial statements

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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 2022 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:

- the consolidated income statement;
- the consolidated and Bank statements of comprehensive income;
- the consolidated and Bank balance sheets;
- the consolidated and Bank statements of changes in equity;
- the consolidated and Bank cash flow statements; and
- Notes 1 to 41 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's 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. Audit scope, approach, and execution

Key audit matters	The key audit matters that we identified in the current year were: <ul style="list-style-type: none">i. Expected credit losses (Group and Bank);ii. Valuation of complex and illiquid financial instruments held at fair value (Group and Bank); andiii. IT systems that impact financial reporting (Group and Bank). Our assessment of the level of risk for each of these areas have remained consistent with the prior year.
Materiality	Overall materiality used for the Group consolidated financial statements was £33.9 million, which was determined on the basis of net assets. Overall materiality used for the Bank financial statements was £33.9 million, which was determined on the basis of net assets and capped at Group materiality.
Scoping	Our audit scope covers 97% of the Group's revenue, 96% of the Group's profit before tax, 99% of the Group's total assets, and 99% 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

We considered the macroeconomic factors affecting the Group during the year and discussed the impact of the war in Ukraine, the current economic environment and changes to UK fiscal policy on the Group's key judgements and sources of estimation uncertainty. The partners for the Group's two components, and those leading areas requiring significant audit judgement including the expected credit loss and the valuation of complex and illiquid financial instruments were required to consider these factors in their assessment of risk and to design testing procedures to adequately address the assessed risk. These partners also met regularly with management to understand business strategy, the Group's accounting judgements and estimations and other matters which arose during the year that could have impacted the Group's financial reporting. Our risk assessments were further informed by detailed analytics as well as other quantitative and qualitative audit procedures, including consideration of matters such as the impact of cost of living pressures in the UK and climate change on the account balances, disclosures and Group practices;

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. On the basis of materiality, we have removed the Singapore component from our scope. 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**

In addition to the above, 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. All components greater than 10% of the total Group's assets or 10% of the Group's total liabilities were included in our audit scope. The components 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 on page 18 of the Principal risks & uncertainties section 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 as they evolve including the effect on 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 set out at page 18 of the Principal risks & uncertainties section of the Annual Report. 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 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 growth rate and expected credit loss projections, used in their going concern assumption, and assessing the reasonableness of those assumptions and historical forecasting accuracy;
- supported by Prudential Risk specialists, reading the most recent ICAAP and ILAAP submissions, considered management's capital and liquidity projections, evaluating the results of management's stress testing, and challenging key assumptions and methods used in the stress testing;
- 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; and
- evaluating the Group's disclosures on going concern against the requirements of IAS 1.

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, 14 and 36 in the financial statements

The Group has recognised £62 million of expected credit losses ('ECL') as at 31 December 2022. The determination of ECL consists of a number of assumptions that require a high degree of complex and subjective auditor judgement, specialised skills and knowledge, complex impairment modelling and a high degree of estimation uncertainty. Specifically, the impact of the war in Ukraine, residual economic impact of the COVID-19 pandemic, as well as the economic impact of the rising cost of living on the ECL have been particularly judgemental given the inherent uncertainty 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); and
- In-model adjustments ('IMAs') and post-model adjustments ('PMA') and loans individually assessed

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.

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, the base case and the downside scenarios are weighted at 30% and the severe downside at 10%.

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 critical 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:
 - i. 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;
 - ii. challenged the appropriateness of management's change in methodology in determining the severe downside scenario;
 - iii. challenged and evaluated the appropriateness of the methodology applied to generate alternative macroeconomic scenarios, and including associated weightings and assumptions within; and
 - iv. independently replicated the multiple economic scenario model 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 adequacy of disclosures in respect of significant judgements and sources of estimation uncertainty including macroeconomic scenarios.
-

Key audit matter description	How the scope of our audit responded to the key audit matter
<p>In-model adjustments ('IMAs') and post-model adjustments ('PMA') and loans individually assessed</p> <p>The Group's ECL is calculated on a collective basis for performing loans, being those in stage 1 and 2, and on an individual basis for larger impaired loan in stage 3.</p> <p>The collective provision is determined using impairment models. The models use a number of judgements to calculate a probability weighted ECL estimate by applying appropriate probability of default, estimated exposure at default and taking account of collateral held or other loss mitigants, discounted using the effective interest rate. The key driver of the probability of default, and, therefore, the staging of the Group's exposures, is the credit risk rating. The determination of these credit risk ratings is performed on a counterparty basis for larger exposures by a credit officer and involves judgement and consideration of multiple sources of information.</p> <p>Complex models and significant judgements are used to develop the probability of default, loss given default and exposure at default as well as applying the staging criteria under IFRS 9 Financial Instruments.</p> <p>For individual provision assessments of larger exposure in stage 3, the judgements in determining provisions and where we focused our work on are the:</p> <ul style="list-style-type: none"> • completeness and appropriateness of the potential workout scenarios identified; • probability assigned to each identified potential workout scenario; and • valuation assumptions used in determining the cash flows within workout scenarios. <p>Complex and subjective auditor judgement including specialised knowledge is required in evaluating the methodology, models and inputs that are inherently uncertain.</p>	<p>We tested the controls across the process to determine the ECL provisions including:</p> <ul style="list-style-type: none"> • Model governance and arithmetical accuracy of provision calculations; • data accuracy and completeness; and • recognition and calculation of post-model adjustments. <p>We performed the following audit procedures over:</p> <ul style="list-style-type: none"> • Expected credit losses determined through impairment models: <ul style="list-style-type: none"> i. Independently assessed the credit rating and tested whether the exposure was in the correct stage classification against IFRS 9 criteria; ii. Assessed the appropriateness of the model methodologies, approach and assumptions, including those used in developing the internal model adjustments and post model adjustments; iii. Tested the completeness and accuracy of key data used; and iv. Performed a recalculation of the IFRS 9 collective provision. • Expected credit losses assessed individually: <ul style="list-style-type: none"> i. Assessed the exposure to determine if they met the definition of credit impaired with a stage 3 classification; ii. Performed independent assessments to determine the appropriateness of recovery scenarios and associated cash flows, including considerations of climate risks on recoveries; iii. Evaluated valuations, including management's use of valuation specialists; and iv. Independently assessed and challenged the completeness of workout and restructuring scenarios identified and weightings applied. <p>We have assessed the adequacy of whether the disclosures appropriately address the uncertainty which exists in determining the ECL.</p>
Key observations communicated to the Audit Committee	
<p>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.</p>	

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
<p>Refer to notes 2, 3, 11, 12, 34 and 36 in the financial statements</p> <p>Financial instruments are classified as Level 1, 2 or 3 in accordance with IFRS 13 Fair value measurement.</p> <p>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.</p> <p>As at 31 December 2022, the Group has £12 billion 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.</p> <p>We consider these judgements to be at risk of management bias, giving rise to a potential risk of fraud.</p>	<p>We tested the controls over the valuation of financial instruments, including controls over independent price verification, model validation, and model review controls.</p> <p>We utilised our valuation specialists in our audit of the valuation of the Level 3 portfolios and we performed the following procedures:</p> <ul style="list-style-type: none"> • Challenged 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 adequacy of financial instruments disclosures included in Note 34.

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
<p>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.</p> <p>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.</p> <p>We identified the IT systems that impact financial reporting as a key audit matter because of the:</p> <ul style="list-style-type: none"> • 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. <p>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.</p>	<p>Our IT audit scope tested 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.</p> <p>We used IT specialists to support our evaluation of the risks associated with IT in the following areas:</p> <ul style="list-style-type: none"> • General IT Controls, including user access and change management controls; • Key financial reports and system configured automated controls; and • Cyber security risk assessment. <p>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.</p> <p>Where we were able to identify and test appropriate mitigating controls over affected financial statement line items, our testing approach remained unchanged.</p> <p>In a limited number of areas, we adopted a non-controls reliance approach and we therefore performed additional substantive procedures.</p>

Key observations communicated to the Audit Committee

IT control deficiencies were identified in respect of privileged user access to IT infrastructure and in application user access management. The existence of these deficiencies in the year resulted in an increased risk in relation to data, reports and automated system functionality from the affected systems.

However, overall, in combination with business mitigating controls, we are satisfied that the Group's overall IT control environment appropriately supports the financial reporting process.

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	£33.9 million (2021: £34.8 million)	£33.9 million (2021: £34.8million), capped to the Group's materiality.
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% of net assets.	The Bank's materiality represents 1% 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 £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 £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% of Group materiality at £20.4 million (2021: 60% at £20.9 million)	60% of Bank materiality at £20.4 million (2021: 60% at £20.9 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. In the prior year, performance materiality was set at 60% reflecting amongst other factors that it was Deloitte LLP's first year auditing the Group and the Bank's financial statements.	

6.3 Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £1.7 million (2021: £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;
 - 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 the 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 25 May 2022 to audit the financial statements of Lloyds Bank Corporate Markets plc for the year ended 31 December 2022 and subsequent financial periods. The period of total uninterrupted engagement of the firm is accordingly two years.

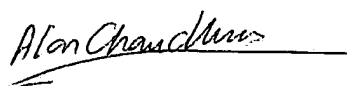
Consistency of the audit report with the additional report to the Audit Committee

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') 4.1.14R, these financial statements form part of the European Single Electronic Format ('ESEF') prepared Annual Financial Report filed on the National Storage Mechanism of the UK FCA in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditor's report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS.



Alan Chaudhuri (Senior Statutory Auditor)

For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
21 March 2023

Consolidated income statement

for the year ended 31 December 2022

	Note	2022 £ million	2021 £ million
Interest income		1,087	356
Interest expense		(812)	(169)
Net interest income	4	275	187
Fee and commission income		228	248
Fee and commission expense		(36)	(27)
Net fee and commission income	5	192	221
Net trading income	6	495	244
Other operating income (expense)		5	(11)
Other income		692	454
Total income		967	641
Operating expenses	7	(444)	(414)
Impairment (charge) credit	9	(46)	62
Profit before tax		477	289
Tax expense	10	(97)	(51)
Profit for the year		380	238
Profit attributable to ordinary shareholders		337	205
Profit attributable to other equity holders		43	33
Profit for the year		380	238

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

Statements of comprehensive income

for the year ended 31 December 2022

	Note	The Group		The Bank	
		2022 £ million	2021 £ million	2022 £ million	2021 £ million
Profit for the year		380	238	348	247
Other comprehensive income					
<i>Items that may subsequently be reclassified to profit or loss:</i>					
Movements in revaluation reserve in respect of debt securities held at fair value through other comprehensive income, net of tax	27	-	8	-	8
Movements in cash flow hedging reserve, net of tax	27	(471)	(153)	(471)	(153)
Movements in foreign currency translation reserve, net of tax	27	10	-	3	-
Total other comprehensive loss for the year, net of tax		(461)	(145)	(468)	(145)
Total comprehensive (loss)/income for the year		(81)	93	(120)	102
Total comprehensive (loss)/income attributable to ordinary shareholders		(124)	60	(163)	69
Total comprehensive income attributable to other equity holders		43	33	43	33
Total comprehensive (loss)/income for the year		(81)	93	(120)	102

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

Balance sheets

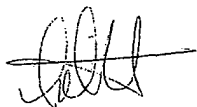
at 31 December 2022

		The Group		The Bank	
	Note	2022 £ million	2021 £ million	2022 £ million	2021 £ million
Assets					
Cash and balances at central banks		19,382	22,140	19,382	22,140
Financial assets at fair value through profit or loss	11	14,780	22,409	14,642	22,268
Derivative financial instruments	12	24,621	17,990	24,647	18,042
Loans and advances to banks		2,117	2,354	2,063	2,333
Loans and advances to customers		19,127	17,432	18,864	17,176
Reverse repurchase agreements		5,606	5,044	5,606	5,044
Debt securities		305	229	305	229
Due from fellow Lloyds Banking Group undertakings		269	557	593	862
Financial assets at amortised cost	13	27,424	25,616	27,431	25,644
Financial assets at fair value through other comprehensive income	16	6	100	6	100
Property, plant and equipment	17	56	67	45	53
Current tax recoverable		5	16	2	14
Deferred tax assets	23	213	37	226	40
Investment in subsidiary undertakings	18	–	–	180	203
Other assets	19	172	324	164	317
Total assets		86,659	88,699	86,725	88,821
Liabilities					
Deposits from banks		2,456	3,821	2,456	3,821
Customer deposits		29,152	26,967	29,152	26,553
Repurchase agreements		7	1,019	7	1,019
Due to fellow Lloyds Banking Group undertakings		1,481	3,442	1,526	3,920
Financial liabilities at fair value through profit or loss	20	12,578	16,582	12,578	16,582
Derivative financial instruments	12	20,070	15,572	20,070	15,571
Debt securities in issue	21	16,131	16,644	16,131	16,644
Other liabilities	22	574	461	558	444
Current tax liabilities		28	5	29	8
Other provisions	24	26	13	25	10
Subordinated liabilities	25	761	684	761	684
Total liabilities		83,264	85,210	83,293	85,256
Equity					
Share capital	26	370	120	370	120
Other reserves	27	(525)	(64)	(530)	(62)
Retained profits ¹	28	2,768	2,651	2,810	2,725
Ordinary shareholder's equity		2,613	2,707	2,650	2,783
Other equity instruments	29	782	782	782	782
Total equity		3,395	3,489	3,432	3,565
Total equity and liabilities		86,659	88,699	86,725	88,821

¹ The Bank recorded a profit after tax for the year of £348 million (2021: £247 million).

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

The Directors approved the financial statements on 21 March 2023.



Carla Antunes da Silva
Director



Julianne C Daglish
Director

Statements of changes in equity

for the year ended 31 December 2022

The Group	Attributable to ordinary shareholders				Other equity instruments £ million	Total £ million
	Share capital £ million	Other reserves £ million	Retained profits £ million	Total £ million		
At 1 January 2021	120	81	2,646	2,847	782	3,629
Comprehensive income						
Profit for the year	-	-	205	205	33	238
Other comprehensive income						
Movements in revaluation reserve in respect of debt securities held at fair value through other comprehensive income, net of tax	-	8	-	8	-	8
Movements in cash flow hedging reserve, net of tax ¹	-	(153)	-	(153)	-	(153)
Total other comprehensive (loss)/income	-	(145)	-	(145)	-	(145)
Total comprehensive (loss)/income	-	(145)	205	60	33	93
Transactions with owners						
Dividends (note 30)	-	-	(200)	(200)	-	(200)
Distributions on other equity instruments	-	-	-	-	(33)	(33)
Total transactions with owners	-	-	(200)	(200)	(33)	(233)
At 31 December 2021	120	(64)	2,651	2,707	782	3,489
Comprehensive (loss)/income						
Profit for the year	-	-	337	337	43	380
Other comprehensive 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)/income	-	(461)	-	(461)	-	(461)
Total comprehensive (loss)/income¹	-	(461)	337	(124)	43	(81)
Transactions with owners						
Dividends (note 30)	-	-	(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

¹ Total comprehensive loss attributable to owners of the parent was £81 million (2021: income of £93 million).

Further details of movements in LBCM's share capital and reserves are provided in notes 26, 27, 28 and 29.

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

Statements of changes in equity continued

The Bank	Attributable to ordinary shareholders				Other equity instruments £ million	Total £ million
	Share capital £ million	Other reserves £ million	Retained profits £ million	Total £ million		
At 1 January 2021	120	83	2,711	2,914	782	3,696
Comprehensive income						
Profit for the year	-	-	214	214	33	247
<i>Other comprehensive income</i>						
Movements in revaluation reserve in respect of debt securities held at fair value through other comprehensive income, net of tax	-	8	-	8	-	8
Movements in cash flow hedging reserve, net of tax	-	(153)	-	(153)	-	(153)
Movements in foreign currency translation reserve, net of tax	-	-	-	-	-	-
Total other comprehensive (loss)/income	-	(145)	-	(145)	-	(145)
Total comprehensive (loss)/income	-	(145)	214	69	33	102
Transactions with owners						
Dividends (note 30)	-	-	(200)	(200)	-	(200)
Distributions on other equity instruments	-	-	-	-	(33)	(33)
Total transactions with owners	-	-	(200)	(200)	(33)	(233)
At 31 December 2021	120	(62)	2,725	2,783	782	3,565
Comprehensive (loss)/income						
Profit for the year	-	-	305	305	43	348
<i>Other comprehensive loss</i>						
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)/income	-	(468)	-	(468)	-	(468)
Total comprehensive (loss)/income¹	-	(468)	305	(163)	43	(120)
Transactions with owners						
Dividends (note 30)	-	-	(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

¹ Total comprehensive loss attributable to owners of the parent was £120 million (2021: income of £102 million).

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

Cash flow statements

for the year ended 31 December 2022

		The Group		The Bank	
	Note	2022 £ million	2021 ¹ £ million	2022 £ million	2021 ¹ £ million
Cash flows from operating activities					
Profit before tax		477	289	436	293
Adjustments for:					
Change in operating assets	38 (A)	(1,652)	351	(1,657)	203
Change in operating liabilities	38 (B)	(2,865)	(3,616)	(2,881)	(3,495)
Non-cash and other items	38 (C)	(302)	(125)	(296)	(152)
Tax paid		(57)	(41)	(58)	(38)
Net cash (used in)/provided by operating activities		(4,399)	(3,142)	(4,456)	(3,189)
Cash flows from investing activities					
Purchase of financial assets		(26)	(85)	(27)	(85)
Proceeds from sale and maturity of financial assets		131	138	132	138
Purchase of fixed assets		(7)	(7)	(5)	(1)
Dividends received from subsidiaries		–	–	22	44
Net cash (used in)/provided by investing activities		98	46	122	96
Cash flows from financing activities					
Dividends paid to ordinary shareholders	30	(220)	(200)	(220)	(200)
Distributions on other equity instruments		(43)	(33)	(43)	(33)
Issue of ordinary shares		250	–	250	–
Interest paid on subordinated liabilities		(25)	(16)	(25)	(16)
Finance Leases		(10)	(13)	(8)	(7)
Net cash (used in)/provided by financing activities		(48)	(262)	(46)	(256)
Effect of exchange rate changes on cash and cash equivalents		695	69	693	69
Change in cash and cash equivalents		(3,654)	(3,289)	(3,687)	(3,280)
Cash and cash equivalents at beginning of year		23,103	26,392	23,083	26,363
Cash and cash equivalents at end of year	38 (D)	19,449	23,103	19,396	23,083

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

¹ Restated - See note 1

Notes to the consolidated financial statements

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.

Details of those IFRS pronouncements which will be relevant to LBCM but which were not effective at 31 December 2022 and which have not been applied in preparing these financial statements are given in note 40.

In April 2022, the IFRS Interpretations Committee was asked to consider whether an entity includes a demand deposit as a component of cash and cash equivalents in the statement of cash flows when the demand deposit is subject to contractual restrictions on use agreed with a third party. It concluded that such amounts should be included within cash and cash equivalents. Accordingly, LBCM includes mandatory reserve deposits with central banks that are held in demand accounts within cash and cash equivalents disclosed in the cash flow statement. This change has increased LBCM's cash and cash equivalents at 1 January 2021 by £22 million (to £26,392 million) and increased the adjustment for the change in operating assets in 2021 by £23 million (to £351 million), and, as a result, LBCM's cash and cash equivalents at 31 December 2021 increased by £45 million (to £23,103 million). The impact of this change on LBCM's cash and cash equivalents at 31 December 2022 is £nil.

In 2021, LBCM adopted the *Interest Rate Benchmark Reform* Phase 2 amendments issued by the IASB. These amendments require that changes to expected future cash flows that both arise as a direct result of IBOR Reform and are economically equivalent to the previous cash flows are accounted for as a change to the effective interest rate with no adjustment to the asset's or liability's carrying value; no immediate gain or loss is recognised. The requirements also provide relief from the requirements to discontinue hedge accounting as a result of amending hedge documentation if the changes are required solely as a result of IBOR Reform.

Financial statement preparation includes the consideration of the impact of climate change on the Group's financial statements. There has been no material impact identified on the financial reporting judgements and estimates at the reporting date.

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 on page 140.

(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)(i) below.

Note 2: Accounting policies continued

(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.

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 34 (3) (Financial instruments: 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.

Note 2: Accounting policies continued

(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.

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 12 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.

Note 2: Accounting policies continued

(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, mainly in Commercial Banking, 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.

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 and motor vehicles.

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.

Note 2: Accounting policies continued

(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 twelve 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.

(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.

Note 2: Accounting policies continued

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 losses

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 management judgement alongside impairment modelling processes to 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 and the rate of change of house prices, required for creation of MES scenarios and forward-looking credit

These judgements and estimates are subject to significant uncertainty.

LBCM recognises an allowance for expected credit losses (ECLs) for loans and advances to customers and banks, other financial assets held at amortised cost, financial assets (other than equity investments) measured at fair value through other comprehensive income and certain loan commitment and financial guarantee contracts. At 31 December 2022, LBCM's ECL allowance was £61 million (2021: £17 million), of which £43 million (2021: £11 million) was in respect of drawn balances.

The calculation of LBCM's ECL allowances and provisions against loan commitments and guarantees under IFRS 9 requires LBCM to make a number of judgements, assumptions and estimates. These are set out in note 14.

Fair value of financial instruments

Key source of estimation uncertainty:	Interest rate spreads and interest rate volatility
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At 31 December 2022, the carrying value of LBCM's financial instrument assets held at fair value was £39,407 million (2021: £40,499 million), and its financial instrument liabilities held at fair value was £32,648 million (2021: £32,154 million). The carrying value of the Bank's financial instrument assets held at fair value was £39,295 million (2021: £40,410 million) and financial instrument liabilities held at fair value was £32,648 million (2021: £32,153 million).

LBCM's valuation control framework and a description of level 1, 2 and 3 financial assets and liabilities are set out in note 34. 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 34.

Note 4: Net interest income

	2022 £m	2021 £m
Interest income:		
Loans and advances to banks and reverse repurchase agreements	363	37
Loans and advances to customers and reverse repurchase agreements	718	318
Debt securities	6	1
Total interest income¹	1,087	356
Interest expense:		
Deposits from banks and repurchase agreements	(76)	(12)
Customer deposits and repurchase agreements	(360)	(84)
Debt securities in issue ²	(345)	(55)
Lease liabilities	(2)	(2)
Subordinated liabilities	(29)	(16)
Total interest expense³	(812)	(169)
Net interest income	275	187

1 Includes £9 million (2021: £1 million) of interest income on liabilities with negative interest rates and £7 million (2021: £9 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 £59 million (2021: income of £44 million) is transferred from the cash flow hedging reserve see note 27.

3 Includes £20 million (2021: £23 million) of interest expense on assets with negative interest rates.

Included within interest income is £1 million (2021: £nil) in respect of credit-impaired financial assets.

Note 5: Net fee and commission income

	2022 £m	2021 £m
Fee and commission income:		
Current accounts	4	4
Debit card fees	5	5
Commercial banking and treasury fees	217	237
Other fees and commissions	2	2
Total fee and commission income	228	248
Fee and commission expense	(36)	(27)
Net fee and commission income	192	221

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 2022, LBCM held on its balance sheet £6 million (31 December 2021: £4 million) in respect of services provided to customers and £nil (31 December 2021: £nil) in respect of amounts received from customers for services to be provided after the balance sheet date.

Note 6: Net trading income

	2022 £m	2021 £m
Foreign exchange	205	98
Securities and other gains (see below)	290	146
Net trading income	495	244

Securities and other gains comprise net gains (losses) arising on assets and liabilities held at fair value through profit or loss as follows:

	2022 £m	2021 £m
Net income arising on assets and liabilities mandatorily held at fair value through profit or loss:		
Financial instruments held for trading	306	178
Other financial instruments mandatorily held at fair value through profit or loss:		
Debt securities, loans and advances	(16)	(29)
Equity shares	-	(3)
Securities and other gains	290	146

Note 7: Operating expenses

	2022 £m	2021 £m
Staff costs:		
Salaries	(148)	(156)
Social security costs	(15)	(14)
Pensions and other post-retirement benefit schemes	(15)	(13)
Restructuring costs	(14)	(4)
Other staff costs	(6)	(9)
	(198)	(196)
Management charges payable	(178)	(155)
Depreciation and amortisation	(16)	(15)
Premises and equipment	(5)	(13)
Communications and data processing	(16)	(15)
Professional fees	(9)	(5)
Other operating expenses	(22)	(15)
Total operating expenses	(444)	(414)

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 850 (2021: 954) employees during the year based in Singapore, 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:

	2022 £m	2021 £m
Audit fees	2.7	2.5
Other audit-related fees	0.4	0.4
All other fees	0.3	0.2
Total fees payable to the Bank's auditors	3.4	3.1

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; for certain types of non-audit engagements where the fee is 'de minimis' the Audit Committee has pre-approved all assignments subject to confirmation by management. On a quarterly basis, the Audit Committee receives and reviews a report detailing all pre-approved services and amounts paid to the auditors for such pre-approved services.

Note 9: Impairment

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Year ended 31 December 2022				
Impact of transfers between stages	-	(7)	-	(7)
Other changes in credit quality	(5)	-	-	(5)
Additions and repayments	(16)	(16)	-	(32)
Methodology and model changes	-	-	-	-
Other items	-	-	(2)	(2)
	(21)	(16)	(2)	(39)
Total impairment charge	(21)	(23)	(2)	(46)

In respect of:

Loans and advances to banks	(1)	(2)	-	(3)
Loans and advances to customers	(16)	(14)	(2)	(32)
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)

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Year ended 31 December 2021				
Impact of transfers between stages	-	6	-	6
Other changes in credit quality	19	14	-	33
Additions and repayments	14	10	-	24
Methodology and model changes	-	-	-	-
Other items	-	-	(1)	(1)
	33	24	(1)	56
Total impairment credit	33	30	(1)	62

In respect of:

Loans and advances to banks	1	-	-	1
Loans and advances to customers	19	18	(1)	36
Financial assets at amortised cost	20	18	(1)	37
Impairment charge on drawn balances	20	18	(1)	37
Loan commitments and financial guarantees	13	12	-	25
Total impairment credit	33	30	(1)	62

LBCM's impairment charge comprises the following items:

Impact of transfers between stages

The net impact on the impairment charge of transfers between stages.

Other changes in credit quality

Changes in loss allowance as a result of movements in risk parameters that reflect changes in customer quality, but which have not resulted in a transfer to a different stage. This also contains the impact on the impairment charge as a result of write-offs and recoveries, where the related loss allowances are reassessed to reflect ultimate realisable or recoverable value.

Additions and repayments

Expected loss allowances are recognised on origination of new loans or further drawdowns of existing facilities. Repayments relate to the reduction of loss allowances resulting from the repayments of outstanding balances that have been provided against.

Methodology and model changes

Increase or decrease in impairment charge as a result of adjustments to the models used for expected credit loss calculations; as changes to either the model inputs or the underlying assumptions, as well as the impact of changing the models used.

Movements in LBCM's impairment allowances are shown in note 13.

Note 10: Tax expense

(A) Analysis of tax expense for the year

	2022 £m	2021 £m
UK corporation tax:		
Current tax on profit for the year	(43)	(19)
Adjustments in respect of prior years	(1)	2
	(44)	(17)
Foreign tax:		
Current tax on profit for the year	(47)	(32)
Adjustments in respect of prior years	1	(1)
	(46)	(33)
Current tax expense	(90)	(50)
UK deferred tax:		
Origination and reversal of temporary differences	(8)	(3)
Adjustments in respect of prior years	-	2
	(8)	(1)
Foreign deferred tax:		
Origination and reversal of temporary differences	2	(7)
Adjustments in respect of prior years	(1)	7
	1	-
Deferred tax credit	(7)	(1)
Tax expense	(97)	(51)

(B) Factors affecting the tax expense credit for the year

The UK corporation tax rate for the year was 19.00% (2021: 19.00%). An explanation of the relationship between tax (expense) credit and accounting profit is set out below.

	2022 £m	2021 £m
Profit before tax	477	289
UK corporation tax thereon	(91)	(55)
Impact of surcharge on banking profits	(13)	(5)
Non-deductible costs	(3)	(3)
Other non-deductible costs	(7)	(4)
Non-taxable income	15	6
Tax relief on coupons on other equity instruments	8	6
Remeasurement of deferred tax due to rate changes	(2)	1
Recognition of temporary differences that arise in prior year	-	4
Temporary differences not recognised	-	-
Differences in overseas tax rates	(4)	(8)
Other adjustments in respect of prior years	(1)	6
Other	1	1
Tax expense	(97)	(51)
Effective tax rate	20.3%	17.6%

Note 11: Financial assets at fair value through profit or loss

	The Group		The Bank	
	2022 £m	2021 £m	2022 £m	2021 £m
Trading assets	14,235	21,773	14,235	21,773
Other financial assets mandatorily at fair value through profit or loss	545	636	407	495
Total financial assets at fair value through profit or loss	14,780	22,409	14,642	22,268

These assets are comprised as follows:

	The Group				The Bank			
	2022		2021		2022		2021	
	Trading assets £m	Other financial assets mandatorily at fair value through profit or loss £m	Trading assets £m	Other financial assets mandatorily at fair value through profit or loss £m	Trading assets £m	Other financial assets mandatorily at fair value through profit or loss £m	Trading assets £m	Other financial assets mandatorily at fair value through profit or loss £m
Loans and advances to banks	16	—	486	—	16	—	486	—
Loans and advances to customers	11,766	251	14,436	307	11,766	251	14,436	307
Debt securities:								
Government securities	2,182	—	6,580	—	2,182	—	6,580	—
Bank and building society certificates of deposit	—	78	—	122	—	—	—	—
Asset-backed securities:								
Mortgage-backed securities	7	—	12	—	7	—	12	—
Other asset-backed securities	14	—	3	—	14	—	3	—
Corporate and other debt securities	250	156	256	188	250	156	256	188
	2,453	232	6,851	310	2,453	156	6,851	188
Treasury and other bills	—	62	—	19	—	—	—	—
Total	14,235	545	21,773	636	14,235	407	21,773	495

At 31 December 2022 £3,173 million (2021: £6,947 million) of financial assets at fair value through profit or loss of the Group and £3,173 million (2021: £6,947 million) of the Bank had a contractual residual maturity of greater than one year.

For amounts included above which are subject to repurchase and reverse repurchase agreements see note 36.

Note 12: Derivative financial instruments

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

The Group	2022			2021		
	Contract/ notional amount £m	Fair value assets £m	Fair value liabilities £m	Contract/ notional amount £m	Fair value assets £m	Fair value liabilities £m
Trading and other						
Exchange rate contracts:						
Spot, forwards and futures	54,531	1,003	1,087	51,783	720	784
Currency swaps	383,834	6,288	5,979	374,551	3,176	2,722
Options purchased	7,739	416	–	5,045	371	–
Options written	6,978	–	469	5,660	–	428
	453,082	7,707	7,535	437,039	4,267	3,934
Interest rate contracts:						
Interest rate swaps	5,064,582	15,075	10,777	2,726,348	11,356	9,397
Forward rate agreements	75,499	3	4	6,416	1	1
Options purchased	18,627	1,035	–	19,047	1,641	–
Options written	21,998	–	980	18,571	–	1,497
Futures	29,051	6	8	211,003	22	13
	5,209,757	16,119	11,769	2,981,385	13,020	10,908
Credit derivatives	2,363	28	21	1,996	12	67
Equity and other contracts	11,565	766	696	6,339	684	660
Total derivative assets/liabilities – trading and other	5,676,767	24,620	20,021	3,426,759	17,983	15,569
Hedging						
Derivatives designated as fair value hedges:						
Interest rate swaps	4,636	–	45	7,414	1	2
Derivatives designated as cash flow hedges:						
Interest rate swaps	16,331	1	4	13,571	6	1
Total derivative assets/liabilities – hedging	20,967	1	49	20,985	7	3
Total recognised derivative assets/liabilities	5,697,734	24,621	20,070	3,447,744	17,990	15,572

Note 12: Derivative financial instruments continued

	2022			2021		
	Contract/ notional amount £m	Fair value assets £m	Fair value liabilities £m	Contract/ notional amount £m	Fair value assets £m	Fair value liabilities £m
The Bank						
Trading and other						
Exchange rate contracts:						
Spot, forwards and futures	54,531	1,003	1,087	51,783	720	784
Currency swaps	383,834	6,288	5,979	374,551	3,176	2,722
Options purchased	7,739	416	–	5,045	371	–
Options written	6,978	–	469	5,660	–	428
	453,082	7,707	7,535	437,039	4,267	3,934
Interest rate contracts:						
Interest rate swaps	5,064,693	15,101	10,777	2,726,461	11,408	9,396
Forward rate agreements	75,499	3	4	6,416	1	1
Options purchased	18,627	1,035	–	19,047	1,641	–
Options written	21,998	–	980	18,571	–	1,497
Futures	29,051	6	8	211,003	22	13
	5,209,868	16,145	11,769	2,981,498	13,072	10,907
Credit derivatives	2,363	28	21	1,996	12	67
Equity and other contracts	11,565	766	696	6,339	684	660
Total derivative assets/liabilities - trading and other	5,676,878	24,646	20,021	3,426,872	18,035	15,568
Hedging						
Derivatives designated as fair value hedges:						
Interest rate swaps	4,636	–	45	7,414	1	2
	4,636	–	45	7,414	1	2
Derivatives designated as cash flow hedges:						
Interest rate swaps	16,331	1	4	13,571	6	1
	16,331	1	4	13,571	6	1
Total derivative assets/liabilities - hedging	20,967	1	49	20,985	7	3
Total recognised derivative assets/liabilities	5,697,845	24,647	20,070	3,447,857	18,042	15,571

At 31 December 2022 £17,663 million of total recognised derivative assets of the Group (2021: £14,253 million) and £17,689 million of the Bank (2021: £14,310 million) and £13,545 million of total recognised derivative liabilities of the Group and the Bank of (2021: £12,096 million) had a contractual residual maturity of greater than one year.

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 36 Credit risk.

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 36

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

Note 12: Derivative financial instruments continued

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

The Group and the Bank At 31 December 2022	Maturity					Total £m
	Up to 1 month £m	1-3 months £m	3-12 months £m	1-5 years £m	Over 5 years £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 Group and the Bank At 31 December 2021	Maturity					Total £m
	Up to 1 month £m	1-3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	
Fair value hedges						
Interest rate						
Interest rate swap						
National	1,113	–	1,044	4,110	1,147	7,414
Average fixed interest rate	2.92 %	– %	(0.52)%	0.20 %	2.65 %	
Cash flow hedges						
Interest rate						
Interest rate swap						
National	–	125	886	10,040	2,520	13,571
Average fixed interest rate	– %	0.49 %	0.44 %	0.28 %	0.38 %	

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

The Group and the Bank At 31 December 2022	Carrying amount of the hedging instrument			
	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)

The Group and the Bank At 31 December 2021	Carrying amount of the hedging instrument			
	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	7,414	1	2	(142)
Cash flow hedges				
Interest rate				
Interest rate swaps	13,571	6	1	(207)

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

Note 12: Derivative financial instruments continued

The Group's hedged items are as follows:

The Group and the Bank At 31 December 2022	Carrying amount of the hedged item		Accumulated amount of fair value adjustment on the hedged item		Change in fair value of hedged item for ineffectiveness assessment £m	Cash flow hedging reserve	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m		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

The Group and the Bank At 31 December 2021	Carrying amount of the hedged item		Accumulated amount of fair value adjustment on the hedged item		Change in fair value of hedged item for ineffectiveness assessment £m	Cash flow hedging reserve	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m		Continuing hedges £m	Discontinued hedges £m
Fair value hedges							
Interest rate							
Fixed rate issuance ¹	-	7,461	-	77	141		
Cash flow hedges							
Interest rate							
Customer loans ²					14	(28)	32
Central bank balances ³					179	(104)	32
Customer deposits ⁴					(2)	4	(5)

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 in the balance sheet for hedged items that have ceased to be adjusted for hedging gains and losses is £nil (2021: £nil).

Note 12: Derivative financial instruments continued

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

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

The Group and the Bank At 31 December 2021	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	(25)	(2)	–	(27)	Interest income
Central bank balances	(187)	(10)	–	(21)	Interest income
Customer deposits	(1)	–	–	4	Interest expense

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

There were no amounts reclassified from the cash flow hedging reserve in 2021 or 2022 for which hedge accounting had previously been used but for which the hedged future cash flows are no longer expected to occur.

Note 13: Financial assets at amortised cost

Year ended 31 December 2022

The Group	Gross carrying amount				Allowance for expected credit losses			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Loans and advances to banks								
At 1 January 2022	2,355	–	–	2,355	1	–	–	1
Exchange and other adjustments ¹	132	–	–	132	–	–	–	–
Additions and repayments	(388)	22	–	(366)	1	2	–	3
Other changes in credit quality					–	–	–	–
Charge to the income statement					1	2	–	3
At 31 December 2022	2,099	22	–	2,121	2	2	–	4
Allowance for impairment losses	(2)	(2)	–	(4)				
Net carrying amount	2,097	20	–	2,117				
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
Other changes in credit quality					–	3	–	3
Additions and repayments	(293)	867	(22)	552	13	11	–	24
Methodology and model changes					–	–	–	–
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				
Reverse repurchase agreements								
At 31 December 2022	5,606	–	–	5,606				
Allowance for impairment losses	–	–	–	–				
Net carrying amount	5,606	–	–	5,606				
Debt securities								
At 1 January 2022	229	–	–	229				
Exchange and other adjustments ¹	12	–	–	12				
Additions and repayments	64	–	–	64				
At 31 December 2022	305	–	–	305				
Allowance for impairment losses	–	–	–	–				
Net carrying amount	305	–	–	305				
Due from fellow Lloyds Banking Group undertakings								
At 31 December 2022	269	–	–	269				
Allowance for impairment losses	–	–	–	–				
Net carrying amount	269	–	–	269				
Total financial assets at amortised cost	26,338	1,065	21	27,424				

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

Note 13: Financial assets at amortised cost continued

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

The Group	Allowance for expected credit losses			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Undrawn balances				
At 1 January 2022	6	–	–	6
Exchange and other adjustments ¹	1	–	–	1
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	–	–	–	–
Transfers to Stage 3	–	–	–	–
Impact of transfers between stages	–	4	–	4
	–	4	–	4
Other changes in credit quality	4	3	–	7
Charge to the income statement	4	7	–	11
At 31 December 2022	11	7	–	18

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

LBCM's total impairment allowances were as follows:

The Group	Allowance for expected credit losses			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
<i>In respect of:</i>				
Loans and advances to banks	2	2	–	4
Loans and advances to customers	23	15	1	39
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 13: Financial assets at amortised cost continued

Year ended 31 December 2021

The Group	Gross carrying amount				Allowance for expected credit losses			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Loans and advances to banks								
At 1 January 2021	3,602	–	–	3,602	2	–	–	2
Exchange and other adjustments ¹	(23)	–	–	(23)	–	–	–	–
Additions and repayments	(1,224)	–	–	(1,224)	–	–	–	–
Other changes in credit quality	(1)	–	–	(1)	(1)	–	–	(1)
Credit to the income statement	(1)	–	–	(1)	(1)	–	–	(1)
At 31 December 2021	2,355	–	–	2,355	1	–	–	1
Allowance for impairment losses	(1)	–	–	(1)	–	–	–	–
Net carrying amount	2,354	–	–	2,354	–	–	–	–
Loans and advances to customers								
At 1 January 2021	13,886	379	39	14,304	26	20	2	48
Exchange and other adjustments ¹	(113)	(7)	–	(120)	–	–	(1)	(1)
Transfers to Stage 1	43	(42)	(1)	–	2	(2)	–	–
Transfers to Stage 2	(14)	14	–	–	–	–	–	–
Transfers to Stage 3	–	(3)	3	–	–	–	–	–
Impact of transfers between stages	29	(31)	2	–	(2)	–	–	(2)
Other changes in credit quality	(8)	(13)	1	(20)	(8)	(13)	1	(20)
Additions and repayments	3,564	(294)	(11)	3,259	(11)	(3)	–	(14)
Charge (credit) to the income statement	(19)	(18)	1	(36)	(19)	(18)	1	(36)
Advances written off	(1)	–	–	(1)	(1)	–	–	(1)
At 31 December 2021	17,366	47	29	17,442	7	2	1	10
Allowance for impairment losses	(7)	(2)	(1)	(10)	–	–	–	–
Net carrying amount	17,359	45	28	17,432	–	–	–	–
Reverse repurchase agreements								
At 31 December 2021	5,044	–	–	5,044	–	–	–	–
Allowance for impairment losses	–	–	–	–	–	–	–	–
Net carrying amount	5,044	–	–	5,044	–	–	–	–
Debt securities								
At 1 January 2021	257	–	–	257	–	–	–	–
Exchange and other adjustments	1	–	–	1	–	–	–	–
Additions and repayments	(29)	–	–	(29)	–	–	–	–
At 31 December 2021	229	–	–	229	–	–	–	–
Allowance for impairment losses	–	–	–	–	–	–	–	–
Net carrying amount	229	–	–	229	–	–	–	–
Due from fellow Lloyds Banking Group undertakings								
At 31 December 2021	557	–	–	557	–	–	–	–
Allowance for impairment losses	–	–	–	–	–	–	–	–
Net carrying amount	557	–	–	557	–	–	–	–
Total financial assets at amortised cost	25,543	45	28	25,616	–	–	–	–

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

Note 13: Financial assets at amortised cost continued

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

The Group	Allowance for expected credit losses			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Undrawn balances				
At 1 January 2021	20	13	–	33
Exchange and other adjustments ¹	(1)	(1)	–	(2)
Transfers to Stage 1	4	(4)	–	–
Transfers to Stage 2	–	–	–	–
Transfers to Stage 3	–	–	–	–
Impact of transfers between stages	(4)	–	–	(4)
	–	(4)	–	(4)
Other changes in credit quality	(13)	(8)	–	(21)
Credit to the income statement	(13)	(12)	–	(25)
At 31 December 2021	6	–	–	6

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

LBCM's total impairment allowances were as follows:

The Group	Allowance for expected credit losses			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
<i>In respect of:</i>				
Loans and advances to banks	1	–	–	1
Loans and advances to customers	7	2	1	10
Financial assets at amortised cost	8	2	1	11
Provisions in relation to loan commitments and financial guarantees	6	–	–	6
Total	14	2	1	17

Note 13: Financial assets at amortised cost continued

Year ended 31 December 2022

The Bank	Gross carrying amount				Allowance for expected credit losses			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Loans and advances to banks								
At 1 January 2022	2,334	–	–	2,334	1	–	–	1
Exchange and other adjustments ¹	131	–	–	131	–	–	–	–
Additions and repayments	(420)	22	–	(398)	1	2	–	3
Other changes in credit quality					–	–	–	–
Charge to the income statement					1	2	–	3
At 31 December 2022	2,045	22	–	2,067	2	2	–	4
Allowance for impairment losses	(2)	(2)	–	(4)				
Net carrying amount	2,043	20	–	2,063				
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
Other changes in credit quality					–	3	–	3
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				
Reverse repurchase agreements								
At 31 December 2022	5,606	–	–	5,606				
Allowance for impairment losses	–	–	–	–				
Net carrying amount	5,606	–	–	5,606				
Debt securities								
At 1 January 2022	229	–	–	229				
Exchange and other adjustments ¹	12	–	–	12				
Additions and repayments	64	–	–	64				
At 31 December 2022	305	–	–	305				
Allowance for impairment losses	–	–	–	–				
Net carrying amount	305	–	–	305				
Due from fellow Lloyds Banking Group undertakings								
At 31 December 2022	593	–	–	593				
Allowance for impairment losses	–	–	–	–				
Net carrying amount	593	–	–	593				
Total financial assets at amortised cost	26,376	1,034	21	27,431				

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

Note 13: Financial assets at amortised cost continued

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

The Bank	Allowance for expected credit losses			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Undrawn balances				
At 1 January 2022	6	–	–	6
Exchange and other adjustments ¹	1	–	–	1
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	–	–	–	–
Transfers to Stage 3	–	–	–	–
Impact of transfers between stages	–	4	–	4
	–	4	–	4
Other changes in credit quality	4	3	–	7
Charge to the income statement	4	7	–	11
At 31 December 2022	11	7	–	18

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's total impairment allowances were as follows:

The Bank	Allowance for expected credit losses			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
<i>In respect of:</i>				
Loans and advances to banks	2	2	–	4
Loans and advances to customers	22	15	1	38
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

Note 13: Financial assets at amortised cost continued

Year ended 31 December 2021

The Bank	Gross carrying amount				Allowance for expected credit losses			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Loans and advances to banks								
At 1 January 2021	3,573	–	–	3,573	2	–	–	2
Exchange and other adjustments ¹	(23)	–	–	(23)	–	–	–	–
Additions and repayments	(1,216)	–	–	(1,216)	–	–	–	–
Other changes in credit quality	(1)	–	–	(1)	–	–	–	–
Credit to the income statement	(1)	–	–	(1)	–	–	–	–
At 31 December 2021	2,334	–	–	2,334	1	–	–	1
Allowance for impairment losses	(1)	–	–	(1)	–	–	–	–
Net carrying amount	2,333	–	–	2,333	–	–	–	–
Loans and advances to customers								
At 1 January 2021	13,637	364	39	14,040	25	20	2	47
Exchange and other adjustments ¹	(113)	(6)	–	(119)	1	–	(1)	–
Transfers to Stage 1	38	(37)	(1)	–	2	(2)	–	–
Transfers to Stage 2	(10)	10	–	–	–	–	–	–
Transfers to Stage 3	–	(3)	3	–	–	–	–	–
Impact of transfers between stages	28	(30)	2	–	(2)	–	–	(2)
Other changes in credit quality	(8)	(14)	1	(21)	–	(2)	–	(2)
Additions and repayments	3,567	(290)	(11)	3,266	(11)	(2)	–	(13)
Charge (credit) to the income statement	(19)	(18)	1	(36)	–	–	–	–
Advances written off	(1)	–	–	(1)	–	–	(1)	(1)
At 31 December 2021	17,119	38	29	17,186	7	2	1	10
Allowance for impairment losses	(7)	(2)	(1)	(10)	–	–	–	–
Net carrying amount	17,112	36	28	17,176	–	–	–	–
Reverse repurchase agreements								
At 31 December 2021	5,044	–	–	5,044	–	–	–	–
Allowance for impairment losses	–	–	–	–	–	–	–	–
Net carrying amount	5,044	–	–	5,044	–	–	–	–
Debt securities								
At 1 January 2021	257	–	–	257	–	–	–	–
Exchange and other adjustments ¹	1	–	–	1	–	–	–	–
Additions and repayments	(29)	–	–	(29)	–	–	–	–
At 31 December 2021	229	–	–	229	–	–	–	–
Allowance for impairment losses	–	–	–	–	–	–	–	–
Net carrying amount	229	–	–	229	–	–	–	–
Due from fellow Lloyds Banking Group undertakings								
At 31 December 2021	862	–	–	862	–	–	–	–
Allowance for impairment losses	–	–	–	–	–	–	–	–
Net carrying amount	862	–	–	862	–	–	–	–
Total financial assets at amortised cost	25,580	36	28	25,644	–	–	–	–

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

Note 13: Financial assets at amortised cost continued

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

The Bank	Allowance for expected credit losses			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Undrawn balances				
At 1 January 2021	20	13	–	33
Exchange and other adjustments ¹	(1)	(1)	–	(2)
Transfers to Stage 1	4	(4)	–	–
Transfers to Stage 2	–	–	–	–
Transfers to Stage 3	–	–	–	–
Impact of transfers between stages	(4)	–	–	(4)
	–	(4)	–	(4)
Other changes in credit quality	(13)	(8)	–	(21)
Credit to the income statement	(13)	(12)	–	(25)
At 31 December 2021	6	–	–	6

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's total impairment allowances were as follows:

The Bank	Allowance for expected credit losses			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
<i>In respect of:</i>				
Loans and advances to banks	1	–	–	1
Loans and advances to customers	7	2	1	10
Financial assets at amortised cost	8	2	1	11
Provisions in relation to loan commitments and financial guarantees	6	–	–	6
Total	14	2	1	17

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. Loans which are written off in the period are first transferred to Stage 3 before acquiring a full allowance and subsequent write-off.

At 31 December 2022 £1,845 million (2021: £1,443 million) of loans and advances to banks of the Group and the Bank had a contractual residual maturity of greater than one year.

At 31 December 2022 £11,227 million (2021: £8,048 million) of loans and advances to customers of the Group and £11,008 million (2021: £7,831 million) of the Bank had a contractual residual maturity of greater than one year.

At 31 December 2022 £nil (2021: £nil) of reverse repurchase agreements of the Group and the Bank had a contractual residual maturity of greater than one year.

At 31 December 2022 £196 million (2021: £126 million) of debt securities of the Group and the Bank had a contractual residual maturity of greater than one year.

Note 14: Allowance for expected credit losses

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.

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.

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 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 cure period is applied to 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.

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 are generated, for approval by the Group Chief Financial Officer and Group Chief Risk Officer. While no material changes were made to the model in 2022, the forum identified the need to consider an alternative approach to address interest rate risks not captured within the downside scenarios. The forum recommended that a non-modelled severe downside scenario was evaluated for potential incremental losses. This was considered in the Islands Mortgages calibration approach but no judgement was considered necessary due to the low additional losses anticipated for this portfolio.

Base case and MES economic assumptions

LBCM's base case economic scenario has been revised in light of the ongoing war in Ukraine, reversals in UK fiscal policy, and a continuing global shift towards a more restrictive monetary policy stance against a backdrop of elevated inflation pressures. LBCM's updated base case scenario has three conditioning assumptions: first, the war in Ukraine remains 'local', i.e. without overtly involving neighbouring countries, NATO or China; second, the UK labour market participation rate remains below pre-pandemic levels, impeding the economy's supply capacity; and third, the Bank of England accommodates above-target inflation in the medium term, recognising the economic costs that might arise from a rapid return to the two per cent target.

Based on these assumptions and incorporating the economic data published in the fourth quarter, LBCM's base case scenario is for a contraction in economic activity and a rise in the unemployment rate alongside declines in residential and commercial property prices, following increases in UK Bank Rate in response to persistent inflationary pressures. 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 2022, for which actuals may have since emerged prior to publication.

Note 14: Allowance for expected credit losses continued

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) and Consumer Price Index (CPI) inflation are presented as an annual change, house price growth and commercial real estate price growth are presented as the growth in the respective indices 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 of 31 December 2022 covers the five years 2022 to 2026. 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, therefore they are also disclosed. For GDP, house price growth 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 of 31 December 2022 is 1 January 2022. 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, UK Bank Rate and CPI Inflation reflect the highest, or lowest, quarterly level reached in the five-year period.

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
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 and CPI inflation 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.

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 end quarter.

Note 14: Allowance for expected credit losses continued

At 31 December 2021	2021 %	2022 %	2023 %	2024 %	2025 %	2021 to 2025 average %	Start to peak %	Start to trough %
Upside								
UK Gross domestic product	7.1	4.0	1.4	1.3	1.4	3.0	12.6	(1.3)
UK Bank Rate	0.14	1.44	1.74	1.82	2.03	1.43	2.04	0.10
UK Unemployment rate	4.4	3.3	3.4	3.5	3.7	3.7	4.9	3.2
UK Commercial real estate price growth	12.4	5.8	0.7	1.0	(0.6)	3.7	20.9	0.8
US Gross domestic product	5.7	6.7	4.4	0.3	(0.5)	3.3	16.0	1.5
US Unemployment rate	5.3	3.4	2.6	3.4	4.6	3.9	6.2	2.6
Base case								
UK Gross domestic product	7.1	3.7	1.5	1.3	1.3	2.9	12.3	(1.3)
UK Bank Rate	0.14	0.81	1.00	1.06	1.25	0.85	1.25	0.10
UK Unemployment rate	4.5	4.3	4.4	4.4	4.5	4.4	4.9	4.3
UK Commercial real estate price growth	10.2	(2.2)	(1.9)	0.1	0.6	1.2	10.2	0.8
US Gross domestic product	5.5	3.6	2.5	2.0	1.5	3.0	14.3	1.5
US Unemployment rate	5.4	4.0	3.9	3.9	4.1	4.3	6.2	3.9
Downside								
UK Gross domestic product	7.1	3.4	1.3	1.1	1.2	2.8	11.4	(1.3)
UK Bank Rate	0.14	0.45	0.52	0.55	0.69	0.47	0.71	0.10
UK Unemployment rate	4.7	5.6	5.9	5.8	5.7	5.6	6.0	4.3
UK Commercial real estate price growth	8.6	(10.1)	(7.0)	(3.4)	(0.3)	(2.6)	8.6	(12.8)
US Gross domestic product	5.4	1.0	0.2	2.4	3.0	2.4	11.3	1.5
US Unemployment rate	5.4	4.7	5.9	5.8	5.2	5.4	6.2	4.3
Severe downside								
UK Gross domestic product	6.8	0.9	0.4	1.0	1.4	2.1	7.6	(1.3)
UK Bank Rate	0.14	0.04	0.06	0.08	0.09	0.08	0.25	0.02
UK Unemployment rate	4.9	7.7	8.5	8.1	7.6	7.3	8.5	4.3
UK Commercial real estate price growth	5.8	(19.6)	(12.1)	(5.3)	(0.5)	(6.8)	6.9	(30.0)
US Gross domestic product	5.2	(3.2)	(3.1)	3.9	5.7	1.6	8.0	(3.7)
US Unemployment rate	5.4	5.8	8.5	7.9	5.9	6.7	8.8	4.4
Probability-weighted								
UK Gross domestic product	7.0	3.4	1.3	1.2	1.3	2.8	11.6	(1.3)
UK Bank Rate	0.1	0.8	1.0	1.0	1.2	0.8	1.2	0.1
UK Unemployment rate	4.6	4.7	5.0	5.0	4.9	4.8	5.0	4.3
UK Commercial real estate price growth	9.9	(3.9)	(3.7)	(1.2)	(0.1)	0.1	9.9	(0.3)
US Gross domestic product	5.5	3.1	1.8	1.8	1.8	2.8	13.1	1.5
US Unemployment rate	5.4	4.2	4.6	4.7	4.7	4.7	6.2	4.2
Base case scenario by quarter¹								
At 31 December 2021	First quarter 2021 %	Second quarter 2021 %	Third quarter 2021 %	Fourth quarter 2021 %	First quarter 2022 %	Second quarter 2022 %	Third quarter 2022 %	Fourth quarter 2022 %
UK Gross domestic product	(1.3)	5.4	1.1	0.4	0.1	1.5	0.5	0.3
UK Bank Rate	0.10	0.10	0.10	0.25	0.50	0.75	1.00	1.00
UK Unemployment rate	4.9	4.7	4.3	4.3	4.4	4.3	4.3	4.3
UK Commercial real estate price growth	(2.9)	3.4	7.5	10.2	8.4	5.2	0.9	(2.2)
US Gross domestic product	1.5	1.6	0.6	1.1	0.9	0.8	0.7	0.5
US Unemployment rate	6.2	5.9	5.1	4.2	4.1	4.0	3.9	3.9

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 end quarter.

Note 14: Allowance for expected credit losses continued

ECL sensitivity to economic assumptions

The table below shows LBCM's ECL for the probability-weighted, upside, base case, downside and severe downside scenarios, with the severe downside scenario incorporating adjustments made to CPI inflation and UK Bank Rate paths. 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. In each economic scenario the ECL for individual assessments and post-model adjustments is typically held constant reflecting the basis on which they are evaluated. In the fourth quarter, the allocation of judgements 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 2022	61	25	39	74	199
At 31 December 2021	17	13	16	18	26

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 applied through individual assessments and the majority of post-model adjustments are reported flat against each economic scenario, reflecting the basis on which they are evaluated.

	Upside £m	Base case £m	Downside £m	Severe downside £m
At 31 December 2022	22	33	97	517
At 31 December 2021	12	14	17	30

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 2022	0.8	1.1	14.3	60.0
At 31 December 2021	0.2	0.2	0.3	2.8

The table below shows the impact on the Group's ECL resulting from a 1 percentage point (pp) increase or decrease in the UK unemployment rate. The increase or decrease is presented based on the adjustment phased evenly over the first ten quarters of the base case scenario. An immediate increase or decrease would drive a more material ECL impact as it would be fully reflected in both 12-month and lifetime PDs.

	At 31 December 2022		At 31 December 2021	
	1pp increase in unemployment	1pp decrease in unemployment	1pp increase in unemployment	1pp decrease in unemployment
ECL impact, £m	1	(2)	—	—

Individual assessments

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 better or worse outcomes that carry a 25 per cent likelihood taken into account in establishing a probability-weighted ECL. At 31 December 2022 individually assessed provisions for LBCM were £1 million (2021: £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.

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

	Modelled ECL £m	Individually assessed £m	Judgements due to COVID-19 ¹ £m	Other judgements £m	Total ECL £m
At 31 December 2022	61	1	—	—	62
At 31 December 2021	10	1	6	—	17

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

Note 15: 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	
	2022 £m	2021 £m
Not later than 1 year	7	7
Later than 1 year and not later than 2 years	8	7
Later than 2 years and not later than 3 years	8	8
Later than 3 years and not later than 4 years	9	8
Later than 4 years and not later than 5 years	9	9
Later than 5 years	178	187
Gross investment in finance leases	219	226
Unearned future finance income on finance leases	(75)	(86)
Rentals received in advance	(2)	(2)
Net investment in finance leases	142	138

The net investment represents amounts recoverable as follows:

	The Group	
	2022 £m	2021 £m
Not later than 1 year	2	(2)
Later than 1 year and not later than 2 years	2	1
Later than 2 years and not later than 3 years	2	2
Later than 3 years and not later than 4 years	3	2
Later than 4 years and not later than 5 years	3	3
Later than 5 years	130	132
Net investment in finance leases	142	138

Equipment leased to customers under finance leases primarily relates to structured financing transactions in connection with infrastructure assets. There was £nil (2021: £nil) allowance for uncollectable finance lease receivables included in the allowance for impairment losses.

Note 16: Financial assets at fair value through other comprehensive income

	The Group		The Bank	
	2022 £m	2021 £m	2022 £m	2021 £m
Debt securities:				
Asset-backed securities:				
Other asset-backed securities	6	15	6	15
Treasury and other bills	-	85	-	85
Total financial assets at fair value through other comprehensive income	6	100	6	100

At 31 December 2022 £6 million (2021: £14 million) of financial assets at fair value through other comprehensive income of the Group and the Bank had a contractual residual maturity of greater than one year.

All assets were assessed at Stage 1 at 31 December 2021 and 2022.

Note 17: Property, plant and equipment

	The Group				The Bank			
	Premises £m	Equipment £m	Right-of-use asset ¹ £m	Total £m	Premises £m	Equipment £m	Right-of-use asset ¹ £m	Total £m
<i>Cost or valuation:</i>								
At 1 January 2021	9	30	88	127	3	29	70	102
Exchange and other adjustments	–	–	–	–	–	–	1	1
Additions	6	1	2	9	2	1	–	3
Disposals	(1)	(1)	(6)	(8)	–	(1)	(1)	(2)
At 31 December 2021	14	30	84	128	5	29	70	104
Exchange and other adjustments	–	1	7	8	–	1	7	8
Additions	3	3	1	7	3	2	–	5
Disposals	–	(3)	(4)	(7)	–	(3)	(3)	(6)
At 31 December 2022	17	31	88	136	8	29	74	111
<i>Accumulated depreciation and impairment:</i>								
At 1 January 2021	3	23	23	49	–	23	18	41
Exchange and other adjustments	–	–	–	–	–	–	–	–
Depreciation charge for the year (note 7)	1	2	12	15	–	2	8	10
Disposals	(1)	(1)	(1)	(3)	–	–	–	–
At 31 December 2021	3	24	34	61	–	25	26	51
Exchange and other adjustments	–	1	3	4	–	(1)	3	2
Depreciation charge for the year	1	2	13	16	1	2	12	15
Disposals	–	(1)	–	(1)	–	(2)	–	(2)
At 31 December 2022	4	26	50	80	1	24	41	66
Balance sheet amount at 31 December 2022	13	5	38	56	7	5	33	45
Balance sheet amount at 31 December 2021	11	6	50	67	5	4	44	53

¹ Relates to premises.

The total cash outflow for right-of-use assets in the year ended 31 December 2022 was £5 million. The amount recognised within interest expense in respect of lease liabilities is disclosed in note 4.

Note 18: Investment in subsidiary undertakings of the Bank

	The Bank	
	2022 £m	2021 £m
At 1 January	203	223
Additions and capital injections	–	–
Disposals	–	–
Impairment	(23)	(20)
At 31 December	180	203

Details of the subsidiaries and related undertakings are given on page 140 and are incorporated by reference.

During the year ended 31 December 2022, following a review of their financial position and anticipated future activities, the Bank wrote down the carrying value of its investment in certain subsidiaries to their recoverable amount. For those subsidiaries that generate net income, the recoverable value was based on value in use; for the others, recoverable value was based on fair value less costs of disposal.

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.

Note 19: Other assets

	The Group		The Bank	
	2022 £m	2021 £m	2022 £m	2021 £m
Settlement balances	124	279	124	276
Prepayments and accrued income	25	27	19	22
Other assets	23	18	21	19
Total other assets	172	324	164	317

Note 20: Financial liabilities at fair value through profit or loss

	The Group and the Bank	
	2022 £m	2021 £m
Trading liabilities:		
Liabilities in respect of securities sold under repurchase agreements	11,038	14,962
Short positions in securities	1,540	1,620
Total financial liabilities at fair value through profit or loss	12,578	16,582

At 31 December 2022, the Group and the Bank had £1,538 million (2021: £1,602 million) of trading liabilities at fair value through profit or loss with a contractual residual maturity of greater than one year.

For the fair value of collateral pledged in respect of repurchase agreements see note 36.

Note 21: Debt securities in issue

	The Group and the Bank	
	2022 £m	2021 £m
Medium-term notes issued	3,403	4,181
Certificates of deposit issued	5,618	4,164
Commercial paper	3,700	5,129
Amounts due to fellow Group undertakings	3,410	3,170
Total debt securities in issue	16,131	16,644

At 31 December 2022 £4,733 million (2021: £6,320 million) of debt securities in issue of the Group and the Bank had a contractual residual maturity of greater than one year.

Note 22: Other liabilities

	The Group		The Bank	
	2022 £m	2021 £m	2022 £m	2021 £m
Settlement balances	384	310	383	310
Lease liabilities	45	58	36	48
Other creditors and accruals	145	93	139	86
Total other liabilities	574	461	558	444

The maturity analysis of LBCM's lease liabilities on an undiscounted basis is set out in the liquidity risk section of note 36.

Note 23: Deferred tax

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

	The Group		The Bank	
	2022 £m	2021 £m	2022 £m	2021 £m
Statutory position				
Deferred tax assets	213	37	226	40
Deferred tax liabilities	–	–	–	–
Net deferred tax asset (liability) at 31 December	213	37	226	40
Tax disclosure				
Deferred tax assets	233	56	228	40
Deferred tax liabilities	(20)	(19)	–	–
Net deferred tax asset (liability) at 31 December	213	37	226	40

The statutory position reflects the deferred tax assets and liabilities as disclosed in the consolidated balance sheet and takes into account the ability of LBCM 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.

The Finance Act 2021, which was substantively enacted on 24 May 2021, increased the rate of corporation tax from 19 per cent to 25 per cent with effect from 1 April 2023. The expected impact of this rate change was included in LBCM's net deferred tax asset as at 31 December 2021 based on anticipated unwind/creation of temporary differences. A further £2 million credit to the income statement and £7 million credit to other comprehensive income is included within the tax charge for the year based on the actual unwind/creation of temporary differences in the period.

On 27 October 2021, the UK Government announced its intention to decrease the rate of banking surcharge from 8 per cent to 3 per cent with effect from 1 April 2023. This change was substantively enacted on 2 February 2022. The impact of this rate change was a decrease in LBCM's net deferred tax asset of £2 million, with an equal credit included in other comprehensive income.

Note 23: Deferred 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 2021	2	10	–	–	–	7	19
(Charge) credit to the income statement	1	(7)	–	13	–	8	15
(Charge) to other comprehensive income	–	–	21	–	1	–	22
At 31 December 2021	3	3	21	13	1	15	56
(Charge) credit to the income statement	(1)	2	–	(7)	–	–	(6)
Credit to other comprehensive income	–	–	181	–	–	–	181
Exchange and other adjustments	–	–	–	–	–	2	2
At 31 December 2022	2	5	202	6	1	17	233

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 2021	(14)	(39)	11	4	–	(38)
(Charge) to the income statement	(5)	–	(11)	–	–	(16)
(Charge) credit to other comprehensive income	–	39	–	(4)	–	35
At 31 December 2021	(19)	–	–	–	–	(19)
(Charge) to the income statement	(1)	–	–	–	–	(1)
(Charge) credit to other comprehensive income	–	–	–	–	–	–
Exchange and other adjustments	–	–	–	–	–	–
At 31 December 2022	(20)	–	–	–	–	(20)

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 2021	1	10	–	–	7	18
(Charge) credit to the income statement	–	(7)	–	–	7	–
(Charge) to other comprehensive income	–	–	21	1	–	22
At 31 December 2021	1	3	21	1	14	40
(Charge) credit to the income statement	(1)	2	–	–	–	1
Credit to other comprehensive income	–	–	181	–	–	181
Exchange and other adjustments	1	–	–	–	3	4
At 31 December 2022	1	5	202	1	17	226

The Bank Deferred tax liabilities	Cash flow hedges £m	Fair value through other comprehensive income £m	Other temporary differences £m	Total £m
At 1 January 2021	(39)	4	–	(35)
(Charge) credit to the income statement	–	–	–	–
(Charge) credit to other comprehensive income	39	(4)	–	35
At 31 December 2021	–	–	–	–
(Charge) credit to the income statement	–	–	–	–
(Charge) credit to other comprehensive income	–	–	–	–
Exchange and other adjustments	–	–	–	–
At 31 December 2022	–	–	–	–

Deferred tax not recognised

Deferred tax assets of approximately £1 million (2021: £3 million) for the Group and £nil (2021: £2 million) 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. Following the decision to close the Bank's Singapore branch, tax losses of £7 million are forfeited. No deferred tax was held on these losses previously as it was not probable that there would be future profits against which these could be used to offset tax due.

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 24: Other provisions

	The Group				The Bank			
	Provisions for financial commitments and guarantees £m	Regulatory and legal provisions £m	Other £m	Total £m	Provisions for financial commitments and guarantees £m	Regulatory and legal provisions £m	Other £m	Total £m
At 1 January 2022	6	2	5	13	6	2	2	10
Exchange and other adjustments	1	–	–	1	1	–	–	1
Provisions applied	–	(2)	(4)	(6)	–	(2)	(2)	(4)
Charge for the year	11	–	7	18	11	–	7	18
At 31 December 2022	18	–	8	26	18	–	7	25

Provisions for financial commitments and guarantees

Provisions are recognised for expected credit losses on undrawn loan commitments and financial guarantees. See also note 13.

Note 25: Subordinated liabilities

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

	The Group and the Bank	
	2022 £m	2021 £m
Dated subordinated liabilities		
At 1 January	684	686
Issued during the year	–	–
Repurchases and redemptions during the year	–	–
Foreign exchange movements	73	(2)
Other movements (all non-cash)	4	–
At 31 December	761	684

Note 26: Share capital

(1) Issued and fully paid ordinary shares

	The Group and the Bank			
	2022 Number of shares	2021 Number of shares	2022 £m	2021 £m
Ordinary shares of £1 each				
At 1 January	120,050,000	120,050,000	120	120
Issue of ordinary shares	250,000,000	–	250	–
At 31 December	370,050,000	120,050,000	370	120

(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 2022, 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 27: Other reserves

	The Group		The Bank	
	2022 £m	2021 £m	2022 £m	2021 £m
Revaluation reserve in respect of debt securities held at fair value through other comprehensive income	(2)	(2)	(2)	(2)
Cash flow hedging reserve	(519)	(48)	(519)	(48)
Foreign currency translation reserve	(4)	(14)	(9)	(12)
At 31 December	(525)	(64)	(530)	(62)

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	
	2022 £m	2021 £m	2022 £m	2021 £m
Revaluation reserve in respect of debt securities held at fair value through other comprehensive income				
At 1 January	(2)	(10)	(2)	(10)
Change in fair value	-	5	-	5
Deferred tax	-	(1)	-	(1)
	-	4	-	4
Income statement transfers in respect of disposals	-	5	-	5
Deferred tax	-	(1)	-	(1)
	-	4	-	4
At 31 December	(2)	(2)	(2)	(2)

	The Group		The Bank	
	2022 £m	2021 £m	2022 £m	2021 £m
Cash flow hedging reserve				
At 1 January	(48)	105	(48)	105
Change in fair value of hedging derivatives	(71)	(169)	(71)	(169)
Deferred tax	197	48	197	48
	(514)	(121)	(514)	(121)
Net income statement transfers	59	(44)	59	(44)
Deferred tax	(16)	12	(16)	12
	43	(32)	43	(32)
At 31 December	(519)	(48)	(519)	(48)

	The Group		The Bank	
	2022 £m	2021 £m	2022 £m	2021 £m
Foreign currency translation reserve				
At 1 January	(14)	(14)	(12)	(12)
Currency translation differences arising in the year	10	-	3	-
At 31 December	(4)	(14)	(9)	(12)

Note 28: Retained profits

	The Group		The Bank	
	2022 £m	2021 £m	2022 £m	2021 £m
At 1 January	2,651	2,646	2,725	2,711
Profit attributable to ordinary shareholders ¹	337	205	305	214
Dividends paid (note 30)	(220)	(200)	(220)	(200)
At 31 December	2,768	2,651	2,810	2,725

¹ No income statement has been shown for the Bank, as permitted by Section 408 of the Companies Act 2006.

Note 29: Other equity instruments

	The Group and the Bank	
	2022 £m	2021 £m
At 1 January	782	782
Profit for the year attributable to other equity holders	43	33
Distributions on other equity instruments	(43)	(33)
At 31 December	782	782

The Bank has in issue £782 million of 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. 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 30: Dividends on ordinary shares

Dividends paid during the year were as follows:

	2022 £m	2021 £m
Interim dividends	220	200

Note 31: Share-based payments

During the year ended 31 December 2022 LBG 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 LBG are set out below; these are managed and operated on a LBG-wide basis. The amount charged to LBCM's income statement in respect of LBG share-based payment schemes, and which is included within staff costs (note 7), was £25 million (2021: £24 million).

During the year ended 31 December 2022 LBG operated the following share-based payment schemes, all of which are mainly equity settled.

Lloyds Banking Group Performance Share plan

LBG operates a Group Performance Share plan that is part equity settled. Bonuses in respect of employee service in 2022 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 LBG 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:

LBG	2022		2021	
	Number of options	Weighted average exercise price (pence)	Number of options	Weighted average exercise price (pence)
Outstanding at 1 January	1,180,563,291	30.63	1,120,138,915	30.39
Granted	217,611,519	39.38	236,923,744	39.40
Exercised	(23,359,526)	37.75	(6,924,434)	30.57
Forfeited	(20,961,259)	29.20	(22,815,078)	28.78
Cancelled	(47,687,607)	33.88	(51,479,310)	32.57
Expired	(49,248,343)	46.29	(95,280,546)	49.03
Outstanding at 31 December	1,256,918,075	31.30	1,180,563,291	30.63
Exercisable at 31 December	263,302	47.92	336,561	51.03

The weighted average share price at the time that the options were exercised during 2022 was £0.49 (2021: £0.47). The weighted average remaining contractual life of options outstanding at the end of the year was 1.88 years (2021: 2.46 years).

The weighted average fair value of SAYE options granted during 2022 was £0.07 (2021: £0.09). 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 LBG Executive Share Plan 2003, LBG Executive Group Ownership Share Plan and the 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.

LBG	2022		2021	
	Number of options	Weighted average exercise price (pence)	Number of options	Weighted average exercise price (pence)
Outstanding at 1 January	14,032,762	Nil	8,477,084	Nil
Granted	10,278,224	Nil	13,610,204	Nil
Exercised	(3,333,322)	Nil	(7,110,663)	Nil
Vested	–	Nil	–	Nil
Forfeited	(33,409)	Nil	(385,184)	Nil
Lapsed	(477,784)	Nil	(558,679)	Nil
Outstanding at 31 December	20,466,471	Nil	14,032,762	Nil
Exercisable at 31 December	1,638,202	Nil	708,939	Nil

The weighted average fair value of options granted in the year was £0.44 (2021: £0.42). 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 2022 was £0.46 (2021: £0.43). The weighted average remaining contractual life of options outstanding at the end of the year was 6.0 years (2021: 6.3 years).

Note 31: Share-based payments continued

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 LBG 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 2019 grant, the targets had not been fully met and therefore these awards vested in 2022 at a rate of 41.80 per cent.

LBG	2022 Number of shares	2021 Number of shares
Outstanding at 1 January	350,873,627	533,987,527
Granted	–	–
Vested	(50,703,778)	(39,621,415)
Forfeited	(98,741,356)	(144,437,243)
Dividend award	966,016	944,758
Outstanding at 31 December	202,394,509	350,873,627

Awards in respect of the 2020 grant are due to vest in 2023 at a rate of 43.70 per cent. In previous years participants were entitled to any dividends paid in the vesting period. However, following a regulatory change prohibiting the payment of dividends on such awards, the number of shares awarded has been determined by applying a discount factor to the share price on award to exclude the value of estimated future dividends.

Lloyds Banking Group Long Term Share Plan

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

LBG	2022 Number of shares	2021 Number of shares
Outstanding at 1 January	77,883,068	–
Granted	108,513,202	83,456,304
Vested	–	–
Forfeited	(14,448,527)	(5,573,236)
Dividend award	–	–
Outstanding at 31 December	171,947,743	77,883,068

The weighted average fair value of awards granted in the year was £0.36 (2021: £0.36).

Assumptions at 31 December 2022

The fair value calculations at 31 December 2022 for grants made in the year, using Black-Scholes models and Monte Carlo simulation, are based on the following assumptions:

LBG	SAVE	Executive Share Plans	Long Term Share Plan
Weighted average risk-free interest rate	4.33 %	3.20 %	1.01 %
Weighted average expected life	3.3 years	1.2 years	3.6 years
Weighted average expected volatility	28 %	27 %	33 %
Weighted average expected dividend yield	5.3 %	5.3 %	5.3 %
Weighted average share price	£ 0.42	£ 0.47	£ 0.43
Weighted average exercise price	£ 0.39	Nil	Nil

Expected volatility is a measure of the amount by which LBG'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 LBG's shares to assess the reasonableness of the historical volatility and adjustments made where appropriate.

Share Incentive Plans

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 LBG within this three-year period for other than a 'good' reason, all of the shares awarded will be forfeited.

No award was made in 2022.

On 25 March 2021 LBG made an award of 1,017 shares to all eligible employees. The number of shares awarded was 67,658,976, with an average fair value of £0.42 based on the market price at the date of award.

Matching shares

LBG 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

Note 31: Share-based payments continued

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 2022 was 43,378,504 (2021: 46,621,026), with an average fair value of £0.45 (2021: £0.44), 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 LBG employees, with an appropriate balance of fixed and variable remuneration, in line with regulatory requirements. The fixed share awards are delivered in LBG 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 2022 was 7,261,080 (2021: 8,320,948) with an average fair value of £0.47 (2021: £0.45) 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 LBG, there is no change to the timeline for which shares will become unrestricted.

Note 32: 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 Banks board.

The table below represents key management emoluments:

	2022 £000	2021 £000
Compensation		
Salaries and other short-term benefits	2,284	1,987
Post-employment benefits	74	63
Total compensation	2,358	2,050

The aggregate of the emoluments of the directors was £2,358,000 (2021: £1,885,000). The total for the highest paid director was £1,027,000 (2021: £724,000)

The amounts disclosed above relate wholly to directors of LBCM.

	2022 £m	2021 £m
Deposits		
At 1 January	-	-
Placed (includes deposits of appointed key management personnel)	6	-
Withdrawn (includes deposits of former key management personnel)	(3)	-
At 31 December	3	-

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

Note 32: 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:

	2022 £m	2021 £m
Assets, included within:		
Derivative financial instruments	26	52
Financial assets at amortised cost: due from fellow Lloyds Bank Corporate Markets Group undertakings	350	341
	376	393
Liabilities, included within:		
Due to fellow Lloyds Bank Corporate Markets Group undertakings	47	481
	47	481

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 2022 the Bank earned interest income on the above asset balances of £8 million (2021: £2 million) and incurred interest expense on the above liability balances of £1 million (2021: £nil).

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	
	2022 £m	2021 £m	2022 £m	2021 £m
Assets, included within:				
Financial assets at fair value through profit or loss	22	12	22	12
Derivative financial instruments	3,397	2,094	3,397	2,094
Financial assets at amortised cost: due from fellow Lloyds Banking Group undertakings	269	557	243	521
	3,688	2,663	3,662	2,627
Liabilities, included within:				
Due to fellow Lloyds Banking Group undertakings	1,481	3,442	1,479	3,439
Financial liabilities at fair value through profit or loss	2	–	2	–
Derivative financial instruments	2,662	2,579	2,662	2,579
Debt securities in issue	3,410	3,170	3,410	3,170
Subordinated liabilities	761	684	761	684
	8,316	9,875	8,314	9,872
Other equity instruments:				
Additional tier 1 instruments	782	782	782	782
	782	782	782	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 2022 the Group earned £9 million and the Bank earned £9 million interest income on the above asset balances (2021: Group £2 million, Bank £2 million); the Group incurred £134 million and the Bank incurred £134 million interest expense on the above liability balances (2021: Group £104 million, Bank £104 million).

The Group earned £104 million and the Bank earned £99 million of fee and commission income (2021: Group £96 million, Bank £94 million); the Group incurred £1 million and the Bank incurred £1 million of fee and commission expense (2021: Group £nil, Bank £nil), both in respect of transactions with Lloyds Bank plc.

Management charges payable to Lloyds Bank plc of £178 million (2021: £155 million) have been incurred in the year. See note 7 for further detail.

During the period to December 2021, the Bank sold a portfolio of facilities (£92 million of assets and £521 million of commitments) to Lloyds Bank plc, no significant gain or loss arose. There have been no such transactions in the period to December 2022.

Note 33: Contingent liabilities, commitments and guarantees

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.

	The Group and the Bank	
	2022 £m	2021 £m
Contingent liabilities		
Acceptances and endorsements	-	170
Other:		
Other items serving as direct credit substitutes	-	77
Performance bonds, including letters of credit, and other transaction-related contingencies	86	158
	86	235
Total contingent liabilities	86	405

The contingent liabilities of LBCM arise in the normal course of its banking business and it is not practicable to quantify their future financial effect.

	The Group and the Bank	
	2022 £m	2021 £m
Commitments and guarantees		
Undrawn formal standby facilities, credit lines and other commitments to lend:		
Mortgage offers made	76	50
Other commitments and guarantees	17,098	15,141
Total commitments and guarantees	17,174	15,191

Of the amounts shown above in respect of undrawn formal standby facilities, credit lines and other commitments to lend, £16,619 million (2021: £15,124 million) was irrevocable.

Capital commitments

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

Note 34: Financial instruments

(i) 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		At fair value through other comprehensive income £m	Held at amortised cost £m	Total £m
		Held for trading £m	Other £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
At 31 December 2021						
Financial assets						
Cash and balances at central banks	-	-	-	-	22,140	22,140
Financial assets at fair value through profit or loss	-	21,773	636	-	-	22,409
Derivative financial instruments	7	17,983	-	-	-	17,990
Loans and advances to banks	-	-	-	-	2,354	2,354
Loans and advances to customers	-	-	-	-	17,432	17,432
Reverse repurchase agreements	-	-	-	-	5,044	5,044
Debt securities	-	-	-	-	229	229
Due from fellow Lloyds Banking Group undertakings	-	-	-	-	557	557
Financial assets at amortised cost	-	-	-	-	25,616	25,616
Financial assets at fair value through other comprehensive income	-	-	-	100	-	100
Total financial assets	7	39,756	636	100	47,756	88,255
Financial liabilities						
Deposits from banks	-	-	-	-	3,821	3,821
Customer deposits	-	-	-	-	26,967	26,967
Repurchase agreements	-	-	-	-	1,019	1,019
Due to fellow Lloyds Banking Group undertakings	-	-	-	-	3,442	3,442
Financial liabilities at fair value through profit or loss	-	16,582	-	-	-	16,582
Derivative financial instruments	3	15,569	-	-	-	15,572
Debt securities in issue	-	-	-	-	16,644	16,644
Other	-	-	-	-	58	58
Subordinated liabilities	-	-	-	-	684	684
Total financial liabilities	3	32,151	-	-	52,635	84,789

Note 34: Financial instruments continued

The Bank	Derivatives designated as hedging instruments £m	Mandatorily held at fair value through profit or loss		At fair value through other comprehensive income £m	Held at amortised cost £m	Total £m
		Held for trading £m	Other £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	82,777
At 31 December 2021						
Financial assets						
Cash and balances at central banks	-	-	-	-	22,140	22,140
Financial assets at fair value through profit or loss	-	21,773	495	-	-	22,268
Derivative financial instruments	7	18,035	-	-	-	18,042
Loans and advances to banks	-	-	-	-	2,333	2,333
Loans and advances to customers	-	-	-	-	17,176	17,176
Reverse repurchase agreements	-	-	-	-	5,044	5,044
Debt securities	-	-	-	-	229	229
Due from fellow Lloyds Banking Group undertakings	-	-	-	-	862	862
Financial assets at amortised cost	-	-	-	-	25,644	25,644
Financial assets at fair value through other comprehensive income	-	-	-	100	-	100
Total financial assets	7	39,808	495	100	47,784	88,194
Financial liabilities						
Deposits from banks	-	-	-	-	3,821	3,821
Customer deposits	-	-	-	-	26,553	26,553
Repurchase agreements	-	-	-	-	1,019	1,019
Due to fellow Lloyds Banking Group undertakings	-	-	-	-	3,920	3,920
Financial liabilities at fair value through profit or loss	-	16,582	-	-	-	16,582
Derivative financial instruments	3	15,568	-	-	-	15,571
Debt securities in issue	-	-	-	-	16,644	16,644
Other	-	-	-	-	48	48
Subordinated liabilities	-	-	-	-	684	684
Total financial liabilities	3	32,150	-	-	52,689	84,842

Note 34: Financial instruments continued

(2) 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.

Note 34: Financial instruments continued

(3) Financial assets and liabilities carried at fair value

(A) Financial assets, excluding derivatives

Valuation hierarchy

At 31 December 2022, LBCM's financial assets carried at fair value, excluding derivatives, totalled £14,786 million (2021: £22,509 million); and for the Bank totalled £14,648 million (2021: £22,368 million). The table below analyses these financial assets by balance sheet classification, asset type and valuation methodology (level 1, 2 or 3, as described on page 106). The fair value measurement approach is recurring in nature. There were no significant transfers between level 1 and 2 during the year.

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
Treasury and other bills	–	–	–	–
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
At 31 December 2021				
Financial assets at fair value through profit or loss				
Loans and advances to banks	–	486	–	486
Loans and advances to customers	–	14,741	2	14,743
Debt securities:				
Government securities	6,580	–	–	6,580
Bank and building society certificates of deposit	–	122	–	122
Asset-backed securities:				
Mortgage-backed securities	–	12	–	12
Other asset-backed securities	–	3	–	3
Corporate and other debt securities	–	256	188	444
	6,580	393	188	7,161
Treasury and other bills	19	–	–	19
Total financial assets at fair value through profit or loss	6,599	15,620	190	22,409
Financial assets at fair value through other comprehensive income				
Debt securities:				
Asset-backed securities:				
Other asset-backed securities	–	–	15	15
	–	–	15	15
Treasury and other bills	85	–	–	85
Total financial assets at fair value through other comprehensive income	85	–	15	100
Total financial assets carried at fair value, excluding derivatives	6,684	15,620	205	22,509

Note 34: Financial instruments continued

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
Treasury and other bills	-	-	-	-
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
Treasury and other bills	-	-	-	-
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
At 31 December 2021				
Financial assets at fair value through profit or loss				
Loans and advances to banks	-	486	-	486
Loans and advances to customers	-	14,741	2	14,743
Debt securities:				
Government securities	6,580	-	-	6,580
Asset-backed securities:				
Mortgage-backed securities	-	12	-	12
Other asset-backed securities	-	3	-	3
Corporate and other debt securities	-	256	188	444
	6,580	271	188	7,039
Treasury and other bills	-	-	-	-
Total financial assets at fair value through profit or loss	6,580	15,498	190	22,268
Financial assets at fair value through other comprehensive income				
Debt securities:				
Asset-backed securities:				
Other asset-backed securities	-	-	15	15
	-	-	15	15
Treasury and other bills	85	-	-	85
Total financial assets at fair value through other comprehensive income	85	-	15	100
Total financial assets carried at fair value, excluding derivatives	6,665	15,498	205	22,368

Note 34: Financial instruments continued

Movements in level 3 portfolio

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

	2022			2021		
	Financial assets at fair value through profit or loss £m	Financial assets at fair value through other comprehensive income £m	Total level 3 assets carried at fair value, excluding derivatives (recurring basis) £m	Financial assets at fair value through profit or loss £m	Financial assets at fair value through other comprehensive income £m	Total level 3 assets carried at fair value, excluding derivatives (recurring basis) £m
The Group and the Bank						
At 1 January	190	15	205	570	113	683
Exchange and other adjustments	-	-	-	-	(6)	(6)
(Losses) gains recognised in the income statement within other income	(31)	-	(31)	(33)	-	(33)
Gains recognised in other comprehensive income within the revaluation reserve in respect of financial assets at fair value through other comprehensive income	-	1	1	-	9	9
Purchases/increases	3	-	3	-	-	-
Sales/repayments	(4)	(10)	(14)	(231)	(101)	(332)
Transfers into the level 3 portfolio	-	-	-	-	-	-
Transfers out of the level 3 portfolio	-	-	-	(116)	-	(116)
At 31 December	158	6	164	190	15	205
(Losses) gains recognised in the income statement, within other income, relating to the change in fair value of those assets held at 31 December	(31)	-	(31)	(32)	-	(32)

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 34: Financial instruments continued

(B) Financial liabilities, excluding derivatives

Valuation hierarchy

At 31 December 2022, 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 £12,578 million (2021: £16,582 million). The table below analyses these financial liabilities by balance sheet classification and valuation methodology (level 1, 2 or 3, as described on page 106). The fair value measurement approach is recurring in nature. There were no significant transfers between level 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 2022				
Financial liabilities 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
At 31 December 2021				
Financial liabilities at fair value through profit or loss				
Trading liabilities:				
Liabilities in respect of securities sold under repurchase agreements	–	14,962	–	14,962
Short positions in securities	1,569	51	–	1,620
Total financial liabilities carried at fair value, excluding derivatives	1,569	15,013	–	16,582

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 2022, such assets totalled £24,621 million for the Group, and £24,647 million for the bank (2021: £17,990 million for the Group and £18,042 million for the Bank) and liabilities totalled £(20,070) million for the Group and £(20,070) million for the Bank (2021: £(15,572) million for the Group and £(15,571) million for the 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 on page 106).

	2022				2021			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
The Group								
Derivative assets	6	24,050	565	24,621	22	17,239	729	17,990
Derivative liabilities	(8)	(19,568)	(494)	(20,070)	(13)	(14,633)	(926)	(15,572)
The Bank								
Derivative assets	6	24,076	565	24,647	22	17,291	729	18,042
Derivative liabilities	(8)	(19,568)	(494)	(20,070)	(13)	(14,632)	(926)	(15,571)

Note 34: Financial instruments continued

Movements in level 3 portfolio

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

	2022		2021	
	Derivative assets £m	Derivative liabilities £m	Derivative assets £m	Derivative liabilities £m
The Group and the Bank				
At 1 January	729	(926)	948	(1,251)
Exchange and other adjustments	47	(37)	(4)	4
Gains (losses) recognised in the income statement within other income	(304)	420	(227)	238
Purchases/increases	58	(46)	128	(361)
Sales/repayments	(21)	13	(116)	444
Transfers into the level 3 portfolio	347	(205)	–	–
Transfers out of the level 3 portfolio	(291)	287	–	–
At 31 December	565	(494)	729	(926)
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	(125)	329	(248)	256

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 which are valued using standard models with observable inputs, except for the items classified as level 3, which are valued using 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 and foreign exchange products where inputs to the valuation are significant, material 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 unobservable 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 2021 and 2022:

	2022 £m	2021 £m
At 1 January	300	229
Income statement charge (credit)	36	71
At 31 December	336	300

Represented by:

	2022 £m	2021 £m
Credit Valuation Adjustment	250	195
Debit Valuation Adjustment	(48)	(24)
Funding Valuation Adjustment	134	129
	336	300

Note 34: Financial instruments continued

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 £61 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 30 September 2022).

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
- The Group's own CDS spread

A one per cent rise in the CDS spread would lead to an increase in the DVA of £91 million to £139 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 £31 million fall in the overall valuation adjustment to £171 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.

(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 2022, LBCM's derivative trading business held mid to bid-offer valuation adjustments of £55 million (2021: £51 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 2022, LBCM's derivative trading business held deferred day 1 P&L valuation adjustment of £10 million (2021: £9 million).

Note 34: Financial instruments continued

(D) Sensitivity of level 3 valuations

The Group and the Bank			2022			2021		
			Effect of reasonably possible alternative assumptions ²			Effect of reasonably possible alternative assumptions ²		
Valuation techniques	Significant unobservable inputs ¹	Carrying value £m	Favourable changes £m	Unfavourable changes £m	Significant unobservable inputs ¹	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	Spread (-/+20bps)	2	-	-	2	-	-
Debt securities	Discounted cash flows	Credit spreads (discount factor) and inflation volatility (-/+6bps)	156	10	(10)	188	13	(13)
			158	10	(10)	190	13	(13)
Financial assets at fair value through other comprehensive income								
Asset-backed	Comparable pricing	Spread (-/+0bps)	6	-	-	15	-	-
			6	-	-	15	-	-
Derivative financial assets								
Interest rate derivatives	Option pricing model	Inflation volatility (31.0-58.7bps)	-	-	-	345	5	(4)
	Option pricing model	Interest rate volatility (17.1-104.9bps)	565	9	(7)	384	1	(1)
			565	9	(7)	729	6	(5)
Level 3 financial assets carried at fair value			729	19	(17)	934	19	(18)
Derivative financial liabilities								
Interest rate derivatives	Option pricing model	Illiquid long dated repo rate (-/+10.2bps)	-	-	-	2	-	-
	Option pricing model	Inflation volatility (31.0-58.7bps)	-	-	-	297	6	(5)
	Option pricing model	Interest rate volatility (17.1-104.9bps)	494	17	(19)	627	11	(11)
			(494)	17	(19)	(926)	17	(16)
Level 3 financial liabilities carried at fair value			(494)	17	(19)	(926)	17	(16)

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

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

Unobservable inputs

Significant unobservable inputs affecting the valuation of debt securities, unlisted equity investments 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

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.

Note 34: Financial instruments continued

(4) 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 on page 106. 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.

The Group	Carrying value £m	Fair value £m	Valuation hierarchy		
			Level 1 £m	Level 2 £m	Level 3 £m
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
At 31 December 2021					
Loans and advances to banks	2,354	2,354	–	–	2,354
Loans and advances to customers	17,432	17,488	–	–	17,488
Reverse repurchase agreements	5,044	5,044	–	5,044	–
Debt securities	229	229	–	104	125
Due from fellow Lloyds Banking Group undertakings	557	557	–	–	557

The Bank	Carrying value £m	Fair value £m	Valuation hierarchy		
			Level 1 £m	Level 2 £m	Level 3 £m
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
At 31 December 2021					
Loans and advances to banks	2,333	2,333	–	–	2,333
Loans and advances to customers	17,176	17,232	–	–	17,232
Reverse repurchase agreements	5,044	5,044	–	5,044	–
Debt securities	229	229	–	104	125
Due from fellow Lloyds Banking Group undertakings	862	862	–	–	862

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.

Note 34: Financial instruments continued

(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 on page 106).

The Group	Carrying value £m	Fair value £m	Valuation hierarchy		
			Level 1 £m	Level 2 £m	Level 3 £m
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	–
At 31 December 2021					
Deposits from banks	3,821	3,821	–	3,821	–
Customer deposits	26,967	27,047	–	27,047	–
Repurchase agreements	1,019	1,019	–	1,019	–
Due to fellow Lloyds Banking Group undertakings	3,442	3,442	–	3,442	–
Debt securities in issue	16,644	16,723	–	16,723	–
Subordinated liabilities	684	684	–	684	–

The Bank	Carrying value £m	Fair value £m	Valuation hierarchy		
			Level 1 £m	Level 2 £m	Level 3 £m
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	–
At 31 December 2021					
Deposits from banks	3,821	3,821	–	3,821	–
Customer deposits	26,553	26,632	–	26,632	–
Repurchase agreements	1,019	1,019	–	1,019	–
Due to fellow Lloyds Banking Group undertakings	3,920	3,920	–	3,920	–
Debt securities in issue	16,644	16,723	–	16,723	–
Subordinated liabilities	684	684	–	684	–

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

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.

(5) Reclassifications of financial assets

There have been no reclassifications of financial assets in 2021 or 2022.

Note 35: 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.

The Group	Gross amounts of assets and liabilities £m	Amount offset in the balance sheet ¹ £m	Net amounts presented in the balance sheet £m	Related amounts where set off in the balance sheet not permitted ²		Potential net amounts if offset of related amounts permitted £m
				Cash collateral received/pledged £m	Non-cash collateral received/pledged £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 respect 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. These amounts include collateral received/pledged with fellow LBG undertakings.

The effects of over-collateralisation have not been taken into account in the above table.

Note 35: 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		Potential net amounts if offset of related amounts permitted £m
				Cash collateral received/ pledged £m	Non-cash collateral received/ pledged £m	
At 31 December 2021						
Financial assets						
Financial assets at fair value through profit or loss:						
Excluding reverse repurchase agreements	7,488	–	7,488	–	(2,421)	5,067
Reverse repurchase agreements	34,049	(19,128)	14,921	–	(14,921)	–
	41,537	(19,128)	22,409	–	(17,342)	5,067
Derivative financial instruments	17,990	–	17,990	(3,744)	(11,236)	3,010
Financial assets at amortised cost:						
Loans and advances to banks	2,354	–	2,354	(1,339)	–	1,015
Loans and advances to customers	17,432	–	17,432	(946)	–	16,486
Reverse repurchase agreements	5,044	–	5,044	–	(5,044)	–
Debt securities	229	–	229	–	–	229
	25,059	–	25,059	(2,285)	(5,044)	17,730
Financial assets at fair value through other comprehensive income	100	–	100	–	–	100
Financial liabilities						
Deposits from banks	3,821	–	3,821	(2,387)	–	1,434
Customer deposits	26,967	–	26,967	(1,357)	–	25,610
Repurchase agreements at amortised cost	1,019	–	1,019	–	(1,019)	–
Financial liabilities at fair value through profit or loss:						
Excluding repurchase agreements	1,620	–	1,620	–	–	1,620
Repurchase agreements	34,090	(19,128)	14,962	–	(14,962)	–
	35,710	(19,128)	16,582	–	(14,962)	1,620
Derivative financial instruments	15,572	–	15,572	(2,285)	(12,051)	1,236

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 respect 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 36: 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 United Kingdom. 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.

Note 36: Financial risk management continued

(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.

The Group	2022			2021		
	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 :						
Loans and advances	12,033	–	12,033	15,229	–	15,229
Debt securities, treasury and other bills	2,747	–	2,747	7,180	–	7,180
	14,780	–	14,780	22,409	–	22,409
Derivative financial instruments	24,621	(12,407)	12,214	17,990	(8,636)	9,354
Financial assets at amortised cost, net ³						
Loans and advances to banks, net ³	2,117	–	2,117	2,354	–	2,354
Loans and advances to customers, net ³	19,127	–	19,127	17,432	–	17,432
Reverse repurchase agreements, net	5,606	–	5,606	5,044	–	5,044
Debt securities, net ³	305	–	305	229	–	229
	27,155	–	27,155	25,059	–	25,059
Financial assets at fair value through other comprehensive income	6	–	6	100	–	100
Off-balance sheet items:						
Acceptances and endorsements	–	–	–	170	–	170
Other items serving as direct credit substitutes	–	–	–	77	–	77
Performance bonds, including letters of credit, and other transaction-related contingencies	86	–	86	158	–	158
Irrevocable commitments and guarantees	16,619	–	16,619	15,124	–	15,124
	16,705	–	16,705	15,529	–	15,529
	83,267	(12,407)	70,860	81,087	(8,636)	72,451

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.

The Bank	2022			2021		
	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 :						
Loans and advances	12,033	–	12,033	15,229	–	15,229
Debt securities, treasury and other bills	2,609	–	2,609	7,039	–	7,039
	14,642	–	14,642	22,268	–	22,268
Derivative financial instruments	24,647	(12,407)	12,240	18,042	(8,636)	9,406
Financial assets at amortised cost, net ³						
Loans and advances to banks, net ³	2,063	–	2,063	2,333	–	2,333
Loans and advances to customers, net ³	18,864	–	18,864	17,176	–	17,176
Reverse repurchase agreements, net	5,606	–	5,606	5,044	–	5,044
Debt securities, net ³	305	–	305	229	–	229
	26,838	–	26,838	24,782	–	24,782
Financial assets at fair value through other comprehensive income	6	–	6	100	–	100
Off-balance sheet items:						
Acceptances and endorsements	–	–	–	170	–	170
Other items serving as direct credit substitutes	–	–	–	77	–	77
Performance bonds, including letters of credit, and other transaction-related contingencies	86	–	86	158	–	158
Irrevocable commitments and guarantees	16,619	–	16,619	15,124	–	15,124
	16,705	–	16,705	15,529	–	15,529
	82,838	(12,407)	70,431	80,721	(8,636)	72,085

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 36: Financial risk management continued

(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 2022 the most significant concentration of exposure was in financial, business and other services (comprising 85 per cent of total loans and advances to customers).

Loans and advances to customers

	The Group		The Bank	
	2022 £m	2021 £m	2022 £m	2021 £m
Agriculture, forestry and fishing	1	–	1	–
Energy and water supply	37	16	37	16
Manufacturing	308	605	308	605
Construction	9	115	9	115
Transport, distribution and hotels	108	97	108	97
Postal and telecommunications	117	253	117	253
Property companies	625	756	625	756
Financial, business and other services	16,242	14,096	16,242	14,096
Personal:				
Mortgages	1,443	1,232	1,443	1,232
Other	55	58	12	16
Lease financing	142	138	–	–
Hire purchase	79	76	–	–
Total loans and advances to customers before allowance for impairment losses	19,166	17,442	18,902	17,186
Allowance for impairment losses (note 13)	(39)	(10)	(38)	(10)
Total loans and advances to customers	19,127	17,432	18,864	17,176

(C) Credit quality of assets

Loans and advances

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 36: Financial risk management continued

The Group – Gross drawn exposures and expected credit loss allowances	Drawn exposures				Expected credit loss allowance			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
At 31 December 2022								
Loans and advances to banks								
CMS 1-10	2,083	–	–	2,083	2	–	–	2
CMS 11-14	16	22	–	38	–	2	–	2
CMS 15-18	–	–	–	–	–	–	–	–
CMS 19	–	–	–	–	–	–	–	–
CMS 20-23	–	–	–	–	–	–	–	–
	2,099	22	–	2,121	2	2	–	4
Loans and advances to customers								
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
Reverse repurchase agreements								
Loans and advances to banks								
CMS 1-10	237	–	–	237	–	–	–	–
CMS 11-14	–	–	–	–	–	–	–	–
CMS 15-18	–	–	–	–	–	–	–	–
CMS 19	–	–	–	–	–	–	–	–
CMS 20-23	–	–	–	–	–	–	–	–
	237	–	–	237	–	–	–	–
Loans and advances to customers								
CMS 1-10	5,369	–	–	5,369	–	–	–	–
CMS 11-14	–	–	–	–	–	–	–	–
CMS 15-18	–	–	–	–	–	–	–	–
CMS 19	–	–	–	–	–	–	–	–
CMS 20-23	–	–	–	–	–	–	–	–
	5,369	–	–	5,369	–	–	–	–
Total reverse repurchase agreements	5,606	–	–	5,606	–	–	–	–
The Group – Gross undrawn exposures and expected credit loss allowance	Undrawn exposures				Expected credit loss allowance			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	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

Note 36: Financial risk management continued

The Group – Gross drawn exposures and expected credit loss allowances	Drawn exposures				Expected credit loss allowance			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
At 31 December 2021								
Loans and advances to banks:								
CMS 1-10	2,319	–	–	2,319	1	–	–	1
CMS 11-14	36	–	–	36	–	–	–	–
CMS 15-18	–	–	–	–	–	–	–	–
CMS 19	–	–	–	–	–	–	–	–
CMS 20-23	–	–	–	–	–	–	–	–
	2,355	–	–	2,355	1	–	–	1
Loans and advances to customers:								
CMS 1-10	16,830	7	–	16,837	5	–	–	5
CMS 11-14	533	13	–	546	2	–	–	2
CMS 15-18	3	25	–	28	–	2	–	2
CMS 19	–	2	–	2	–	–	–	–
CMS 20-23	–	–	29	29	–	–	1	1
	17,366	47	29	17,442	7	2	1	10
Reverse repurchase agreements								
Loans and advances banks								
CMS 1-10	536	–	–	536	–	–	–	–
CMS 11-14	–	–	–	–	–	–	–	–
CMS 15-18	–	–	–	–	–	–	–	–
CMS 19	–	–	–	–	–	–	–	–
CMS 20-23	–	–	–	–	–	–	–	–
	536	–	–	536	–	–	–	–
Loans and advances to customers								
CMS 1-10	4,458	–	–	4,458	–	–	–	–
CMS 11-14	50	–	–	50	–	–	–	–
CMS 15-18	–	–	–	–	–	–	–	–
CMS 19	–	–	–	–	–	–	–	–
CMS 20-23	–	–	–	–	–	–	–	–
	4,508	–	–	4,508	–	–	–	–
Total reverse repurchase agreements	5,044	–	–	–	–	–	–	–

The Group – Gross undrawn exposures and expected credit loss allowance	Undrawn exposures				Expected credit loss allowance			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
At 31 December 2021								
CMS 1-10	14,502	–	–	14,502	3	–	–	3
CMS 11-14	689	–	–	689	3	–	–	3
CMS 15-18	–	–	–	–	–	–	–	–
CMS 19	–	–	–	–	–	–	–	–
CMS 20-23	–	–	–	–	–	–	–	–
	15,191	–	–	15,191	6	–	–	6

Note 36: Financial risk management continued

The Bank – Gross drawn exposures and expected credit loss allowances	Drawn exposures				Expected credit loss allowance			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
At 31 December 2022								
Loans and advances to banks:								
CMS 1-10	2,029	-	-	2,029	2	-	-	2
CMS 11-14	16	22	-	38	-	2	-	2
CMS 15-18	-	-	-	-	-	-	-	-
CMS 19	-	-	-	-	-	-	-	-
CMS 20-23	-	-	-	-	-	-	-	-
	2,045	22	-	2,067	2	2	-	4
Loans and advances to customers:								
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 agreements								
Loans and advances to banks								
CMS 1-10	237	-	-	237	-	-	-	-
CMS 11-14	-	-	-	-	-	-	-	-
CMS 15-18	-	-	-	-	-	-	-	-
CMS 19	-	-	-	-	-	-	-	-
CMS 20-23	-	-	-	-	-	-	-	-
	237	-	-	237	-	-	-	-
Loans and advances to customers								
CMS 1-10	5,369	-	-	5,369	-	-	-	-
CMS 11-14	-	-	-	-	-	-	-	-
CMS 15-18	-	-	-	-	-	-	-	-
CMS 19	-	-	-	-	-	-	-	-
CMS 20-23	-	-	-	-	-	-	-	-
	5,369	-	-	5,369	-	-	-	-
Total reverse repurchase agreements	5,606	-	-	5,606	-	-	-	-
The Bank – Gross undrawn exposures and expected credit loss allowance	Undrawn exposures				Expected credit loss allowance			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	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

Note 36: Financial risk management continued

The Bank – Gross drawn exposures and expected credit loss allowances	Drawn exposures				Expected credit loss allowance			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
At 31 December 2021								
Loans and advances to banks								
CMS 1-10	2,298	-	-	2,298	1	-	-	1
CMS 11-14	36	-	-	36	-	-	-	-
CMS 15-18	-	-	-	-	-	-	-	-
CMS 19	-	-	-	-	-	-	-	-
CMS 20-23	-	-	-	-	-	-	-	-
	2,334	-	-	2,334	1	-	-	1
Loans and advances to customers								
CMS 1-10	16,606	2	-	16,608	5	-	-	5
CMS 11-14	510	10	-	520	2	-	-	2
CMS 15-18	3	24	-	27	-	2	-	2
CMS 19	-	2	-	2	-	-	-	-
CMS 20-23	-	-	29	29	-	-	1	1
	17,119	38	29	17,186	7	2	1	10
Reverse repurchase agreements								
Loans and advances to banks								
CMS 1-10	536	-	-	536	-	-	-	-
CMS 11-14	-	-	-	-	-	-	-	-
CMS 15-18	-	-	-	-	-	-	-	-
CMS 19	-	-	-	-	-	-	-	-
CMS 20-23	-	-	-	-	-	-	-	-
	536	-	-	536	-	-	-	-
Loans and advances to customers								
CMS 1-10	4,458	-	-	4,458	-	-	-	-
CMS 11-14	50	-	-	50	-	-	-	-
CMS 15-18	-	-	-	-	-	-	-	-
CMS 19	-	-	-	-	-	-	-	-
CMS 20-23	-	-	-	-	-	-	-	-
	4,508	-	-	4,508	-	-	-	-
Total reverse repurchase agreements	5,044	-	-	5,044	-	-	-	-
The Bank – Gross undrawn exposures and expected credit loss allowance	Drawn exposures				Expected credit loss allowance			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
At 31 December 2021								
CMS 1-10	14,502	-	-	14,502	3	-	-	3
CMS 11-14	689	-	-	689	3	-	-	3
CMS 15-18	-	-	-	-	-	-	-	-
CMS 19	-	-	-	-	-	-	-	-
CMS 20-23	-	-	-	-	-	-	-	-
	15,191	-	-	15,191	6	-	-	6

Note 36: Financial risk management continued

Debt securities held at amortised cost

An analysis by credit rating of debt securities held at amortised cost is provided below:

	2022			2021		
	Investment grade ¹ £m	Other £m	Total £m	Investment grade ¹ £m	Other £m	Total £m
The Group and the Bank						
Government securities	21	–	21	–	–	–
Corporate and other debt securities	284	–	284	229	–	229
Gross exposure	305	–	305	229	–	229
Allowance for impairment losses			–			–
Total debt securities held at amortised cost			305			229

¹ Credit ratings equal to or better than 'BBB'.

Financial assets at fair value through other comprehensive income (excluding equity shares)

An analysis of financial assets at fair value through other comprehensive income is included in note 16. The credit quality of financial assets at fair value through other comprehensive income (excluding equity shares) is set out below:

	2022			2021		
	Investment grade ¹ £m	Other £m	Total £m	Investment grade ¹ £m	Other £m	Total £m
The Group and the Bank						
Debt securities:						
Asset-backed securities:						
Other asset-backed securities	6	–	6	15	–	15
Treasury and other bills	–	–	–	85	–	85
Total financial assets at fair value through other comprehensive income	6	–	6	100	–	100

¹ Credit ratings equal to or better than 'BBB'.

Note 36: Financial risk management continued

Debt securities, treasury and other bills held at fair value through profit or loss

An analysis of financial assets at fair value through profit or loss is included in note 11. 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.

The Group	2022			2021		
	Investment grade ¹ £m	Other ² £m	Total £m	Investment grade ¹ £m	Other ² £m	Total £m
Trading assets:						
Debt securities:						
Government securities	2,182	–	2,182	6,580	–	6,580
Asset-backed securities:						
Mortgage-backed securities	7	–	7	12	–	12
Other asset-backed securities	14	–	14	3	–	3
	21	–	21	15	–	15
Corporate and other debt securities	219	9	228	244	–	244
Total trading assets	2,422	9	2,431	6,839	–	6,839
Other financial assets mandatorily at fair value through profit or loss:						
Debt securities:						
Bank and building society certificates of deposit	76	–	76	122	–	122
Corporate and other debt securities	–	156	156	–	188	188
	76	156	232	122	188	310
Treasury and other bills	62	–	62	19	–	19
Total other financial assets mandatorily at fair value through profit or loss	138	156	294	141	188	329
	2,560	165	2,725	6,980	188	7,168
Due from fellow Lloyds Banking Group undertakings:						
Corporate and other debt securities			22			12
Total held at fair value through profit or loss			2,747			7,180

1 Credit ratings equal to or better than 'BBB'.

2 Other comprises sub-investment grade (2022: £156 million; 2021: £188 million) and not rated (2022: £9 million; 2021: £nil).

The Bank	2022			2021		
	Investment grade ¹ £m	Other ² £m	Total £m	Investment grade ¹ £m	Other ² £m	Total £m
Trading assets:						
Debt securities:						
Government securities	2,182	–	2,182	6,580	–	6,580
Asset-backed securities:						
Mortgage-backed securities	7	–	7	12	–	12
Other asset-backed securities	14	–	14	3	–	3
	21	–	21	15	–	15
Corporate and other debt securities	219	9	228	244	–	244
Total trading assets	2,422	9	2,431	6,839	–	6,839
Other financial assets mandatorily at fair value through profit or loss:						
Debt securities:						
Corporate and other debt securities	–	156	156	–	188	188
Total other financial assets mandatorily at fair value through profit or loss	–	156	156	–	188	188
	2,422	165	2,587	6,839	188	7,027
Due from fellow Lloyds Banking Group undertakings:						
Corporate and other debt securities			22			12
Total held at fair value through profit or loss			2,609			7,039

1 Credit ratings equal to or better than 'BBB'.

2 Other comprises sub-investment grade (2022: £156 million; 2021: £188 million) and not rated (2022: £9 million; 2021: £nil).

Note 36: Financial risk management continued

Derivative assets

An analysis of derivative assets is given in note 12. The credit quality of derivatives are set out below.

The Group	2022			2021		
	Investment grade ¹ £m	Other ² £m	Total £m	Investment grade ¹ £m	Other ² £m	Total £m
Trading and other	20,235	988	21,223	15,018	871	15,889
Hedging	1	–	1	7	–	7
	20,236	988	21,224	15,025	871	15,896
Due from fellow Lloyds Banking Group undertakings			3,397			2,094
Total derivative financial instruments			24,621			17,990

1 Credit ratings equal to or better than 'BBB'.

2 Other comprises sub-investment grade (2022: £920 million; 2021: £850 million) and not rated (2022: £68 million; 2021: £21 million).

The Bank	2022			2021		
	Investment grade ¹ £m	Other ² £m	Total £m	Investment grade ¹ £m	Other ² £m	Total £m
Trading and other	20,235	988	21,223	15,018	871	15,889
Hedging	1	–	1	7	–	7
	20,236	988	21,224	15,025	871	15,896
Due from fellow Lloyds Banking Group undertakings			3,423			2,146
Total derivative financial instruments			24,647			18,042

1 Credit ratings equal to or better than 'BBB'.

2 Other comprises sub-investment grade (2022: £920 million; 2021: £850 million) and not rated (2022: £68 million; 2021: £21 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.

(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

Commercial lending

Stage 3 secured lending

At 31 December 2022, Stage 3 secured commercial lending amounted to £21 million, net of an impairment allowance of £1 million for the Group and the Bank (2021: £28 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.

Reverse repurchase agreements

Banks

At 31 December 2022 there were reverse repurchase agreements which were accounted for as collateralised loans with a carrying value of £237 million (2021: £536 million), against which the Group held collateral with a fair value of £279 million (2021: 529 million).

These transactions were generally conducted under terms that are usual and customary for standard secured lending activities.

Customers

At 31 December 2022 there were reverse repurchase agreements which were accounted for as collateralised loans with a carrying value of £5,369 million for the Group and the Bank (2021: £4,508 million for the Group and the Bank) against which the Group and the Bank held collateral with a fair value of £5,193 million (2021: £4,479 million) all of which the Group was able to repledge.

These transactions were generally conducted under terms that are usual and customary for standard secured lending activities.

Note 36: Financial risk management continued

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 £11,782 million for the Group and the Bank (2021: £14,921 million). Collateral is held with a fair value of £10,334 million for the Group and the Bank, all of which the Group is able to repledge (2021: £15,849 million for the Group and the Bank). At 31 December 2022, £7,898 million had been repledged (2021: £13,620 million).

In addition, securities held as collateral in the form of stock borrowed amounted to £12,737 million for the Group and the Bank (2021: £10,384 million for the Group and the Bank). Of this amount, £9,736 million for the Group and the Bank (2021: £8,923 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 £12,214 million for the Group and £12,240 million for the Bank (2021: £9,354 million for the Group and £9,406 million for the Bank), cash collateral of £3,814 million for the Group and the Bank (2021: £3,744 million for the Group and the Bank) was held and a further £19 million for the Group and the Bank (2021: £185 million for the Group and the Bank) was due from OECD banks.

Irrevocable loan commitments and other credit-related contingencies

At 31 December 2022, there were irrevocable loan commitments and other credit-related contingencies of £16,705 million for the Group and Bank (2021: £15,529 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 of £7 million (2021: £1,019 million); the fair value of the collateral provided under these agreements at 31 December 2022 was £22 million (2021: £1,000 million).

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 £10,427 million (2021: £14,441 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	
	2022 £m	2021 £m
Financial assets at fair value through profit or loss	1,052	2,695
	1,052	2,695

Note 36: Financial risk management continued

Market risk

Trading Portfolios

Exposures

LBCM's trading activity is modest relative to its peers and is undertaken primarily to meet the financial requirements of customers for foreign exchange, credit and interest rate 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 £1.5 million for 31 December 2022 compared to £1.0 million for 31 December 2021.

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 minimum expected loss in earnings given the 95 per cent confidence.

Trading portfolios: VaR (1-day 95 per cent confidence level)

	At 31 December 2022				At 31 December 2021			
	Close £m	Average £m	Maximum £m	Minimum £m	Close £m	Average £m	Maximum £m	Minimum £m
Interest rate risk	1.3	1.3	3.9	0.5	0.8	0.9	1.6	0.5
Foreign exchange risk	0.1	0.1	0.4	–	–	0.1	0.4	–
Equity risk	–	–	–	–	–	–	–	–
Credit spread risk	0.1	0.1	0.3	–	0.1	0.1	0.2	–
Inflation risk	0.6	0.4	1.1	0.2	0.2	0.3	0.8	0.2
All risk factors before diversification	2.1	1.9	5.0	0.9	1.1	1.4	2.4	1.0
Portfolio diversification	(0.5)	(0.4)	–	–	(0.2)	(0.4)	–	–
Total VaR	1.6	1.5	3.9	0.6	0.9	1.0	2.0	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 its 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 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 the Group 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 the Group's international portfolios, and in the Group's capital and funding activities, arises from the different repricing characteristics of the Group'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 the Group or the customer can affect the size or timing of cash flows.

Foreign exchange risk

Economic foreign exchange exposure arises from the Group's investment in its overseas operations. In addition, the Group incurs foreign exchange risk through non-functional currency flows from services provided by customer-facing divisions, the Group'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.

Note 36: Financial risk management continued

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

	2022				2021			
	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	(0.3)	0.4	(3.5)	3.6	(13.5)	17.8
US Dollar	1.1	(1.1)	4.5	(4.5)	(0.8)	0.3	(3.3)	0.1
Euro	0.3	(0.3)	1.0	(1.0)	0.3	(0.2)	1.0	(0.3)
Other	-	-	-	-	-	-	-	-
Total	1.3	(1.3)	5.2	(5.1)	(4.0)	3.7	(15.8)	17.6

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 decreased primarily due to the impacts of mortgage hedging.

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

	2022		2021	
	Steepener £m	Flattener £m	Steepener £m	Flattener £m
Sterling	(1.6)	1.6	(4.9)	6.7
US Dollar	(2.6)	2.6	0.3	(2.7)
Euro	(0.9)	0.8	(0.2)	0.5
Other	-	-	-	-
Total	(5.1)	5.0	(4.8)	4.5

Note 36: Financial risk management continued

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

	2022		2021	
	Up 25bps £m	Down 25bps £m	Up 25bps £m	Down 25bps £m
Customer facing activity and associated hedges	2.7	(4.3)	4.1	(8.7)

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		
	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
Customer-facing activity and associated hedges									
2022	2.7	3.8	9.4	(4.3)	(4.7)	(10.3)	7.1	7.5	18.8
2021	4.1	1.3	5.1	(8.7)	(5.7)	(9.5)	10.9	5.6	13.1

The decrease in risk sensitivity year-on-year, to down 25 basis points, is driven by reduced modelled margin compression risk following the rise in interest rates in 2022.

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 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.

Note 36: Financial risk management continued

(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.

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 2022 the aggregate notional principal of interest rate and other swaps (predominantly interest rate) designated as fair value hedges was £4,636 million (2021: £7,414 million) with a net fair value liability of £45 million (2021: liability of £1 million) (note 12). The losses on the hedging instruments were £278 million (2021: losses of £142 million). The gains on the hedged items attributable to the hedged risk were £280 million (2021: gains of £141 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 2022 was £16,331 million (2021: £13,571 million) with a net fair value liability of £3 million (2021: asset of £5 million). In 2022, ineffectiveness recognised in the income statement that arises from cash flow hedges was a loss of £4 million (2021: loss of £12 million).

Interest rate benchmark reform

LBCM continues to manage the transition to alternative benchmark rates under the LBG-wide IBOR transition programme. LBCM has transitioned substantially all of its non-USD LIBOR products and continues to work with customers to transition a small number of remaining contracts that either have yet to transition or have defaulted to the relevant synthetic LIBOR benchmark in the interim. USD LIBOR transition is expected to complete by 30 June 2023.

While the volume of outstanding transactions impacted by IBOR benchmark reforms continues to reduce, LBCM does not expect material changes to its risk management approach.

The material risks identified include the following:

Conduct and litigation risk. LBCM may be exposed to conduct and litigation charges as a direct result of inappropriate or negligent actions taken during IBOR transition resulting in detriment to the customer. LBCM is working closely with its counterparties to avoid this outcome.

Market risk. IBOR transition is expected to lead to changes in LBCM's market risk profile which will continue to be monitored and managed within the appropriate risk appetites. The key change is expected to be on the management of basis risk profile during the period when alternative benchmark rates are referenced in contracts up to the cessation of the in-scope IBOR index.

Credit risk. Customers may wish to renegotiate the terms of existing transactions as a consequence of IBOR reform. This could lead to a change in the credit risk exposure of the customers depending on the outcome of the negotiations. LBCM will continue to monitor and manage changes within the appropriate risk appetites.

Accounting risk. If IBOR transition is finalised in a manner that does not permit the application of the reliefs introduced in the IFRS Phase 2 amendments, the financial instrument may be required to be derecognised and a new instrument recognised. In addition, where instruments used in hedge accounting relationships are transitioned either at different times or to different benchmarks, this may result in additional volatility to the income statement either through hedge accounting ineffectiveness or failure of the hedge accounting relationships.

Operational risk. Additional operational risks may arise due to the IBOR transition programme impacting all businesses and functions within LBCM and leading to the implementation of changes to technology, operations, customers communication and the valuation of in-scope financial instruments.

The majority of LBCM's USD LIBOR exposures are expected to transition through industry-led transition programmes managed by the London Clearing House and Futures exchanges, or through the International Swaps and Derivatives Association (ISDA) protocol. Other contracts (primarily loans) maturing after June 2023 are being managed through LBCM's existing processes, either transitioning to an alternative benchmark rate or allowed to fallback under existing contract protocols or through US legislation.

Note 36: Financial risk management continued

At 31 December 2022, the Group and the Bank had the following significant exposures impacted by interest rate benchmark reform which had yet to transition to the replacement benchmark rate:

	At 31 December 2022			At 31 December 2021		
	Sterling LIBOR £m	US Dollar LIBOR £m	Other ¹ £m	Sterling LIBOR £m	US Dollar LIBOR £m	Other ¹ £m
The Group and the Bank						
Non-derivative financial assets						
Financial assets at fair value through profit or loss	–	36	–	189	96	–
Loans and advances to banks	–	–	–	–	854	–
Loans and advances to customers	2	407	41	123	3,426	–
Debt securities	–	–	–	126	–	–
Financial assets at amortised cost	2	407	41	249	4,280	–
Financial assets at fair value through other comprehensive income	–	–	–	15	–	–
	2	443	41	453	4,376	–
Non-derivative financial liabilities						
Customer deposits	–	84	–	–	74	–
Subordinated liabilities	–	293	–	–	558	–
	–	377	–	–	632	–
Derivative notional/contract amount						
Cross Currency	–	25,772	811	–	36,212	–
Interest rate	597	112,938	878	5,238	184,573	–
	597	138,710	1,689	5,238	220,785	–

¹ Balances within Other include Canadian Dollar Offered Rate for which a cessation announcement, effective after 28 June 2024, was published on 16 May 2022

As at 31 December 2022, the IBOR balances in the above table relate to contracts that have not transitioned to an alternative benchmark rate. In the case of Sterling LIBOR, these are contracts that have cash flows determined on a synthetic LIBOR basis.

Of the £138,710 million of USD derivative notional balances as at 31 December 2022, £39,863 million relate to contracts with their final LIBOR fixing prior to LIBOR cessation and £58,679 million relate to exchange traded futures or contracts settled through the London Clearing House. Of the remaining £40,168 million, £32,695 million are fallback-eligible.

In respect of LBCM's hedge accounting relationships, for the purposes of determining whether:

- A forecast transaction is highly probable
- Hedged future cash flows are expected to occur
- A hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk
- An accounting hedging relationship should be discontinued because of a failure of the retrospective effectiveness test

LBCM considers the interest rate benchmark, on which the hedged risk or the cash flows of the hedged item or hedging instrument are based is not altered by uncertainties resulting from interest rate benchmark reform.

By 31 December 2022, LBCM had transitioned its Sterling, Euro, Japanese Yen and Swiss Franc LIBOR hedge accounting models to risk-free rates. LBCM plans to complete the transition of its USD LIBOR hedge accounting models ahead of the 30 June 2023 cessation date.

LBCM's most significant remaining IBOR hedge accounting relationship in relation to benchmark reform is USD LIBOR, of which:

- The notional amount of the hedged items that LBCM has designated into cash flow hedge relationships that is directly affected by the interest rate benchmark reform is £887 million (2021: £1,256 million). These are principally loans and advances to customers in Commercial Banking.
- The interest rate benchmark reforms also affect liabilities designated in fair value hedges. At 31 December 2022, these liabilities had a notional value of £58 million. At 31 December 2021, such liabilities had a notional amount of £2,093 million. These fair value hedges principally relate to debt securities in issue.
- At 31 December 2022, the notional amount of the hedging instruments in hedging relationships to which these amendments apply was £945 million, of which £58 million relates to fair value hedges and £887 million relates to cash flow hedges. At 31 December 2021, the notional amount of the hedging instruments in hedging relationships to which these amendments applied was £3,358 million, of which £2,102 million related to fair value hedges and £1,256 million related to cash flow hedges.

Note 36: Financial risk management continued

(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 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.

LBCM's main overseas operations are in the USA and Europe. Details of LBCM's structural foreign currency exposures are as follows:

	2022		2021	
	US Dollar £m	EUR £m	US Dollar £m	US Dollar £m
The Group and the Bank				
Exposure	151	26	94	–

(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.

Note 36: Financial risk management continued

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.

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 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
At 31 December 2021						
Deposits from banks	44	222	757	2,809	-	3,832
Customer deposits	17,110	4,621	2,924	2,209	107	26,971
Repurchase agreements	944	75	-	-	-	1,019
Financial liabilities at fair value through profit or loss	6,287	5,016	3,827	558	1,149	16,837
Debt securities in issue	201	2,013	7,991	5,317	1,228	16,750
Lease liabilities	-	3	9	26	23	61
Subordinated liabilities	-	-	-	558	126	684
Total non-derivative financial liabilities	24,586	11,950	15,508	11,477	2,633	66,154
Derivative financial liabilities:						
Gross settled derivatives – outflows	36,605	29,692	28,006	28,000	15,452	137,755
Gross settled derivatives – inflows	(35,767)	(28,853)	(27,261)	(27,064)	(14,015)	(132,960)
Gross settled derivatives – net flows	838	839	745	936	1,437	4,795
Net settled derivative liabilities	9,404	-	-	-	-	9,404
Total derivative financial liabilities	10,242	839	745	936	1,437	14,199

Note 36: Financial risk management continued

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 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
At 31 December 2021						
Deposits from banks	44	222	757	2,809	-	3,832
Customer deposits	16,711	4,614	2,915	2,209	107	26,556
Repurchase agreements	944	75	-	-	-	1,019
Financial liabilities at fair value through profit or loss	6,287	5,016	3,827	558	1,149	16,837
Debt securities in issue	201	2,013	7,991	5,317	1,228	16,750
Lease liabilities	-	2	7	22	18	49
Subordinated liabilities	-	-	-	558	126	684
Total non-derivative financial liabilities	24,187	11,942	15,497	11,473	2,628	65,727
Derivative financial liabilities:						
Gross settled derivatives – outflows	36,605	29,692	28,006	28,000	15,452	137,755
Gross settled derivatives – inflows	(35,767)	(28,853)	(27,261)	(27,064)	(14,015)	(132,960)
Gross settled derivatives – net flows	838	839	745	936	1,437	4,795
Net settled derivative liabilities	9,404	-	-	-	-	9,404
Total derivative financial liabilities	10,242	839	745	936	1,437	14,199

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 2022					
Acceptances and endorsements	-	-	-	-	-
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
At 31 December 2021					
Acceptances and endorsements	170	-	-	-	170
Other contingent liabilities	183	52	-	-	235
Total contingent liabilities	353	52	-	-	405
Lending commitments and guarantees	8,881	4,492	1,742	76	15,191
Total commitments and guarantees	8,881	4,492	1,742	76	15,191
Total contingents, commitments and guarantees	9,234	4,544	1,742	76	15,596

Note 37: Capital

Capital management

Capital is actively managed on an ongoing basis for both the Bank and its regulated subsidiaries. Regulatory capital ratios are considered a key part of the budgeting and planning processes and forecast ratios are reviewed by 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 uncertainties. Capital policies and procedures are subjected to regular review.

The Bank assesses both its regulatory capital requirements and the quantity and quality of capital resources it holds to meet those requirements through applying the regulatory capital framework set out under the Capital Requirements Directive and Regulation (CRD IV), as amended by subsequent revisions to the Directive (CRD V) and to the Regulation (CRR II), the latter applying in full from 1 January 2022 following the UK implementation of the remaining provisions of CRR II. The requirements are supplemented through additional regulation under the PRA Rulebook and 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 and those risks not covered at all by Pillar 1. A key input into the PRA's Pillar 2A setting process is a bank's own assessment of the minimum amount of capital it needs to cover risks that are not covered or not fully covered by Pillar 1 as part of its Internal Capital Adequacy Assessment Process (ICAAP). Pillar 2A capital requirements consist of a variable amount (being a set percentage of risk-weighted assets), with fixed add-ons for certain risk types. The Bank's Pillar 2A capital requirement remains at around 4.6 per cent of risk-weighted assets, of which around 2.6 per cent of risk-weighted assets must be met by CET1 capital.

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 0.5 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 1 per cent in December 2022. The UK CCyB rate will increase to 2 per cent in July 2023, representing an equivalent increase in the Bank's CCyB to around 1.0 per cent of risk-weighted assets.

The Bank applies the full extent of the IFRS 9 transitional arrangements for capital as set out under CRR Article 473a (as amended via the CRR 'Quick Fix' revisions published in June 2020). 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 2022, dynamic relief amounting to £7 million has been recognised through CET1 capital (31 December 2021: £nil).

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.

Regulatory changes applicable from 1 January 2022 included the implementation of a new standardised approach for measuring counterparty credit risk (SA-CCR). This formed part of the UK implementation of the remainder of CRR II.

On 1 January 2023 the transitional factor applied to IFRS 9 dynamic relief reduced by a further 25 per cent.

Capital resources

Regulatory capital is divided into tiers depending on the degree of permanency and loss absorbency exhibited.

- Common equity tier 1 capital represents the strongest form of capital consisting of shareholders' equity 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 and 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.
- 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.

The Bank's capital resources are summarised as follows:

	2022 £m	2021 £m
Common equity tier 1 capital	2,948	2,423
Additional tier 1 capital	757	757
Tier 2 capital	580	529
Total capital	4,285	3,709

Note 38: Cash flow statements

(A) Change in operating assets

	The Group		The Bank	
	2022 £m	2021 £m	2022 £m	2021 £m
Change in amounts due from fellow Lloyds Banking Group undertakings	288	561	269	356
Change in other financial assets held at amortised cost	(2,390)	(2,996)	(2,384)	(3,003)
Change in financial assets at fair value through profit or loss	7,645	(1,481)	7,626	(1,427)
Change in derivative financial instruments	(7,342)	3,598	(7,316)	3,607
Change in other operating assets	147	669	148	670
Change in operating assets	(1,652)	351	(1,657)	203

(B) Change in operating liabilities

	The Group		The Bank	
	2022 £m	2021 £m	2022 £m	2021 £m
Change in deposits from banks	(1,372)	(1,781)	(1,372)	(1,781)
Change in customer deposits and repurchase agreements	986	2,468	1,400	2,490
Change in amounts due to fellow Lloyds Banking Group undertakings	(1,961)	159	(2,394)	261
Change in financial liabilities at fair value through profit or loss	(4,004)	767	(4,004)	767
Change in derivative financial instruments	4,498	(5,661)	4,499	(5,662)
Change in debt securities in issue	(1,130)	967	(1,130)	967
Change in other operating liabilities ¹	118	(535)	120	(537)
Change in operating liabilities	(2,865)	(3,616)	(2,881)	(3,495)

¹ Includes a decrease of £13 million (2021: increase of £13 million) for the Group and a decrease of £13 million (2021: decrease of £7 million) for the Bank in respect of lease liabilities.

(C) Non-cash and other items

	The Group		The Bank	
	2022 £m	2021 £m	2022 £m	2021 £m
Depreciation and amortisation	16	15	15	10
Impairment of investment in subsidiaries	–	–	23	20
Dividends received from subsidiary undertakings	–	–	(22)	(44)
Allowance for loan losses (net of recoveries)	35	(37)	33	(37)
Impairment charge/(credit) relating to undrawn balances	11	(25)	12	(25)
Unwind of discount on impairment allowances	–	–	–	–
Other provision movements	1	4	–	2
Foreign exchange impact on balance sheet ¹	(454)	(54)	(442)	(52)
Other non-cash items	89	(28)	77	(26)
Non-cash and other items	(302)	(125)	(296)	(152)

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		The Bank	
	2022 £m	2021 £m	2022 £m	2021 £m
Cash and balances at central banks	19,382	22,140	19,382	22,140
Less mandatory reserve deposits ¹	(176)	(170)	(176)	(170)
	19,206	21,970	19,206	21,970
Loans and advances to banks and reverse repurchase agreements	2,353	2,890	2,299	2,869
Less amounts with a maturity of three months or more	(2,110)	(1,757)	(2,109)	(1,756)
	243	1,133	190	1,113
Total cash and cash equivalents	19,449	23,103	19,396	23,083

¹ Mandatory reserve deposits are held with local central banks in accordance with statutory requirements; these deposits are not available to finance LBCM's day-to-day operations.

Note 39: Events since the balance sheet date

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

Note 40: Future accounting developments

The following pronouncements are not applicable for the year ending 31 December 2022 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 LBCM and reliable estimates cannot be made at this stage.

With the exception of the minor amendments detailed below, as at 21 February 2023 these pronouncements have been endorsed for use in the United Kingdom.

Minor amendments to other accounting standards

The IASB has issued a number of minor amendments to IFRSs effective 1 January 2023 (including IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*). These amendments are not expected to have a significant impact on LBCM.

Note 41: 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

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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 2022. 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 (Formerly Lloyds Bank (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	Nextower Thurn-und-Taxis-Platz 6 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\$ No par value

² 10 US\$ 0.1% common

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
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Forward looking statements

This document contains certain forward looking statements within the meaning of Section 21E of the US Securities Exchange Act of 1934, as amended, and section 27A of the US Securities Act of 1933, as amended, with respect to the business, strategy, plans and/or results of Lloyds Bank Corporate Markets plc together with its subsidiaries (the Group) and its current goals and expectations. Statements that are not historical or current facts, including statements about the Group's or its directors' and/or management's beliefs and expectations, are forward looking statements. Words such as, without limitation, 'believes', 'achieves', 'anticipates', 'estimates', 'expects', 'targets', 'should', 'intends', 'aims', 'projects', 'plans', 'potential', 'will', 'would', 'could', 'considered', 'likely', 'may', 'seek', 'estimate', 'probability', 'goal', 'objective', 'deliver', 'endeavour', 'prospects', 'optimistic' and similar expressions or variations on these expressions are intended to identify forward looking statements. These statements concern or may affect future matters, including but not limited to: projections or expectations of the Group's future financial position, including profit attributable to shareholders, provisions, economic profit, dividends, capital structure, portfolios, net interest margin, capital ratios, liquidity, risk-weighted assets (RWAs), expenditures or any other financial items or ratios; litigation, regulatory and governmental investigations; the Group's future financial performance; the level and extent of future impairments and write-downs; the Group's ESG targets and/or commitments; statements of plans, objectives or goals of the Group or its management and other statements that are not historical fact; expectations about the impact of COVID-19; and statements of assumptions underlying such statements. By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend upon circumstances that will or may occur in the future. Factors that could cause actual business, strategy, plans and/or results (including but not limited to the payment of dividends) to differ materially from forward looking statements include, but are not limited to: general economic and business conditions in the UK and internationally; political instability including as a result of any UK general election and any further possible referendum on Scottish independence; acts of hostility or terrorism and responses to those acts, or other such events; geopolitical unpredictability; the war between Russia and Ukraine; the tensions between China and Taiwan; market related risks, trends and developments; exposure to counterparty risk; instability in the global financial markets, including within the Eurozone, and as a result of the exit by the UK from the European Union (EU) and the effects of the EU-UK Trade and Cooperation Agreement; the ability to access sufficient sources of capital, liquidity and funding when required; changes to the Group's credit ratings; fluctuations in interest rates, inflation, exchange rates, stock markets and currencies; volatility in credit markets; volatility in the price of the Group's securities; tightening of monetary policy in jurisdictions in which the Group operates; natural pandemic (including but not limited to the COVID-19 pandemic) and other disasters; risks concerning borrower and counterparty credit quality; risks related to the uncertainty

surrounding the integrity and continued existence of reference rates; changes in laws, regulations, practices and accounting standards or taxation; changes to regulatory capital or liquidity requirements and similar contingencies; the policies and actions of governmental or regulatory authorities or courts together with any resulting impact on the future structure of the Group; risks associated with the Group's compliance with a wide range of laws and regulations; assessment related to resolution planning requirements; risks related to regulatory actions which may be taken in the event of a bank or Group failure; exposure to legal, regulatory or competition proceedings, investigations or complaints; failure to comply with anti-money laundering, counter terrorist financing, anti-bribery and sanctions regulations; failure to prevent or detect any illegal or improper activities; operational risks; conduct risk; technological changes and risks to the security of IT and operational infrastructure, systems, data and information resulting from increased threat of cyber and other attacks; technological failure; inadequate or failed internal or external processes or systems; risks relating to ESG matters, such as climate change (and achieving climate change ambitions), including the Group's ability along with the government and other stakeholders to measure, manage and mitigate the impacts of climate change effectively, and human rights issues; the impact of competitive conditions; failure to attract, retain and develop high calibre talent; the ability to achieve strategic objectives; the ability to derive cost savings and other benefits including, but without limitation, as a result of any acquisitions, disposals and other strategic transactions; inability to capture accurately the expected value from acquisitions; assumptions and estimates that form the basis of the Group's financial statements; and potential changes in dividend policy. A number of these influences and factors are beyond the control of the Group or Lloyds Banking Group plc. Please refer to the Base Prospectus for the Group's Euro Medium Term Note Programme and the latest Annual Report on Form 20-F filed by Lloyds Banking Group plc with the US Securities and Exchange Commission (the SEC), which is available on the SEC's website at www.sec.gov, for a discussion of certain factors and risks. Lloyds Banking Group plc may also make or disclose written and/or oral forward-looking statements in other written materials and in oral statements made by the directors, officers or employees of Lloyds Banking Group plc to third parties, including financial analysts. Except as required by any applicable law or regulation, the forward-looking statements contained in this document are made as of today's date, and the Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statements contained in this document whether as a result of new information, future events or otherwise. The information, statements and opinions contained in this document do not constitute a public offer under any applicable law or an offer to sell any securities or financial instruments or any advice or recommendation with respect to such securities or financial instruments.

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