

LLOYDS BANK

CORPORATE MARKETS



LLOYDS BANK CORPORATE MARKETS plc

(incorporated in England with limited liability with registered number 10399850)

£10,000,000,000

Euro Medium Term Note Programme

This Prospectus (the “**Prospectus**”) is issued in connection with the Programme (as defined below). Save where otherwise specified in the applicable Final Terms, any Notes (as defined below) issued under the Programme on or after the date of this Prospectus are issued subject to the provisions described herein. Under the Euro Medium Term Note Programme described in this Prospectus (the “**Programme**”), Lloyds Bank Corporate Markets plc (the “**Issuer**” or “**LBCM**”), subject to compliance with all relevant laws, regulations and directives, may from time to time issue Euro Medium Term Notes (the “**Notes**”). The aggregate nominal amount of Notes outstanding will not at any time exceed £10,000,000,000 (or the equivalent in other currencies), subject to increase as provided herein.

Notes to be issued under the Programme will constitute unsecured and unsubordinated obligations of the Issuer.

Application has been made to the Financial Conduct Authority (the “**FCA**”) under Part VI of the Financial Services and Markets Act 2000 (the “**FSMA**”) for Notes issued under the Programme for the period of twelve months from the date of this Prospectus to be admitted to the Official List of the FCA (the “**Official List**”) and to the London Stock Exchange plc (the “**London Stock Exchange**”) for such Notes to be admitted to trading on the London Stock Exchange’s Regulated Market (the “**Market**”). References in this Prospectus to Notes being “**listed**” (and all related references) shall mean that such Notes have been admitted to trading on the Market and have been admitted to the Official List. The Market is a regulated market for the purposes of Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments (“**MiFID II**”). The relevant Final Terms (as defined herein) in respect of the issue of any Notes will specify whether or not such Notes will be listed on the Official List and admitted to trading on the Market (or any other stock exchange).

Each Tranche of Notes in bearer form will be represented on issue by a temporary global note in bearer form (each a “**temporary Global Note**”) or a permanent global note in bearer form (each a “**permanent Global Note**” and, together with the temporary Global Notes, the “**Global Notes**”). Notes in registered form may also be issued. The minimum specified denomination of the Notes shall be at least the greater of (i) €100,000 (or its equivalent in another currency as at the date of issue of the Notes) or (ii) the minimum amount allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Specified Currency of the Notes.

As at the date of this Prospectus: (i) long-term senior obligations of the Issuer are rated “A” by S&P, “A1” by Moody’s and “A” by Fitch and (ii) short-term senior obligations of the Issuer are rated “A-1” by S&P, “P-1” by Moody’s and “F1” by Fitch. Each of Fitch, Moody’s and S&P is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) of the European Parliament and of the Council of 16 September 2009 on credit rating agencies.

Tranches of Notes to be issued under the Programme will be rated or unrated. Where a Tranche of Notes is to be rated, such rating will not necessarily be the same as the rating assigned to any Notes already issued. Whether or not a rating in relation to any Tranche of Notes will be treated as having been issued by a credit rating agency established in the European Union and registered under Regulation (EC) No 1060/2009 (as amended) on credit rating agencies will be disclosed in the relevant Final Terms. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Prospective investors should have regard to the factors described under the section headed “Risk Factors” in this Prospectus. This Prospectus does not describe all of the risks of an investment in the Notes.

Prospective investors in Notes should ensure that they understand the nature of the relevant Notes and the extent of their exposure to risks and that they consider the suitability of the relevant Notes as an investment in the light of their own circumstances and financial condition. It is the responsibility of prospective investors to ensure that they have sufficient knowledge, experience and professional advice to make their own legal, financial, tax, accounting and other business evaluation of the merits and risks of investing in the Notes and are not relying on the advice of the Issuer, the Trustee (as defined herein) or any Dealer (as defined herein) in that regard.

Arranger and Dealer

Lloyds Bank Corporate Markets

This Prospectus comprises a base prospectus for the purposes of the Prospectus Directive and for the purpose of giving information with regard to the Issuer and its subsidiary and associated undertakings (the “LBCM Group”) which is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer. When used in this Prospectus, “Prospectus Directive” means Directive 2003/71/EC, as amended or superseded, and includes any relevant implementing measure in a relevant Member State of the European Economic Area.

The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

The report set out on pages F-99 to F-100 of this Prospectus (the “Accountant’s Report”) has been prepared by PricewaterhouseCoopers LLP, Chartered Accountants and Statutory Auditors (members of the Institute of Chartered Accountants in England and Wales), at the request of the Issuer. PricewaterhouseCoopers LLP has given and has not withdrawn its written consent to the inclusion in this Prospectus of the Accountant’s Report in the form and context in which it appears in this Prospectus and has authorised those parts of this Prospectus which comprise its Accountant’s Report for the purposes of item 5.5.4R(2)(f) of the Prospectus Rules set out in the FCA handbook.

The Notes may not be a suitable investment for all investors. Each potential investor in any Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in the relevant Notes and the information contained or incorporated by reference in this Prospectus or any applicable Supplemental Prospectus or any applicable drawdown prospectus;**
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and the impact such investment will have on its overall investment portfolio;**
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Notes, including where the currency for principal or interest payments is different from the potential investor’s currency;**
- (iv) understand thoroughly the terms of the relevant Notes and be familiar with the behaviour of any relevant indices and financial markets;**
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks; and**
- (vi) understand the accounting, legal, regulatory and tax implications of a purchase, holding and disposal of an interest in the relevant Notes.**

An investment in the Notes may give rise to higher yields than a bank deposit placed with a deposit-taking bank within the LBCM Group. However, an investment in the Notes carries risks which are very different from the risk profile of such a bank deposit. The Notes may provide greater liquidity than a bank deposit since bank deposits are generally not transferable. Conversely, unlike certain bank deposits (i) (where the Put Option is stated in the relevant Final Terms to be not applicable) holders of the Notes have no ability to require repayment of their investment unless an Event of Default occurs and then only in limited circumstances (see “Terms and Conditions of the Notes”) and (ii) holders of the Notes will not

have the benefit of any insurance or deposit guarantee of the FSCS (as defined below) or any other government agency. See also the risk factors below under the sub-section entitled “*Risk Factors relating to the Notes*”.

Some Notes may be purchased by investors as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in any Notes unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor’s overall investment portfolio.

This Prospectus is to be read in conjunction with all documents which are incorporated herein by reference (see “Documents Incorporated by Reference”).

No person is or has been authorised to give any information or to make any representation other than as contained in this Prospectus in its entirety in connection with the offering of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any of the Dealers, the Arranger or the Trustee (each as defined in “Overview of the Programme”). Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer or the LBCM Group since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. Neither this Prospectus nor any other information supplied in connection with the Programme or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation or constituting an invitation or offer by the Issuer, the Trustee, the Arranger or any of the Dealers that any recipient of this Prospectus or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Each prospective investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Prospectus nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer of, or an invitation by or on behalf of, the Issuer, the Trustee, the Arranger or any of the Dealers to any person to subscribe for or purchase, any Notes.

No representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by any of the Dealers or the Arranger as to the accuracy or completeness of the information contained or incorporated by reference in this Prospectus or any other information provided by the Issuer in connection with the Programme. Neither the Dealers nor the Arranger accepts any liability in relation to the information contained or incorporated by reference in this Prospectus or any other information provided by the Issuer in connection with the Programme.

The Dealers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Programme.

MiFID II PRODUCT GOVERNANCE / TARGET MARKET: The Final Terms in respect of any Notes will include a legend entitled “MiFID II Product Governance” which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a “distributor”) should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels. A determination will be made in relation to each issue of Notes about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the “MiFID Product Governance Rules”), any Dealer

subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

PRIIPS / IMPORTANT – EEA RETAIL INVESTORS: The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“EEA”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) MiFID II; or (ii) a customer within the meaning of Directive 2002/92/EC, as amended or superseded (“IMD”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the “PRIIPs Regulation”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

The distribution of this Prospectus and the offering or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer, the Dealers and the Arranger to inform themselves about and to observe any such restriction. The Notes have not been and will not be registered under the United States Securities Act of 1933 (the “Securities Act”), and include Notes in bearer form that are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to, or for the accounts or benefit of, U.S. persons. The Notes are being offered and sold outside the United States to persons that are not U.S. persons (as defined in Regulation S (“Regulation S”) under the Securities Act) in reliance on Regulation S. For a description of certain restrictions on offers and sales of Notes and on distribution of this Prospectus, see “Selling Restrictions”.

The Notes have not been approved or disapproved by the U.S. Securities and Exchange Commission, any State securities commission in the United States or any other U.S. regulatory authority, nor has any of the foregoing authorities passed upon or endorsed the merits of the offering of Notes or the accuracy or the adequacy of this Prospectus. Any representation to the contrary is a criminal offence in the United States.

In this Prospectus, unless otherwise specified or the context otherwise requires, references to “£”, “pounds” and “Sterling” are to pounds sterling, references to “U.S. dollars” and to “U.S.\$” are to United States dollars, references to “Yen” are to Japanese Yen and references to “€” and “euro” are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

If the Global Notes are stated in the applicable Final Terms to be issued in new global note (“NGN”) form, the Global Notes will be delivered on or prior to the original issue date of the relevant Tranche to a common safekeeper (the “Common Safekeeper”) for Euroclear Bank SA/NV (“Euroclear”) and Clearstream Banking S.A. (“Clearstream, Luxembourg”) and/or any other agreed clearing system. If a Global Certificate is held under the new safekeeping structure (the “NSS”), the Global Certificate will be delivered on or prior to the original issue date of the relevant Tranche to a Common Safekeeper for Euroclear and Clearstream, Luxembourg and/or any other agreed clearing system. Global Notes which are not issued in NGN form (“Classic Global Notes” or “CGNs”) and Global Certificates which are not held under the NSS will be deposited on the issue date of the relevant Tranche with a common depository on behalf of Euroclear and Clearstream, Luxembourg and/or any other agreed clearing system. Notes in registered form (“Registered Notes”) will be represented by registered certificates (each a “Certificate”). Registered Notes which are sold to persons that are not U.S. persons in an ‘offshore transaction’ within the meaning of Regulation S under the Securities Act, will initially be represented by a permanent

registered global certificate (each, a “Global Certificate”), which will, unless held under the NSS, be deposited on the issue date of the relevant Tranche either with (a) a common depository on behalf of Euroclear and Clearstream, Luxembourg and/or (b) any other agreed clearing system.

In connection with the issue of any Tranche, the Dealer or Dealers (if any) acting as stabilising manager(s) (the “Stabilising Manager(s)”) (or persons acting on behalf of any Stabilising Manager(s)) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the Final Terms of the offer of the relevant Tranche is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche and 60 days after the date of the allotment of the relevant Tranche. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

The investment activities of certain investors are subject to investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

Interest and/or other amounts payable under the Notes may be calculated by reference to certain reference rates. Any such reference rate may constitute a benchmark for the purposes of Regulation (EU) 2016/1011 (the “Benchmark Regulation”). If any such reference rate does constitute such a benchmark, the applicable Final Terms will indicate whether or not the benchmark is provided by an administrator included in the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority (“ESMA”) pursuant to Article 36 of the Benchmark Regulation. Not every reference rate will fall within the scope of the Benchmark Regulation. Transitional provisions in the Benchmark Regulation may have the result that the administrator of a particular benchmark is not required to appear in the register of administrators and benchmarks at the date of the relevant Final Terms (or, if located outside the European Union, recognition, endorsement or equivalence). The registration status of any administrator under the Benchmark Regulation is a matter of public record and, save where required by applicable law, the Issuer does not intend to update the relevant Final Terms to reflect any change in the registration status of the administrator.

SINGAPORE SFA PRODUCT CLASSIFICATION: In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the “SFA”) and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the “CMP Regulations 2018”), unless otherwise specified before an offer of Notes, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are ‘prescribed capital markets products’ (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

Certain Definitions

In this Prospectus, reference to:

- (i) “**BoS**” is to Bank of Scotland plc;
- (ii) “**FCA**” is to the United Kingdom Financial Conduct Authority;
- (iii) “**FSMA**” is to the Financial Services and Markets Act 2000;
- (iv) “**LBCM Group**” is to LBCM and its subsidiary and associated undertakings;
- (v) “**Issuer**” or “**LBCM**” is to Lloyds Bank Corporate Markets plc;
- (vi) “**LBG**” is to Lloyds Banking Group plc;
- (vii) “**Lloyds Bank**” is to Lloyds Bank plc; and
- (viii) “**Lloyds Banking Group**” is to LBG and its subsidiary and associated undertakings (including the LBCM Group and Lloyds Bank and its subsidiary and associated undertakings).

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FORWARD LOOKING STATEMENTS

Certain statements included herein may constitute forward looking statements with respect to the business, strategy, plans and/or results of LBCM Group and its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about the LBCM Group's or its directors' and/or management's beliefs and expectations, are forward looking statements. Words such as 'believes', 'anticipates', 'estimates', 'expects', 'intends', 'aims', 'potential', 'will', 'would', 'could', 'considered', 'likely', 'estimate' and variations of these words and similar future or conditional expressions are intended to identify forward looking statements but are not the exclusive means of identifying such statements. 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.

The LBCM Group may also make or disclose written and/or oral forward looking statements in the LBCM Group's annual reviews, half-year announcements, proxy statements, offering circulars, prospectuses, press releases and other written materials and in oral statements made by the directors, officers or employees of the LBCM Group to third parties, including financial analysts. Except as required by any applicable law or regulation, the forward looking statements contained in this Prospectus are made as of the date hereof, and the LBCM Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statements contained in this Prospectus to reflect any change in the LBCM Group's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. See "*Risk Factors*" below.

DOCUMENTS INCORPORATED BY REFERENCE

Any statement contained in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Prospectus to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus. Any documents or information themselves incorporated by reference in, or cross-referred to in, the documents incorporated by reference in this Prospectus shall not form part of this Prospectus unless also separately incorporated by reference. In each case, where only certain sections of a document referred to are incorporated by reference in the Prospectus, the parts of the document which are not incorporated by reference are either not relevant to prospective investors in the Notes or are covered elsewhere in this Prospectus.

The Issuer will provide, without charge, to each person to whom a copy of this Prospectus has been delivered, upon the oral or written request of such person, a copy of any or all of the documents which are incorporated in whole or in part by reference herein. Written or oral requests for such documents should be directed to the Issuer at its principal office set out at the end of this Prospectus. Copies of all documents incorporated by reference in this Prospectus can also be viewed on the website of the Regulatory News Service operated by the London Stock Exchange at www.londonstockexchange.com/exchange/prices-and-news/news/market-news/market-news-home.html.

The Issuer will, in the event of any significant new factor, material mistake or inaccuracy relating to information included or incorporated by reference in this Prospectus which is capable of affecting the assessment of any Notes, prepare a supplement to this Prospectus (a “**Supplemental Prospectus**”) or publish a new prospectus for use in connection with any subsequent issue of Notes. The Issuer has undertaken to the Dealers in the Programme Agreement (as defined in “*Subscription and Sale*”) that it will comply with section 87G of the FSMA.

PRESENTATION OF FINANCIAL INFORMATION

LBCM's Annual Report and Accounts 2017 including the audited consolidated financial statements of the Issuer for the period commencing from, and including, the incorporation of the Issuer (28 September 2016) to, and including, 31 December 2017, together with the audit report thereon (the "**2017 Annual Report**") and LBCM's Annual Report and Accounts 2018 including the audited consolidated financial statements for the financial year ended 31 December 2018, together with the audit report thereon (the "**2018 Annual Report**"), each of which have been published and filed with the FCA, are set out on pages F-1 to F-98 of this Prospectus.

In this Prospectus, references to the "**consolidated financial statements**" are to LBCM's consolidated financial statements included in the Issuer's 2018 Annual Report and 2017 Annual Report, unless indicated otherwise.

The consolidated financial statements of the Issuer set out in this Prospectus have been prepared in accordance with the International Financial Reporting Standards ("**IFRS**") as adopted by the EU as applied in accordance with the provisions of the Companies Act 2006.

Certain businesses and companies were transferred to the Issuer from other parts of the Lloyds Banking Group during May to December 2018 as part of the Ring-fencing programme to establish the LBCM Group as the non-ring-fenced sub-group of the Lloyds Banking Group. See "*Lloyds Bank Corporate Markets plc – Ring-fencing*". Neither the Issuer nor the LBCM Group traded during 2017 and the 2018 Annual Report reflects the staggered nature of the transfers during 2018.

The audited combined carve-out financial statements for the financial year ended 31 December 2018, together with the accountant's report thereon (the "**2018 Carve Out Financial Statements**") set out in this Prospectus have been prepared on the basis set out on page F-108 of this Prospectus. PricewaterhouseCoopers LLP has provided an Accountant's Report with respect to such financial information on pages F-99 to F-100 of this Prospectus. The financial information contained in the 2018 Carve Out Financial Statements is different to the financial information contained in the Issuer's 2018 Annual Report. Differences arise principally because:

- the financial information contained in the 2018 Carve Out Financial Statements, which has been prepared specifically for the purpose of this Prospectus, is prepared on a basis that combines the results, assets and liabilities of the Transferred Business (as defined on page F-108 of this Prospectus) as if all of the transfers described had occurred on 1 January 2018, together with any further necessary adjustments to reflect the costs of carrying on such businesses, and by applying the principles underlying the consolidation procedures of IFRS 10 – "Consolidated Financial Statements" for the year ended 31 December 2018.
- on such basis, the 2018 Carve Out Financial Statements set out the combined balance sheet, statements of changes in equity, results of operations and cash flows for the year ended 31 December 2018. The 2018 Carve Out Financial Statements set out herein are prepared on a different basis from the statutory financial statements of LBCM for the comparable years albeit both are prepared in accordance with IFRS.
- IFRS does not provide for the preparation of combined financial information or for the specific accounting treatment set out in the Accountant's Report. Accordingly, when preparing the 2018 Carve Out Financial Statements, certain accounting conventions commonly used for the preparation of historical financial information for inclusion in investment circulars as described in the Annexure to the Standards for Investment Reporting 2000 – "Standards for Investment Reporting applicable to public reporting engagements on historical financial information" issued by the UK Auditing Practices Board have been applied.

As a result, the financial information contained in the 2018 Carve Out Financial Statements is not directly comparable with previous financial information for the Issuer set out in this Prospectus. In addition, as discussed in Note 1 to the 2018 Carve Out Financial Statements, the 2018 Carve Out Financial Statements do

not include comparative figures for the prior year as required by IAS 1 - "Presentation of financial statements" and the Accountant's Report is therefore qualified in this respect. Investors should consider the 2018 Carve Out Financial Statements carefully when making any investment decision relating to the Notes. In addition, investors should not rely on or base their decision on the previous or future financial results disclosures of Lloyds Banking Group, Lloyds Bank and its subsidiary and associated undertakings or any other source.

OVERVIEW OF THE PROGRAMME

This overview must be read as an introduction to this Prospectus and any decision to invest in the Notes should be based on a consideration of this Prospectus as a whole, including the documents incorporated by reference and the relevant Final Terms.

Issuer

Lloyds Bank Corporate Markets plc

Business

Lloyds Bank Corporate Markets plc (the “**Issuer**”) was incorporated in England and Wales on 28 September 2016 (Company Number 10399850). The Issuer’s registered office is at 25 Gresham Street, London EC2V 7HN. The Issuer and its subsidiary and associated undertakings are referred to as the “**LBCM Group**”. As at the date of this Prospectus, the Issuer is a wholly-owned subsidiary of LBG. Its main businesses are commercial lending, trade and working capital finance, bonds and structured finance, risk management and in addition retail banking to customers in the Bailiwick of Jersey, the Bailiwick of Guernsey and the Isle of Man (together, the “**Crown Dependencies**”).

Risks relating to the LBCM Group

Investors should note that the risks that are stated to apply to “the LBCM Group” apply also to the Issuer.

Risks:

- Relating to borrower and counterparty credit quality.
- Relating to concentrations of credit and market risk.
- Relating to conduct risk.
- Relating to substantial regulation and oversight.
- Relating to adverse regulatory developments or changes in UK Government, EU or U.S. policy, including capital adequacy requirements.
- Associated with the Banking Act 2009 and the Banking Reform Act relating to competition and related issues.
- Associated with the special resolution regime under the Banking Act 2009 and “bail-in” powers granted under the Banking Reform Act.
- Arising from general macro-economic conditions in the UK, the U.S., the EU, Asia, the Crown Dependencies and globally, and any resulting instability of financial markets or banking systems.
- Relating to uncertainty arising from the outcome of the referendum on the UK’s membership of the EU.
- Of material negative changes to the estimated fair values of financial assets of the LBCM Group.
- Relating to the competitive environment in which the LBCM Group operates.
- Relating to uncertainty surrounding the integrity and continued existence of reference rates.

- Arising from the complete or partial failure of the LBCM Group to manage and govern the provision of internal services.
- That the LBCM Group could fail to attract or retain senior management, skilled resources or other key employees.
- Of weaknesses or failures in the LBCM Group's internal processes, systems and security as a result of internal and/or external events.
- Relating to cybercrime.
- Arising from terrorist acts, other acts of war, geopolitical events, pandemics, or other such events.
- Associated with the implementation of anti-money laundering policies (and related activities).
- Concerning the complete or partial failure to execute ongoing strategic change initiatives.
- Associated with industrial action and increased labour costs.
- Concerning borrowing costs and the LBCM Group's access to liquidity and sources of funding.
- Relating to the real or perceived shortage of capital resources.
- Of assumptions and estimates on which the LBCM Group's financial statements are based being wrong.
- Associated with changes in taxation rates, accounting policy, law or interpretation of the law.

Risks relating to the Notes

Risks include:

- There is no assurance that a liquid secondary market for certain Notes will develop or continue.
- Certain Notes may be subject to early redemption at the Issuer's discretion.
- Noteholders (as defined in "*Terms and Conditions of the Notes*") of the Notes may be required to absorb losses in the event the Issuer or the LBCM Group becomes non-viable.
- There are risks associated with the change in the performance of a Benchmark or its discontinuation.
- The market continues to develop in relation to risk free rates, including SONIA and SOFR (as defined in "*Terms and Conditions of the Notes*").
- There are risks associated with certain provisions of the U.S. Internal Revenue Code of 1986 (commonly referred to as "FATCA") with respect to the Notes.

Description

Euro Medium Term Note Programme.

| | |
|----------------------------------|---|
| Size | Up to £10,000,000,000 (or the equivalent in other currencies at the date of issue). |
| Arranger and Dealer | Lloyds Bank Corporate Markets plc (together with any dealer appointed by the Issuer under the Programme from time to time, the “ Dealers ”). The Issuer may terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of one or more Tranches or the Programme. |
| Trustee | The Law Debenture Trust Corporation p.l.c. |
| Issuing and Paying Agent | Citibank, N.A., London Branch |
| Method of Issue | The Notes will be issued on a syndicated or non-syndicated basis and will be issued in series (each, a “ Series ”) having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches (each, a “ Tranche ”) on the same or different issue dates. The specific terms of each Tranche (which will be supplemented, where necessary, with supplemental terms and conditions and, save in respect of the issue date, issue price, first payment of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be set out in the relevant final terms (each, a “ Final Terms ”). |
| Issue Price | Notes may be issued at their nominal amount or at a discount or premium thereto. |
| Form of Notes | The Notes may be issued in bearer form only (“ Bearer Notes ”) represented by a Global Note, in bearer form exchangeable for Registered Notes (“ Exchangeable Bearer Notes ”) or in registered form only (“ Registered Notes ”) represented by a Global Certificate. |
| Clearing Systems | Clearstream, Luxembourg, Euroclear and such other clearing system as agreed between the Issuer, the Issuing and Paying Agent, the Trustee and the relevant Dealer(s). |
| Initial Delivery of Notes | On or before the issue date for each Tranche, if the relevant Global Note is a NGN or the relevant Global Certificate is held under the NSS, the Global Note or Global Certificate will be delivered to a Common Safekeeper for Euroclear and Clearstream, Luxembourg. On or before the issue date for each Tranche, if the relevant Global Note is a CGN or the relevant Global Certificate is not held under the NSS, the Global Note representing Bearer Notes or Exchangeable Bearer Notes or the Global Certificate representing Registered Notes may be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Global Notes or Global Certificates may also be deposited with any other clearing system or delivered outside any clearing system provided that the method |

of such delivery has been agreed in advance by the Issuer, the Issuing and Paying Agent, the Trustee and the relevant Dealer(s).

Registered Notes will initially be represented by a Global Certificate, which, if not held under the NSS, will be deposited on the issue date of the relevant Tranche either with (a) a common depository on behalf of Euroclear and Clearstream, Luxembourg or (b) any other agreed clearing system.

Currencies

Subject to compliance with all relevant laws, regulations and directives, any currency agreed between the Issuer and the relevant Dealer(s).

Maturities

Subject to compliance with all relevant laws, regulations and directives, any maturity.

Denomination

Definitive Notes will be in such denominations as agreed between the Issuer and the relevant Dealer and as specified in the relevant Final Terms save that the minimum denomination of each Note shall be at least the greater of (i) €100,000 (or its equivalent in another currency as at the date of issue of the Notes) or (ii) the minimum amount allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency.

Fixed Rate Notes

Fixed Rate Notes will bear interest at the rate specified in the relevant Final Terms, such interest being payable in arrear on the date(s) in each year specified in the relevant Final Terms.

Fixed Rate Reset Notes

Fixed Rate Reset Notes will bear interest calculated by reference to a fixed rate of interest for an initial period and thereafter by reference to a fixed rate of interest recalculated on certain dates and by reference to a mid-market swap rate or to a benchmark gilt rate, as adjusted for any applicable margin, in each case as may be specified in the relevant Final Terms, such interest being payable in arrear on the date(s) in each year specified in the relevant Final Terms.

Floating Rate Notes

Floating Rate Notes will bear interest as follows:

- (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the ISDA Definitions (as defined in "*Terms and Conditions of the Notes*"); or
- (ii) by reference to LIBOR, EURIBOR, CDOR, SONIA or SOFR, as adjusted for any applicable margin.

Floating Rate Notes may also have a maximum interest rate and/or a minimum interest rate.

| | |
|---|---|
| Zero Coupon Notes | Zero Coupon Notes may be issued at their nominal amount or at a discount to it and will not bear interest other than after the Maturity Date. |
| Redemption | The relevant Final Terms will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than in specified circumstances) or that such Notes will be redeemable at the option of the Issuer and/or the Noteholders upon giving notice to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be specified in the relevant Final Terms and/or any drawdown prospectus. |
| Benchmark discontinuation | On the occurrence of a Benchmark Event, the Issuer may (subject to certain conditions and following the appointment and consultation with an Independent Adviser (as defined in “ <i>Terms and Conditions of the Notes</i> ”)) determine a Successor Rate, failing which an Alternative Rate and, in either case, an Adjustment Spread and any Benchmark Amendments in accordance with Condition 4(j). |
| Status of Notes | Notes will constitute unsecured and unsubordinated obligations of the Issuer. |
| Early Redemption | Except as provided in “Redemption” above, Notes will be redeemable at the option of the Issuer prior to maturity upon the occurrence of a Tax Event (as defined in “ <i>Terms and Conditions of the Notes</i> ”). |
| Remedies for Non-Payment | The Notes do not provide for acceleration following non-payment of interest other than in a winding-up of the Issuer. |
| Withholding Tax | All payments of principal and interest (if any) in respect of the Notes will be made without withholding or deduction for, or on account of, taxes of the United Kingdom, unless such withholding or deduction is required by law. In the event such withholding or deduction is made, additional amounts may be payable by the Issuer, subject to certain exceptions as more fully described in Condition 7. |
| Governing Law | The Notes, and any non-contractual obligations arising out of or in connection with the Notes will be governed by, and construed in accordance with, English law. |
| Listing and Admission to Trading | Application has been made to list Notes issued under the Programme on the Official List and to admit them to trading on the Market and references to listing shall be construed accordingly. |
| Ratings | S&P Global Ratings Europe Limited, UK Branch (“ S&P ”) is expected to rate: Senior Notes issued by the Issuer under the Programme with a maturity of one year or more “A” and Senior Notes issued by the Issuer under the Programme with a maturity of less than one year “A-1”; Fitch Ratings Limited (“ Fitch ”) is |

expected to rate: Senior Notes issued by the Issuer under the Programme with a maturity of one year or more “A” and Senior Notes issued by the Issuer under the Programme with a maturity of less than one year “F1”. Moody’s Investors Service Limited (“**Moody’s**”) is expected to rate: Senior Notes issued by the Issuer under the Programme with a maturity of one year or more “A1” and Senior Notes issued by the Issuer under the Programme with a maturity of less than one year “P-1”.

The credit ratings referred to and included in this Prospectus have been issued by S&P, Fitch and Moody’s, each of which is established in the EU and is registered under Regulation (EC) No. 1060/2009 (as amended) of the European Parliament and of the Council of 16 September 2009 on credit rating agencies.

Tranches of Notes (as defined in “*Overview of the Programme – Method of Issue*”) to be issued under the Programme will be rated or unrated. Where a Tranche of Notes is to be rated, such rating will not necessarily be the same as the rating assigned to Notes already issued. Whether or not a rating in relation to any Tranche of Notes will be treated as having been issued by a credit rating agency established in the EU and registered under Regulation (EC) No. 1060/2009 (as amended) on credit rating agencies will be disclosed in the relevant Final Terms. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Selling Restrictions

United States, the Public Offer Selling Restriction under the Prospectus Directive, United Kingdom and all jurisdictions listed in “*Selling Restrictions*”. Other restrictions may be required in connection with a particular issue of Notes. The Issuer is Category 2 for the purposes of Regulation S under the Securities Act.

The Bearer Notes will be issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(D) (or any successor rules in substantially the same form as such rules for purposes of section 4701 of the U.S. Internal Revenue Code of 1986, as amended (the “**Code**”)) (“**TEFRA D**”) unless (i) the relevant Final Terms state that Notes are issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(C) (or any successor rules in substantially the same form as such rules for purposes of section 4701 of the Code) (“**TEFRA C**”) or (ii) the Notes are issued other than in compliance with TEFRA D or TEFRA C but in circumstances in which the Notes will not constitute “registration required obligations” under the United States Tax Equity and Fiscal Responsibility Act of 1982 (“**TEFRA**”), which circumstances will be referred to in the relevant Final Terms as a transaction to which TEFRA is not applicable.

RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Notes issued under the Programme and confirms that the risks that are stated to apply to “the LBCM Group” below apply also to the Issuer. All of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring. Factors which the Issuer believes may be material for the purpose of assessing the market risks associated with Notes issued under the Programme in relation to the LBCM Group are also described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in Notes issued under the Programme, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with any Notes may occur for other reasons and the Issuer does not represent that the statements below regarding the risks of holding any Notes are exhaustive. Prospective purchasers should consider carefully the risks and uncertainties described below, together with all other information contained in this Prospectus, the information incorporated by reference herein and the relevant Final Terms before making any investment decision.

Risk Factors relating to the Issuer and the LBCM Group

1 Credit Related Risks

1.1 *The LBCM Group’s businesses are subject to inherent risks concerning borrower and counterparty credit quality which have affected and may adversely impact the recoverability and value of assets on the LBCM Group’s balance sheet.*

The LBCM Group has exposures (including, but not limited to, lending, derivatives, undrawn commitments, bonds, securities, equity, contingent and/or settlement risks) to many different products, counterparties, obligors and other contractual relationships and the credit quality of its exposures can have a significant impact on the LBCM Group’s earnings. Credit risk exposures are categorised as either “corporate” (including large and mid-sized corporates, banks, financial institutions and sovereigns) or “retail” (including small and medium-sized enterprises (“SME”)). Adverse changes in the credit quality of the LBCM Group’s UK and/or international borrowers and counterparties or collateral held in support of exposures, or in their behaviour or businesses, may reduce the value of the LBCM Group’s assets and materially increase the LBCM Group’s write-downs and allowances for impairment losses. Credit risk can be affected by a range of factors outside the LBCM Group’s control, which include but are not limited to an adverse economic environment (in the UK and/or in countries where the LBCM Group and/or its customers/counterparties do and do not operate, such as any adverse economic effects that could occur in connection with the UK’s exit from the EU), reduced consumer and/or government spending in the UK and other countries where the LBCM Group operates, a slower pace of global economic growth leading to constraints on liquidity (given the possibility of adverse global economic developments and potential market volatility), changes in the credit rating of individual counterparties (including sovereigns), the debt levels of individual contractual counterparties and the economic environment in which they operate, reduced asset values, adverse sector concerns, falling stock and bond/other financial markets, reduced corporate profits, over-indebtedness (including sovereigns), changes (and the timing, quantum and pace of these changes) in interest rates (including the use of zero or negative interest rates), volatility of oil and commodity prices, changes in foreign exchange rates, counterparty challenges to the interpretation or validity of contractual arrangements, an increase in credit spreads, changes to insolvency regimes, both in the UK and/or in other jurisdictions where the LBCM Group may seek to pursue recovery, making it harder to enforce against counterparties, increased corporate or personal insolvency levels, the impact of technological disruption or cyber-crime, higher tenant defaults, increased unemployment, changes in consumer and customer demands and requirements, negative reputational impact or direct campaigns which adversely impact customers, industries or sectors and any external factors of a political, legislative,

environmental or regulatory nature, including for example, trade wars, changes in accounting rules and changes to tax legislation and rates.

The UK's expected exit from the EU has heightened the probability of some or all of the events mentioned above happening and adds further uncertainty to counterparty credit risk and the LBCM Group's financial condition. Key related risks which may impact the LBCM Group's business and/or the LBCM Group's clients' businesses include, but are not limited to: reduced consumer spending, dampened consumer confidence, weaker Sterling, volatility in financial markets, a downgrade of the UK credit rating, inflation risk, prolonged low (including zero or negative interest rates) or rising interest rates, impact on European sovereigns and counterparties, loss and/or postponement of foreign direct investment and domestic direct investment, political uncertainty, delays or increased costs in the movement of goods and/or services, potential wider European political instability, uncertainty around trade negotiations and/or the UK's ability to retain access to the single market, financial services passporting and free movement and cost of labour, relocation of companies and institutions away from the UK, and the withdrawal and/or reduction of EU funding. For more detail on the EU referendum decision and general macroeconomic risks affecting the LBCM Group in the UK and the EU see *"Business and Economic Risks – 4.1 The LBCM Group's businesses are subject to inherent and indirect risks arising from general macroeconomic conditions in the UK, the U.S., the EU, Asia, the Crown Dependencies and globally, and any resulting instability of financial markets or banking systems"*.

There are many other factors that could impact credit risk including fraud, sustainability of client business models, industrial and strike action, war and acts of terrorism, climate change, natural disasters and flooding. For more detail on the risks associated with climate change, see *"Other Risks - 7.3 The LBCM Group is subject to the emerging risks associated with climate change"*.

The LBCM Group has credit exposure in the UK and internationally, including Europe, the U.S., Asia and the Crown Dependencies. The LBCM Group has country exposure mainly in the UK and the U.S. with certain industry sectors, such as fund finance, as well as counterparties in higher risk and cyclical asset classes and sectors (such as business services, manufacturing, oil and gas and related sectors, automotive and related sectors, construction, consumer related sectors (such as retail), real estate (including related sectors and commercial lending) and weakened geographic markets and to counterparties whose businesses may be impacted by material unforeseen events. In the Crown Dependencies, the LBCM Group has a residential mortgage lending portfolio. Certain industry sectors have been adversely impacted by recent global economic events, volatility and sector-specific issues and adverse developments in these sectors increases the risk of default by the LBCM Group's customers in these sectors.

A number of factors, such as EU instability (including the risk of economic stagnation/deflation in the Eurozone or of further members declaring their intention to leave the EU), the deterioration of capital market conditions, a slower pace of global economic growth (given slowdown in economic growth across China and emerging markets and other macroeconomic issues) and measures adopted by the governments of individual countries might reduce the LBCM Group businesses' profitability. If political conditions or uncertainty result in a prolonged period of economic stagnation, or a slowdown in the rate of economic recovery, or there is a broader economic slowdown, it may lead to the weakening of counterparty credit quality and subsequent higher impairment charges or fair value reductions in the LBCM Group's lending and contingent equity and derivative portfolios. This could have a material adverse effect on the LBCM Group's results of operations, financial condition or prospects.

The possibility of economic stagnation in the EU or the risk of further members seeking to leave the EU, or the risk of a Eurozone member seeking to leave the Eurozone, could impact the UK's own economic recovery, given the extensive trade and financial links between the UK and the Eurozone/EU and in turn, this could impact upon the LBCM Group's performance. The LBCM Group has credit exposure to financial institutions, corporates and SMEs and securities which may have material direct and indirect exposures in the

Eurozone countries. Any default on the sovereign debt of these countries and the resulting impact on other Eurozone countries, including the potential that one or more countries could leave the Eurozone, could have a material adverse effect on the LBCM Group's business.

At present, default rates are partly cushioned by low rates of interest which have helped affordability and debt serviceability; however, the risk remains of increased default rates as interest rates rise. The timing, quantum and pace of any change in interest rates is a key risk factor for the LBCM Group's default rates with expectations on the timing and quantum of any changes set by the Bank of England and also by the relevant central bank when lending in a foreign currency.

All lending decisions, and decisions related to other exposures (including, but not limited to, undrawn commitments, derivative, equity, contingent and/or settlement risks) are made by LBCM informed by analyses performed under the shared services model with Lloyds Banking Group (the "**Shared Services Model**"). For more information on the Shared Services Model, see "*Operational Risks – 5.1 The LBCM Group could fail to manage and govern the provision of internal services which could negatively impact on operations and customers and could result in reputational damage which in turn could have a material adverse effect on the LBCM Group's results of operations, financial condition or prospects*".

There is an inherent risk that the credit quality and/or the ability or willingness of borrowers to repay, possibly as a result of incomplete or inaccurate disclosure by those borrowers or as a result of the inherent uncertainty that is involved in the exercise of constructing and using models to estimate the risk of lending to counterparties has been incorrectly assessed. Such risks are assessed and accounted for at the point of origination and as at the date of this Prospectus, the vast majority of the LBCM portfolio was originated, and therefore assessed, by Lloyds Bank or BoS prior to transfer to LBCM to meet the requirements of the Ring-fencing Rules. For more information regarding ring-fencing, see "*Lloyds Bank Corporate Markets plc – Ring-Fencing*".

The LBCM Group estimates and establishes reserves for credit risks and potential credit losses inherent in its credit exposure. This process, which is critical to the LBCM Group's results and financial condition, requires difficult, subjective and complex judgements, including forecasts of how macroeconomic conditions might impair the ability of borrowers to repay their loans. As is the case with any such assessments, there is always a risk that the LBCM Group will fail to adequately identify the relevant factors or that it will fail to estimate accurately the impact of these identified factors.

The introduction of the impairment requirements of IFRS 9 – "Financial Instruments" ("**IFRS 9**"), an international accounting standard, on 1 January 2018 resulted in higher impairment loss allowances. As a result of IFRS 9, impairment losses are recognised earlier, on a more forward-looking basis and on a broader scope of financial instruments than was the case under IAS 39 – "Financial Instruments: Recognition and Measurement". Under IFRS 9, the measurement of impairments involves increased complexity and judgement and impairment charges tend to be more volatile and could adversely impact the LBCM Group's results of operations, financial condition or prospects. See "*Other Risks – 7.1 The LBCM Group's financial statements are based, in part, on assumptions and estimates*".

1.2 Concentration of credit and market risk could increase the LBCM Group's potential for losses including in an adverse market/environment.

The LBCM Group has exposure to concentration risk where its business activities focus particularly on a single obligor or a similar type of customer (borrower, sovereign, financial institution or central counterparty), product, industrial sector or geographic location, including the UK.

As detailed in "*Credit Related Risks – 1.1 The LBCM Group's businesses are subject to inherent risks concerning borrower and counterparty credit quality which have affected and may adversely impact the recoverability and value of assets on the LBCM Group's balance sheet*", the majority of the LBCM Group's

portfolios are linked to the UK, U.S. and EU economies with any deterioration in these countries' economic environments having the potential to adversely affect the credit quality of such portfolios.

The LBCM Group is exposed to derivatives, money markets and repurchase transactions. Adverse movements in markets, currency, inflation, interest rates or other indices could materially impact the LBCM Group and may do so based on wholly unforeseen or unexpected events (often known as "black swan" events).

The LBCM Group's monitoring and management of its credit portfolio concentration may not be successful and any concentration of credit risk could increase the potential for losses in its credit portfolio. In addition, any disruption in the liquidity or transparency of the financial markets may result in the LBCM Group's inability to sell or syndicate securities, loans or other instruments or positions held (including underwrites), thereby leading to increased concentrations of such positions. These concentrations could expose the LBCM Group to losses if the mark-to-market value of the securities, loans or other instruments or positions declines causing the LBCM Group to take write-downs. Moreover, the potential inability to reduce the LBCM Group's positions not only increases the market and credit risks associated with such positions, but also increases the level of risk-weighted assets on the LBCM Group's balance sheet, thereby increasing its capital requirements and funding costs, all of which could materially adversely affect the LBCM Group's results of operations, financial condition or prospects.

The LBCM Group's corporate portfolios are susceptible to "black swan" events or to "fallen angel" risk in this context, being the risk of a formerly investment grade counterparty experiencing rapid deterioration towards default) increasing the risk of large losses for the LBCM Group. These types of events can occur from time to time, and may include or be caused by, for example, major market and economic shocks, fraud, cyber-crime, poor corporate governance, high profile incidents and collapse in specific sectors or products, all of which are very difficult to forecast, and could adversely impact the LBCM Group's results of operations, financial condition or prospects.

Additionally, the LBCM Group exposure is particularly concentrated in certain sectors (primarily in gilts, financial intermediation including providing facilities to financial sponsors and funds, investor recourse / drawdown bridge facilities, manufacturing, retail and automotive and related sectors and, to a lesser extent, oil and gas and related sectors), as well as international credit exposure. Furthermore, due to the LBCM Group's exposure to these sectors, the LBCM Group also has a concentrated exposure to "shadow banking" entities.

Regulator attention is increasingly focusing on shadow banking. The European Banking Authority ("EBA") has issued guidelines on limits on exposures to shadow banking entities which carry out banking activities outside a regulated framework (EBA/GL/2015/20). The guidelines require the LBCM Group to identify and monitor its exposure to such entities. Under the guidelines, a "shadow banking" entity is a counterparty that carries out one or more credit intermediation activities (defined as bank-like activities) outside of a regulated framework and that is not an "excluded undertaking" (as described under the guidelines).

The LBCM Group's corporate lending portfolio also contains substantial exposure to large companies. Whilst expectation of default for these exposures is provided for within the LBCM Group's base case assumptions, they remain vulnerable to downside risks. As in the UK, the LBCM Group's lending business overseas is also exposed to single name concentrations and this means that the LBCM Group would suffer a proportionally greater impact should default occur than if such lending was more diversified.

The LBCM Group also has some real estate and real estate-related exposure, meaning that decreases in commercial or residential property values and/or increases in tenant defaults are likely to lead to higher impairment charges, which could materially affect the LBCM Group's results of operations, financial condition or prospects.

1.3 *The LBCM Group may be required to record credit value adjustments, funding value adjustments and debit value adjustments on its derivative portfolio, which could have a material adverse effect on the LBCM Group's results of operations, financial condition or prospects.*

The LBCM Group continually seeks to limit and manage counterparty credit risk exposure to clients and market counterparties. Credit value adjustment (“CVA”) and funding value adjustment (“FVA”) reserves are held against uncollateralised derivative exposures and a risk management framework is in place to mitigate reserve value changes. CVA is an expected loss calculation that incorporates current market factors including counterparty credit spreads. FVA reserves are held to capitalise the cost of funding uncollateralised derivative exposures. The LBCM Group also calculates a debit value adjustment to reflect own credit spread risk as part of the fair value of derivative liabilities. The LBCM Group uses several credit risk mitigation techniques to limit counterparty credit risk exposure including netting agreements, collateral agreements, central clearing, credit default swaps and other forms of credit enhancement where possible.

However, deterioration in the creditworthiness of counterparties, or large adverse financial market movements, could impact the size of CVA and FVA reserves and result in a material charge to the LBCM Group's profit and loss account.

2 Conduct Risks

The LBCM Group is exposed to the risk of customer detriment due to poor design, distribution and execution of products and services or other activities which could undermine the integrity of the market or distort competition, leading to unfair customer outcomes, regulatory censure and financial and reputational loss.

The LBCM Group is exposed to various forms of conduct risk in its operations. Such risks are inherent in banking services.

These include business and strategic planning that does not sufficiently consider customer need (leading to products being offered beyond target markets and mis-selling of financial products), ineffective management and monitoring of products and their distribution (which could result in customers receiving unfair outcomes), customer communications that are unclear, unfair, misleading or untimely (which could impact customer decision-making and result in customers receiving unfair outcomes), a culture that is not sufficiently customer-centric (potentially driving improper decision-making and unfair outcomes for customers), outsourcing of customer service and product delivery via third-parties that do not have the same level of control, oversight and culture as the LBCM Group (which could result in potentially unfair or inconsistent customer outcomes), the possibility of alleged mis-selling of financial products (which could require amendments to sales processes, withdrawal of products or the provision of restitution to affected customers, all of which may require additional provisions in the LBCM Group's financial accounts), ineffective management of customer complaints or claims (which could result in customers receiving unfair outcomes), ineffective processes, policies or procedures to support customers, including those in potentially vulnerable circumstances (which could result in customers receiving unfair outcomes or treatments which do not support their needs), and poor governance of colleagues' incentives and rewards and approval of schemes which drive unfair customer outcomes.

Ineffective management and oversight of legacy conduct issues can also result in customers who are undergoing remediation being unfairly treated and therefore further rectification being required.

The LBCM Group is also exposed to the risk of engaging in, or failing to manage, conduct which could constitute market abuse, undermine the integrity of a market in which it is active, distort competition or create conflicts of interest. The transition from LIBOR also involves potential conduct risk which needs to be managed (see “*Business and Economic Risks – 4.7 The LBCM Group is exposed to risks related to the uncertainty surrounding the integrity and continued existence of reference rates*” below).

Each of these risks could lead to regulatory censure, reputational damage, regulatory intervention or enforcement, financial loss for the LBCM Group and/or might have a material adverse effect on the LBCM Group's results of operations, financial condition or prospects.

3 Regulatory and Legal Risks

3.1 *The LBCM Group and its businesses are subject to substantial regulation and oversight. Adverse legal or regulatory developments could have a significant material adverse effect on the LBCM Group's business, results of operations, financial condition or prospects.*

The LBCM Group and its businesses are subject to legislation, regulation, legal precedent, policies and voluntary codes of practice including the effects of any changes in these or the interpretation of them in the UK, the EU and the other markets in which the LBCM Group operates. The LBCM Group is therefore subject to associated legal and regulatory risks, including risk in connection with legal and regulatory actions and market reviews. Depending on the specific nature of the requirements and how they are enforced, they could have a significant impact on the LBCM Group's operations, business prospects, structure, costs and/or capital requirements and ability to enforce contractual obligations. See also "*Business and Economic Risks – 4.2 Political, legal, regulatory, constitutional and economic uncertainty arising from the outcome of the referendum on the UK's membership of the European Union could adversely impact the LBCM Group's business, results of operations, financial condition and prospects*" below.

Some key developments in regulation and law which have been implemented recently, and which impact the LBCM Group, are included in (but not limited to) the subsequent paragraphs below.

Banking Reform Act

The LBCM Group is subject to the Financial Services (Banking Reform) Act 2013 (the "**Banking Reform Act**"). The Banking Reform Act's measures contain provisions with respect to, amongst other things (i) ring-fencing domestic retail banking services of UK banks; and (ii) the implementation of the Senior Managers and Certification Regime (the "**SMCR**").

The Banking Reform Act, secondary legislation and PRA/FCA rules made under the FSMA have enacted amendments to the FSMA and the UK regulatory regime that required UK banking groups (such as the Lloyds Banking Group) with more than £25 billion (on a group-wide basis) of core deposits (defined as "**ring-fenced bodies**" or "**RFBs**") to separate the retail banking activities of their UK banks – particularly deposit-taking and associated services – from certain prohibited forms of activity, including: (i) dealing in investments; (ii) incurring exposures to relevant financial institutions (which include, amongst others, credit institutions (other than RFBs), investment firms and alternative investment funds (subject to certain limited exceptions)); (iii) participating in an inter-bank payment system other than as a direct member (subject to certain limited exceptions); and (iv) having non-EEA branches or subsidiaries. RFBs are also subject to regulations governing how pension arrangements can be managed, following the implementation of ring-fencing.

Under the Banking Reform Act, the PRA and FCA established ring-fencing rules (the "**Ring-fencing Rules**") requiring implementation of ring-fencing prior to 1 January 2019, with the deadline for changes to the Lloyds Banking Group's pension scheme being 1 January 2026.

The Lloyds Banking Group implemented its ring-fencing programme and met the legal and regulatory requirements prior to 1 January 2019. Implementation included the establishment of the LBCM Group (as the non ring-fenced bank group).

Over the course of 2018, in order to comply with the ring-fencing legislation, certain businesses were transferred out of Lloyds Bank and its subsidiaries to other parts of the Lloyds Banking Group, by means of statutory or contractual transfers. This included the transfer of certain wholesale and international businesses to the LBCM Group.

From 1 January 2019, the Lloyds Banking Group, including the LBCM Group, became subject to the expanded oversight powers granted to Her Majesty's Treasury ("**HM Treasury**"), the PRA and the FCA under the Banking Reform Act.

Senior Managers and Certification Regime

The SMCR came into force on 7 March 2016 and replaced the approved persons regime for deposit takers and other PRA designated firms. The SMCR comprises a number of elements, including the senior managers' regime, the certification regime and the conduct rules, which will be expanded to apply to solo-regulated firms in December 2019 by changes proposed by the Bank of England and the Financial Services Act 2016. The purpose of the SMCR is to ensure that relevant firms, and their senior managers, take appropriate action to mitigate and manage key conduct and prudential risks. The LBCM Group could be exposed to additional risk or loss if it is unable to comply with the requirements arising from the SMCR and its extension and successfully embedding these requirements will necessitate significant management attention.

MiFID II and MiFIR

The businesses in the LBCM Group were subject to the Markets in Financial Instruments Directive ("**MiFID**") and, since 3 January 2018, the LBCM Group has been subject to a revised directive ("**MiFID II**") and a new regulation (Markets in Financial Instruments Regulation or "**MiFIR**"), which were implemented across the divisions of the LBCM Group. MiFID, MiFID II and MiFIR regulate the provision of "investment services and activities" in relation to a range of customer-related areas, including customer classification, conflicts of interest, client order handling, investment research and financial analysis, suitability and appropriateness, transparency obligations and transaction reporting. Ensuring ongoing compliance with MiFID II and MiFIR has the potential to involve significant additional expense. Such compliance also has the potential to impose significant demands on the attention of management. In the event that products, services or practices are banned under powers established by MiFID II or MiFIR, this has the potential to impact the LBCM Group's business, results of operations, financial condition and prospects.

The General Data Protection Regulation

The General Data Protection Regulation ("**GDPR**") entered into force in May 2018. The implementation of the GDPR introduced a number of significant changes, in relation to the receipt, use, sharing and destruction of data.

Dodd-Frank Wall Street Reform and Consumer Protection Act (U.S.)

The Dodd-Frank Wall Street Reform and Consumer Protection Act, known as Dodd-Frank aims to promote the financial stability of the United States by improving accountability and transparency. The Act consists of a number of provisions setting out a framework for the regulation of swaps markets which requires non-U.S. banks trading swaps with U.S. persons over a certain threshold to register as Swap Dealers with significant reporting, conduct standards and other requirements. The LBCM Group and its businesses trade in swaps with U.S. persons and the Issuer is registered as Swap Dealer with the Commodity Futures Trading Commission (CFTC). The Act also contains a provision on prohibition of proprietary trading, otherwise known as the "**Volcker rule**" which poses restriction on proprietary trading for the purposes of minimising the possible impact on U.S. tax payers from future financial crisis. The Volcker rule applies to the LBCM Group and its businesses due to its presence in the U.S..

Other Laws and Regulations

The LBCM Group is also subject to a variety of other recently implemented laws and regulations.

The LBCM Group is subject to European Union regulation on customer deposits. On 12 June 2014, the Deposit Guarantee Schemes Directive 2014/49/EU (the "**recast DGSD**") was published in the Official Journal

of the EU, which replaced Directive 94/19/EC on Deposit Guarantee Schemes. As required by the recast DGSD, the UK introduced a compliant deposit guarantee scheme (“**DGS**”) that:

- gives a preference in liquidation or resolution to deposits made by retail customers and SMEs over other senior creditors (including holders of the Notes issued by the Issuer);
- sets out the rights of eligible depositors (typically retail customers) to compensation, and repayment circumstances and procedures by the DGS, covering the unavailability of any deposit, up to aggregate deposits of €100,000;
- places obligations on credit institutions, in particular, requirements to provide specified information to depositors (and potential depositors) on their rights to compensation under the DGS; and
- sets out provisions on the financing of DGSs, including target funding levels and contribution amounts by credit institutions.

The LBCM Group is subject to the Competition and Markets Authority Open Banking programme which was implemented in the UK in 2018. The Open Banking programme was created to enable greater transparency and competition in UK financial services. Under this programme, the Competition and Markets Authority was tasked with delivering application programming interfaces, data structures and security architectures to make it easier for clients, including SMEs, to share their financial records with other providers.

The LBCM Group is subject to the Second Payment Services Directive (“**PSD2**”), which entered into force in January 2016 and applied in the UK from January 2018. Finalised EU-wide technical standards on PSD2 are due to be implemented by September 2019 with the aim of protecting customers and their data by providing higher security standards for online payments.

The LBCM Group is subject to recently published enhancements to the financial crime regime in Guernsey, in relation to business undertaken in Guernsey.

3.2 The LBCM Group faces risks associated with a wide range of laws and regulations.

The LBCM Group is exposed to various forms of legal and regulatory risk, including:

- (i) certain aspects of the LBCM Group’s activities and business may be determined by the relevant authorities, the Financial Ombudsman Service (the “**FOS**”), or the courts, to have not been conducted in accordance with applicable laws or regulations, or, in the case of the FOS, with what is fair and reasonable in the Ombudsman’s opinion;
- (ii) the possibility of alleged mis-selling of financial products or the mishandling of complaints related to the sale of such products by or attributed to a member of the LBCM Group, resulting in disciplinary action or requirements to amend sales processes, withdraw products, or provide restitution to affected customers, all of which may require additional provisions;
- (iii) risks relating to compliance with, or enforcement actions in respect of, existing and/or new regulatory or reporting requirements, including as a result of a change in focus of regulation or a transfer of responsibility for regulating certain aspects of the LBCM Group’s activities and business to other regulatory bodies;
- (iv) contractual and other obligations may either not be enforceable as intended or may be enforced against the LBCM Group in an adverse way;
- (v) the intellectual property of the LBCM Group (such as trade names) may not be adequately protected;

- (vi) the LBCM Group may be liable for damages to third-parties harmed by the conduct of its business;
- (vii) the risk of regulatory proceedings, enforcement actions and/or private litigation, arising out of regulatory investigations or otherwise (brought by individuals or groups of plaintiffs) in the UK and other jurisdictions; and
- (viii) the continued uncertainty around the impact of the UK's expected exit from the EU on the existing regulatory and legal framework that the LBCM Group operates within, as well as the future regulatory and legal landscape. For more detail on the EU referendum decision see *"Business and Economic Risks – 4.2 Political, legal, regulatory, constitutional and economic uncertainty arising from the outcome of the referendum on the UK's membership of the European Union could adversely impact the LBCM Group's business, results of operations, financial condition and prospects"* below.

Regulatory and legal actions pose a number of risks to the LBCM Group, including substantial monetary damages or fines, the amounts of which are difficult to predict and may exceed the amount of provisions set aside to cover such risks. In addition, the LBCM Group may be subject, including as a result of regulatory actions, to other penalties and injunctive relief, civil or private litigation arising out of a regulatory investigation or otherwise, the potential for criminal prosecution in certain circumstances and regulatory restrictions on the LBCM Group's business, all of which can have a negative effect on the LBCM Group's reputation. Any of these risks could have an adverse impact on the LBCM Group's operations, financial condition, results of operations or prospects and the confidence of customers in the LBCM Group, as well as taking a significant amount of management time and resources away from the implementation of the LBCM Group's strategy.

The LBCM Group's operations also expose it to various forms of reputational impacts. Negative public opinion can result from the actual or perceived manner in which the LBCM Group conducts its business activities, from the LBCM Group's financial performance, the level of direct and indirect government support, actual or perceived practices in the banking and financial industry, or allegations of misconduct.

Negative public opinion may adversely affect the LBCM Group's ability to keep and attract customers, which may result in a material adverse effect on the LBCM Group's financial condition, results of operations or prospects. Negative public opinion referenced in the media as "lack of trust" in banking can be impacted by actions of competitors across the industry as well as actions by the LBCM Group. Gaining the trust of customers and the public is a key objective of the LBCM Group.

The LBCM Group may settle litigation or regulatory proceedings prior to a final judgment or determination of liability to avoid the cost, management efforts or negative business, regulatory or reputational consequences of continuing to contest liability, even when the LBCM Group believes that it has no liability or when the potential consequences of failing to prevail would be disproportionate to the costs of settlement. Furthermore, the LBCM Group may, for similar reasons, reimburse counterparties for their losses even in situations where the LBCM Group does not believe that it is legally compelled to do so. Failure to manage these risks adequately could materially affect the LBCM Group, both financially and reputationally.

3.3 The LBCM Group operates in an uncertain and rapidly evolving international and national prudential, legal and regulatory environment.

The LBCM Group's borrowing costs and access to capital markets, as well as its ability to lend or carry out certain aspects of its business, could be affected by prudential regulatory developments, including (i) amendments to the EU legislation comprising or UK legislation implementing the Capital Requirements Directive IV and the Capital Requirements Regulation (together, "**CRD IV**"); (ii) evolving European and global prudential and regulatory changes; (iii) regulatory changes in the U.S. and (iv) the evolving regulatory and legal impacts of the UK's exit from the EU.

Some key details of this evolving environment provided in (but not limited to) the paragraphs below.

Capital Requirements Regulation and Capital Requirements Directive

The Issuer is subject to CRD IV which implemented changes approved by the Basel Committee on Banking Supervision (the “**Basel Committee**”) to the regulatory framework applicable to Lloyds Banking Group, including new capital and liquidity requirements intended to reinforce capital standards and to establish minimum liquidity standards for credit institutions in Europe (such changes being commonly referred to as “**Basel III**”). Full implementation began from 1 January 2014, with some elements being phased in over a period of time, to be fully effective by 2024.

CRD IV includes a number of capital buffers to provide capital cushions in addition to minimum capital requirements to which financial institutions may be subject.

The CRD IV regime is expected to continue to evolve as a result of further changes agreed by EU legislators, binding regulatory technical standards and guidelines to be developed by the EBA and changes to the way in which the PRA interprets and applies these requirements to UK financial institutions. The European Commission put forward significant draft proposals to amend CRD IV in November 2016 (with the amended Capital Requirements Regulation to be known as “**CRR 2**” and the amended Capital Requirements Directive to be known as “**CRD V**”). The proposals included a binding leverage ratio, a binding net stable funding ratio and more risk-sensitive capital requirements including the Fundamental Review of the Trading Book for market risk. The proposals were finalised and published in the Official Journal on 7 June 2019 and will enter into force 20 days thereafter. CRR 2 and CRD V are two of the pieces of legislation included in the Financial Services (Implementation of Legislation) Bill which received its first reading in the House of Lords in November 2018. The Bill provides the UK Government with the power to choose to implement only those EU files, or parts of those files, which are both appropriate and beneficial for the UK and adjust and improve the legislation as it is brought into UK law to ensure that it works better for UK markets.

In addition, the Basel Committee published a package of further revisions to Basel III in December 2017, including changes to: standardised approach for credit risk; internal ratings-based approaches for credit risk; the credit valuation adjustment risk framework; the operational risk framework; the leverage ratio framework; and a revised output floor. Although Basel III does not directly apply to the LBCM Group, or to other firms, the Basel Committee expects these changes to be implemented by regulators from January 2022, with transitional arrangements for the output floor up to January 2027. Until such rules are translated into draft European and UK legislation, it would be premature to estimate the full impact or timelines.

Lloyds Banking Group and LBCM will continue to monitor the ongoing changes to the global, EU and UK prudential framework which may affect the LBCM Group’s financial position or require the strengthening of regulatory requirements.

European Market Infrastructure Regulation

European Regulation 648/2012, known as the European Market Infrastructure Regulation (“**EMIR**”), introduced new requirements to improve transparency and reduce the risks associated with the derivatives market. EMIR came into force on 16 August 2012 and has been subject to amendment (including via the REFIT process effective from 17 June 2019). When it fully comes into effect, EMIR will require entities that enter into any form of derivative contract, including interest rate, foreign exchange, equity, credit and commodity derivatives, to: (i) report every derivative contract entered into to a trade repository; (ii) implement new risk management standards (including operational processes and margining) for all bilateral over the counter (“**OTC**”) derivative trades that are not cleared by a central counterparty; and (iii) clear, through a central counterparty, OTC derivatives that are subject to a mandatory clearing obligation. The first clearing obligations for certain interest rate derivatives have applied from June 2016. Variation margin requirements for uncleared trades came into effect on 4 February 2017 for market participants with a sufficiently large derivative trading

volume and on 1 March 2017 for all other counterparties, including the LBCM Group. Certain products are exempt from variation margin requirements at this time. The LBCM Group does not expect initial margin requirements to apply to it until September 2019. It is expected that there will be additional costs and limitations on the LBCM Group's business resulting from these requirements.

It is difficult to predict how and in what final form many of the regulatory changes described herein will be implemented and what financial obligations may be imposed in relation thereto. While the LBCM Group continues to work closely with regulatory authorities and industry associations to ensure that it is able to identify and respond to proposed regulatory changes, the LBCM Group could be exposed to additional risk of loss if it is unable to comply with the requirements arising from these regulations or if doing so imposes significant demands on the attention of management. Depending on the specific nature of the requirements and how they are enforced, such changes could have a significant impact on the LBCM Group's operations, business prospects, structure, costs and/or capital requirements including changes to how the LBCM Group and its businesses are capitalised and funded, distribution of capital, reducing weighted assets, modifying legal entity structure and changing the LBCM Group's business mix to strengthen the LBCM Group's capital position.

Banking Act 2009 – Stabilisation Provisions

The Lloyds Banking Group and its UK subsidiaries may become subject to the stabilisation provisions of the Banking Act 2009, as amended, which could have an adverse impact on the LBCM Group's business.

Under the Banking Act 2009, as amended, (the “**Banking Act**”), substantial powers have been granted to HM Treasury, the Bank of England and the PRA and FCA (together, the “**Authorities**”) as part of the special resolution regime (the “**SRR**”). These powers enable the Authorities to deal with and stabilise UK-incorporated institutions with permission to accept deposits pursuant to Part 4A of the FSMA if they are failing or are likely to fail to satisfy certain threshold conditions (within the meaning of Section 55B of the FSMA). The SRR consists of five stabilisation options: (i) transfer of all or part of the business of the relevant entity or the shares of the relevant entity to a private sector purchaser; (ii) transfer of all or part of the business of the relevant entity to a “bridge bank” established and wholly owned by the Bank of England; (iii) transfer all or part of the relevant entity or “bridge bank” to an asset management vehicle; (iv) making of one or more resolution instruments by the Bank of England; and (v) temporary public ownership of the relevant entity. HM Treasury may also take a parent company of a relevant entity into temporary public ownership where certain conditions are met. The SRR also provides for two new insolvency and administration procedures for relevant entities. Certain ancillary powers include the power to modify certain contractual arrangements in certain circumstances.

In addition, the costs of doing business of companies within the LBCM Group may increase by amendments made to the Banking Act in relation to deposits covered by the UK Financial Services Compensation Scheme (the “**FSCS**”) or equivalent deposit guarantee schemes in other countries where such company does business. Companies within the LBCM Group contribute to compensation schemes such as the FSCS in respect of banks and other authorised financial services firms that are unable to meet their obligations to customers. Further provisions in respect of these costs are likely to be necessary in the future. The ultimate cost to the industry, which will also include the cost of any compensation payments made by the FSCS and, if necessary, the cost of meeting any shortfall after recoveries on the borrowings entered into by the FSCS, remains uncertain but may be significant and may have a material effect on the LBCM Group's business, results of operations or financial condition.

The final text of the EU Directive 2014/59/EU establishing an EU-wide framework for the recovery and resolution of credit institutions and investment firms (as amended, the “**BRRD**”), entered into force on 2 July 2014 and in the UK, the Banking Reform Act made provision for certain aspects of the “bail-in” power. Under the “bail-in” power, prior to insolvency proceedings, regulators have the power to impose losses on holders of regulatory capital securities, senior bondholders and/or other creditors while potentially leaving untouched certain other classes of excluded creditors; generally losses are to be taken in accordance with the priority of

claims under normal insolvency proceedings. While LBG is currently the resolution entity for the Lloyds Banking Group pursuant to the Bank of England’s “single point of entry” resolution model, bail-in is capable of being applied to all of the Issuer’s unsecured senior and subordinated debt instruments with a remaining maturity of greater than seven days, including the Notes. The stated aim of the BRRD is to provide authorities designated by EU member states to apply the resolution tools and exercise the resolution powers set forth in the BRRD (the “**resolution authorities**”) with common tools and powers to address banking crises pre-emptively in order to safeguard financial stability and minimise taxpayers’ exposure to losses. The powers granted to resolution authorities under the BRRD include, but are not limited to: (i) a “write-down and conversion power” relating to Tier 1 and Tier 2 capital instruments and (ii) a “bail-in” power relating to eligible liabilities (including the capital instruments and senior unsecured debt securities issued by the Issuer). Such powers give resolution authorities the ability to write-down or write-off all or a portion of the claims of certain unsecured creditors of a failing institution or group and/or to convert certain debt claims into another security, including ordinary shares of the surviving group entity, if any. Such resulting ordinary shares may be subject to severe dilution, transfer for no consideration, write-down or write-off. Such powers were implemented in the UK with effect from 1 January 2015. The Minimum Requirement for Own Funds and Eligible Liabilities (“**MREL**”), which is being implemented in the EU and the UK, will apply to EU and UK financial institutions and cover capital and debt instruments that are capable of being written-down or converted to equity in order to prevent a financial institution from failing in a crisis. The Bank of England has set an interim MREL compliance date of 1 January 2020 and a final MREL conformance date of 1 January 2022.

The conditions for use of the “bail-in” power are, in summary, that (i) the regulator determines that the bank is failing or likely to fail; (ii) having regard to timing and other relevant circumstances, it is not reasonably likely that (ignoring the stabilisation powers) action will be taken by or in respect of the bank to avoid the failure of the bank; (iii) the relevant UK resolution authority determines that it is necessary having regard to the public interest to exercise the “bail-in” power in the advancement of one of the statutory objectives of resolution; and (iv) one or more of those objectives would not be met to the same extent by the winding up of the bank. The Banking Act and secondary legislation made thereunder provides certain other limited safeguards for creditors in specific circumstances.

Holders of the Issuer’s securities may have limited rights or no rights to challenge any decision of the relevant UK resolution authority to exercise the UK “bail-in” power or to have that decision reviewed by a judicial or administrative process or otherwise. Accordingly, trading behaviour in respect of such securities is not necessarily expected to follow the trading behaviour associated with other types of securities that are not subject to such recovery and resolution powers. Potential investors in securities issued by the Issuer should consider the risk that a holder of such securities may lose all of its investment, including (in the case of debt securities) the principal amount plus any accrued and unpaid interest, if such statutory loss absorption measures are acted upon or if that senior unsecured debt instrument may be converted into ordinary shares of the Issuer or another Lloyds Banking Group entity. Further, the introduction or amendment of such recovery and resolution powers, and/or any implication or anticipation that they may be used, may have a significant adverse effect on the market price or value of such securities, even if such powers are not used. Potential investors in the securities issued by the Issuer should consider the risk that a holder may lose some or all of its investment, including the principal amount plus any accrued interest, if such statutory loss absorption measures are acted upon. The BRRD and applicable state aid rules provide that, other than in certain limited circumstances set out in the BRRD, extraordinary governmental financial support will only be available to the Issuer as a last resort once the write-down and conversion powers and resolution tools referred to above have been exploited to the maximum extent possible.

Other potential developments

The LBCM Group may be impacted by other potential regulatory or legal developments, including changes to the regulatory status of lending in Jersey.

3.4 *The LBCM Group faces risks associated with the development of the international and national prudential, legal and regulatory environment.*

Unfavourable developments in the international and national prudential, legal and regulatory environment could materially affect the LBCM Group's ability to maintain appropriate liquidity, increase its funding costs, constrain the operation of its business and/or have a material adverse effect on the LBCM Group's business, results of operations and financial condition. Areas where these changes could have an adverse effect on the LBCM Group include, but are not limited to:

- (i) general changes in government, central bank or regulatory policy, or changes in regulatory regimes that may influence investor decisions in particular markets in which the LBCM Group operates, any of which may change the structure of those markets and the products offered or may increase the costs of doing business in those markets;
- (ii) external bodies applying or interpreting standards, laws, regulations or contracts differently to the LBCM Group;
- (iii) an uncertain and rapidly evolving prudential regulatory environment which could materially adversely affect the LBCM Group's ability to maintain liquidity and increase its funding costs;
- (iv) changes in competitive and pricing environments, including markets investigations, or one or more of the LBCM Group's regulators intervening to mandate the pricing of the LBCM Group's products, as a consumer protection measure;
- (v) one or more of the LBCM Group's regulators intervening to prevent or delay the launch of a product or service, or prohibiting an existing product or service;
- (vi) further requirements relating to financial reporting, corporate governance, corporate structure and conduct of business and employee compensation;
- (vii) expropriation, nationalisation, confiscation of assets and changes in legislation relating to foreign ownership;
- (viii) changes to regulation and legislation relating to economic and trading sanctions, money laundering and terrorist financing;
- (ix) developments in the international or national legal environment resulting in regulation, legislation and/ or litigation targeting entities such as the Issuer for investing in, or lending to, organisations deemed to be responsible for, or contributing to, climate change; and
- (x) regulatory changes which influence business strategy, particularly the rate of growth of the business, or which impose conditions on the sales and servicing of products, which have the effect of making such products unprofitable or unattractive to sell.

3.5 *The LBCM Group faces risks associated with the high level of scrutiny of the treatment of customers by financial institutions from regulatory bodies, the media and politicians.*

As noted in the risk factors entitled "3.1 *The LBCM Group and its businesses are subject to substantial regulation and oversight. Adverse legal or regulatory developments could have a significant material adverse effect on the LBCM Group's business, results of operations, financial condition or prospects*" and "3.2 *The LBCM Group faces risks associated with a wide range of laws and regulations*" above, the LBCM Group's operations, in particular related to its treatment of customers, are subject to supervision by the FCA and other regulatory authorities in the UK, the EU, the U.S., Singapore and the Crown Dependencies. This includes ongoing supervision of regulatory compliance as well as supervision of change programmes in response to regulatory change referenced above. In recent periods, the UK banking industry has been subject to heightened

attention from these regulatory authorities, as well as the news media and the UK Government. Negative public opinion following media coverage, also referenced above, whether following direct regulatory investigation, legal litigation or by association only, could negatively impact the LBCM Group.

Following the creation of the LBCM Group as a result of Ring-fencing implementation, scrutiny regarding the integrity of the ring-fence is expected. Any negative outcomes are likely to also impact the LBCM Group.

In addition, the GDPR requires the LBCM Group to afford greater transparency and control to customers over how their personal data is used, stored and shared which may limit the extent to which customer data can be used to support the LBCM Group using its strategic objectives. Failure to comply may erode customer trust and result in regulatory fines.

3.6 *The financial impact of legal proceedings and regulatory risks might be material but is difficult to quantify. Amounts eventually paid may materially exceed the amount of provisions set aside to cover such risks, or existing provisions may need to be materially increased in response to changing circumstances.*

Where provisions have already been taken in published financial statements of the LBCM Group or results announcements for ongoing legal or regulatory matters, these have been recognised, in accordance with IAS 37 - “Provisions, Contingent Liabilities and Contingent Assets”, as the best estimate of the expenditure required to settle the obligation as at the reporting date. Such estimates are inherently uncertain and it is possible that the eventual outcomes may differ materially from current estimates, resulting in future increases or decreases to the required provisions, or actual losses that exceed or fall short of the provisions taken.

Provisions have not been taken where no obligation (as defined in IAS 37 (“Provisions, Contingent Liabilities and Contingent Assets”)) has been established, whether associated with a known or potential future litigation or regulatory matter. Accordingly, an adverse decision in any such matters could result in significant losses to the LBCM Group which have not been provided for. Such losses would have an adverse impact on the LBCM Group’s financial condition and operations.

4 Business and Economic Risks

4.1 *The LBCM Group’s businesses are subject to inherent and indirect risks arising from general macroeconomic conditions in the UK, the U.S., the EU, Asia, the Crown Dependencies and globally, and any resulting instability of financial markets or banking systems.*

The possibility of macroeconomic deterioration, any increase in financial market instability including any increase in credit spreads, increase or reduction in interest rates, including negative interest rates, and general illiquidity within the markets that the LBCM Group uses for hedging or bond issuances may represent further risk to the LBCM Group’s business. The outlook for global growth remains uncertain due to issues such as geopolitical tensions (including sanctions, increased tariffs on trades between the U.S. and other nations including China, Canada and the EU and its associated potential for trade disputes and any retaliatory actions, continued instability in the Middle East and in the Korean Peninsula), the impact of economic policies of foreign governments, continued divergence in economic performance between countries within the Eurozone, UK EU exit, and the slow-down of economic growth rates in both mature and emerging markets generally and China in particular. The LBCM Group has exposures to corporates, financial institutions, sovereigns and securities which may have material direct and indirect exposures in Eurozone countries, the U.S. and other countries and is therefore subject to various risks relating to the stability of these financial markets. The global financial system has suffered considerable turbulence and uncertainty in recent years and, despite recent growth in the Eurozone and other advanced economies, the outlook for the global economy over the near to medium term remains uncertain. See also “*Business and Economic Risks – 4.2 Political, legal, regulatory, constitutional and economic uncertainty arising from the outcome of the referendum on the UK’s membership of the European*

Union could adversely impact the LBCM Group's business, results of operations, financial condition and prospects" below.

The LBCM Group's businesses are subject to inherent and indirect risks arising from general and sector-specific economic conditions in the markets in which it operates, particularly the UK, where the majority of the LBCM Group's earnings are generated as at the date of this Prospectus. However, LBCM Group's international footprint may result in an increased proportion of the LBCM Group's income deriving from non-UK earnings in the future. The LBCM Group may have credit exposure in countries outside the UK even if it does not have direct exposure or a presence in such countries. Any significant macroeconomic deterioration in the UK and/or other economies could have a material adverse effect on the results of operations, financial condition or prospects of the LBCM Group, as could the continued or increasing political uncertainty within the UK and other countries. The profitability of the LBCM Group's businesses could be affected by market factors such as the deterioration of UK economic growth significantly below long-term average levels, reduced corporate profitability, fluctuations in commodity prices, changes in foreign exchange rates; or a marked deterioration in global economic growth reflecting the high and growing levels of debt that have built up in some emerging economies, particularly private sector debt growing quickly supported by accommodative credit conditions. Most notably, China is particularly exposed to a potential sharp slowdown of its economic growth, which may be exacerbated by attempts to de-risk its highly leveraged economy, or a devaluation of the Renminbi, and this poses threats to the global economies across the world. External debt levels are higher now in emerging markets than before the global financial crisis, which could lead to higher levels of defaults and non-performing loans, in particular in an environment of rising interest rates, increased impairments and/or fair value adjustments, changes in interest rates (and the timing, quantum and pace of those changes as well as the possibility of further reductions in interest rates, including zero or negative interest rates or of unexpected increases in interest rates, which may have a detrimental effect on the LBCM Group's customers and their ability to service interest), increased corporate, SME or personal insolvency rates, inflationary pressures, including those arising from the Sterling's depreciation, reduced UK Government and/or consumer expenditure, borrowers' reduced ability to repay loans and increased tenant defaults, which could cause prices of commercial or residential real estate or other asset prices to fall, thereby reducing the collateral value on a number of the LBCM Group's assets, rising unemployment, reduced personal income levels (in real terms). Financial markets may experience renewed periods of volatility, creating the potential for a return of contagion between countries and banking systems which may place new strains on funding markets.

Emerging market currency depreciation and rising U.S. interest rates could result in increasing difficulties in servicing this increased debt, especially debt that is denominated in U.S. dollars, possibly leading to debt defaults, which may negatively affect economic growth in emerging markets or globally.

In the EU, the pace of economic recovery, which has lagged behind that of other advanced countries following the global recession, has now passed its peak and made heightened by the UK EU exit process (See also "*Business and Economic Risks – 4.2 Political, legal, regulatory, constitutional and economic uncertainty arising from the outcome of the referendum on the UK's membership of the European Union could adversely impact the LBCM Group's business, results of operations, financial condition and prospects*").

High levels of private and public debt, continued weaknesses in the financial sector and reform fatigue remain a concern and the timing and pace of the European Central Bank's withdrawal of monetary stimulus, the unwinding of existing monetary stimulus from the European Central Bank's balance sheet and the timing and pace of any increase in interest rates could cause market volatility. In addition, increased political uncertainty in the Eurozone, and fragmentation risk in the EU and UK, could create financial instability and have a negative impact on the EU and global economies. Any of these risks could weaken the UK's economic prospects, given the extensive economic and financial linkages between the UK and the EU.

Any default on the sovereign debt of a Eurozone country and the resulting impact on other Eurozone countries, including the potential that some countries could leave the Eurozone, could have a material adverse effect on the LBCM Group's business. The exit of any member state from the European Monetary Union (the "EMU") could result in deterioration in the economic and financial environment in the UK and the Eurozone that would materially affect the capital and the funding position of participants in the banking industry, including the LBCM Group. This could also give rise to operational disruptions to the LBCM Group's business.

The effects on the UK, European and global economies of the exit of one or more EU member states from the EMU, or the redenomination of financial instruments from the euro to a different currency, are extremely uncertain and very difficult to predict and protect fully against in view of: (i) the potential for economic and financial instability in the Eurozone and possibly in the UK; (ii) the lasting impact on governments' financial positions of the global financial crisis; (iii) the uncertain legal position; and (iv) the fact that many of the risks related to the business are totally, or in part, outside the control of the LBCM Group. However, if any such events were to occur, they may result in: (a) significant market dislocation; (b) heightened counterparty risk; (c) an adverse effect on the management of market risk and, in particular, asset and liability management due, in part, to redenomination of financial assets and liabilities; (d) an indirect risk of counterparty failure; or (e) further political uncertainty in the UK, any of which could have a material adverse effect on the results of operations, financial condition or prospects of the LBCM Group.

Examples of indirect risks to the LBCM Group associated with the Eurozone which have been identified are adverse developments relating to: European banking groups with lending and other exposures to certain Eurozone countries, corporate customers with operations or significant trade in certain European jurisdictions, major travel operators and airlines known to operate in certain Eurozone countries, and international banks with custodian operations based in certain European locations. Adverse developments relating to these sectors, or banking groups could increase the risk of defaults and negatively impact the LBCM Group's business, results of operations or financial condition.

The uncertainty around the economic policies of foreign governments could create additional uncertainty for the global economic outlook. For example, in the U.S., whilst it is possible that the current administration's economic policies might have an adverse effect on U.S. and global growth as well as global trade prospects, it is also possible that expansionary policies could boost U.S. and international growth temporarily at a time of limited spare capacity resulting in higher U.S. inflation and interest rates which could in turn significantly impact global investor risk appetite and pricing expectations, sparking elevated financial market volatility and a tightening of financial conditions.

Any adverse changes affecting the economies of the countries in which the LBCM Group has significant direct and indirect credit exposures, including those discussed above and any further deterioration in global macroeconomic conditions, could have a material adverse effect on the LBCM Group's results of operations, financial condition or prospects.

4.2 Political, legal, regulatory, constitutional and economic uncertainty arising from the outcome of the referendum on the UK's membership of the European Union could adversely impact the LBCM Group's business, results of operations, financial condition and prospects.

On 23 June 2016, the UK held a referendum on the UK's continued membership of the EU. A majority of voters voted for the UK to leave the EU. The announcement of the referendum result caused significant volatility in the UK stock market and exchange rate fluctuations that resulted in a significant weakening of Sterling against the U.S. dollar, the euro and other major currencies. The share prices of major UK banks and bank holding companies, including LBG, suffered significant declines in market prices immediately following the result of the referendum and major credit rating agencies downgraded the UK's sovereign credit rating.

Under Article 50 of the Treaty on European Union (“**Article 50**”) once the exit process is triggered by the withdrawing member state, a two-year period of negotiation begins to determine the terms of the withdrawing member’s exit from the EU with reference to the planned post-exit relationship, after which period its EU membership ceases unless the European Council, together with the withdrawing member, unanimously decides to extend this period.

Following the UK Government’s decision to invoke Article 50 on 29 March 2017, the UK was due to exit the EU at 11 p.m. (London time) on 29 March 2019. This deadline has since been extended twice with a currently agreed deadline of 31 October 2019. The deadline could be further extended or a transitional arrangement put in place, which could be effective either on or before 31 October 2019, subject to agreement by all EU member states. Negotiations relating to the terms of the UK’s relationship with the EU may extend for an unknown period which could create additional volatility in the markets and have an adverse impact on the LBCM Group’s profitability. The timing of, and process for, such negotiations and the subsequent terms of the UK’s future economic, trading and legal relationships with the EU are uncertain, and will be impacted by the stance the current UK government and the other EU Member States adopt. In addition, an unfavourable outcome of negotiations relating to the UK’s exit from the EU or its future relationship with the EU is likely to create further volatility in the markets which could in turn adversely impact the LBCM Group’s business, results of operations, financial condition and prospects.

The UK general election held on 8 June 2017 resulted in a minority government. The UK political environment remains fragile, heightened by the EU exit negotiations.

The effects on the UK, European and global economies of the uncertainties arising from the results of the referendum and the process of the UK’s exit from the EU are difficult to predict but may include economic and financial instability in the UK, Europe and the global economy and the other types of risks described in “4.1 *The LBCM Group’s businesses are subject to inherent and indirect risks arising from general macroeconomic conditions in the UK, the U.S., the EU, Asia, the Crown Dependencies and globally, and any resulting instability of financial markets or banking systems*” and “*Credit Related Risks – 1.1 The LBCM Group’s businesses are subject to inherent risks concerning borrower and counterparty credit quality which have affected and may adversely impact the recoverability and value of assets on the LBCM Group’s balance sheet*” above.

Furthermore, any uncertainty in the UK arising from the UK leaving the EU could be exacerbated by the re-emergence of the possibility of a further Scottish independence referendum (noting that it is the stated policy of the Scottish Government to hold a second referendum) or any proposed differential arrangements for Northern Ireland when compared to the rest of the UK. This could cause further uncertainty and risks to the LBCM Group.

The longer term effects of the UK’s expected exit from the EU are difficult to predict but could include further financial instability and slower economic growth, in the UK in particular, but also in Europe and the global economy. In the event of any substantial weakening in economic growth, the possible policy of decreases in interest rates by the Bank of England or sustained low or negative interest rates would put further pressure on the LBCM Group’s interest margins and adversely affect the LBCM Group’s profitability and prospects. A challenging macroeconomic environment, reduced profitability and greater market uncertainty could negatively impact the LBCM Group’s performance and potentially lead to credit ratings downgrades which could adversely impact the LBCM Group’s ability to access funding and the cost of such funding. The LBCM Group’s ability to access capital markets on acceptable terms and hence its ability to raise the amount of capital and funding required to meet its regulatory requirements and targets could be affected.

The LBCM Group is subject to substantial EU-derived laws, regulation and oversight. There continues to be significant uncertainty as to the respective legal and regulatory environments in which the LBCM Group and its subsidiaries will operate when the UK is no longer a member of the EU. In particular, the LBCM Group

and its counterparties may no longer be able to rely on the European passporting framework for financial services, which could result in the loss of customers and/or the requirement for the LBCM Group to apply for authorisation in multiple EU jurisdictions if it is to continue its business there, the costs, timing and viability of which are uncertain. This uncertainty, and any actions taken as a result of this uncertainty (such as corporate clients of the LBCM Group preferring to transact with European competitors or to relocate from the UK to the EU to avoid a loss of passporting rights), as well as new or amended legislation and regulation, may have a significant impact on the LBCM Group's operations, profitability and business model. For further information on the LBCM Group's regulatory and legal risks see "*Regulatory and Legal Risks*".

4.3 *Any tightening of monetary policy in jurisdictions in which the LBCM Group operates could affect the financial condition of its customers, clients and counterparties, including governments and other financial institutions, which could in turn adversely affect the LBCM Group's results of operations.*

Quantitative easing measures implemented by major central banks, adopted alongside record low interest rates to support recovery from the global financial crisis, have arguably helped loosen financial conditions and reduce borrowing costs. These measures may have supported liquidity and valuations for asset classes that are vulnerable to rapid price corrections as financial conditions tighten, potentially causing losses to investors and increasing the risk of default on the LBCM Group's exposure to these sectors.

The U.S. Federal Reserve has been gradually increasing its policy interest rates since December 2015. The Bank of England raised UK interest rates from 0.25 per cent to 0.5 per cent in November 2017 and then to 0.75 per cent. in August 2018 and has signalled that scope remains for UK interest rates to rise further. Some other major central banks, such as the Bank of Canada, are also on a tightening cycle, but the withdrawal of accommodative policies in the EU and in Japan is expected to be somewhat slower.

Although uncertainty remains about the timing of any increases by central banks, it is possible that any increase in interest rates may lead to increasing levels of defaults by the LBCM Group's customers. Monetary policy has been highly accommodative in recent years, further supported by the Bank of England and HM Treasury "Funding for Lending" scheme, the "Term Funding Scheme" and the purchase of corporate bonds in the UK, which have helped to support demand at a time of very pronounced fiscal tightening and balance sheet repair. Such a long period of stimulus has increased uncertainty over the impact of its reduction, including the possibility of a withdrawal of such programmes which could lead to a risk of higher borrowing costs in wholesale markets, generally weaker than expected growth, or even contracting gross domestic product ("GDP"), reduced business and consumer confidence, higher levels of unemployment or underemployment, adverse changes to levels of inflation and falling property prices in the markets in which the LBCM Group operates, and consequently to an increase in delinquency rates and default rates among its customers. Similar risks result from the low level of inflation in developed economies, which in Europe particularly could deteriorate into sustained deflation if policy measures prove ineffective and economic growth weakens. Reduced monetary stimulus and the actions and commercial soundness of other financial institutions have the potential to impact market liquidity. The adverse impact on the credit quality of the LBCM Group's customers and counterparties, coupled with a decline in collateral values, could lead to a reduction in recoverability and value of the LBCM Group's assets and higher levels of impairment allowances, which could have an adverse effect on the LBCM Group's operations, financial condition or prospects.

4.4 *The LBCM Group's businesses are inherently subject to the risk of market fluctuations, which could have a material adverse effect on the results of operations, financial condition or prospects of the LBCM Group.*

The LBCM Group's businesses are inherently subject to risks in financial markets and in the wider economy, including changes in, and increased volatility of, interest rates, inflation rates, credit spreads, foreign exchange rates, commodity, equity, bond and property prices and the risk that its customers act in a manner

which is inconsistent with the LBCM Group's business, pricing and hedging assumptions. Movements in these markets will continue to have a significant impact on the LBCM Group in a number of key areas.

Banking and trading activities that are undertaken by the LBCM Group are also subject to market movements, including interest rate risk, foreign exchange risk, inflation risk and credit spread risk. For example, changes in interest rate levels, interbank margins over official rates, yield curves and spreads affect the interest rate margin realised between lending and borrowing costs. The potential for future volatility and margin changes remains. Competitive pressures on fixed rates or product terms in existing loans and deposits may restrict the LBCM Group in its ability to change interest rates applying to customers in response to changes in official and wholesale market rates. The LBCM Group has a structural hedge in place to stabilise the net interest margin. There is, however, a risk that in a low rate environment the LBCM Group will face margin compression as maturities are reinvested at prevailing market rates.

Changes in foreign exchange rates, including with respect to the U.S. dollar and the Euro, affect the LBCM Group's financial position and/or forecasted earnings. Foreign exchange risk is actively managed by the LBCM Group, minimising the LBCM Group's exposure to exchange rate fluctuations. However, changes in foreign exchange rates could still result in a significant reduction in the profit of the LBCM Group.

4.5 *Market conditions have resulted, and are expected to result in the future, in material changes to the estimated fair values of financial assets of the LBCM Group. Negative fair value adjustments may have in the future, an adverse effect on the LBCM Group's results of operations, financial condition or prospects.*

The LBCM Group has exposures to securities, derivatives and other investments, including asset-backed securities, structured investments and equity investments that are recorded by the LBCM Group at fair value. These may be subject to further negative fair value adjustments, particularly in view of the volatile global markets and challenging economic environment. Although credit value adjustments, debit value adjustments and funding value adjustments are actively managed within the LBCM Group, in stressed market conditions adverse movements in these could result in a material charge to the LBCM Group's profit and loss account.

In volatile markets, hedging and other risk management strategies (including collateralisation and the purchase of credit default swaps) may not be as effective as they are in normal market conditions, due in part to the decreasing credit quality of hedge counterparties, and general illiquidity in the markets within which transactions are executed. Asset valuations in future periods, reflecting prevailing market conditions, may result in further negative changes in the fair values of the LBCM Group's financial assets and these may also translate into increased impairment charges.

In circumstances where fair values are determined using financial valuation models, the LBCM Group's valuation methodologies may require it to make assumptions, judgements and estimates in order to establish fair value. These valuation models are complex and the assumptions used are difficult to make and are inherently uncertain. This is particularly relevant in light of uncertainty as to the strength of the global economic recovery and continuing downside risks and may be amplified during periods of market volatility and illiquidity. Any consequential impairments, write-downs or adjustments could have a material adverse effect on the LBCM Group's results of operations, capital ratios, financial condition or prospects.

The value ultimately realised by the LBCM Group for its securities and other investments may be lower than their current fair value. Any of these factors could require the LBCM Group to record further negative fair value adjustments, which may have a material adverse effect on its results of operations, financial condition or prospects. Material losses from the fair value of financial assets will also have an adverse impact on the LBCM Group's capital ratios.

4.6 *The LBCM Group's businesses are conducted in competitive environments, with increased competition scrutiny, and the LBCM Group's financial performance depends upon management's ability to respond effectively to competitive pressures.*

The markets for UK financial services, and the other markets within which the LBCM Group operates, are competitive, and management expects such competition to continue or intensify. This expectation is due to competitor behaviour, new entrants to the market (including a number of new retail banks as well as non-traditional financial services providers), consumer demand, technological changes such as the growth of digital banking, and the impact of regulatory actions and other factors. The LBCM Group's financial performance and its ability to maintain existing or capture additional market share depends significantly upon the competitive environment and management's response thereto.

The competitive environment can be, and is, influenced by intervention by the UK Government competition authorities and/or European regulatory bodies and/or governments of other countries in which the LBCM Group operates, including in response to any perceived lack of competition within these markets. This may significantly impact the competitive position of the LBCM Group relative to its international competitors, which may be subject to different forms of government intervention.

Recent political debate on the reform of the UK banking markets, other current or potential competition reviews and reports, the payment systems regulator and the FCA statutory objective to promote competition, along with concurrent competition powers, may lead to proposals or initiatives to reduce regulators' competition concerns, and for greater UK Government and regulatory scrutiny in the future that may impact the LBCM Group further. Additionally, the LBCM Group may be affected by changes in regulatory oversight following the pension review recommended by the Department for Work and Pensions. For more information on the LBCM Group's regulatory environment, see "*Lloyds Bank Corporate Markets plc – Regulation—Other Bodies Impacting the Regulatory Regime*".

Digital technologies are changing customer and clients' behaviours and the competitive environment. These technological changes have impacted the LBCM Group's business model and the pace of this change will likely continue to accelerate. As part of the Lloyds Banking Group strategy, investments in FX market technologies have increased. The LBCM Group is expecting to see an increased prevalence of associated technology-related risks and faces competition from established providers of financial services as well as from banking business developed by non-financial companies, including technology companies with strong brand recognition.

As a result of any restructuring or evolution in the market, there may emerge one or more new viable competitors in the UK banking market or a material strengthening of one or more of the LBCM Group's existing competitors in that market. Any of these factors or a combination thereof could result in a significant reduction in the profit of the LBCM Group.

4.7 *The LBCM Group is exposed to risks related to the uncertainty surrounding the integrity and continued existence of reference rates.*

Reference rates and indices, including interest rate benchmarks, such as the London Interbank Offered Rate ("**LIBOR**") and the Euro Interbank Offered Rate ("**EURIBOR**"), which are used to determine the amounts payable under financial instruments or the value of such financial instruments ("**Benchmarks**"), have, in recent years, been the subject of political and regulatory scrutiny as to how they are created and operated. This has resulted in regulatory reform and changes to existing Benchmarks, with further changes anticipated. These reforms and changes may cause a Benchmark to perform differently than it has done in the past or to be discontinued.

At this time, it is not possible to predict the overall effect (including financial impacts) of any such reforms and changes, any establishment of alternative reference rates or any other reforms to these reference

rates that may be enacted, including the potential or actual discontinuance of LIBOR publication, any transition away from LIBOR or ongoing reliance on LIBOR for some legacy products.

Uncertainty as to the precise nature of such potential changes, alternative reference rates (including, without limitation, SONIA, €STER and SOFR or term versions of those rates) or other reforms may adversely affect a broad array of financial products, including any LIBOR-based or EURIBOR-based securities, loans and derivatives that are included in the LBCM Group's financial assets and liabilities, that use these reference rates and may impact the availability and cost of hedging instruments and borrowings. If any of these reference rates are no longer available, the LBCM Group may incur additional expenses in effecting the transition from such reference rates, and may be subject to disputes, which could have an adverse effect on the LBCM Group's results of operations. In addition, it can have important operational impacts through the LBCM Group's systems and infrastructure as all systems will need to account for the changes in the reference rates. Any of these factors may have a material adverse effect on the LBCM Group's results of operations, financial condition or prospects.

5 Operational Risks

5.1 The LBCM Group could fail to manage and govern the provision of internal services which could negatively impact on operations and customers and could result in reputational damage which in turn could have a material adverse effect on the LBCM Group's results of operations, financial condition or prospects.

The Lloyds Banking Group's chosen ring-fencing operating model introduces risk for the LBCM Group due to the reliance by the LBCM Group on the execution of a Shared Services Model as a service recipient (being a business unit/entity in receipt of services from the ring-fenced bank or other members of the Lloyds Banking Group). The LBCM Group is supported by the Lloyds Banking Group via key people resources and services delivered through the Shared Services Model whereby the services provided to the LBCM Group by members of the Lloyds Banking Group are managed by an intra-group agreement and key people resources provided under the model are managed by a people services agreement. The Shared Services Model is predicated on and built around core principles, which allow the LBCM Group and Lloyds Bank and its subsidiary and associated undertakings to operate their respective businesses and comply with their obligations as two distinct regulated banking groups, but utilise certain shared resources including people, systems and processes. The LBCM Group is required to exercise effective oversight and control of shared services in accordance with the FCA's General Outsourcing requirements under Chapter 8 of the Senior Management Arrangements, Systems and Controls (SYSC 8), and the PRA and FCA rules for clear accountability and responsibilities under the Senior Managers and Certification Regime. Shortcomings in the Shared Services Model could result in adverse customer experience/outcomes, regulatory censure, fines and/or adverse publicity for the LBCM Group which, in turn, may have a material adverse effect on the LBCM Group's results of operations, financial condition or prospects. The most prominent risks, which may be amplified by the Shared Services Model, include business process risk, information security and cyber risk, IT systems risk and risks relating to operational resilience, change and execution and sourcing.

Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that either the Issuer or any relevant company within the LBCM Group will be unable to comply with its obligations as a company with securities admitted to the Official List or as a supervised firm regulated by the FCA and/or the PRA.

5.2 The LBCM Group could fail to attract or retain senior management, skilled resources or other key employees.

The LBCM Group's success depends on its ability to attract, retain and develop high calibre talent. The SMCR regime may impact the achievement of this aim as the regime includes a criminal offence of reckless misconduct, a statutory "duty of responsibility" to take reasonable steps to prevent regulatory breaches

occurring or continuing in the area of the firm for which they have responsibility and increasing use of senior management attestations. In addition, the limits on variable pay and “clawback” requirements pursuant to CRD IV may put the LBCM Group at a competitive disadvantage compared to companies who are not subject to such restrictions with the macroeconomic conditions and negative media attention on the financial services industry possibly adversely impacting employee retention, colleague sentiment and engagement.

In addition, the uncertainty resulting from the UK’s exit from the EU, following the referendum decision, on foreign nationals’ long-term residency permissions in the UK may make it challenging for the LBCM Group to retain and recruit colleagues with relevant skills and experience.

Failure to attract and retain senior management, skilled resources and key employees could have a material adverse effect on the LBCM Group’s results of operations, financial condition or prospects.

5.3 *Operational risks such as weaknesses or failures in the LBCM Group’s processes, systems and security and risks due to reliance on third party services and products could materially adversely affect the LBCM Group’s operations, results of operations, financial condition or prospects, and could result in the reputational damage of the LBCM Group.*

Operational risks, through inadequate or failed processes, systems (including financial reporting and risk monitoring processes) or security, or from people-related or external events, including the risk of fraud and other criminal acts carried out against the LBCM Group, are present in the LBCM Group’s businesses. The LBCM Group’s businesses are dependent on processing and reporting accurately and efficiently a high volume of complex transactions across numerous and diverse products and services, in different currencies and subject to a number of different legal and regulatory regimes. Any weakness or errors in these processes, systems or security could have an adverse effect on the LBCM Group’s results, reporting of such results, and on the ability to deliver appropriate customer outcomes during the affected period which may lead to an increase in complaints and damage to the reputation of the LBCM Group.

Specifically, failure to develop, deliver or maintain effective IT solutions in line with the LBCM Group’s operating environment could have a material adverse impact on customer service and business operations. Any prolonged loss of service availability could damage the LBCM Group’s ability to service its customers, could result in compensation costs and could cause long-term damage to the LBCM Group’s business and brand. Furthermore, failure to protect the LBCM Group’s operations from increasingly sophisticated cyber-attacks could result in the loss and/or corruption of customer data or other sensitive information. This could be exacerbated by the increase in data protection requirements as a result of GDPR. The resilience of the Lloyds Banking Group’s IT infrastructure is of critical importance to the LBCM Group; accordingly, significant investment has been, and will continue to be, made in IT infrastructure and supporting capabilities to ensure its resilience and subsequently the delivery of services to customers. The LBCM Group will need to monitor the scale and focus of investment closely, to ensure that it addresses requirements which have emerged, and does not impact the ability to deliver customer service and business operations. The Lloyds Banking Group and the LBCM Group continue to invest in IT, cyber and information security control environments, including activity on user access management and network security controls to address evolving threats. The Lloyds Banking Group maintains contingency plans for a range of Group specific and industry wide IT failure and cyber-attack scenarios.

The LBCM Group adopts a risk-based approach to mitigate the internal and external fraud risks it faces, reflecting the current and emerging fraud risks within the market. This approach drives a continual programme of prioritised enhancements to the LBCM Group’s technology, process and people related controls, with an emphasis on preventative controls supported by real time detective controls wherever feasible. Group-wide policies and operational control frameworks are maintained and designed to provide customer confidence, protect the LBCM Group’s commercial interests and reputation, comply with legal requirements and meet regulatory expectations. The LBCM Group, through Lloyds Banking Group, also plays an active role with other

financial institutions, industry bodies and enforcement agencies in identifying and combatting fraud. The Lloyds Banking Group's fraud awareness programme remains a key component of the LBCM Group's fraud control environment.

Although the LBCM Group and the LBG Executive and Board Risk Committees devote significant resources to maintain and regularly update the processes and systems that are designed to protect the security of the LBCM Group's systems, software, networks and other technology assets, there is no assurance that all of the LBCM Group's security measures will provide absolute security. Any damage to the LBCM Group's reputation (including to customer confidence) arising from actual or perceived inadequacies, weaknesses or failures in Group systems, processes or security could have a material adverse effect on the LBCM Group's results of operations, financial condition or prospects.

Third parties upon which the LBCM Group relies for important products and services could also be sources of operational risk, specifically with regard to security breaches affecting such parties. Many of the operational risks described above also apply when the LBCM Group relies on outside suppliers or vendors to provide key components of its business infrastructure. The LBCM Group may be required to take steps to protect the integrity of its operational systems, thereby increasing its operational costs. Additionally, any problems caused by these third parties, including as a result of their not providing the LBCM Group their services for any reason, their performing their services poorly, or employee misconduct, could adversely affect the LBCM Group's ability to deliver products and services to customers and otherwise to conduct business. Replacing these third party vendors or moving critical services from one provider to another could also entail significant delays and expense.

Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that either the Issuer or any relevant company within the LBCM Group will be unable to comply with its obligations as a company with securities admitted to the Official List or as a supervised firm regulated by the FCA and/or the PRA.

5.4 *The LBCM Group's business is subject to risks related to cyber-crime.*

The LBCM Group holds personally identifiable information on its systems aligned to products and services delivered to customers. Protection is delivered in accordance with data protection legislation, including GDPR. The LBCM Group relies on the effectiveness of the Lloyds Banking Group Information and Cyber Security Policy and associated procedures, infrastructure and capabilities to protect the confidentiality and integrity of information held on its IT infrastructure and the infrastructure of third parties on whom the LBCM Group relies. The Lloyds Banking Group also takes protective measures against attacks designed to impact the availability of critical business processes to its customers and the LBCM Group and the LBG Executive and Board Risk Committees oversee such measures in respect of LBCM Group.

In certain international locations, there are additional regulatory requirements that must be followed for business conducted in that jurisdiction. In the U.S., for example, LBG was required from February 2018 to formally attest that it complies with specific cyber security requirements put forth by the New York State Department of Financial Services in Part 500 of Title 23 of the Official Compilation of Codes, Rules and Regulations of the State of New York.

Despite preventative measures (including ensuring incident management capability to respond to such events, by way of regulatory notification, for example), the LBCM Group's IT infrastructure, and that of third parties on whom the LBCM Group relies, may be vulnerable to cyber-attacks, malware, denial of services, unauthorised access and other events that have a security impact. Such an event may impact the confidentiality or integrity of the LBCM Group's or its clients', employees' or counterparties' information or the availability of services to customers. As a result of such an event or a failure in the Lloyds Banking Group's cyber security policies adopted by the LBCM Group, the LBCM Group could experience material financial loss, loss of

competitive position, regulatory actions, breach of client contracts, reputational harm or legal liability, which, in turn, could have a material adverse effect on the LBCM Group's results of operations, financial condition or prospects. The LBCM Group may be required to spend additional resources to modify its protective measures or to investigate and remediate vulnerabilities or other exposures, and it may be subject to litigation and financial losses that are either not insured against fully or not fully covered through any insurance that it maintains. The LBCM Group is committed to continued participation in industry-wide activity relating to cyber risk. This includes working with relevant regulatory and government departments to evaluate the approach the LBCM Group is taking to mitigate this risk and sharing relevant information across the financial services sector.

5.5 *Terrorist acts, other acts of war, geopolitical events, pandemics or other such events could have a material adverse effect on the LBCM Group's results of operations, financial condition or prospects.*

Terrorist acts, other acts of war or hostility, geopolitical events, pandemics or other such events and responses to those acts/events may create economic and political uncertainties, which could have a material adverse effect on UK and international macroeconomic conditions generally, and more specifically on the LBCM Group's results of operations, financial condition or prospects in ways that cannot necessarily be predicted.

5.6 *The LBCM Group must comply with anti-money laundering, counter terrorist financing, anti-bribery and sanctions regulations, and a failure to prevent or detect any illegal or improper activities fully or on a timely basis could negatively impact customers and expose the LBCM Group to liability.*

The LBCM Group is required to comply with applicable anti-money laundering, anti-terrorism, sanctions, anti-bribery and other laws and regulations in the jurisdictions in which it operates. These laws and regulations require the LBCM Group, amongst other things, to adopt and enforce "know-your-customer" policies and procedures and to report suspicions of money laundering and terrorist financing, and in some countries specific transactions to the applicable regulatory authorities. These laws and regulations have become increasingly complex and detailed, require improved systems and sophisticated monitoring and compliance personnel, and have become the subject of enhanced government and regulatory supervision.

The LBCM Group has adopted policies and procedures aimed at detecting and preventing the use of its banking network and services for money laundering, financing terrorism, tax evasion, human trafficking, modern day slavery and related activities, applying systems and controls on a risk-based approach throughout its businesses and operations, including through the Lloyds Banking Group Financial Intelligence Unit and its interactions with external agencies and other financial institutions. These controls, however, may not completely eliminate instances where third parties seek to use the LBCM Group's products and services to engage in illegal or improper activities. In addition, while the LBCM Group reviews its relevant counterparties' internal policies and procedures with respect to such matters, the LBCM Group, to a large degree, relies upon its relevant counterparties to maintain and properly apply their own appropriate anti-money laundering procedures. Such measures, procedures and compliance may not be completely effective in preventing third parties from using the LBCM Group (and its relevant counterparties) as a conduit for money laundering and terrorist financing (including illegal cash operations) without the LBCM Group's (and its relevant counterparties') knowledge. If the LBCM Group is associated with, or even accused of being associated with, or becomes a party to, money laundering or terrorist financing, the LBCM Group's reputation could suffer and it could become subject to fines, sanctions and/or legal enforcement (including being added to any "black lists" that would prohibit certain parties from engaging in transactions with the LBCM Group), any one of which could have a material adverse effect on the LBCM Group's results of operations, financial condition and prospects.

Furthermore, failure to comply with trade and economic sanctions, both primary and secondary, administered by agencies in the jurisdictions in which the LBCM Group operates and to the extent that the LBCM Group fails to comply fully with other applicable compliance laws and regulations, the relevant

government and regulatory agencies to which it reports have the power and authority to impose fines and other penalties on the LBCM Group, including the revocation of licences.

5.7 *The LBCM Group may fail to execute its ongoing strategic change initiatives, and the expected benefits of such initiatives may not be achieved at the time or to the extent expected, or at all.*

In order to maintain and enhance the LBCM Group's strategic position, it continues to invest in new initiatives and programmes. The LBCM Group acknowledges the challenges faced with delivering these initiatives and programmes alongside the extensive agenda of regulatory and legal changes whilst enhancing systems and controls. In the development of the LBCM Group's strategy, the LBCM Group considers these demands against its capacity to ensure successful delivery for both customers and shareholders. The LBCM Group's strategic plan provides flexibility through a broad range of initiatives with priorities frequently reviewed to adapt to the external environment, where necessary.

As the LBCM Group continues to deliver this strategy there is considerable focus on digitisation and ensuring the LBCM Group meets customer demands through digital and mobile platforms. This approach will support the LBCM Group in achieving its cost targets.

The successful completion of these programmes and the LBCM Group's other strategic initiatives requires ongoing subjective and complex judgements, including forecasts of economic conditions in various parts of the world, and can be subject to significant risks. For example, the LBCM Group's ability to execute its strategic initiatives successfully may be adversely impacted by a significant global macroeconomic downturn, legacy issues, limitations in the LBCM Group's management or operational capacity and capability or significant and unexpected regulatory change in countries in which the LBCM Group operates.

Failure to execute the LBCM Group's strategic initiatives successfully could have an adverse effect on the LBCM Group's ability to achieve the stated targets and other expected benefits of these initiatives, and there is also a risk that the costs associated with implementing such initiatives may be higher than the financial benefits expected to be achieved, which could materially adversely impact the LBCM Group's results of operations, financial condition or prospects.

5.8 *The LBCM Group may be unable to fully capture the expected value from acquisitions, which could materially and adversely affect the LBCM Group's results of operations, financial conditions or prospects.*

The LBCM Group may from time to time undertake acquisitions as part of its growth strategy, which could subject the LBCM Group to a number of risks, such as: (i) the rationale and assumptions underlying the business plans supporting the valuation of a target business may prove inaccurate, in particular with respect to synergies and expected commercial demand; (ii) the LBCM Group may fail to successfully integrate any acquired business, including its technologies, products and personnel; (iii) the LBCM Group may fail to retain key employees, customers and suppliers of any acquired business; (iv) the LBCM Group may be required or wish to terminate pre-existing contractual relationships, which could prove costly and/or be executed at unfavourable terms and conditions; (v) the LBCM Group may fail to discover certain contingent or undisclosed liabilities in businesses that it acquires, or its due diligence to discover any such liabilities may be inadequate; and (vi) it may be necessary to obtain regulatory and other approvals in connection with certain acquisitions and there can be no assurance that such approvals will be obtained and even if granted, that there will be no burdensome conditions attached to such approvals, all of which could materially and adversely affect the LBCM Group's results of operations, financial conditions or prospects.

5.9 *The LBCM Group could be exposed to industrial action and increased labour costs resulting from a lack of agreement with trade unions.*

Within the LBCM Group, there are currently two recognised unions for the purposes of collective bargaining. Combined, these collective bargaining arrangements apply to around 95 per cent. of the LBCM Group's total workforce.

Where the LBCM Group or its employees or their unions seek to change any of their contractual terms, a consultation and negotiation process is undertaken. Such a process could potentially lead to increased labour costs or, in the event that any such negotiations were to be unsuccessful and result in formal industrial action, the LBCM Group could experience a work stoppage that could materially adversely impact its business, financial condition and results of operations.

6 Financial Soundness Related Risks

6.1 *The LBCM Group's businesses are subject to inherent risks concerning liquidity and funding, particularly if the availability of traditional sources of funding such as commercial deposits and Crown Dependencies retail deposits or the access to wholesale funding markets becomes more limited. In this regard, the LBCM Group is more exposed to dislocations in the wholesale funding markets due to reduced access to retail deposits.*

Liquidity and funding continues to remain a key area of focus for the LBCM Group and the industry as a whole. The LBCM Group is dependent on confidence in the short and long-term wholesale funding markets. Should the LBCM Group be unable to continue to source sustainable funding, the ability of the Issuer to fund its financial obligations could be impacted.

The LBCM Group's profitability or solvency could be adversely affected if access to liquidity and funding is constrained or made more expensive for a prolonged period of time. Under extreme and unforeseen circumstances, such as the closure of financial markets and uncertainty as to the ability of a significant number of firms to ensure they can meet their liabilities as they fall due, the LBCM Group's ability to meet its financial obligations as they fall due or to fulfil its commitments to lend could be impacted through limited access to liquidity (including government and central bank facilities). In such extreme circumstances, the LBCM Group may not be in a position to continue to operate without additional funding support, which it may be unable to access either directly or via LBG. These factors may have a material adverse effect on the LBCM Group's solvency, including its ability to meet its regulatory minimum liquidity requirements. These risks can be exacerbated by operational factors such as an over-reliance on a particular source of funding or changes in credit ratings, as well as market-wide phenomena such as market dislocation, regulatory change or major disasters.

In addition, corporate and institutional counterparties may seek to reduce aggregate credit exposures to the LBCM Group or the Lloyds Banking Group (or to all banks) which could increase the LBCM Group's cost of funding and limit its access to liquidity. The funding structure employed by the LBCM Group may also prove to be inefficient, thus giving rise to a level of funding cost where the cumulative costs are not sustainable over the longer term. The funding needs of the LBCM Group may increase and such increases may be material to the LBCM Group's results of operations, financial condition or prospects. The LBCM Group relies on commercial and retail deposits (retail deposits are raised in the Crown Dependencies), as well as direct and indirect ongoing access to the global wholesale funding markets to meet its funding needs. The ability of the LBCM Group to gain access to wholesale, commercial and retail funding sources on satisfactory economic terms is subject to a number of factors outside its control, such as liquidity constraints, general market conditions, regulatory requirements, the encouraged or mandated repatriation of deposits by foreign wholesale or central bank depositors and the level of confidence in the UK banking system, any of which could have a material adverse effect on the LBCM Group's profitability or, in the longer term and under extreme circumstances, its ability to meet its financial obligations as they fall due.

Medium-term growth in the LBCM Group's lending activities will rely, in part, on the availability of commercial and retail deposit funding on appropriate terms, for which there is increasing competition. For more information, see *"Business and Economic Risks – 4.6 The LBCM Group's businesses are conducted in competitive environments, with increased competition scrutiny, and the LBCM Group's financial performance depends upon management's ability to respond effectively to competitive pressures"* above. The ongoing availability of commercial and retail deposit funding on appropriate terms is dependent on a variety of factors outside the LBCM Group's control, such as general macroeconomic conditions and market volatility, the confidence of depositors in the economy, the financial services industry and the LBCM Group, as well as the availability and extent of deposit guarantees. Increases in the cost of commercial and retail deposit funding will impact on the LBCM Group's margins and affect profit, and a lack of availability of commercial and retail deposit funding could have a material adverse effect on the LBCM Group's future growth.

Any loss in consumer confidence in the LBCM Group could significantly increase the amount of commercial and/or retail deposit withdrawals in a short period of time. Should the LBCM Group experience an unusually high and unforeseen level of withdrawals, the LBCM Group may not be in a position to continue to operate without additional funding support, which it may be unable to access, which could have a material adverse effect on the LBCM Group's solvency.

In addition, if the wholesale funding markets were to suffer stress or central bank provision of liquidity to the financial markets is abruptly curtailed, or the Issuer's credit ratings are downgraded, it is likely that wholesale funding will prove more difficult to obtain. Such increased financing risk, in isolation or in concert with the related liquidity risks noted above, could have a material adverse effect on the LBCM Group's profitability and, in the longer term under extreme and unforeseen circumstances, its ability to meet its financial obligations as they fall due.

6.2 *The LBCM Group's borrowing costs and access to the capital markets are dependent on a number of factors, including any reduction in the Issuer's credit ratings, and increased costs or reduction in access could materially adversely affect the LBCM Group's results of operations, financial condition or prospects.*

A reduction in the credit rating of the Issuer or deterioration in the capital markets' perception of the LBCM Group's financial resilience could significantly increase its borrowing costs and limit its issuance capacity in the capital markets. The applicability to and implications for the LBCM Group's funding cost would depend on the type of issuance and prevailing market conditions. The impact on the LBCM Group's funding cost is subject to a number of assumptions and uncertainties and is therefore impossible to quantify precisely.

Rating agencies regularly evaluate the Issuer, and its ratings of longer-term debt are based on a number of factors, including the LBCM Group's financial strength as well as factors not entirely within the LBCM Group's control, including conditions affecting the Lloyds Banking Group or the financial services industry generally. In light of the difficulties in the financial services industry and the financial markets, there can be no assurance that the Issuer will maintain its current ratings. Downgrades of the Issuer's longer-term credit rating could lead to additional collateral posting and cash outflow. The effects of a potential downgrade from all three rating agencies are included in the LBCM Group liquidity stress testing.

The regulatory environment in which the LBCM Group operates continues to change. Whilst uncertain at present, the LBCM Group's borrowing costs and access to capital markets could be affected by the outcome of certain regulatory developments. For further detail on the potential impact of these regulatory developments on the LBCM Group's business, see *"Regulatory and Legal Risks – 3.3 The LBCM Group operates in an uncertain and rapidly evolving international and national prudential, legal and regulatory environment"* above.

6.3 *The Issuer is subject to the risk of having insufficient capital resources.*

If the Issuer has, or is perceived to have, a shortage of capital then it may be subject to regulatory interventions and sanctions and may suffer a loss of confidence in the market with the result that access to liquidity and funding may become constrained or more expensive. Depending on the extent of any actions to improve the capital position there could be a material adverse effect on the Issuer's business, including its results of operations, financial condition and prospects. This, in turn, may affect the Issuer's capacity to continue its business operations or pursue acquisitions or other strategic opportunities, impacting future growth potential. Separately, the Issuer may address a shortage of capital by taking action to reduce leverage exposures and/or risk-weighted assets, for example by way of business disposals. Such actions may impact the profitability of the Issuer.

A shortage of capital could arise from:

- a depletion of the Issuer's capital resources through increased costs or liabilities and reduced asset values which could arise as a result of the crystallisation of credit-related risks, regulatory and legal risks, business and economic risks, operational risks, financial soundness-related risks and other risks; and/or
- an increase in the amount of capital that is needed to be held. This might be driven by a change to the actual level of risk faced by the Issuer or to changes in the minimum levels required by legislation or by the regulatory authorities.

Risks associated with the regulatory framework are described below. Within the prevailing UK regulatory capital framework, the Issuer is subject to extensive regulatory supervision in relation to the levels of capital in its business. New or revised minimum and buffer capital requirements (for example, countercyclical capital requirements) could be applied and/or the manner in which existing regulatory requirements are applied to the Issuer could be changed by the regulatory authorities. For example:

- A proportion of the Issuer's risk-weighted assets are calculated from Lloyds Banking Group's approved models. These are subject to regular review on a rolling basis to ensure that they remain appropriate in prevailing economic and business conditions. In addition, ongoing proposals from the Basel Committee, the EBA and the PRA may result in changes to Lloyds Banking Group's approved models, for example in relation to changes in how firms model probability of default. These reviews and model implementation may lead to increased levels of risk-weighted assets and/or expected loss, which would lower reported capital ratios.
- The minimum capital requirements derived from risk-weighted assets are supplemented by the PRA, under Pillar 2 of the regulatory capital framework, through bank specific additional minimum requirements (informed by the Issuer's Internal Capital Adequacy Assessment Process (ICAAP) and set through the PRA's Total Capital Requirement) and through buffer requirements. There is a risk that through these Pillar 2 processes the PRA may require the Issuer to hold more capital than is currently planned.
- In addition to the risk-based capital framework, the Issuer could be subject to solo or sub-group leverage ratio requirements which may require the Issuer to hold more capital than is currently planned or to alter its business model in order to reduce leverage. A consultation paper in the UK is expected during 2019 on whether the UK leverage framework will be applicable to the Issuer on an individual basis.

In addition, the regulatory framework continues to evolve, which may impact the Issuer's capital position, for further detail see "*Regulatory and Legal Risks – 3.3 The LBCM Group operates in an uncertain and rapidly evolving international and national prudential, legal and regulatory environment*" above.

6.4 *The LBCM Group has been and could continue to be negatively affected by the soundness and/or the perceived soundness of other financial institutions, which could result in significant systemic liquidity problems, losses or defaults by other financial institutions and counterparties, and which could materially adversely affect the LBCM Group's results of operations, financial condition or prospects.*

The LBCM Group is subject to the risk of deterioration of the commercial soundness and/or perceived soundness of other financial services institutions within and outside the UK. Financial services institutions that deal with each other are interrelated as a result of trading, investment, clearing, counterparty and other relationships. This presents systemic risk and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with which the LBCM Group interacts on a daily basis, all of which could have a material adverse effect on the LBCM Group's financial condition or prospects.

The LBCM Group routinely executes a high volume of transactions with counterparties in the financial services industry, resulting in a significant credit concentration. A default by, or even concerns about the financial resilience of, one or more financial services institutions could lead to further significant systemic liquidity problems, or losses or defaults by other financial institutions, which could have a material adverse effect on the LBCM Group's results of operations, financial condition or prospects.

7 Other Risks

7.1 *The LBCM Group's financial statements are based, in part, on assumptions and estimates.*

The preparation of the LBCM Group's financial statements requires management to make judgements, estimates and assumptions 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. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In addition, on 1 January 2018, the LBCM Group adopted IFRS 9 which addresses aspects of the accounting for financial assets and liabilities. In particular, IFRS 9 introduced a new model for recognising and measuring impairment allowances based on expected credit losses, rather than an incurred loss model previously applied under IAS 39 ("Financial Instruments: Recognition and Measurement"), resulting in the earlier recognition of credit losses.

In applying the accounting policies deemed critical to the LBCM Group's results and financial position as set out in (i) the Issuer's 2018 Annual Report in "*Note 2 to the consolidated financial statements – Accounting Policies*" set out on page F-43 or (as applicable) (ii) the 2018 Carve Out Financial Statements in "*Note 2 to the consolidated carve-out financial statements – Accounting Policies*" set out on page F-110 herein, the directors of LBCM are required to make significant judgements and estimates, which may include impairment losses on loans and receivables, valuation of financial instruments, insurance and taxation as set out in (a) the Issuer's 2018 Annual Report in "*Note 3 to the consolidated financial statements – Critical accounting estimates and judgements*" or (as applicable) (b) the 2018 Carve Out Financial Statements in "*Note 3 to the consolidated carve-out financial statements – Critical accounting estimates and judgements*" set out on page F-115 herein.

The consolidated financial statements are prepared using judgements, estimates and assumptions based on information available at the reporting date. In addition, the 2018 Carve Out Financial Statements have also been prepared using judgements, estimates and assumptions based on information available at the relevant reporting date. If one or more of these judgements, estimates and assumptions is subsequently revised as a result of new factors or circumstances emerging, there could be a material adverse effect on the LBCM Group's results

of operations, financial condition or prospects and a corresponding impact on its funding requirements and capital ratios.

7.2 *Failure to manage the risks associated with changes in taxation rates or applicable tax laws, or misinterpretation of such tax laws, could materially adversely affect the LBCM Group's results of operations, financial condition or prospects.*

Tax risk is the risk associated with changes in taxation rates, applicable tax laws, misinterpretation of such tax laws, disputes with relevant tax authorities in relation to historical transactions, or conducting a challenge to a relevant tax authority. Failure to manage this risk adequately could cause the LBCM Group to suffer losses due to additional tax charges and other financial costs including penalties. Such failure could lead to adverse publicity, reputational damage and potentially costs materially exceeding current provisions, in each case to an extent which could have an adverse effect on the LBCM Group's results of operations, financial condition or prospects.

7.3 *The LBCM Group is subject to the emerging risks associated with climate change.*

The risks related to climate change include physical risks, arising from climate and weather-related events, and transition risks, which are the financial risks resulting from the process of adjustment towards a lower carbon economy (including stranded, redundant or prohibited assets). Both of these risks may cause the impairment of asset values and impact the creditworthiness of clients of the LBCM Group, which could result in currently profitable business deteriorating over the term of agreed facilities which, in turn, could have an adverse effect on the LBCM Group's results of operations, financial condition or prospects.

There is increased focus on these risks by key stakeholders including businesses, clients and investors, and the regulatory landscape is evolving to reflect these risks. See also "*Regulatory and Legal Risks -3.4 The LBCM Group faces risks associated with the development of the international and national prudential, legal and regulatory environment*".

8 Risk Factors relating to the Notes

Factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme.

8.1 *Risks related to the structure of a particular issue of Notes.*

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of certain such features:

Noteholders' claims against the Issuer rank junior to certain other creditors

If the Issuer enters into an insolvent winding-up procedure, the administrator, liquidator or other insolvency practitioner would be expected to make distributions of the Issuer's residual assets to its creditors in accordance with a statutory hierarchy or "order of priority". The same statutory hierarchy would be expected to apply if the Notes were written down or converted prior to or in resolution pursuant to the powers of the Authorities under the SRR.

Remedies for Non-Payment

The Notes do not provide for acceleration following non-payment of interest other than in a winding-up of the Issuer.

Holders of the Notes may be required to absorb losses in the event the Issuer becomes subject to recovery and resolution action

See the risk factor entitled “*Regulatory and Legal Risks – 3.3 The LBCM Group operates in an uncertain and rapidly evolving international and national prudential, legal and regulatory environment – Banking Act 2009 – Stabilisation Provisions*” above.

Notes are obligations of the Issuer only

The Notes are obligations of the Issuer only and are not guaranteed by any other entity and accordingly the Noteholders have recourse in respect thereof only to the Issuer.

Notes subject to optional redemption by the Issuer

An optional redemption feature is likely to limit the market value of Notes. During any period when the Issuer may elect to redeem Notes, or during any period in which there is an actual or perceived increase in the likelihood that the Issuer may elect to redeem the Notes in the future, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Redemption for Taxation Reasons

On the occurrence of a Tax Event (as defined in Condition 5(c)), the Issuer may, at its option (but subject to certain conditions) redeem all, but not some only, of any relevant Series of Notes at the applicable Early Redemption Amount together with any accrued but unpaid interest up to (but excluding) the date fixed for redemption.

Redemption

If the applicable Final Terms for Notes of any Series specify that the Issuer has an option to redeem such Notes, the Issuer may opt to redeem all, or (if specified in the applicable Final Terms) some only, of such Notes at the price set out in the applicable Final Terms together with any outstanding interest.

If the Notes are to be so redeemed or there is a perception that the Notes may be so redeemed, this may impact the market price of the Notes. In addition, there can be no assurance that Noteholders will be able to reinvest the amounts received upon redemption at a rate that will provide the same rate of return as their investment in the Notes.

Potential Conflicts of Interest

Where the Issuer acts as the Calculation Agent, or the Calculation Agent is an affiliate of the Issuer, potential conflicts of interest may exist between the Calculation Agent and Noteholders, including with respect to certain determinations and judgements that the Calculation Agent may make pursuant to the Conditions that may influence the amount receivable upon redemption of the Notes.

Notes issued at a substantial discount or premium

The market values of securities issued at a substantial discount or premium to their nominal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

Floating Rate Notes and Fixed Rate Reset Notes referencing or linked to benchmarks

Benchmarks have, in recent years, been the subject of political and regulatory scrutiny as to how they are created and operated. This has resulted in regulatory reform and changes to existing Benchmarks, with further changes anticipated. These reforms and changes may cause a Benchmark to perform differently than it has done in the past or to be discontinued. Any change in the performance of a Benchmark or its discontinuation, could have a material adverse effect on any Notes referencing or linked to such Benchmark.

In 2012, a review, undertaken at the request of the UK government, on the setting and usage of LIBOR, resulted in an initiative to devise new methodologies for determining representative inter-bank lending rates and, ultimately, so-called ‘risk free’ rates that may be used as an alternative to LIBOR in certain situations.

Following this review, the International Organisation of Securities Commissions (“**IOSCO**”) created a task force to draft principles to enhance the integrity, reliability and oversight of Benchmarks generally. This resulted in publication by the Board of IOSCO, in July 2013, of nineteen principles which are to apply to Benchmarks used in financial markets (the “**IOSCO Principles**”). The IOSCO Principles provide an overarching framework for Benchmarks used in financial markets and are intended to promote the reliability of Benchmark determinations and address Benchmark governance, quality and accountability mechanisms. The Financial Stability Board subsequently undertook a review of major interest rate Benchmarks and published a report in 2014, outlining its recommendations for change, to be implemented in accordance with the IOSCO Principles. In addition, in June 2016, the Benchmark Regulation came into force. The Benchmark Regulation implements a number of the IOSCO Principles and the majority of its provisions applied from 1 January 2018.

In a speech on 27 July 2017, Andrew Bailey, the Chief Executive of the FCA, questioned the sustainability of LIBOR in its current form, and advocated a transition away from reliance on LIBOR to alternative reference rates. He noted that currently there is wide support among the LIBOR panel banks for voluntarily sustaining LIBOR until the end of 2021, facilitating this transition. At the end of this period, it is the FCA’s intention that it will not be necessary to sustain LIBOR through its influence or legal powers by persuading, or obliging banks to submit to LIBOR. Therefore, the continuation of LIBOR in its current form (or at all) after 2021 cannot be guaranteed.

Any changes to the administration of, or the methodology used to obtain, a Benchmark or the emergence of alternatives to a Benchmark as a result of these reforms, may cause the relevant Benchmark to perform differently than in the past or to be discontinued, or there could be other consequences which cannot be predicted. The potential discontinuation of a Benchmark or changes to its administration could require changes to the way in which the Rate of Interest is calculated in respect of any Notes referencing or linked to a Benchmark. The development of alternatives to a Benchmark may result in Notes linked to or referencing the relevant Benchmark performing differently than would otherwise have been the case if such alternatives to such Benchmark had not developed. Any such consequence could have a material adverse effect on the value of, and return on, any Notes referencing or linked to a Benchmark.

Furthermore, even prior to the implementation of any changes, uncertainty as to the nature of alternative reference rates and as to potential changes to such Benchmark may adversely affect such Benchmark during the term of the relevant Notes, the return on the relevant Notes and the trading market for securities based on the same Benchmark.

The “*Terms and Conditions of the Notes*” provide for certain fallback arrangements in the event that a published Benchmark, including an inter-bank offered rate such as LIBOR, EURIBOR or other relevant reference rates (including, without limitation, mid-swap rates), (including any page on which such Benchmark may be published (or any successor service)) becomes unavailable or a Benchmark Event otherwise occurs, including the possibility that the Rate of Interest could be set by reference to a Successor Rate or an Alternative Reference Rate and that such Successor Rate or Alternative Reference Rate may be adjusted (if required) as determined by the Issuer (acting in good faith and in consultation with an Independent Adviser). In certain

circumstances the ultimate fallback for the purposes of calculation of interest for a particular Interest Period may result in the Rate of Interest for the last preceding Interest Period being used. This may result in the effective application of a fixed rate for Floating Rate Notes based on the rate which was last observed on the Relevant Screen Page or, in the case of Fixed Rate Reset Notes, the application of the Reset Rate for a preceding Reset Period or, in the case of Fixed Rate Reset Notes or Fixed-to-Floating Rate Notes, the application of the Initial Rate of Interest applicable to such Notes on the Interest Commencement Date. In addition, due to the uncertainty concerning the availability of successor rates and alternative reference rates and the involvement of an Independent Adviser, the relevant fallback provisions may not operate as intended at the relevant time.

Any such consequences could have a material adverse effect on the trading market for, liquidity of, value of and return on any such Notes. Moreover, any of the above matters or any other significant change to the setting or existence of any relevant reference rate could affect the ability of the Issuer to meet its obligations under the Floating Rate Notes or Fixed Rate Reset Notes or could have a material adverse effect on the value or liquidity of, and the amount payable under, the Floating Rate Notes or Fixed Rate Reset Notes. Investors should consider these matters when making their investment decision with respect to the relevant Floating Rate Notes or Fixed Rate Reset Notes.

The market continues to develop in relation to risk free rates (including overnight rates) as reference rates for Floating Rate Notes

Investors should be aware that the market continues to develop in relation to risk free rates, such as the Sterling Overnight Index Average (“SONIA”) and the Secured Overnight Financing Rates (“SOFR”), as reference rates in the capital markets and their adoption as alternatives to the relevant interbank offered rates LIBOR. In addition, market participants and relevant working groups are exploring alternative reference rates based on risk free rates, including term SONIA and SOFR reference rates (which seek to measure the market’s forward expectation of an average SONIA or SOFR rate over a designated term). The market or a significant part thereof may adopt an application of risk free rates that differs significantly from that set out in the Conditions and used in relation to Floating Rate Notes that reference a risk free rate issued under this Prospectus. Interest on Notes which reference a risk free rate is only capable of being determined immediately prior to the relevant Interest Payment Date. It may be difficult for investors in Notes which reference such risk free rates to reliably estimate the amount of interest which will be payable on such Notes. Further, if the Notes become due and payable under Condition 9, the Rate of Interest payable shall be determined on the date the Notes became due and payable and shall not be reset thereafter. Investors should consider these matters when making their investment decision with respect to any such Floating Rate Notes.

8.2 Risks related to Notes generally.

Set out below is a brief description of certain risks relating to the Notes generally:

The Notes are not bank deposits and are not insured or guaranteed by the FSCS or any other government agency

The Notes are not bank deposits. In the event of the insolvency of the Issuer, the Notes will not have the benefit of any insurance or guarantee of the FSCS or any other government agency.

Modification, waivers and substitution

The Terms and Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Terms and Conditions of the Notes also provide that the Trustee may, without the consent of the Noteholders, agree to (i) any modification of, or waiver or authorisation of any breach or proposed breach of,

any of the Terms and Conditions of the Notes or (ii) determine without the consent of the Noteholders that any Event of Default or potential Event of Default shall not be treated as such or (iii) the substitution of another entity as principal debtor under any Notes in place of the Issuer, in the circumstances described in Condition 11 of the Terms and Conditions of the Notes.

In addition, pursuant to Condition 4(j), certain changes may be made to the interest calculation provisions of the Floating Rate Notes or Fixed Rate Reset Notes in the circumstances set out in Condition 4(j), without the requirement for consent of the Trustee or the Noteholders. See “8.1 Risks related to the structure of a particular issue of notes. Floating Rate Notes and Fixed Rate Reset Notes referencing or linked to benchmarks” above.

Change of law

The Terms and Conditions of the Notes are based on English law in effect as at the date of issue of the relevant Notes. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of issue of the relevant Notes.

Notes where denominations involve integral multiples

In the case of Notes which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that Notes may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In the case of Bearer Notes, a Noteholder who, as a result of trading such amounts, holds a principal amount of less than the minimum Specified Denomination will not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

If definitive Notes are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

9 Potential U.S. Foreign Account Tax Compliance Act withholding and information reporting

FATCA

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a “foreign financial institution” may be required to withhold on certain payments it makes (“**foreign passthru payments**”) to persons that fail to meet certain certification, reporting, or related requirements. The Issuer is a foreign financial institution for these purposes. A number of jurisdictions (including the United Kingdom) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (“**IGAs**”), which modify the way in which FATCA applies in their jurisdictions. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change.

Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, proposed regulations have been issued that provide that such withholding would not apply prior to the date that is two years after the date on which final regulations defining foreign passthru payments are published in the U.S. Federal Register. In the preamble to the proposed regulations, the U.S. Treasury Department indicated that taxpayers may rely on these proposed regulations until the issuance of final regulations. Additionally, Notes characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining foreign passthru payments are filed with the U.S. Federal Register generally would be “grandfathered” for purposes of FATCA Withholding unless materially modified after such date. However, if additional notes (as described under “*Terms and Conditions of the Notes – Further Issues*”) are issued, they may be subject to withholding.

that are not distinguishable from previously issued Notes are issued after the expiry of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiry of the grandfathering period, as subject to withholding under FATCA. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding. Noteholders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes.

Information reporting obligations

Information relating to the Notes, their holders and beneficial owners may be required to be provided to tax authorities in certain circumstances pursuant to domestic or international reporting and transparency regimes. This may include (but is not limited to) information relating to the value of the Notes, amounts paid or credited with respect to the Notes, details of the holders or beneficial owners of the Notes and information and documents in connection with transactions relating to the Notes. In certain circumstances, the information obtained by a tax authority may be provided to tax authorities in other countries. Some jurisdictions operate a withholding system in place of, or in addition to, such provision of information requirements.

10 Risks related to the market generally

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

The secondary market generally

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid and may be sensitive to changes in financial markets. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This may particularly be the case should the Issuer experience significant financial distress, which may result in any sales of Notes having to be at a substantial discount to their principal amount, or for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An application in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency equivalent value of the principal payable on the Notes and (3) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate or the ability of the Issuer to make payments in respect of the Notes. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risk

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of Fixed Rate Notes.

Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign ratings to an issue of Notes. The ratings may not reflect the potential impact of all risks related to the structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

Effect of credit rating reduction

The value of the Notes is expected to be affected, in part, by investors' general appraisal of the Issuer's creditworthiness. Such perceptions are generally influenced by the ratings accorded to the Issuer's outstanding securities by standard statistical rating services, such as Moody's, S&P and Fitch. A reduction in the rating, if any, accorded to outstanding debt securities of the Issuer by one of these rating agencies could result in a reduction in the trading value of the Notes.

*Investors to rely on the procedures of Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream, Luxembourg**"), Luxembourg for transfer, payment and communication with the Issuer*

Notes issued under the Programme may be represented by one or more Global Notes or a permanent registered global certificate (each a "**Global Certificate**"). Such Global Notes or Global Certificates may be deposited with a common depository or a common safekeeper (the "**Common Safekeeper**"), as the case may be, for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the relevant Global Note or Global Certificate, investors will not be entitled to receive definitive Notes or Certificates. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Notes or Global Certificates. While the Notes are represented by one or more Global Notes or Global Certificates, investors will be able to trade their beneficial interests only through Euroclear or Clearstream, Luxembourg.

While the Notes are represented by one or more Global Notes or Global Certificates, the Issuer will discharge its payment obligations under the Notes by making payments to the common depository or a common safekeeper, as the case may be, for Euroclear or Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in a Global Note or Global Certificate must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the relevant Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interest in the Global Notes or Global Certificates.

Holders of beneficial interests in the Global Notes or Global Certificates will not have a direct right to vote in respect of the relevant Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear or Clearstream, Luxembourg to appoint appropriate proxies.

TERMS AND CONDITIONS OF THE NOTES

Neither the Trust Deed constituting the Notes nor the Terms and Conditions of the Notes will contain any negative pledge covenant by the Issuer or any events of default other than those set out in Condition 9 below (which do not include, *inter alia*, a cross default provision).

The following is the text of the Terms and Conditions that, as completed in accordance with the provisions of Part A of the relevant Final Terms, shall be applicable to the Registered Notes and the Bearer Notes in definitive form (if any) issued in exchange for the Global Note(s) representing each Series. Either (i) the full text of these terms and conditions together with the relevant provisions of Part A of the relevant Final Terms or (ii) these terms and conditions as so completed, shall be endorsed on the Bearer Notes or on the Certificates relating to Registered Notes.

All capitalised terms that are not defined in the Conditions will have the meanings given to them in Part A of the relevant Final Terms. Those definitions will be endorsed on the definitive Notes or Certificates, as the case may be. References in the Conditions to “Notes” are to the Notes of one Series only, not to all Notes that may be issued under the Programme.

The issuer of the Notes is Lloyds Bank Corporate Markets plc (the “**Issuer**”). The Notes are constituted by a Trust Deed dated 25 June 2019 (as modified and/or supplemented and/or restated as at the date of issue of the first Tranche of the Notes (the “**Issue Date**”), the “**Trust Deed**”) between the Issuer and The Law Debenture Trust Corporation p.l.c. (the “**Trustee**”, which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the Noteholders (as defined below). These Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Bearer Notes, Certificates, Coupons and Talons referred to below. An Agency Agreement dated 25 June 2019 (as modified and/or supplemented and/or restated as at the Issue Date, the “**Agency Agreement**”) has been entered into in relation to the Notes between the Issuer, the Trustee, Citibank, N.A., London Branch, as issuing and paying agent and the other agents named in it. The issuing and paying agent, the paying agents, the registrar, the transfer agents and the calculation agent(s) for the time being (if any) are referred to below respectively as the “**Issuing and Paying Agent**”, the “**Paying Agents**” (which expression shall, where the context so permits, include the Issuing and Paying Agent), the “**Registrar**”, the “**Transfer Agents**” (which expression shall, where the context so permits, include the Registrar) and the “**Calculation Agent(s)**”. Copies of the Trust Deed and the Agency Agreement are available for inspection free of charge during usual business hours at the registered office of the Trustee (being, for the time being, Fifth Floor, 100 Wood Street, London EC2V 7EX) and at the specified offices of the Paying Agents and the Transfer Agents.

The Noteholders, the holders of the interest coupons (the “**Coupons**”) relating to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the “**Talons**”) (the “**Couponholders**”) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions applicable to them of the Agency Agreement.

For the purpose of these Terms and Conditions, a “**Series**” means a series of Notes comprising one or more Tranches, whether or not issued on the same date, that (except in respect of the first payment of interest and their issue price) have identical terms on issue and are expressed to have the same series number. “**Tranche**” means, in relation to a Series, those Notes of that Series that are issued on the same date at the same issue price and in respect of which the first payment of interest is identical. “**Final Terms**” means, in relation to a Tranche, the final terms issued specifying the relevant issue details of such Tranche, substantially in the form of Schedule B to the proforma programme agreement set out in a procedures memorandum dated 25 June 2019 (as modified and/or supplemented and/or restated as at the Issue Date) between the Issuer, the Arranger and the Dealers named therein.

1 Form, Denomination and Title

The Notes are issued in bearer form (“**Bearer Notes**”, which expression includes Notes that are specified to be Exchangeable Bearer Notes), in registered form (“**Registered Notes**”) or in bearer form exchangeable for Registered Notes (“**Exchangeable Bearer Notes**”) in each case in the Specified Denomination(s) specified in the Final Terms.

Where Exchangeable Bearer Notes are issued, the Registered Notes for which they are exchangeable shall have the same Specified Denomination as the lowest denomination of Exchangeable Bearer Notes.

The Notes (i) bear interest calculated by reference to a fixed rate of interest (“**Fixed Rate Notes**”), (ii) bear interest calculated by reference to a fixed rate of interest for an initial period and thereafter by reference to a fixed rate of interest recalculated on one or more dates specified in the Final Terms and by reference to a mid-market swap rate for the Specified Currency or, where the Specified Currency is Sterling, either a Sterling mid-market swap rate or a rate determined by reference to a benchmark gilt (“**Fixed Rate Reset Notes**”), (iii) bear interest by reference to a floating rate of interest (“**Floating Rate Notes**”), (iv) are issued on a non-interest bearing basis (“**Zero Coupon Notes**”) or (v) are a combination of two or more of (i) to (iii) of the foregoing, as specified in the Final Terms.

Bearer Notes are serially numbered and are issued with Coupons (and, where appropriate, a Talon) attached, save in the case of Zero Coupon Notes in which case references to interest (other than in relation to interest due after the Maturity Date), Coupons and Talons in these Conditions are not applicable.

Registered Notes are represented by registered certificates (“**Certificates**”).

Title to the Bearer Notes and the Coupons and Talons shall pass by delivery. Title to the Registered Notes shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the “**Register**”). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note, Coupon or Talon shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the holder.

In these Conditions, “**Noteholder**” means the bearer of any Bearer Note or the person in whose name a Registered Note is registered (as the case may be), “**holder**” (in relation to a Note, Coupon or Talon) means the bearer of any Bearer Note, Coupon or Talon or the person in whose name a Registered Note is registered (as the case may be) and capitalised terms have the meanings given to them in the Final Terms, the absence of any such meaning indicating that such term is not applicable to the Notes.

2 Exchanges of Exchangeable Bearer Notes and Transfers of Registered Notes

(a) *Exchange of Exchangeable Bearer Notes*

Subject as provided in Condition 2(f), Exchangeable Bearer Notes may be exchanged for the same aggregate nominal amount of Registered Notes at the request in writing of the relevant Noteholder and upon surrender of each Exchangeable Bearer Note to be exchanged, together with all unmatured Coupons and Talons relating to it, at the specified office of any Transfer Agent; provided, however, that where an Exchangeable Bearer Note is surrendered for exchange after the Record Date (as defined in Condition 6(b)) for any payment of interest, the Coupon in respect of that payment of interest need not be surrendered with it. Registered Notes may not be exchanged for Bearer Notes. Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of another Specified Denomination. Bearer Notes that are not Exchangeable Bearer Notes may not be exchanged for Registered Notes.

(b) *Transfer of Registered Notes*

One or more Registered Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate duly completed and executed and such other evidence as the Registrar or Transfer Agent may reasonably require to prove the title of the transferor. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Trustee. A copy of the current regulations will be made available by the Registrar to any Noteholder upon request.

(c) *Exercise of Options or Partial Redemption in Respect of Registered Notes*

In the case of an exercise of the Issuer's or a Noteholder's option in respect of, or a partial redemption of, a holding of Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Notes of the same holding having different terms, separate Certificates shall be issued in respect of those Notes of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.

(d) *Delivery of New Certificates*

Each new Certificate to be issued pursuant to Condition 2(a), (b) or (c) shall be available for delivery within three business days of receipt of the request for exchange, form of transfer or Exercise Notice (as defined in Condition 5(e)) or surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such request for exchange, form of transfer, Exercise Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant request for exchange, form of transfer, Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Agent the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(d), "**business day**" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

(e) *Exchange Free of Charge*

Exchange and transfer of Notes and Certificates on registration, transfer, exercise of an option or partial redemption shall be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may reasonably require).

(f) *Closed Periods*

No Noteholder may require the transfer of a Registered Note to be registered or an Exchangeable Bearer Note to be exchanged for one or more Registered Note(s) (i) during the period of 15 days ending on the due date for redemption of that Note, (ii) during the period of 15 days prior to any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 5(d), (iii) after any such Note has been called for redemption or (iv) during the period of seven days ending on (and including) any Record Date. An Exchangeable Bearer Note called for redemption may, however, be exchanged for one or more Registered Note(s) in respect of which the Certificate is simultaneously surrendered not later than the relevant Record Date.

3 Status

Subject to such exceptions as may be provided by mandatory provisions of applicable law, the Notes and the Coupons relating to them constitute unsecured and unsubordinated obligations of the Issuer and rank *pari passu* without any preference among themselves and at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer.

4 Interest and other Calculations

(a) *Interest on Fixed Rate Notes*

Each Fixed Rate Note bears interest on its outstanding nominal amount from and including the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable, subject as provided herein, in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with this Condition 4.

(b) *Interest on Fixed Rate Reset Notes*

Each Fixed Rate Reset Note bears interest on its outstanding nominal amount:

- (i) from and including the Interest Commencement Date up to but excluding the First Reset Date at the Initial Rate of Interest;
- (ii) in the First Reset Period, at the First Reset Rate of Interest; and
- (iii) for each Subsequent Reset Period thereafter (if any), at the relevant Subsequent Reset Rate of Interest,

payable, subject as provided herein, in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with this Condition 4.

Save as otherwise provided herein, the provisions applicable to Fixed Rate Notes shall apply to Fixed Rate Reset Notes.

In these Conditions:

“**Anniversary Date(s)**” means each date specified as such in the Final Terms;

“**Benchmark Determination Agent**” means an independent financial institution of international repute or other independent financial adviser experienced in the international capital markets, in each case appointed by the Issuer at its own expense or as specified in the Final Terms;

“**Benchmark Gilt**” means, in respect of a Reset Period, such United Kingdom government security having a maturity date on or about the last day of such Reset Period as the Issuer and the Benchmark Determination Agent, with the advice of the Reset Reference Banks, may determine to be appropriate;

“Benchmark Gilt Rate” means, in respect of a Reset Period, the gross redemption yield (as calculated by the Benchmark Determination Agent in consultation with the Issuer in accordance with generally accepted market practice at such time) on a semi-annual compounding basis (converted to an annualised yield and rounded up (if necessary) to four decimal places) of the Benchmark Gilt in respect of that Reset Period, with the price of the Benchmark Gilt for this purpose being the arithmetic average (rounded up (if necessary) to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards)) of the bid and offered prices of such Benchmark Gilt quoted by the Reset Reference Banks at 3.00 p.m. (London time) on the relevant Reset Determination Date on a dealing basis for settlement on the next following dealing day in London. If at least four quotations are provided, the Benchmark Gilt Rate will be the rounded arithmetic mean of the quotations provided, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest). If only two or three quotations are provided, the Benchmark Gilt Rate will be the rounded arithmetic mean of the quotations provided. If only one quotation is provided, the Benchmark Gilt Rate will be the rounded quotation provided. If no quotations are provided, the Benchmark Gilt Rate will be (i) in the case of each Reset Period other than the First Reset Period, the Benchmark Gilt Rate in respect of the immediately preceding Reset Period or (ii) in the case of the First Reset Period, as set out in the Final Terms as the “First Reset Period Fallback”;

“dealing day” means a day, other than a Saturday or Sunday, on which the London Stock Exchange (or such other stock exchange on which the Benchmark Gilt is at the relevant time listed) is ordinarily open for the trading of securities;

“First Reset Date” means the date specified as such in the Final Terms;

“First Reset Period” means the period from and including the First Reset Date up to but excluding the Second Reset Date or, if no such Second Reset Date is specified in the Final Terms, the date fixed for redemption of the Notes (if any);

“First Reset Rate of Interest” means the rate of interest as determined by the Calculation Agent or the Issuer and the Benchmark Determination Agent (as applicable) on the Reset Determination Date corresponding to the First Reset Period as the sum of the relevant Reset Rate plus the relevant Margin;

“Initial Rate of Interest” means the initial rate of interest per annum specified in the Final Terms;

“Margin” means the margin (expressed as a percentage) in relation to the relevant Reset Period specified as such in the Final Terms;

“Mid-Swap Quotations” means the arithmetic mean of the bid and offered rates:

- (i) if the Specified Currency is Sterling, for a semi-annual fixed leg (calculated on an Actual/365 day count basis) of a fixed for floating interest rate swap transaction in Sterling which (i) has a term commencing on the relevant Reset Date which is equal to that of the relevant Swap Rate Period; (ii) is in an amount that is representative of a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the relevant swap market; and (iii) has a floating leg based on (subject as otherwise provided pursuant to Condition 4(j)) the 6-month LIBOR rate (calculated on an Actual/365 day count basis), unless as otherwise specified in the Final Terms;
- (ii) if the Specified Currency is euro, for the annual fixed leg (calculated on a 30/360 day count basis) of a fixed for floating interest rate swap transaction in euro which (i) has a term commencing on the relevant Reset Date which is equal to that of the relevant Swap Rate Period; (ii) is in an amount that is representative of a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the relevant swap market; and (iii) has a floating

leg based on (subject as otherwise provided pursuant to Condition 4(j)) the 6-month EURIBOR rate (calculated on an Actual/360 day count basis), unless as otherwise specified in the Final Terms;

- (iii) if the Specified Currency is U.S. dollars, for the semi-annual fixed leg (calculated on a 30/360 day count basis) of a fixed for floating interest rate swap transaction in U.S. dollars which (i) has a term commencing on the relevant Reset Date which is equal to that of the relevant Swap Rate Period; (ii) is in an amount that is representative of a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the relevant swap market; and (iii) has a floating leg based on (subject as otherwise provided pursuant to Condition 4(j)) the 3-month LIBOR rate (calculated on an Actual/360 day count basis), unless as otherwise specified in the Final Terms;
- (iv) if the Specified Currency is not Sterling, euro or U.S. dollars, for the Fixed Leg (as set out in the Final Terms) of a fixed for floating interest rate swap transaction in that Specified Currency which (i) has a term commencing on the relevant Reset Date which is equal to that of the relevant Swap Rate Period; (ii) is in an amount that is representative of a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the relevant swap market; and (iii) has a Floating Leg (as set out in the Final Terms, and subject as otherwise provided pursuant to Condition 4(j));

“**Mid-Swap Rate**” means in respect of a Reset Period, (i) the applicable semi-annual or annualised (as specified in the applicable Final Terms) mid-swap rate for swap transactions in the Specified Currency (with a maturity equal to that of the relevant Swap Rate Period specified in the Final Terms) as displayed on the Screen Page at 11.00 a.m. (in the principal financial centre of the Specified Currency) on the relevant Reset Determination Date (which rate, if the relevant Interest Payment Dates are other than semi-annual or annual Interest Payment Dates, shall be adjusted by, and in the manner determined by, the Calculation Agent) or (ii) if such rate is not displayed on the Screen Page at such time and date (other than in the circumstances provided for in Condition 4(j)), the relevant Reset Reference Bank Rate;

“**Reset Determination Date**” means, in respect of a Reset Period, (a) each date specified as such in the Final Terms or, if none is so specified, (b) (i) if the Specified Currency is Sterling, the first Business Day of such Reset Period, (ii) if the Specified Currency is euro, the day falling two TARGET Business Days prior to the first day of such Reset Period, (iii) if the Specified Currency is U.S. dollars, the day falling two U.S. Government Securities Business Days prior to the first day of such Reset Period (iv) for any other Specified Currency, the day falling two Business Days in the principal financial centre for such Specified Currency prior to the first day of such Reset Period;

“**Reset Date**” means each of the First Reset Date, the Second Reset Date and each of the Anniversary Dates (if any) as is specified in the Final Terms;

“**Reset Period**” means the First Reset Period or a Subsequent Reset Period;

“**Reset Rate**” means (a) if ‘Mid-Swap Rate’ is specified in the Final Terms, the relevant Mid-Swap Rate or (b) if ‘Benchmark Gilt Rate’ is specified in the Final Terms, the relevant Benchmark Gilt Rate;

“**Reset Reference Bank Rate**” means the percentage rate determined on the basis of the Mid-Swap Quotations provided by the Reset Reference Banks to the Calculation Agent at or around 11:00 a.m. in the principal financial centre of the Specified Currency on the relevant Reset Determination Date and, rounded, if necessary, to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards). If at least four quotations are provided, the Reset Reference Bank Rate will be the rounded arithmetic mean of the quotations provided, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest). If only two or three quotations

are provided, the Reset Reference Bank Rate will be the rounded arithmetic mean of the quotations provided. If only one quotation is provided, the Reset Reference Bank Rate will be the rounded quotation provided. If no quotations are provided, the Reset Reference Bank Rate will be (i) in the case of each Reset Period other than the First Reset Period, the Mid-Swap Rate in respect of the immediately preceding Reset Period or (ii) in the case of the First Reset Period, an amount as set out in the Final Terms as the “First Reset Period Fallback”;

“**Reset Reference Banks**” means (i) in the case of the calculation of a Reset Reference Bank Rate, five leading swap dealers in the principal interbank market relating to the Specified Currency selected by the Issuer in its discretion or (ii) in the case of a Benchmark Gilt Rate, five brokers of gilts and/or gilt-edged market makers selected by the Issuer in its discretion;

“**Screen Page**” means Reuters screen page “ICESWAP 1”, “ICESWAP 2”, “ICESWAP 3”, “ICESWAP 4”, “ICESWAP 5” or “ICESWAP 6” as specified in the Final Terms or such other page on Thomson Reuters as is specified in the Final Terms, or such other screen page as may replace it on Thomson Reuters or, as the case may be, on such other information service that may replace Thomson Reuters, in each case, as may be nominated by the person providing or sponsoring the information appearing there for the purpose of displaying comparable rates;

“**Second Reset Date**” means the date specified as such in the Final Terms;

“**Subsequent Reset Period**” means the period from and including the Second Reset Date to but excluding the next Reset Date, and each successive period from and including a Reset Date to but excluding the next succeeding Reset Date;

“**Subsequent Reset Rate of Interest**” means, in respect of any Subsequent Reset Period, the rate of interest determined by the Calculation Agent or the Issuer and the Benchmark Determination Agent (as applicable) on the Reset Determination Date corresponding to such Subsequent Reset Period as the sum of the relevant Reset Rate plus the relevant Margin;

“**Swap Rate Period**” means the period or periods specified as such in the Final Terms; and

“**U.S. Government Securities Business Day**” means any day except for a Saturday, Sunday or a day on which the Securities Industry and Financial Markets Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities.

(c) *Interest on Floating Rate Notes*

(i) *Interest Payment Dates*

Each Floating Rate Note bears interest on its outstanding nominal amount from and including the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 4(g). Such Interest Payment Date(s) is/are either specified in the Final Terms as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are specified in the Final Terms, Interest Payment Date shall mean each date which falls the number of months or other period specified in the Final Terms as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

(ii) *Rate of Interest for Floating Rate Notes*

The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified in the Final Terms and the provisions below relating to any of ISDA Determination, Screen Rate Determination and/or Linear Interpolation shall apply, depending upon which is specified in the Final Terms.

(A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate plus or minus (as indicated in the Final Terms) the Margin (if any). For the purposes of this sub-paragraph (A), “ISDA Rate” for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (x) the Floating Rate Option is as specified in the Final Terms;
- (y) the Designated Maturity is a period specified in the Final Terms; and
- (z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified in the Final Terms.

provided that, if no Rate of Interest can be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined by the Calculation Agent in its sole and absolute discretion (though applying the Margin, Maximum Rate of Interest and/or Minimum Rate of Interest, if any, relating to the Interest Accrual Period), failing which the Rate of Interest shall be (i) that determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum Rate of Interest or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum Rate of Interest or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum Rate of Interest or Minimum Rate of Interest relating to that last preceding Interest Accrual Period) or (ii) if there is no such preceding Interest Determination Date, the initial Rate of Interest applicable to such Notes on the Interest Commencement Date (though substituting, where a different Maximum Rate of Interest or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Maximum Rate of Interest or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Maximum Rate of Interest or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

For the purposes of this sub-paragraph (A), “Floating Rate”, “Calculation Agent”, “Floating Rate Option”, “Designated Maturity”, “Reset Date” and “Swap Transaction” have the meanings given to those terms in the ISDA Definitions.

(B) Screen Rate Determination for Floating Rate Notes

- (I) If “Applicable – Term Rate” is specified as the method of Screen Rate Determination in the applicable Final Terms:
 - (i) the Rate of Interest for each Interest Accrual Period will, subject as provided below and subject to Condition 4(j), be either:

- (A) the offered quotation; or
- (B) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at the Relevant Time on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

- (ii) If the Relevant Screen Page is not available or if sub-paragraph (i)(A) above applies and no such offered quotation appears on the Relevant Screen Page or if sub-paragraph (i)(B) above applies and fewer than three such offered quotations appear on the Relevant Screen Page in each case as at the time specified above, subject as provided below, the Calculation Agent shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Eurozone office of each of the Reference Banks to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at the Relevant Time on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent.
- (iii) If, where paragraph (ii) above applies, the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered at the Relevant Time on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Eurozone inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which at the Relevant Time on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Eurozone inter-bank market as the case may be, provided that, if the Rate of Interest cannot be determined in

accordance with the foregoing provisions of this paragraph (iii), the Rate of Interest shall be (i) that determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum Rate of Interest or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum Rate of Interest or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum Rate of Interest or Minimum Rate of Interest relating to that last preceding Interest Accrual Period) or (ii) if there is no such preceding Interest Determination Date, the initial Rate of Interest applicable to such Notes on the Interest Commencement Date (though substituting, where a different Maximum Rate of Interest or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Maximum Rate of Interest or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Maximum Rate of Interest or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

(II) If “Applicable – Overnight Rate” is specified as the method of Screen Rate Determination in the applicable Final Terms:

(i) where the Calculation Method in respect of the relevant Series of Floating Rate Notes is specified in the applicable Final Terms as being “Compounded Daily”, the Rate of Interest for each Interest Accrual Period will, subject to Condition 4(j) and as provided below, be the Compounded Daily Reference Rate plus or minus (as indicated in the applicable Final Terms) the Margin, where:

“**Compounded Daily Reference Rate**” means, with respect to an Interest Accrual Period, the rate of return of a daily compound interest investment in the Specified Currency (with the applicable Reference Rate (as indicated in the applicable Final Terms and further provided for below) as the reference rate for the calculation of interest) and will be calculated by the Calculation Agent (or such other party responsible for the calculation of the Rate of Interest, as specified in the applicable Final Terms) on the Interest Determination Date, as follows, and the resulting percentage will be rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards:

$$\left[\prod_{i=1}^{d_o} \left(1 + \frac{r_{i-pBD} \times n_i}{D} \right) - 1 \right] \times \frac{D}{d}$$

where:

“**D**” is the number specified in the applicable Final Terms;

“**d**” is the number of calendar days in the relevant Interest Accrual Period;

“**d_o**” is the number of Business Days in the relevant Interest Accrual Period;

“**i**” is a series of whole numbers from one to d_0 , each representing the relevant Business Day in chronological order from, and including, the first Business Day in the relevant Interest Accrual Period;

“**Business Day**” or “**BD**”, in this Condition 4(c)(ii)(B)(II) has the meaning set out in Condition 4(k), save that where “SOFR” is specified as the Reference Rate, it means a U.S. Government Securities Business Day;

“**n_i**”, for any Business Day “**i**”, means the number of calendar days from and including such Business Day “**i**” up to but excluding the following Business Day;

“**p**” means, for any Interest Accrual Period:

- a. where “Lag” is specified as the Observation Method in the applicable Final Terms, the number of Business Days included in the Observation Look-Back Period specified in the applicable Final Terms (or, if no such number is specified five Business Days);
- b. where “Lock-out” is specified as the Observation Method in the applicable Final Terms, zero;

“**r**” means:

- a. where in the applicable Final Terms “SONIA” is specified as the Reference Rate and “Lag” is specified as the Observation Method, in respect of any Business Day, the SONIA rate in respect of such Business Day;
- b. where in the applicable Final Terms “SOFR” is specified as the Reference Rate and “Lag” is specified as the Observation Method, in respect of any Business Day, the SOFR in respect of such Business Day;
- c. where in the applicable Final Terms “SONIA” is specified as the Reference Rate and “Lock-out” is specified as the Observation Method:
 1. in respect of any Business Day “**i**” that is a Reference Day, the SONIA rate in respect of the Business Day immediately preceding such Reference Day, and
 2. in respect of any Business Day “**i**” that is not a Reference Day (being a Business Day in the Lock-out Period), the SONIA rate in respect of the Business Day immediately preceding the last Reference Day of the relevant Interest Accrual Period (such last Reference Day coinciding with the Interest Determination Date); and
- d. where in the applicable Final Terms “SOFR” is specified as the Reference Rate and “Lock-out” is specified as the Observation Method:

1. in respect of any Business Day “i” that is a Reference Day, the SOFR in respect of the Business Day immediately preceding such Reference Day, and
2. in respect of any Business Day “i” that is not a Reference Day (being a Business Day in the Lock-out Period), the SOFR in respect of the Business Day immediately preceding the last Reference Day of the relevant Interest Accrual Period (such last Reference Day coinciding with the Interest Determination Date); and

“ **r_{i-pBD}** ” means the applicable Reference Rate as set out in the definition of “r” above for, where “Lag” is specified as the Observation Method in the applicable Final Terms, the Business Day (being a Business Day falling in the relevant Observation Period) falling “p” Business Days prior to the relevant Business Day “i” or, where “Lock-out” is specified as the Observation Method in the applicable Final Terms, the relevant Business Day “i”.

- (ii) where the Calculation Method in respect of the relevant Series of Floating Rate Notes is specified in the applicable Final Terms as being “Weighted Average”, the Rate of Interest for each Interest Accrual Period will, subject to Condition 4(j) and as provided below, be the Weighted Average Reference Rate (as defined below) plus or minus (as indicated in the applicable Final Terms) the Margin and will be calculated by the Calculation Agent (or such other party responsible for the calculation of the Rate of Interest, as specified in the applicable Final Terms) on the Interest Determination Date and the resulting percentage will be rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards, where:

“**Weighted Average Reference Rate**” means:

- a. where “Lag” is specified as the Observation Method in the applicable Final Terms, the arithmetic mean of the Reference Rate in effect for each calendar day during the relevant Observation Period, calculated by multiplying each relevant Reference Rate by the number of calendar days such rate is in effect, determining the sum of such products and dividing such sum by the number of calendar days in the relevant Observation Period. For these purposes the Reference Rate in effect for any calendar day which is not a Business Day shall be deemed to be the Reference Rate in effect for the Business Day immediately preceding such calendar day; and
- b. where “Lock-out” is specified as the Observation Method in the applicable Final Terms, the arithmetic mean of the Reference Rate in effect for each calendar day during the relevant Interest Accrual Period, calculated by multiplying each relevant Reference Rate by the number of days such rate is in effect, determining the sum of such products and dividing such sum by the number of calendar days in the relevant Interest Accrual Period, provided however that for any calendar day of such Interest Accrual Period falling in the “Lock-out

Period”, the relevant Reference Rate for each day during that Lock-out Period will be deemed to be the Reference Rate in effect for the Reference Day immediately preceding the first day of such Lock-out Period. For these purposes the Reference Rate in effect for any calendar day which is not a Business Day shall, subject to the proviso above, be deemed to be the Reference Rate in effect for the Business Day immediately preceding such calendar day.

(iii) subject to Condition 4(j), where “SONIA” is specified as the Reference Rate in the applicable Final Terms, if, in respect of any Business Day, SONIA is not available on the Relevant Screen Page or has not otherwise been published by the relevant authorised distributors, such Reference Rate shall be:

1. (i) the Bank of England’s Bank Rate (the “**Bank Rate**”) prevailing at close of business on the relevant Business Day; plus (ii) the mean of the spread of SONIA to the Bank Rate over the previous five days on which SONIA has been published, excluding the highest spread (or, if there is more than one highest spread, one only of those highest spreads) and lowest spread (or, if there is more than one lowest spread, one only of those lowest spreads) to the Bank Rate, or
2. if such Bank Rate is not available, the SONIA rate published on the Relevant Screen Page (or otherwise published by the relevant authorised distributors) for the first preceding Business Day on which the SONIA rate was published on the Relevant Screen Page (or otherwise published by the relevant authorised distributors), and

in each case, “r” shall be interpreted accordingly.

(iv) subject to Condition 4(j), where “SOFR” is specified as the Reference Rate in the applicable Final Terms, if, in respect of any Business Day, the Reference Rate is not available, such Reference Rate shall be the SOFR for the first preceding Business Day on which the SOFR was published on the New York Fed’s Website, and “r” shall be interpreted accordingly.

(v) In the event that the Rate of Interest cannot be determined in accordance with the foregoing provisions, but without prejudice to Condition 4(j), the Rate of Interest shall be (i) that determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum Rate of Interest or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum Rate of Interest or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum Rate of Interest or Minimum Rate of Interest relating to that last preceding Interest Accrual Period) or (ii) if there is no such preceding Interest Determination Date, the initial Rate of Interest which would have been applicable to such Series of Notes for the first Interest Accrual Period had the Notes been in issue for a period equal in duration to the scheduled first Interest Accrual Period but ending on (and excluding) the Interest Commencement Date (but applying the Margin and

any Maximum Rate of Interest or Minimum Rate of Interest applicable to the first Interest Accrual Period).

If the relevant Series of Notes become due and payable in accordance with Condition 9, the final Interest Determination Date shall, notwithstanding any Interest Determination Date specified in the applicable Final Terms, be deemed to be the date on which such Notes became due and payable and the Rate of Interest on such Notes shall, for so long as any such Note remains outstanding, be that determined on such date.

(C) *Linear Interpolation*

Where Linear Interpolation is specified in the Final Terms as applicable in respect of an Interest Accrual Period, the Rate of Interest for such Interest Accrual Period shall be calculated by the Calculation Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified in the Final Terms as applicable) or the relevant Floating Rate Option (where ISDA Determination is specified in the Final Terms as applicable), one of which shall be determined as if the Applicable Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Accrual Period and the other of which shall be determined as if the Applicable Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Accrual Period provided however that if there is no rate available for the period of time next shorter or, as the case may be, next longer, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

“**Applicable Maturity**” means (a) in relation to Screen Rate Determination, the period of time designated in the Reference Rate and (b) in relation to ISDA Determination, the Designated Maturity.

(d) *Zero Coupon Notes*

Where a Note the Interest Basis of which is specified to be Zero Coupon is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the due date for redemption, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield specified in the Final Terms.

(e) *Accrual of Interest*

Interest (if any) shall cease to accrue on each Note (or in the case of the redemption of part only of a Note, that part only of such Note) on the due date for redemption thereof unless (upon due presentation thereof where presentation is required), payment of principal is improperly withheld or refused or unless default is otherwise made in respect of payment, in which event, interest shall continue to accrue or, in the case of Zero Coupon Notes, shall accrue (in each case, both before and after judgment) at the Rate of Interest in the manner provided in this Condition 4 to (but excluding) the Relevant Date (as defined in Condition 7).

(f) *Margin, Maximum Rate of Interest, Minimum Rates of Interest, Redemption Amounts and Rounding*

(i) If any Margin is specified in the Final Terms (either (A) generally, (B) in relation to one or more Interest Accrual Periods or (C) in relation to one or more Reset Periods), an adjustment shall, unless the relevant Margin has already been taken into account in determining such Rate of

Interest, be made to all Rates of Interest, in the case of (A), or the Rates of Interest for the specified Interest Accrual Periods or Reset Periods, in the case of (B) or (C), calculated, in each case, in accordance with this Condition 4 by adding (if a positive number) or subtracting (if a negative number) the absolute value of such Margin subject always (in the case of Floating Rate Notes only) to the next paragraph.

- (ii) If any Maximum Rate of Interest or Minimum Rate of Interest or Redemption Amount is specified in the Final Terms, then any Rate of Interest or Redemption Amount shall be subject to such maximum or minimum, as the case may be. Further, unless otherwise stated in the Final Terms, the Minimum Rate of Interest shall be deemed to be zero.
- (iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (A) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (B) all figures shall be rounded to seven significant figures (with halves being rounded up) and (C) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of Yen, which shall be rounded down to the nearest Yen. For these purposes “unit” means the lowest amount of such currency that is available as legal tender in the country of such currency.

(g) *Calculations*

The amount of interest payable per Calculation Amount in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified in the Final Terms and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be applied to the period for which interest is required to be calculated.

(h) *Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts and Optional Redemption Amounts*

The Calculation Agent shall as soon as practicable on each Interest Determination Date, Reset Determination Date or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts for the relevant Interest Accrual Period (or, if determining the First Reset Rate of Interest or a Subsequent Reset Rate of Interest in respect of Fixed Rate Reset Notes, the Interest Amount for each Interest Accrual Period falling within the relevant Reset Period) calculate the Final Redemption Amount(s), Early Redemption Amount or Optional Redemption Amount, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount(s), Early Redemption Amount or Optional Redemption Amount to be notified to the Trustee, the Issuer, each of the Paying Agents, the Registrar, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange or admitted to listing by another relevant authority and the rules of such exchange or other relevant authority so

require, such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the second Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 4(i), the Interest Amounts, the Rate of Interest and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of the Trustee by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and repayable under Condition 9, the accrued interest and the Rate of Interest payable in respect of the Notes shall, subject in the case of the Compounded Daily Reference Rate and Weighted Average Reference Rate to Condition 4(c)(ii)(B), nevertheless continue to be calculated as previously in accordance with this Condition 4 but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Trustee otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding on all parties.

(i) *Business Day Convention*

If any date that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is:

- (i) the “Floating Rate Business Day Convention”, for all purposes (including interest accrual purposes), such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen;
- (ii) the “Following Business Day Convention (Adjusted)”, for all purposes (including interest accrual purposes), such date shall be postponed to the next day that is a Business Day;
- (iii) the “Following Business Day Convention (Unadjusted)”, (a) for the purposes of calculating any amount of interest payable under the Notes, such date shall not be adjusted; and (b) for any other purpose, such date shall be postponed to the next day that is a Business Day;
- (iv) the “Modified Following Business Day Convention (Adjusted)”, for all purposes (including interest accrual purposes), such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day; or
- (v) the “Modified Following Business Day Convention (Unadjusted)”, (a) for the purposes of calculating any amount of interest payable under the Notes, such date shall not be adjusted; and (b) for any other purpose, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day;
- (vi) the “Preceding Business Day Convention (Adjusted)”, for all purposes (including interest accrual purposes), such date shall be brought forward to the immediately preceding Business Day; and
- (vii) the “Preceding Business Day Convention (Unadjusted)”, (a) for the purposes of calculating any amount of interest payable under the Notes, such date shall not be adjusted; and (b) for any other purpose, such date shall be brought forward to the immediately preceding Business Day.

(j) *Benchmark discontinuation*

- A. Subject to Condition 4(j)B below and notwithstanding the provisions above in Conditions 4(b) or 4(c), if a Benchmark Event occurs in relation to an Original Reference Rate when any required Rate of Interest (or any component part thereof), remains to be determined by reference to such Original Reference Rate, then the following provisions of this Condition 4(j)A shall apply. Notwithstanding the previous sentence, where “SOFR” is specified as the Original Reference Rate, the provisions of Condition 4(j)B shall apply prior to the application of this Condition 4(j)A.

(i) *Independent Adviser*

The Issuer shall use its reasonable endeavours to appoint and consult with an Independent Adviser, as soon as reasonably practicable, to advise the Issuer in determining a Successor Rate, failing which an Alternative Rate (in accordance with Condition 4(j)A(ii)) and, in either case, an Adjustment Spread (in accordance with Condition 4(j)A(iii)) and any Benchmark Amendments (in accordance with Condition 4(j)A(iv)).

(ii) *Successor Rate or Alternative Rate*

If the Issuer, following consultation with the Independent Adviser, determines that:

- (A) there is a Successor Rate, then such Successor Rate and the applicable Adjustment Spread shall subsequently be used in place of the Original Reference Rate to determine the relevant Rate(s) of Interest (or the relevant component part(s) thereof) for all relevant future payments of interest on the Notes (subject to the further operation of this Condition 4(j)); or
- (B) there is no Successor Rate but that there is an Alternative Rate, then such Alternative Rate and the applicable Adjustment Spread shall subsequently be used in place of the Original Reference Rate to determine the relevant Rate(s) of Interest (or the relevant component part(s) thereof) for all relevant future payments of interest on the Notes (subject to the further operation of this Condition 4(j)).

(iii) *Adjustment Spread*

The applicable Adjustment Spread shall be applied to the Successor Rate or the Alternative Rate (as the case may be) for each subsequent determination of a relevant Rate of Interest (or a component part thereof) by reference to such Successor Rate or Alternative Rate (as applicable).

(iv) *Benchmark Amendments*

If any Successor Rate or Alternative Rate and, in either case, the applicable Adjustment Spread is determined in accordance with this Condition 4(j)A and the Issuer, following consultation with the Independent Adviser, determines (A) that amendments to these Conditions and/or the Trust Deed are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and/or (in either case) the applicable Adjustment Spread (such amendments, the “**Benchmark Amendments**”) and (B) the terms of the Benchmark Amendments, then the Issuer shall, subject to giving notice thereof in accordance with Condition 4(j)C, without any requirement for the consent or approval of Noteholders, vary these Conditions and/or the Trust Deed to give effect to such Benchmark Amendments with effect from the date specified in such notice.

At the request of the Issuer, but subject to receipt by the Trustee of a certificate signed by two authorised signatories of the Issuer pursuant to Condition 4(j)C, the Trustee shall (at the expense of the Issuer), without any requirement for the consent or approval of the Noteholders, be obliged

to concur with the Issuer in effecting any Benchmark Amendments (including, inter alia, by the execution of a deed supplemental to or amending the Trust Deed) and the Trustee shall not be liable to any party for any consequences thereof, provided that the Trustee shall not be obliged so to concur if in the sole opinion of the Trustee doing so would impose more onerous obligations upon it or expose it to any additional duties, responsibilities or liabilities or reduce or amend rights and/or the protective provisions afforded to the Trustee in these Conditions or the Trust Deed (including, for the avoidance of doubt, any supplemental trust deed) in any way.

In connection with any such variation in accordance with this Condition 4(j)A(iv), the Issuer shall comply with the rules of any stock exchange on which the Notes are for the time being listed or admitted to trading.

B. Notwithstanding the provisions above in Conditions 4(b) or 4(c), if a Benchmark Event occurs in relation to an Original Reference Rate specified as “SOFR” in the applicable Final Terms (a “**SOFR Benchmark Event**”), when any required Rate of Interest (or any component part thereof), remains to be determined by reference to such Original Reference Rate, then the following provisions of this Condition 4(j)B shall apply prior to the application of Condition 4(j)A above. If SOFR does not appear on a Business Day as specified in Condition 4(c)(ii)(B)(II), such Reference Rate will be the rate (inclusive of any spreads or adjustments) that was recommended as the replacement for the daily secured overnight financing rate by the Federal Reserve Board and/or the Federal Reserve Bank of New York or by a committee officially endorsed or convened by the Federal Reserve Board and/or the Federal Reserve Bank of New York for the purpose of recommending a replacement for the daily secured overnight financing rate (which rate may be produced by the Federal Reserve Bank of New York or other designated administrator), provided that:

- (i) subject to (ii) below, if a SOFR Benchmark Event occurs and no such rate has been recommended within one Business Day of the occurrence of the SOFR Benchmark Event, then the Reference Rate will be determined as if, for each Business Day occurring on or after the date of such SOFR Benchmark Event, references in Condition 4(c)(ii)(B)(II) to:
 - (A) “SOFR” were references to the daily Overnight Bank Funding Rate as provided by the Federal Reserve Bank of New York, as the administrator of such rate (or any successor administrator of such rate), on the New York Fed’s Website on or about 5:00 p.m. (New York City time) on each day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in New York City (“**New York City Banking Day**”) in respect of the New York City Banking Day immediately preceding such day (“**OBFR**”); and
 - (B) “Business Day” were references to “New York City Banking Day”, and
- (ii) if the rate specified in (i) above is not provided and a Benchmark Event occurs with respect to OBFR (the “**OBFR Benchmark Event**”), then the Reference Rate will be determined as if, for each Business Day occurring on or after the date of such OBFR Benchmark Event, references in Condition 4(c)(ii)(B)(II) to:
 - (A) “SOFR” were references to the short-term interest rate target set by the Federal Open Market Committee and published on the website of the Board of Governors of the Federal Reserve System currently at <http://www.federalreserve.gov>, or any successor website of the Board of Governors of the Federal Reserve System (the “**Federal Reserve’s**”

Website) or, if the Federal Open Market Committee does not target a single rate, the mid-point of the short-term interest rate target range set by the Federal Open Market Committee and published on the Federal Reserve’s Website (calculated as the arithmetic average of the upper bound of the target range and the lower bound of the target range, rounded, if necessary, to the nearest second decimal place, 0.005 being rounded upwards);

- (B) “Business Day” were references to “New York City Banking Day”; and
- (C) the “New York Fed’s Website” were references to the “Federal Reserve’s Website”.

(iii) *SOFR Benchmark Amendments*

Where this Condition 4(j)B applies, if the Issuer considers amendments to these Conditions and/or the Trust Deed to be necessary to ensure the proper operation of such rate (such amendments, the “**SOFR Benchmark Amendments**”), the Issuer shall use its reasonable endeavours to appoint and consult with an Independent Adviser, as soon as reasonably practicable, to advise the Issuer in determining (A) whether such SOFR Benchmark Amendments are necessary and (B) the terms of the SOFR Benchmark Amendments and the Issuer shall, subject to giving notice thereof in accordance with Condition 4(j)C, without any requirement for the consent or approval of Noteholders, vary these Conditions and/or the Trust Deed to give effect to such SOFR Benchmark Amendments with effect from the date specified in such notice.

At the request of the Issuer, but subject to receipt by the Trustee of a certificate signed by two authorised signatories of the Issuer pursuant to Condition 4(j)C, the Trustee shall (at the expense of the Issuer), without any requirement for the consent or approval of the Noteholders, be obliged to concur with the Issuer in effecting any SOFR Benchmark Amendments (including, inter alia, by the execution of a deed supplemental to or amending the Trust Deed) and the Trustee shall not be liable to any party for any consequences thereof, provided that the Trustee shall not be obliged so to concur if in the sole opinion of the Trustee doing so would impose more onerous obligations upon it or expose it to any additional duties, responsibilities or liabilities or reduce or amend rights and/or the protective provisions afforded to the Trustee in these Conditions or the Trust Deed (including, for the avoidance of doubt, any supplemental trust deed) in any way.

In connection with any such variation in accordance with this Condition 4(j)B(iii), the Issuer shall comply with the rules of any stock exchange on which the Notes are for the time being listed or admitted to trading.

C. Notices, etc.

Any Successor Rate, Alternative Rate, Adjustment Spread and the specific terms of any Benchmark Amendments or SOFR Benchmark Amendments, determined under this Condition 4(j) will be notified promptly by the Issuer to the Trustee, the Calculation Agent, the Paying Agents and, in accordance with Condition 14, the Noteholders. Such notice shall be irrevocable and shall specify the effective date of the Benchmark Amendments and SOFR Benchmark Amendments, if any.

No later than notifying the Trustee of the same, the Issuer shall deliver to the Trustee a certificate signed by two authorised signatories of the Issuer:

- (A) where a Benchmark Event in relation to an Original Reference Rate has occurred in accordance with Condition 4(j)A above:
 - (I) confirming (i) that a Benchmark Event has occurred, (ii) the Successor Rate or, as the case may be, the Alternative Rate, (iii) the Adjustment Spread and (iv) the specific terms of the Benchmark Amendments (if any), in each case as determined in accordance with the provisions of this Condition 4(j);
 - (II) certifying that the Benchmark Amendments (if any) are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and (in either case) the applicable Adjustment Spread; and
 - (III) certifying that (i) the Issuer has duly consulted with an Independent Adviser with respect to each of the matters above or, if that is not the case, (ii) explaining, in reasonable detail, why the Issuer has not done so; or
- (B) where a SOFR Benchmark Event or an OBFR Benchmark Event (as applicable) has occurred and where consequently a rate is determined in accordance with Condition 4(j)B above:
 - (I) confirming (i) that a SOFR Benchmark Event and/or an OBFR Benchmark Event has occurred, (ii) the rate as determined in accordance with Condition 4(j)B and (iii) the specific terms of the SOFR Benchmark Amendments (if any); and
 - (II) certifying that the SOFR Benchmark Amendments (if any) are necessary to ensure the proper operation of such rate; and
 - (III) certifying that (i) the Issuer has duly consulted with an Independent Adviser with respect to each of the matters above or, if that is not the case, (ii) explaining, in reasonable detail, why the Issuer has not done so.

The Trustee shall be entitled to rely on such certificate (without enquiry or liability to any person) as sufficient evidence thereof. The Successor Rate or Alternative Rate and the Adjustment Spread and the Benchmark Amendments (if any) specified in such certificate will (in the absence of manifest error in the determination of the Successor Rate or Alternative Rate and the Adjustment Spread and the Benchmark Amendments (if any) and without prejudice to the Trustee's ability to rely on such certificate as aforesaid) be binding on the Issuer, the Trustee, the Calculation Agent, the Paying Agents and the Noteholders.

- D. Without prejudice to the obligations of the Issuer under Condition 4(j)A or Condition 4(j)B, the Original Reference Rate and the fallback provisions provided for in Condition 4(b), Condition 4(c)(ii)(A), or Condition 4(c)(ii)(B), as applicable, will continue to apply unless and until the Calculation Agent has been notified of (i) the Successor Rate or the Alternative Rate (as the case may be), and the Adjustment Spread and Benchmark Amendments (if any) determined in accordance with Condition 4(j)A or (ii) the rate and SOFR Benchmark Amendments (if any) determined in accordance with Condition 4(j)B, in each case in accordance with Condition 4(j)C.

An Independent Adviser appointed pursuant to this Condition 4(j) shall act in good faith as an expert and (in the absence of bad faith or fraud) shall have no liability whatsoever to the Trustee, the Calculation Agent, the Paying Agents, or the Noteholders for any advice given to the Issuer in connection with any determination made by the Issuer, pursuant to this Condition 4(j).

In making any determination pursuant to this Condition 4(j), the Issuer shall act in good faith and, in the absence of bad faith or fraud, the Issuer shall have no liability whatsoever to the Trustee, the Calculation Agent, the Paying Agents, or the Noteholders for any such determination made by it.

(k) *Definitions*

In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

“**Adjustment Spread**” means either (a) a spread (which may be positive, negative or zero), or (b) a formula or methodology for calculating a spread, in each case to be applied to the Successor Rate or the Alternative Rate (as the case may be) and is the spread, formula or methodology which:

- (i) in the case of a Successor Rate, is formally recommended, or formally provided as an option for parties to adopt, in relation to the replacement of the Original Reference Rate with the Successor Rate by any Relevant Nominating Body; or
- (ii) if no such recommendation has been made, or in the case of an Alternative Rate, the Issuer, following consultation with the Independent Adviser, determines is customarily applied to the relevant Successor Rate or Alternative Rate (as the case may be) in international debt capital markets transactions to produce an industry-accepted replacement rate for the Original Reference Rate; or
- (iii) if the Issuer determines there is no such spread, formula or methodology customarily applied, the Issuer determines, following consultation with the Independent Adviser is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the Original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate (as the case may be).

“**Alternative Rate**” means an alternative benchmark or screen rate which the Issuer determines in accordance with Condition 4(j)A(ii) is customarily applied in international debt capital markets transactions for the purposes of determining rates of interest (or the relevant component part thereof) for a commensurate interest period and in the same Specified Currency as the Notes.

“**Benchmark Amendments**” has the meaning given to it in Condition 4(j)A(iv).

“**Benchmark Event**” means, with respect to an Original Reference Rate:

- (i) the Original Reference Rate ceasing to be published for a period of at least five Business Days or ceasing to exist; or
- (ii) the making of a public statement by the administrator of the Original Reference Rate that it has ceased or that it will cease publishing the Original Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the Original Reference Rate); or
- (iii) the making of a public statement by the supervisor of the administrator of the Original Reference Rate that the Original Reference Rate has been or will be permanently or indefinitely discontinued; or
- (iv) the making of a public statement by the supervisor of the administrator of the Original Reference Rate that means the Original Reference Rate will be prohibited from being used either, generally or in respect of the Notes, or that its use will be subject to restrictions or adverse consequences; or
- (v) the making of an official announcement by the supervisor of the administrator of the Original Reference Rate, with effect from a date after 31 December 2021, that the Original Reference Rate is no longer or will no longer be representative of its relevant underlying market; or

- (vi) it has or will prior to the next Interest Determination Date or Reset Determination Date, as applicable, become unlawful for any Paying Agent, the Calculation Agent or the Issuer to calculate any payments due to be made to any Noteholder using the Original Reference Rate (including, without limitation, under the Benchmark Regulation (EU) 2016/1011, if applicable),

provided that in the case of paragraphs (ii) to (iv) above, the Benchmark Event shall occur on the date of the cessation of the Original Reference Rate, the discontinuation of the Original Reference Rate or the prohibition of use of the Original Reference Rate, as the case may be, and not the date of the relevant public statement.

“**Business Day**” means:

- (i) in the case of a currency other than euro a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; or
- (ii) in the case of euro, a day on which the TARGET System is operating (a “**TARGET Business Day**”); and
- (iii) a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in any Business Centre(s) specified in the Final Terms.

“**Calculation Amount**” means the amount by reference to which the Interest Amount and the Final Redemption Amount are calculated as specified in the Final Terms.

“**CDOR**” means the Canadian dollar bankers’ acceptances rate.

“**Day Count Fraction**” means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period or an Interest Accrual Period, the “**Calculation Period**”):

- (i) if “**Actual/365**” or “**Actual/Actual**” or “**Actual/Actual – ISDA**” is specified in the Final Terms, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (ii) if “**Actual/365 (Fixed)**” is specified in the Final Terms, the actual number of days in the Calculation Period divided by 365;
- (iii) if “**Actual/360**” is specified in the Final Terms, the actual number of days in the Calculation Period divided by 360;
- (iv) if “**30/360**”, “**360/360**” or “**Bond Basis**” is specified in the Final Terms, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y1**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y2**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M1**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M2**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D1**” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

“**D2**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30;

- (v) if “**30E/360**” or “Eurobond Basis” is specified in the Final Terms, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y1**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y2**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M1**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M2**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D1**” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

“**D2**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D2 will be 30;

- (vi) if “**30E/360 (ISDA)**” is specified in the Final Terms, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y1**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y2**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M1**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M2**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D1**” is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

“**D2**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D2 will be 30; and

- (vii) if “**Actual/Actual ICMA**” is specified in the Final Terms:
- (A) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in such Calculation Period divided by the product of:
 - (x) the number of days in such Determination Period; and
 - (y) the number of Determination Periods normally ending in any year; or
 - (B) if the Calculation Period is longer than one Determination Period, the sum of:
 - (x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (i) the number of days in such Determination Period and (ii) the number of Determination Periods normally ending in any year; and
 - (y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (i) the number of days in such Determination Period and (ii) the number of Determination Periods normally ending in any year;

where:

“**Determination Period**” means the period from and including a Determination Date (as specified in the Final Terms) in any year to but excluding the next Determination Date; and

“**Determination Date**” means the date specified as such in the Final Terms or, if none is so specified, the Interest Payment Date.

“**euro**” means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

“**Eurozone**” means the region comprising member states of the European Union that adopt or have adopted the single currency in accordance with the Treaty establishing the European Community, as amended.

“**Independent Adviser**” means an independent financial institution of international repute or an independent adviser of recognised standing with appropriate expertise appointed by the Issuer at its own expense under Condition 4(j)A(i) and/or Condition 4(j)B(iii).

“**Interest Accrual Period**” means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date.

“**Interest Amount**” means:

- (i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, and unless otherwise specified in the Final Terms, shall mean the Fixed Coupon Amount or Broken Amount specified

in the Final Terms as being payable on the Interest Payment Date ending on the Interest Period of which such Interest Accrual Period forms part; and

- (ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period.

“Interest Commencement Date” means the Issue Date or such other date as may be specified in the Final Terms.

“Interest Determination Date” means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such in the Final Terms or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is not Sterling or euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro.

“Interest Period” means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date unless otherwise specified in the Final Terms.

“Interest Period Date” means each Interest Payment Date unless otherwise specified in the Final Terms.

“ISDA Definitions” means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., and in respect of the Notes, as amended and supplemented up to and including the Issue Date for the first Tranche of the Notes (or as otherwise specified in the Final Terms).

“Lock-out Period” means the period from, and including, the day following the Interest Determination Date to, but excluding, the corresponding Interest Period Date.

“New York Fed’s Website” means the website of the Federal Reserve Bank of New York currently at <http://www.newyorkfed.org>, or any successor website of the Federal Reserve Bank of New York.

“Observation Period” means, in respect of an Interest Accrual Period, the period from and including the date falling “p” Business Days prior to the first day of the relevant Interest Accrual Period and ending on, but excluding, the date which is “p” Business Days prior to the Interest Period Date for such Interest Accrual Period (or the date falling “p” Business Days prior to such earlier date, if any, on which the Notes become due and payable).

“Original Reference Rate” means the benchmark or screen rate (as applicable) originally specified for the purpose of determining the relevant Rate of Interest (or any relevant component part(s) thereof) on the Notes.

“Rate of Interest” means the rate of interest payable from time to time in respect of the Notes and that is either specified in or calculated in accordance with the provisions in the Final Terms.

“Reference Banks” means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and in the case of a determination of EURIBOR, the principal Eurozone office of four major banks in the Eurozone inter-bank market, in each case selected by the Calculation Agent in consultation with the Issuer or as specified in the Final Terms.

“Reference Day” means each Business Day in the relevant Interest Accrual Period, other than any Business Day in the Lock-out Period.

“Reference Rate” means the rate specified as such in the Final Terms.

“Relevant Nominating Body” means, in respect of a benchmark or screen rate (as applicable):

- (i) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable); or
- (ii) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (a) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, (b) any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable), (c) a group of the aforementioned central banks or other supervisory authorities or (d) the Financial Stability Board or any part thereof.

“Relevant Screen Page” means such page, section, caption, column or other part of a particular information service as may be specified in the Final Terms (or any successor or replacement page, section, caption, column or other part of a particular information service).

“Relevant Time” means, if the Reference Rate is LIBOR, approximately 11.00 a.m. (London time), if the Reference Rate is EURIBOR, 11.00 a.m. (Brussels time) or as otherwise specified in the Final Terms.

“SOFR” means, in respect of any Business Day, a reference rate equal to the daily Secured Overnight Financing Rate as provided by the Federal Reserve Bank of New York, as the administrator of such rate (or any successor administrator of such rate) on the New York Fed’s Website, in each case on or about 5:00 p.m. (New York City Time) on the Business Day immediately following such Business Day.

“SONIA” means, in respect of any Business Day, a reference rate equal to the daily Sterling Overnight Index Average rate for such Business Day as provided by the administrator of SONIA to authorised distributors and as then published on the Relevant Screen Page or, if the Relevant Screen Page is unavailable, as otherwise published by such authorised distributors in each case on the Business Day immediately following such Business Day.

“Specified Currency” means the currency specified in the Final Terms or, if none is specified, the currency in which the Notes are denominated.

“Successor Rate” means a successor to or replacement of the Original Reference Rate which is formally recommended by any Relevant Nominating Body.

“TARGET System” means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System or any successor thereto.

(l) *Calculation Agent*

The Issuer shall procure that there shall at all times be one or more Calculation Agents if provision is made for them in the Final Terms and for so long as any Note is outstanding (as defined in the Trust Deed). Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent is unable or unwilling to comply with any other requirement, the Issuer shall (with the prior approval of the Trustee) appoint a leading bank or investment banking firm engaged in the interbank market (or, if appropriate, money or swap market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

(m) *Nature of the Return*

Any interest paid to the Noteholder shall constitute consideration paid for the use of the principal and for the assumption of the risk that the Noteholder may not recover its original investment or that its return may be variable.

5 Redemption, Purchase and Options

(a) *Final Redemption*

Unless previously redeemed or purchased and cancelled as provided below, each Note shall be finally redeemed on the Maturity Date specified in the Final Terms at its Final Redemption Amount(s) (which, unless otherwise provided in the Final Terms, is its nominal amount).

(b) *Early Redemption*

(i) Zero Coupon Notes

(A) The Early Redemption Amount payable in respect of any Zero Coupon Note upon redemption of such Note pursuant to Condition 5(c), Condition 5(d) or Condition 5(e) or upon it becoming due and repayable as provided in Condition 9, shall be the Amortised Face Amount (as defined and calculated below) of such Note unless otherwise specified in the Final Terms.

(B) Subject to the provisions of sub-paragraph (C) below, the Amortised Face Amount of any such Note shall be the scheduled Final Redemption Amount(s) of such Note on the Maturity Date discounted back to the due date for payment at a rate per annum (expressed as a percentage) equal to the Amortisation Yield applied on a compounded or non-compounded basis as specified in the Final Terms (which, if none is specified in the Final Terms, shall be such rate (compounded annually) as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) (the “**Amortised Face Amount**”).

(C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 5(c), Condition 5(d) or Condition 5(e) or upon it becoming due and repayable as provided in Condition 10 is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as calculated in accordance with sub-paragraph (B) above, except that such sub-paragraph shall have effect as though the reference therein to the “due date for payment” were replaced by a reference to the date on which the relevant amount is actually paid. The calculation of the Amortised Face Amount in accordance with this sub-paragraph shall continue to be made (both before and after judgment) until the date such amount is paid, unless such date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount(s) of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 4(e).

Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction specified in the Final Terms.

(ii) Other Notes

The Early Redemption Amount payable in respect of any Note (other than Notes described in paragraph (i) above), upon redemption of such Note pursuant to Condition 5(c), Condition 5(d)

or Condition 5(e) shall be the Final Redemption Amount(s) unless otherwise specified in the Final Terms.

(c) *Redemption for Taxation Reasons*

The Issuer may at its option but subject to Condition 5(h), having given not less than 30 nor more than 60 days' notice in accordance with Condition 14, redeem all, but not some only, of the Notes outstanding on (if the Notes are Floating Rate Notes) the next Interest Payment Date or (if the Notes are not Floating Rate Notes) at any time at the Early Redemption Amount, together with any accrued but unpaid interest up to (but excluding) the date fixed for redemption, if, at any time, the Issuer shall satisfy the Trustee (immediately prior to the giving of the notice referred to above) that a Tax Event has occurred.

The Issuer shall deliver to the Trustee an opinion of an independent lawyer or accountant satisfactory to the Trustee, in a form satisfactory to the Trustee, to the effect that a Tax Event exists. The Trustee may accept such opinion without any further inquiry as sufficient evidence of the existence of the circumstances required to be established in which event it shall be conclusive and binding on the Issuer, the Trustee, the Noteholders and the Couponholders, and the Trustee will not be responsible for any loss that may be occasioned by the Trustee's acting or relying on such opinion.

A "**Tax Event**" shall be deemed to have occurred if, as a result of a Tax Law Change:

- (i) in making payment under the Notes, the Issuer has or would on or before the next Interest Payment Date or the Maturity Date become obliged to pay additional amounts under Condition 7 (and such obligation cannot be avoided by the Issuer taking reasonable measures available to it);
- (ii) the payment of interest on the next Interest Payment Date or the Maturity Date in respect of any of the Notes would be treated as a "distribution" within the meaning of Chapter 2 of Part 23 of the Corporation Tax Act 2010 of the United Kingdom (or any statutory modification or re-enactment thereof for the time being); and/or
- (iii) on the next Interest Payment Date or the Maturity Date the Issuer would not be entitled to claim a deduction in respect of any payments in respect of the Notes in computing its United Kingdom taxation liabilities (or the value of such deduction to the Issuer would be materially reduced).

In these Conditions, "**Tax Law Change**" means a change in or proposed change in, or amendment or proposed amendment to, the laws or regulations of the United Kingdom or any authority thereof or therein having the power to tax, including any treaty to which the United Kingdom is a party, or any change in the application of official or generally published interpretation of such laws, including a decision of any court or tribunal, or any interpretation or pronouncement by any relevant tax authority, which change or amendment (a) (subject to (b)) becomes, or would become, effective on or after the Issue Date, or (b) in the case of a change or proposed change in law, if such change is enacted (or, in the case of a proposed change, is expected to be enacted), on or after the Issue Date.

(d) *Redemption at the Option of the Issuer*

If Call Option is specified as being applicable in the Final Terms, the Issuer may at its option but subject to Condition 5(h), on giving not less than 30 nor more than 60 days' irrevocable notice to the Noteholders and the Trustee (or such other notice period as may be specified in the Final Terms), redeem all or, if so provided, some only of the Notes on any Optional Redemption Date. Any such redemption of Notes shall be at their Optional Redemption Amount specified in the Final Terms (which may be the Early Redemption Amount (as described in Condition 5(b) above)), together with interest accrued to the date fixed for redemption. Any such redemption or exercise must relate to Notes of a nominal amount at

least equal to the Minimum Redemption Amount to be redeemed specified in the Final Terms and no greater than the Maximum Redemption Amount to be redeemed specified in the Final Terms.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition.

In the case of a partial redemption, the notice to Noteholders shall also contain the certificate numbers of the Notes to be redeemed which shall have been drawn in such place as the Trustee may approve and in such manner as it deems appropriate, subject to compliance with any applicable laws, stock exchange requirements or the requirements of any other relevant authority.

(e) Redemption at the Option of Noteholders

If Put Option is specified as being applicable in the Final Terms, the Issuer shall, at the option of the holder of any Note, upon the holder of such Note giving not less than 15 nor more than 30 days' notice to the Issuer (or such other notice period as may be specified in the Final Terms), redeem such Note on the Optional Redemption Date(s) at its Optional Redemption Amount specified in the Final Terms (which may be the Early Redemption Amount (as described in Condition 5(b) above)), together with interest accrued to the date fixed for redemption.

To exercise such option the holder must deposit (in the case of Bearer Notes) such Note (together with all unmatured Coupons and unexchanged Talons) with any Paying Agent or (in the case of Registered Notes) the Certificate representing such Note(s) with the Registrar or any Transfer Agent at its specified office, together with a duly completed option exercise notice ("**Exercise Notice**") in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the notice period. No Note or Certificate so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer.

(f) Purchases

The Issuer or any of its subsidiaries or any holding company of the Issuer or any other subsidiary of any such holding company may, but is not obliged to, purchase Notes (provided that all unmatured Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in the open market or otherwise at any price. Any Notes so purchased or otherwise acquired may, at the Issuer's discretion, be held or resold or surrendered for cancellation.

(g) Cancellation

All Notes purchased by or on behalf of the Issuer or any of its subsidiaries or any holding company of the Issuer or any other subsidiary of any such holding company may be surrendered for cancellation, in the case of Bearer Notes, by surrendering each such Note together with all unmatured Coupons and all unexchanged Talons to the Issuing and Paying Agent and, in the case of Registered Notes, by surrendering the Certificate representing such Notes to the Registrar and, in each case, if so surrendered, shall, together with all Notes redeemed by the Issuer, be cancelled forthwith (together with all unmatured Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.

(h) Conditions to Redemption and Purchase

Prior to the publication of any notice of redemption pursuant to this Condition 5 (other than redemption on the relevant Maturity Date), the Issuer shall deliver to the Trustee a certificate signed by two Directors of the Issuer, in a form satisfactory to the Trustee, certifying that the relevant requirement or circumstance giving rise to the right to redeem is satisfied, including (in the case of a Tax Event) that a

Tax Event (as defined in Condition 5(c) above) exists. The Trustee may accept such certificate without any further inquiry as sufficient evidence of the existence of the circumstances required to be established in which event it shall be conclusive and binding on the Issuer, the Trustee, the Noteholders and the Couponholders and the Trustee will not be responsible for any loss that maybe occasioned by the Trustee's acting or relying on such certificate.

6 Payments and Talons

(a) *Bearer Notes*

Payments of principal and interest in respect of Bearer Notes shall, subject as mentioned below, be made against presentation and surrender of the relevant Notes (and, in the case of interest, as specified in Condition 6(f)(v)) or Coupons (in the case of interest, save as specified in Condition 6(f)(ii)), as the case may be:

- (i) in the case of a currency other than euro, at the specified office of any Paying Agent outside the United States by a cheque payable in the relevant currency drawn on, or, at the option of the holder, by transfer to an account denominated in such currency with, a bank in the principal financial centre for such currency; and
- (ii) in the case of euro, at the specified office of any Paying Agent outside the United States by a cheque payable in euro drawn on, or, at the option of the holder, by transfer to an account denominated in euro with, a bank in a city in which banks have access to the TARGET System.

(b) *Registered Notes*

- (i) Payments of principal in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.
- (ii) Interest on Registered Notes shall be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof (the "**Record Date**"). Payments of interest on each Registered Note shall be made in the relevant currency by a cheque drawn on a bank in the principal financial centre of such currency, subject as provided in Condition 6(a) above, and mailed to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date and subject as provided in Condition 6(a) above, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a bank in the principal financial centre of such currency.

(c) *Payments in the United States*

Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. Dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.

(d) *Payments subject to Fiscal Laws*

Save as provided in Condition 7, payments will be subject in all cases to any other applicable fiscal or other laws and regulations in the place of payment or other laws and regulations to which the Issuer or its respective Agents agree to be subject and the Issuer will not be liable for any taxes or duties of whatever nature imposed or levied by such laws, regulations or agreements.

No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments. The Issuer reserves the right to require a Noteholder or Couponholder to provide a Paying Agent, the Registrar or a Transfer Agent with such certification or information as may be required to enable the Issuer to comply with the requirements of the United States federal income tax laws or any agreement between the Issuer and any taxing authority.

(e) *Appointment of Agents*

The Issuing and Paying Agent, the other Paying Agents, the Registrar and the Transfer Agents initially appointed by the Issuer and their respective specified offices are listed below. Subject as provided in the Trust Deed and the Agency Agreement, the Issuing and Paying Agent, the other Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Issuer reserves the right at any time with the approval of the Trustee to vary or terminate the appointment of the Issuing and Paying Agent, any other Paying Agent, the Registrar, any Transfer Agent or the Calculation Agent(s) and to appoint additional or other Paying Agents or Transfer Agents, provided that the Issuer shall at all times maintain (i) an Issuing and Paying Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent in relation to Registered Notes which may be the Registrar, (iv) one or more Calculation Agent(s) where the Conditions so require, (v) a Paying Agent having a specified office in Europe, which, so long as the Notes are listed on the official list (the “**Official List**”) of the FCA acting under Part VI of the Financial Services and Markets Act 2000 and are admitted to trading on the London Stock Exchange plc’s Regulated Market, shall be in London and (vi) such other agents as may be required by any other stock exchange on which the Notes may be listed, in each case as approved by the Trustee. In addition, the Issuer shall forthwith appoint a Paying Agent in New York City in respect of any Bearer Notes denominated in U.S. dollars in the circumstances described in paragraph (c) above.

Notice of any such change or any change of any specified office shall promptly be given to the Noteholders by the Issuer in accordance with Condition 14.

(f) *Unmatured Coupons and unexchanged Talons*

- (i) Upon the due date for redemption of Bearer Notes which comprise Fixed Rate Notes (other than any Fixed Rate Notes where the total value of the unmatured coupons appertaining thereto exceeds the nominal amount of such Note), such Notes should be surrendered for payment together with all unmatured Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon that the sum of principal so paid bears to the total principal due) shall be deducted from the Final Redemption Amount(s), Early Redemption Amount or Optional Redemption Amount, as the case may be, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 8).

- (ii) Upon the due date for redemption of any Bearer Note comprising a Floating Rate Note or (where the total value of the unmatured coupons exceeds the nominal amount of such Note) a Fixed Rate Note, unmatured Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.
- (iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.
- (iv) Where any Bearer Note that provides that the relative unmatured Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmatured Coupons and any unexchanged Talon relating to it, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.
- (v) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note that only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.

(g) *Talons*

On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Issuing and Paying Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 8).

(h) *Non-Business Days*

If any date for payment in respect of any Note or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this Condition 6(h), “**business day**” means a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as “Additional Financial Centres” in the Final Terms and:

- (i) (in the case of a payment in a currency other than euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency; or
- (ii) (in the case of a payment in euro) which is a TARGET Business Day.

7 **Taxation**

All payments of principal and/or interest (if any) by or on behalf of the Issuer in respect of the Notes and the Coupons shall be made without withholding or deduction for or on account of any present or future tax, duty, assessment or governmental charge of whatsoever nature imposed, levied, collected, withheld or assessed by or on behalf of the United Kingdom or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer shall pay such additional amounts in

relation to principal and/or interest (if any), as will result (after such withholding or deduction) in receipt by the Noteholders and the Couponholders of the amount of principal and interest (if any) which would have been receivable (in the absence of such withholding or deduction) from it in respect of their Notes and/or Coupons, as the case may be; except that no such additional amounts shall be payable with respect to any Note or Coupon:

- (a) presented for payment by or on behalf of any holder who is liable to such tax, duty, assessment or governmental charge in respect of such Note or Coupon by reason of such holder having some connection with the United Kingdom other than the mere holding of such Note or Coupon; or
- (b) to, or to a third party on behalf of, a holder if such withholding or deduction may be avoided by complying with any statutory requirement or by making a declaration of non-residence or other similar claim for exemption to any authority of or in the United Kingdom, unless such holder proves that he is not entitled so to comply or to make such declaration or claim; or
- (c) to, or to a third party on behalf of, a holder that is a partnership, or a holder that is not the sole beneficial owner of the Note or Coupon, or which holds the Note or Coupon in a fiduciary capacity, to the extent that any of the members of the partnership, the beneficial owner or the settlor or beneficiary with respect to the fiduciary would not have been entitled to the payment of an additional amount had each of the members of the partnership, the beneficial owner, settlor or beneficiary (as the case may be) received directly his beneficial or distributive share of the payment; or
- (d) presented for payment more than 30 days after the Relevant Date except to the extent that the holder thereof would have been entitled to such additional amounts on presenting the same for payment at the expiry of such period of 30 days.

Notwithstanding any other provision of the Terms and Conditions of the Notes or the Trust Deed, any amounts to be paid on the Notes by or on behalf of the Issuer, will be paid net of any deduction or withholding imposed or required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the “**Code**”), or otherwise imposed pursuant to Sections 1471 through 1474 of the Code (or any regulations thereunder or official interpretations thereof) or an intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof (or any fiscal or regulatory legislation, rules or practices implementing such an intergovernmental agreement) (any such withholding or deduction, a “**FATCA Withholding**”). Neither the Issuer nor any other person will be required to pay any additional amounts in respect of FATCA Withholding.

As used herein:

The “**Relevant Date**” in respect of any payment means the date on which such payment first becomes due or (if the full amount of the moneys payable has not been duly received by the Issuing and Paying Agent or the Trustee on or prior to such date) the date on which notice is given to the Noteholders that such moneys have been so received.

References in these Conditions to (i) “**principal**” shall be deemed to include any premium payable in respect of the Notes, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 5 or any amendment or supplement to it, (ii) “**interest**” shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 4 or any amendment or supplement to them and (iii) “**principal**” and/or “**interest**” (other than such interest as is referred to in Condition 9(g)) shall be deemed to include any additional amounts that may be payable under this Condition 7 or under any obligations undertaken in addition thereto or in substitution therefor under the Trust Deed.

8 Prescription

Claims for payment of principal (excluding principal comprised in a withheld amount) will become void 12 years, and claims for payment of interest (other than interest comprised in, or accrued on, a withheld amount) will become void six years, after the Relevant Date (as defined in Condition 7) relating thereto. Claims in respect of principal comprised in a withheld amount and claims in respect of interest comprised in, or accrued on, a withheld amount will, in the case of such principal, become void 12 years and will, in the case of such interest, become void six years after the due date for payment thereof as specified in Condition 9(f) or, if the full amount of the moneys payable has not been duly received by the Issuing and Paying Agent, another Paying Agent, the Registrar, a Transfer Agent or the Trustee, as the case may be, on or prior to such date, the date of which notice is given in accordance with Condition 14 that the relevant part of such moneys has been so received.

The prescription period in respect of Talons shall be:

- (a) as to any Talon the original due date for exchange of which falls within the 12 years immediately prior to the due date for redemption (pursuant to Condition 5) of the Note to which it pertains, six years from the Relevant Date for the redemption of such Note, but so that the Coupon sheet for which it is exchangeable shall be issued without any Coupon itself prescribed in accordance with this Condition 8 or the Relevant Date for payment of which would fall after the Relevant Date for the redemption of the relevant Note and without a Talon; and
- (b) as to any other Talon, 12 years from the Relevant Date for payment of the last Coupon of the Coupon sheet of which it formed part.

9 Events of Default and Enforcement

- (a) If the Issuer shall not make payment of any principal or any interest in respect of the Notes for a period of 14 days or more after the due date for the same, the Trustee may, at any time at its discretion and without notice institute such proceedings and/or take such other action as it may think fit against or in relation to the Issuer to enforce its obligations under the Notes, provided that it shall not have the right to institute such proceedings and/or, as the case may be, to take such other action if the Issuer withholds or refuses any such payment (A) (subject to Condition 7) in order to comply with any fiscal or other law or regulation, with the order of any court of competent jurisdiction or with any agreement between the Issuer and any taxing authority, in each case applicable to such payment, the Issuer, the relevant Paying Agent, Transfer Agent or Registrar or the holder of the Note or Coupon or (B) (subject as provided in the Trust Deed) in case of doubt as to the validity or applicability of any such law, regulation or order, in accordance with advice as to such validity or applicability given at any time during the said period of 14 days by independent legal advisers acceptable to the Trustee.
- (b) If otherwise than for the purposes of reconstruction or amalgamation on terms previously approved in writing by the Trustee, an order is made or an effective resolution is passed for winding-up the Issuer, the Trustee may at its discretion give notice to the Issuer that the Notes are, and they shall accordingly immediately become, due and repayable at their Early Redemption Amount, together with accrued interest (calculated as provided in the Trust Deed).
- (c) The Trustee shall not be bound to institute proceedings and/or take the action referred to in Condition 9(a), 9(b) or 9(d) to enforce the obligations of the Issuer in respect of the Notes and Coupons or to take any other actions under the Trust Deed unless (i) it shall have been so requested by Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders or in writing by the holders of at least one-fifth in nominal amount of the Notes then outstanding (as defined in the Trust Deed) and (ii) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction.

- (d) No Noteholder or Couponholder shall be entitled to institute such proceedings and/or take such other action as is referred to in Condition 9(a) above, or to prove in such winding-up, except that if the Trustee, having become bound to proceed against the Issuer as aforesaid, fails (or is unable) to do so, or, being able to prove in such winding-up, fails to do so, in either case within a reasonable period and such failure (or inability) is continuing, then any such holder may, on giving an indemnity satisfactory to the Trustee, in the name of the Trustee (but not otherwise), himself institute such proceedings and/or take such other action or institute proceedings for the winding-up of the Issuer and/or prove in such winding-up to the same extent (but not further or otherwise) that the Trustee would have been entitled so to do.
- (e) The Issuer has undertaken in the Trust Deed to pay UK stamp and other duties (if any) on or in connection with the execution of the Trust Deed and UK, Belgian and Luxembourg stamp and other duties or taxes (if any) payable on or in connection with the constitution and original issue of any Global Note or any Global Certificate or the Definitive Notes or the Coupons (provided such stamp and other duties or taxes result from laws applicable on or prior to the date 40 days after the Issue Date specified in the Final Terms of such Notes and, in the case of exchange of Global Notes for Definitive Notes, such tax results from laws applicable on or prior to the date of such exchange) and stamp and other duties or taxes (if any) payable in the United Kingdom (but not elsewhere) solely by virtue of and in connection with any permissible proceedings under the Trust Deed or the Notes to enforce the provisions of the Notes, Certificates, Coupons, Talons or the Trust Deed, save that the Issuer shall not be liable to pay any such stamp or other duties or taxes to the extent that the obligation arises or the amount payable is increased by reason of the holder at the relevant time unreasonably delaying in producing any relevant document for stamping or similar process. Subject as aforesaid, the Issuer will not be otherwise responsible for stamp or other duties or taxes otherwise imposed and in particular (but without prejudice to the generality of the foregoing) for any penalties arising on account of late payment where due by the holder at the relevant time. Any such stamp or other duties or taxes that might be imposed upon or in respect of Notes in temporary global, permanent global or definitive form or the Coupons or Talons (in each case other than as aforesaid) are the liability of the holders thereof.
- (f) If payment to any Noteholder of any amount due in respect of the Notes (other than interest) is improperly withheld or refused (any withholding or refusal effected in reliance upon the proviso to Condition 9(a) where the relevant law, regulation or order proves subsequently not to be valid or applicable shall be treated, for the purpose of ascertaining entitlement to accrued interest but not for any other purpose, as if it had been at all times an improper withholding or refusal), interest shall accrue until, but excluding, the date on which notice is given in accordance with Condition 14 that the full amount in the Specified Currency payable in respect of such Notes is available for payment or the date of payment, whichever first occurs and shall be calculated by applying the Rate of Interest determined in accordance with these Conditions on the first day of the then current Interest Period (and each relevant Interest Period (if any) thereafter) to such amount withheld or refused, multiplying the sum by the relevant Day Count Fraction for such Interest Period and rounding the resultant figure to the nearest unit (as such term is defined in Condition 4(f)(iii)).
- (g) If, in reliance upon the proviso to Condition 9(a), payment of any amount (each a “**withheld amount**”) in respect of the whole or any part of the principal and/or any interest due in respect of the Notes, or any of them, is not paid or provided by the Issuer to the Trustee or to the account of or with the Issuing and Paying Agent, or is withheld or refused by any of the Paying Agents, the Registrar or the Transfer Agents, in each case other than improperly within the meaning of Condition 9(e), or which is paid or provided after the due date for payment thereof, such withheld amount shall, where not already an interest bearing deposit, if lawful, promptly be so placed, all as more particularly described in the Trust Deed. If subsequently it shall be or become lawful to make payment of such withheld amount in the Specified Currency, notice shall be given in accordance with Condition 14, specifying the date (which shall be no

later than seven days after the earliest date thereafter upon which such interest bearing deposit falls or may (without penalty) be called due for repayment) on and after which payment in full of such withheld amount (or that part thereof which it is lawful to pay) will be made. In such event (but subject in all cases to any applicable fiscal or other law or regulation or the order of any court of competent jurisdiction), the withheld amount or the relevant part thereof, together with interest accrued thereon from, and including, the date the same was placed on deposit to, but excluding, the date upon which such interest bearing deposit was repaid, shall be paid to (or released by) the Issuing and Paying Agent for payment to the relevant holders of Notes and/or Coupons, as the case may be (or, if the Issuing and Paying Agent advises the Issuer of its inability to effect such payment, shall be paid to (or released by) such other Paying Agent, Registrar or Transfer Agent (as the case may be) as there then may be or, if none, to the Trustee, in any such case for payment as aforesaid). For the purposes of Condition 9(a), the date specified in the said notice shall become the due date for payment in respect of such withheld amount or the relevant part thereof. The obligations under this Condition 9(g) shall be in lieu of any other remedy otherwise available under these Conditions, the Trust Deed or otherwise in respect of such withheld amount or the relevant part thereof.

- (h) Any interest payable as provided in Condition 9(f) above shall be paid net of any taxes applicable thereto and Condition 7 shall not apply in respect of the payment of any such interest.

10 Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings unless indemnified and/or secured and/or prefunded to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer and/or any subsidiary and/or any holding company of the Issuer and/or any other subsidiary of any such holding company without accounting for any profit resulting therefrom.

11 Meetings of Noteholders, Modification, Waiver and Substitution

(a) Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Trust Deed) of a modification of any of these Conditions or any of the provisions of the Notes, the Coupons or the Trust Deed, except that certain provisions of the Trust Deed may only be modified subject to approval by Extraordinary Resolution passed at a meeting of Noteholders to which special quorum provisions shall have applied. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

These Conditions may be amended, modified or varied in relation to any Series of Notes.

(b) Modification of the Trust Deed

The Trustee may agree, without the consent of the Noteholders or Couponholders, to (i) any modification of any of the provisions of the Trust Deed that is of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed that is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders. In addition, the Trustee shall be obliged to concur with the Issuer in effecting any Benchmark Amendments in the circumstances and as otherwise set out in Condition 4(j) without the consent of the Noteholders or Couponholders. Any such modification, authorisation or waiver shall be binding on the Noteholders

and the Couponholders and, if the Trustee so requires, such modification shall be notified to the Noteholders as soon as practicable in accordance with Condition 14.

(c) *Substitution*

The Trustee shall agree, if requested by the Issuer and subject to such amendment of the Trust Deed and such other conditions as the Trustee may reasonably require, but without the consent of the Noteholders or the Couponholders, to the substitution, subject to the Notes and the Coupons being unconditionally and irrevocably guaranteed by the Issuer on an unsubordinated basis, of a subsidiary of the Issuer or a holding company of the Issuer or another subsidiary of any such holding company in place of the Issuer as principal debtor under the Trust Deed, the Notes and the Coupons and as a party to the Agency Agreement.

(d) *Change of Governing Law*

In the case of a substitution pursuant to Condition 11(c), the Trustee may in its absolute discretion agree, without the consent of the Noteholders or Couponholders, to a change of the law governing the Notes, the Coupons, the Talons and/or the Trust Deed and/or the Agency Agreement provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Noteholders.

(e) *Entitlement of the Trustee*

In connection with the exercise of its functions (including but not limited to those referred to in this Condition 11) the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders or Couponholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. No Noteholder or Couponholder shall, in connection with any such modification, waiver, authorisation or substitution, be entitled to claim, and the Trustee shall not be entitled to require, from the Issuer any indemnification or payment in respect of any tax or other consequence of any such exercise upon individual Noteholders or Couponholders except to the extent provided for by Condition 7.

12 Replacement of Notes, Certificates, Coupons and Talons

- (a) If a Note, Certificate, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Issuing and Paying Agent (in the case of Bearer Notes, Coupons or Talons) and of the Registrar (in the case of Certificates) or such other place of which notice shall be given in accordance with Condition 14 in each case on payment by the claimant of the expenses incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note, Certificate, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Note, Certificate, Coupon or further Coupons) and otherwise as the Issuer may require. Mutilated or defaced Notes, Certificates, Coupons or Talons must be surrendered before replacements will be issued. In addition, the Issuer may require the person requesting delivery of a replacement Note, Certificate, Coupon or Talon to pay, prior to delivery of such replacement Note, Certificate, Coupon or Talon, any stamp or other tax or governmental charges required to be paid in connection with such replacement. No replacement Note shall be issued having attached thereto any Coupon or Talon, claims in respect of which shall have become void pursuant to Condition 8.

- (b) Where:
- (i) a Talon (the “**relevant Talon**”) has become prescribed in accordance with Condition 8; and
 - (ii) the Note to which the relevant Talon pertains has not become void through prescription; and
 - (iii) no Coupon sheet (or part thereof, being (a) Coupon(s) and/or a Talon, hereinafter called a “**part Coupon sheet**”), which Coupon sheet would have been exchangeable for the relevant Talon or for any subsequent Talon bearing the same serial number pertaining to such Note, has been issued; and
 - (iv) either no replacement Coupon sheet or part Coupon sheet has been issued in respect of any Coupon sheet or part Coupon sheet referred to in paragraph (iii) above or, in the reasonable opinion of the Issuer, there is no reasonable likelihood that any such replacement has been issued,

then upon payment by the claimant of the expenses incurred in connection therewith and on such terms as to evidence and indemnity or security as the Issuer may reasonably require there may be obtained at the specified office of the Issuing and Paying Agent (or such other place of which notice shall be given in accordance with Condition 14) a Coupon sheet or Coupon sheets or part Coupon sheet(s), as the circumstances may require, issued:

- (A) in the case of a Note that has become due for redemption (x) without any Coupon itself prescribed in accordance with Condition 8 or the Relevant Date for payment of which would fall after the Relevant Date for the redemption of the relevant Note, and (y) without any Talon or Talons, as the case may be; or
- (B) in any other case, without any Coupon or Talon itself prescribed in accordance with Condition 8 and without any Talon pertaining to a Coupon sheet the Relevant Date of the final Coupon of which falls on or prior to the date when the Coupon sheet(s) or part Coupon sheet(s) is (are) delivered to or to the order of the claimant, but in no event shall any Coupon sheet be issued the original due date for exchange of which falls after the date of delivery of such Coupon sheet(s) as aforesaid.

For the avoidance of doubt, the provisions of this Condition 12(b) shall not give, or revive, any rights in respect of any Talon that has become prescribed in accordance with Condition 8.

13 Further Issues

The Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) and so that such further notes shall be consolidated and form a single Series with the Notes. References in these Conditions to the Notes include (unless the context requires otherwise) any other notes issued pursuant to this Condition and forming a single Series with the Notes. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of notes of other Series in certain circumstances where the Trustee so decides.

14 Notices

Notices to the holders of Bearer Notes shall be valid if published in a daily newspaper of general circulation in the United Kingdom (which is expected to be the Financial Times). If in the opinion of the Trustee any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in the United Kingdom, approved by the Trustee. Any such notice

shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which such publication is made.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Notes in accordance with this Condition.

Notices to the holders of Registered Notes shall be mailed to them at their respective addresses in the Register and shall be deemed to have been given on the weekday (being a day other than a Saturday or a Sunday) after the date of mailing provided that, if at any time by reason of the suspension or curtailment (or expected suspension or curtailment) of postal services within the United Kingdom or elsewhere the Issuer is unable effectively to give notice to holders of Registered Notes through the post, notices to holders of Registered Notes will be valid if given in the same manner as other notices as set out above.

15 Governing Law and Jurisdiction

(a) Governing Law

The Trust Deed, the Notes, the Coupons, the Talons and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, the laws of England.

(b) Jurisdiction

The courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with the Trust Deed or the Notes and accordingly any legal action or proceedings arising out of or in connection with the Trust Deed or any Notes may be brought in such courts.

(c) Third Party Rights

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999 but this does not affect any right or remedy of any person that exists or is available apart from that Act.

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

1 Initial Issue of Notes

If the Global Notes or the Global Certificates are stated in the relevant Final Terms to be issued in NGN form or if they are to be held under the NSS (as the case may be), (i) the Global Notes or the Global Certificates will be delivered on or prior to the original issue date of the Tranche to a Common Safekeeper and (ii) the Final Terms will indicate whether or not such Global Notes or the Global Certificates are intended to be held in a manner which would allow Eurosystem eligibility. Depositing the Global Notes or the Global Certificates with the Common Safekeeper does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue, or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.

Global Notes which are issued in CGN form and Global Certificates which are not held under the NSS may be delivered on or prior to the original issue date of the Tranche to a Common Depository (as defined below).

Upon the initial deposit of a Global Note in CGN form with a common depository for Euroclear and Clearstream, Luxembourg (the “**Common Depository**”) or registration of Registered Notes in the name of any nominee for Euroclear and Clearstream, Luxembourg and delivery of the relative Global Certificate to the Common Depository, Euroclear or Clearstream, Luxembourg will credit each subscriber with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid. If the Global Note is an NGN, the nominal amount of the Notes shall be the aggregate amount from time to time entered in the records of Euroclear or Clearstream, Luxembourg. The records of such clearing system shall be conclusive evidence of the nominal amount of Notes represented by the Global Note and a statement issued by such clearing system at any time shall be conclusive evidence of the records of the relevant clearing system at that time.

Notes that are initially deposited with the Common Depository or the Common Safekeeper, as the case may be, may also be credited to the accounts of subscribers with (if indicated in the relevant Final Terms) other clearing systems through direct or indirect accounts with Euroclear and Clearstream, Luxembourg held by such other clearing systems. Conversely, Notes that are initially deposited with any other clearing system may similarly be credited to the accounts of subscribers with Euroclear, Clearstream, Luxembourg or other clearing systems.

2 Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or any other permitted clearing system (“**Alternative Clearing System**”) as the holder of a Note represented by a Global Note or a Global Certificate (each an “**Accountholder**”) (in which regard any certificate or other document issued by Euroclear, Clearstream, Luxembourg or such Alternative Clearing System as to the nominal amount of Notes standing to the account of any person shall be conclusive and binding for all purposes) shall be treated as the holder of such nominal amount of such Notes for all purposes (including for the purposes of any quorum requirements of, or the right to demand a poll at, meetings of the Noteholders) other than in respect of the payment of principal and interest on such Notes, the right to which shall be vested, as against the Issuer and the Trustee, solely in the bearer of the relevant Global Note or the registered holder of the relevant Global Certificate in accordance with and subject to its terms and the terms of the Trust Deed. Accountholders shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are represented by such Global Note or Global Certificate and such obligations of the Issuer will be discharged by payment to or to the order of the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, in respect of each amount so paid.

3 Exchange

3.1 Temporary Global Notes

Each temporary Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date (as defined in paragraph 3.6 below):

- (i) if the relevant Final Terms indicate that such temporary Global Note is issued in compliance with TEFRA C or in a transaction to which TEFRA is not applicable (as to which, see “*Overview of the Programme – Selling Restrictions*”), in whole, but not in part, for the Definitive Notes, as defined and described below¹; and
- (ii) otherwise, in whole or in part upon certification as to non-U.S. beneficial ownership for interests in a permanent Global Note or, if so provided in the relevant Final Terms, for Definitive Notes.

Each temporary Global Note that is also an Exchangeable Bearer Note will be exchangeable for Registered Notes in accordance with the Conditions in addition to any permanent Global Note or Definitive Notes for which it may be exchangeable and, before its Exchange Date, will also be exchangeable in whole or in part for Registered Notes only.

3.2 Permanent Global Notes

Each permanent Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date in whole but not, except as provided under paragraph 3.4 below, in part for Definitive Notes or, in the case of paragraph (i) below, Registered Notes:

- (i) if the permanent Global Note is an Exchangeable Bearer Note, by the holder (acting on the instructions of the person(s) with beneficial interest(s) in such permanent Global Note) giving notice to the Issuing and Paying Agent of its election to exchange the whole or a part of such permanent Global Note for Registered Notes²; and
- (ii) otherwise, (i) upon the happening of any of the events defined in the Trust Deed as “Events of Default”; or (ii) if Euroclear or Clearstream, Luxembourg or an Alternative Clearing System is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no alternative clearance system satisfactory to the Trustee is available.

3.3 Global Certificates

If the relevant Final Terms state that the Notes are to be represented by a Global Certificate on issue, transfers of the holding of Notes represented by any Global Certificate pursuant to Condition 2(b) may only be made in part:

- (i) upon the happening of any of the events defined in the Trust Deed as “Events of Default”; or
- (ii) if such Notes are held on behalf of Euroclear or Clearstream, Luxembourg or an Alternative Clearing System and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no alternative clearance system satisfactory to the Trustee is available; or

¹ In relation to any issue of Notes which are expressed to be Temporary Global Notes exchangeable for Definitive Notes in accordance with this paragraph 3.1, such Notes shall be tradeable only in amounts of at least the Specified Denomination (or if more than one Specified Denomination, the minimum Specified Denomination provided herein and multiples thereof.

² Not applicable to Notes with a minimum Specified Denomination plus a higher integral multiple of a smaller amount.

(iii) with the consent of the Issuer,

provided that, in the case of the first transfer of part of a holding pursuant to paragraph (i) or (ii) above, the holder of the Registered Notes has given the Registrar not less than 30 days' notice at its specified office of the holder of the Registered Notes' intention to effect such transfer.

3.4 Partial Exchange of Permanent Global Notes

For so long as a permanent Global Note is held on behalf of a clearing system and the rules of that clearing system permit, such permanent Global Note will be exchangeable in part on one or more occasions (1) for Registered Notes if the permanent Global Note is an Exchangeable Bearer Note and the part submitted for exchange is to be exchanged for Registered Notes, or (2) for Definitive Notes if principal in respect of any Notes is not paid when due.

A Noteholder who holds a principal amount of less than the minimum Specified Denomination will not receive a Definitive Note in respect of such holding and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

3.5 Delivery of Notes

If the Global Note is a CGN, on or after any due date for exchange the holder of a Global Note may surrender such Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the relevant Issuing and Paying Agent. In exchange for any Global Note, or the part thereof to be exchanged, the Issuer will (i) in the case of a temporary Global Note exchangeable for a permanent Global Note, deliver, or procure the delivery of, a permanent Global Note in an aggregate nominal amount equal to that of the whole or that part of a temporary Global Note that is being exchanged or, in the case of a subsequent exchange, endorse, or procure the endorsement of, a permanent Global Note to reflect such exchange or (ii) in the case of a Global Note exchangeable for Definitive Notes or Registered Notes, deliver, or procure the delivery of, an equal aggregate nominal amount of duly executed and authenticated Definitive Notes and/or Certificates, as the case may be or (iii) if the Global Note is a NGN, the Issuer will procure that details of such exchange be entered *pro rata* in the records of the relevant clearing system. In this Prospectus, “**Definitive Notes**” means, in relation to any Global Note, the definitive Bearer Notes for which such Global Note may be exchanged (if appropriate, having attached to them, if applicable, all Coupons in respect of interest that has not already been paid on the Global Note and, if applicable, a Talon). Definitive Notes will be security printed and Certificates will be printed in accordance with any applicable legal and stock exchange requirements in or substantially in the form set out in the Schedules to the Trust Deed. On exchange in full of each permanent Global Note, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant Definitive Notes.

3.6 Exchange Date

“**Exchange Date**” means, in relation to a temporary Global Note, the day falling after the expiry of 40 days after its issue date and, in relation to a permanent Global Note, a day falling not less than 60 days, or in the case of an exchange for Registered Notes five days, after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Issuing and Paying Agent is located and in the city in which the relevant clearing system is located.

4 Amendment to Conditions

The temporary Global Notes, permanent Global Notes and Global Certificates contain provisions that apply to the Notes that they represent, some of which modify the effect of the Conditions. The following is a summary of certain of those provisions:

4.1 Payments

No payment falling due after the Exchange Date will be made on any Global Note unless exchange for an interest in a permanent Global Note or for Definitive Notes or Registered Notes is improperly withheld or refused. Payments on any temporary Global Note issued in compliance with TEFRA D before the Exchange Date will only be made against presentation of certification as to non-U.S. beneficial ownership. All payments in respect of Notes represented by a Global Note in CGN form will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that Global Note to or to the order of the Issuing and Paying Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose. If the Global Note is a CGN, a record of each payment so made will be endorsed on each Global Note, which endorsement will be *prima facie* evidence that such payment has been made in respect of the Notes. If the Global Note is a NGN, or if the Global Certificate is held under the NSS, the Issuer shall procure that details of each such payment shall be entered *pro rata* in the records of the relevant clearing system and in the case of payments of principal, the nominal amount of the Notes recorded in the records of the relevant clearing system and represented by the Global Note or the Global Certificate will be reduced accordingly. Payments under a NGN will be made to its holder. Each payment so made will discharge the Issuer's obligations in respect thereof. Any failure to make the entries in the records of the relevant clearing system shall not affect such discharge. For the purpose of any payments made in respect of a Global Note, the relevant place of presentation shall be disregarded in the definition of "**business day**" set out in Condition 6(h).

All payments in respect of Notes represented by a Global Certificate will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the record date which shall be on the Clearing System Business Day immediately prior to the date for payment, where Clearing System Business Day means Monday to Friday inclusive except 25 December and 1 January.

Payments of interest (if any) in respect of Notes represented by a Global Note or a Global Certificate shall be made at the rates, on the dates for payment and in accordance with the methods of calculation provided for in the Conditions relating to such Notes.

4.2 Prescription

Claims against the Issuer in respect of Notes that are represented by a permanent Global Note will become void unless it is presented for payment within a period of 12 years (in the case of principal) or six years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 7).

4.3 Cancellation

Cancellation of any Note represented by a Global Note that is required by the Conditions to be cancelled (other than upon its redemption) will be effected by reduction in the nominal amount of the relevant Global Note.

4.4 Purchase

Notes represented by a permanent Global Note may only be purchased by the Issuer, or any of its subsidiaries or any holding company of the Issuer or any other subsidiary of any such holding company if they are purchased together with the right to receive all future payments of interest (if any) thereon.

4.5 Issuer's Option

Any option of the Issuer provided for in the Conditions of any Notes while such Notes are represented by a permanent Global Note shall be exercised by the Issuer giving notice to the Noteholders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain the certificate numbers of Notes drawn in the case of a partial exercise of an option and accordingly no drawing of Notes shall be required. In the event that any option of the Issuer is exercised in

respect of some but not all of the Notes of any Series, the rights of Accountholders in respect of the Notes will be governed by the standard procedures of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion) or any other Alternative Clearing System (as the case may be).

4.6 Noteholders' Options

Any option of the Noteholders provided for in the Conditions of any Notes while such Notes are represented by a permanent Global Note may be exercised by the holder of the permanent Global Note giving notice to the Issuing and Paying Agent (electronically or otherwise) within the time limits relating to the deposit of Notes with a Paying Agent set out in the Conditions substantially in the form of, or containing substantially similar information as contained in, the notice available from any Paying Agent, except that the notice shall not be required to contain the certificate numbers of the Notes in respect of which the option has been exercised, and stating the nominal amount of Notes in respect of which the option is exercised and at the same time, where the permanent Global Note is a CGN, presenting the permanent Global Note to the Issuing and Paying Agent, or to a Paying Agent acting on behalf of the Issuing and Paying Agent, for notation. Where the Global Note is a NGN, or where the Global Certificate is held under the NSS, the Issuer shall procure that details of such exercise shall be entered *pro rata* in the records of the relevant clearing system and the nominal amount of the Notes recorded in those records will be reduced accordingly.

4.7 NGN Nominal Amount

Where the Global Note is a NGN, the Issuer shall procure that any exchange, payment, cancellation, exercise of any option or any right under the Notes, as the case may be, in addition to the circumstances set out above shall be entered in the records of the relevant clearing systems and upon any such entry being made, in respect of payments of principal, the nominal amount of the Notes represented by such Global Note shall be adjusted accordingly.

4.8 Trustee's Powers

In considering the interests of Noteholders while any Global Note is held on behalf of, or Registered Notes are registered in the name of any nominee for, a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its Accountholders with entitlements to such Global Note or Registered Notes and may consider such interests as if such Accountholders were the holders of the Notes represented by such Global Note or Global Certificate.

4.9 Notices

Subject to the immediately following paragraph, so long as any Notes are represented by a Global Note or a Global Certificate and such Global Note or Global Certificate is held on behalf of a clearing system, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to the relative Accountholders in substitution for publication as required by the Conditions or by delivery of the relevant notice to the holder of the Global Note or Global Certificate. Any such notice shall be deemed to have been given to the holders of the Notes on the second business day after such notice is delivered to that clearing system for communication by it to the holders.

5 Electronic Consent and Written Resolution

While any Global Note is held on behalf of, or any Global Certificate is registered in the name of any nominee for, a clearing system, then:

- (i) approval of a resolution proposed by the Issuer or the Trustee (as the case may be) given by way of electronic consents communicated through the electronic communications systems of the relevant

clearing system(s) in accordance with their operating rules and procedures by or on behalf of the holders of not less than 90 per cent. in nominal amount of the Notes (an “**Electronic Consent**” as defined in the Trust Deed) shall, for all purposes (including matters that would otherwise require an Extraordinary Resolution to be passed at a meeting for which the special quorum requirements were satisfied), take effect as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held, and shall be binding on all Noteholders and holders of Coupons and Talons whether or not they participated in such Electronic Consent; and

- (ii) where Electronic Consent is not being sought, for the purpose of determining whether a Written Resolution (as defined in the Trust Deed) has been validly passed, the Issuer and the Trustee shall be entitled to rely on consent or instructions given in writing directly to the Issuer and/or the Trustee, as the case may be, by Accountholders in the clearing system with entitlements to such Global Note or Global Certificate or, where the Accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person for whom such entitlement is ultimately beneficially held, whether such beneficiary holds directly with the Accountholder or via one or more intermediaries and provided that, in each case, the Issuer and the Trustee have obtained commercially reasonable evidence to ascertain the validity of such holding and have taken reasonable steps to ensure that such holding does not alter following the giving of such consent or instruction and prior to the effecting of such amendment. Any resolution passed in such manner shall be binding on all Noteholders and Couponholders, even if the relevant consent or instruction proves to be defective. As used in this paragraph, “**commercially reasonable evidence**” includes any certificate or other document issued by Euroclear, Clearstream, Luxembourg or any other relevant clearing system, or issued by an Accountholder of them or an intermediary in a holding chain, in relation to the holding of interests in the Notes. Any such certificate or other document shall, in the absence of manifest error, be conclusive and binding for all purposes. Any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear’s EUCLID or Clearstream, Luxembourg’s CreationOnline system) in accordance with its usual procedures and in which the Accountholder of a particular principal or nominal amount of the Notes is clearly identified together with the amount of such holding. The Issuer shall not be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by any such person and subsequently found to be forged or not authentic.

USE OF PROCEEDS

The net proceeds of each issue of Notes will be used for the general business purposes of the LBCM Group.

CLEARING AND SETTLEMENT

Book-Entry Ownership

Bearer Notes

The Issuer may make applications to Clearstream, Luxembourg and/or Euroclear for acceptance in their respective book-entry systems in respect of any Series of Bearer Notes. In respect of Bearer Notes, a temporary Global Note and/or a permanent Global Note in bearer form without coupons may be deposited with a common depository or common safekeeper, as the case may be, for Clearstream, Luxembourg and/or Euroclear or an Alternative Clearing System as agreed between the Issuer and relevant Dealer(s). Transfers of interests in such temporary Global Notes or permanent Global Notes will be made in accordance with the normal Euromarket debt securities operating procedures of Clearstream, Luxembourg and Euroclear or, if appropriate, the Alternative Clearing System. Each Global Note deposited with a common depository or common safekeeper, as the case may be, on behalf of Euroclear and Clearstream, Luxembourg will have an ISIN and a Common Code. Global Notes deposited with a common depository or nominee or custodian of an Alternative Clearing System may have additional or alternative identifiers, as set out in the relevant Final Terms.

Registered Notes

The Issuer may make applications to Clearstream, Luxembourg and/or Euroclear and/or an Alternative Clearing System for acceptance in their respective book-entry systems in respect of any Series of Registered Notes to be represented by a Global Certificate. Each Global Certificate deposited with a nominee for Clearstream, Luxembourg and/or Euroclear will have an ISIN and a Common Code. Global Certificates registered in the name of a nominee for an Alternative Clearing System may have additional or alternative identifiers, as set out in the relevant Final Terms.

All Registered Notes will initially be in the form of a Global Certificate. Individual Certificates will only be available in amounts specified in the applicable Final Terms.

Transfers of Registered Notes

Transfers of interests in Global Certificates within Clearstream, Luxembourg and Euroclear will be in accordance with the usual rules and operating procedures of the relevant clearing system. The laws of some states in the United States require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Certificate to such persons may be limited.

On or after the Issue Date for any Series, transfers of Notes of such Series between accountholders in Clearstream, Luxembourg and/or Euroclear will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in Clearstream, Luxembourg and Euroclear will need to have an agreed settlement date between the parties to such transfer.

Individual Certificates

Registration of title to Registered Notes in a name other than a depository or its nominee for Clearstream, Luxembourg and Euroclear or for an Alternative Clearing System will be permitted only in the circumstances set forth in “*Summary of Provisions Relating to the Notes while in Global Form – Exchange – Global Certificates*”. In such circumstances, the Issuer will cause sufficient individual Certificates to be executed and delivered to the Registrar for completion, authentication and despatch to the relevant Noteholder(s). A person having an interest in a Global Certificate must provide the Registrar with a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such individual Certificates.

LLOYDS BANK CORPORATE MARKETS PLC

Overview

The Issuer was created in response to the Financial Services (Banking Reform) Act 2013 (the “**Banking Reform Act**”), which took effect from 1 January 2019 and required the separation of certain commercial banking activities and international operations from the rest of the Lloyds Banking Group.

The Issuer supports the business of the Lloyds Banking Group as a whole. The Issuer does this by providing services and products to customers (both new and existing) including those that cannot be provided by the ring-fenced bank sub-group (as set out below) as a result of the restrictions imposed by the implementation of the Ring-fencing Rules (as defined below) and market participation choices made by the Lloyds Banking Group.

The Issuer is wholly-owned by LBG and operates under the Companies Act 2006. Accordingly, set out below is information relating to Lloyds Banking Group, the Issuer and the LBCM Group which is necessary in order for investors to understand the business of the Issuer and the relevance of its position within the Lloyds Banking Group.

Lloyds Banking Group

Lloyds Banking Group is a leading UK based financial services group providing a wide range of banking and financial services, focused on personal and commercial customers.

Its main business activities are retail, commercial and corporate banking, general insurance, and life, pensions and investment provision.

The Lloyds Banking Group operates the UK’s largest retail bank and has a large and diversified customer base.

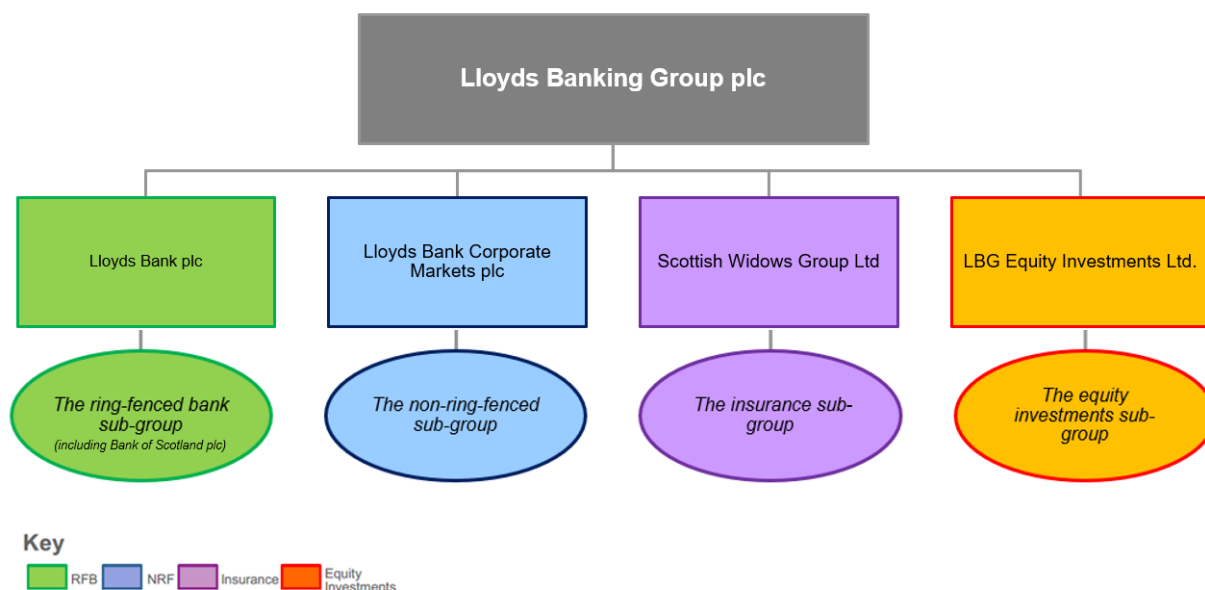
Services are offered through a number of well recognised brands including Lloyds Bank, Halifax, Bank of Scotland, and Scottish Widows, and a range of distribution channels. This includes the largest branch network in the UK and a comprehensive digital, telephony and mobile services.

Ring-Fencing

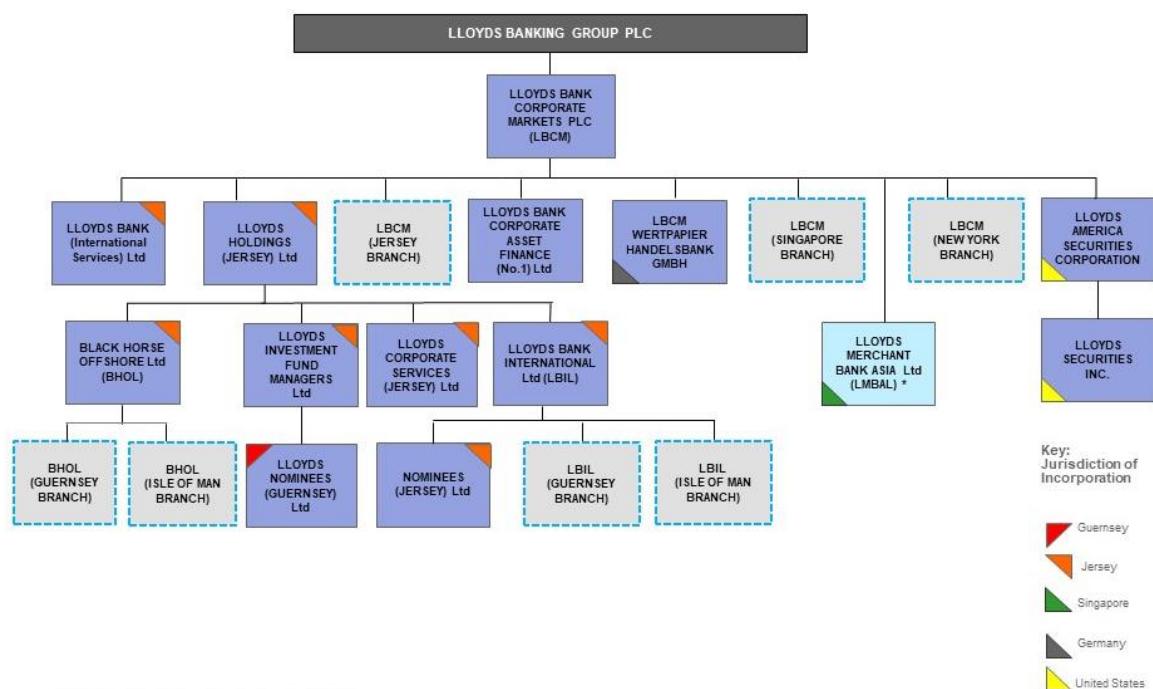
In order to comply with the Ring-fencing Rules (implemented by the PRA and FCA under the Banking Reform Act and taking effect on 1 January 2019), the Lloyds Banking Group undertook a reorganisation to establish four distinct and separate sub-groups under LBG, being:

- (i) *the ring-fenced bank sub-group*, containing Lloyds Bank, BoS, the European Economic Area (“EEA”) branches of Lloyds Bank and BoS, and the EEA subsidiaries and other members of the sub-consolidation group;
- (ii) *the non-ring-fenced sub-group*, containing the Issuer, subsidiaries and interests in other entities, including those that perform excluded / prohibited banking activities, and non-EEA subsidiaries and non-EEA branches (the LBCM Group);
- (iii) *the insurance sub-group*, containing Scottish Widows Group Limited and its relevant subsidiaries carrying on insurance-related activities; and
- (iv) *the equity investments sub-group*, containing LBG Equity Investments Limited, its relevant subsidiaries and certain strategic and other investments and shareholdings of the Lloyds Banking Group.

The diagram below sets out the Lloyds Banking Group structure as at the date of this Prospectus:



The diagram below sets out the LBCM Group structure as at the date of this Prospectus:



Strategy of the LBCM Group

The LBCM Group provides a range of banking and financial services through its UK and overseas branches and offices, with operations in the UK, the Crown Dependencies, the United States, Germany and Singapore. These products and services form an integral part of the client service proposition of the Lloyds Banking Group. Accordingly, the Issuer's strategy is aligned to that of the Lloyds Banking Group.

Business and Activities of the LBCM Group

The LBCM Group offers a range of products and services to its customers including those that the Lloyds Banking Group would otherwise not be able to continue to provide as a result of the ring-fencing rules implemented by the PRA and FCA under the Banking Reform Act (the “**Ring-fencing Rules**”). These products and services have been offered historically through Lloyds Bank and BoS.

As at the date of this Prospectus, the LBCM Group’s offering covered the following product businesses:

- (i) commercial lending (including fixed rates loans, revolving credit facilities, variable loans and business mortgages);
- (ii) trade and working capital management (including trade services, trade finance, supply chain finance and asset finance);
- (iii) bonds and structured finance (including structured lending and asset securitisation);
- (iv) risk management (including FX, rates, credit, commodities and liabilities management); and
- (v) retail banking services (including mortgages, personal current accounts, personal loans, investment services and motor finance) in the Crown Dependencies.

The LBCM Group’s target market for its products and services is made up of large corporates and financial institutions in the UK and internationally, and retail and commercial clients in the Crown Dependencies.

The Shared Services Model

The LBCM Group is supported by Lloyds Bank through the Shared Services Model which involves the provision of services to the LBCM Group by Lloyds Bank. The Shared Services Model is distinct from but not dissimilar to a shared services model which already exists within the Lloyds Banking Group servicing multiple Lloyds Banking Group entities.

The terms of the Shared Services Model are set out in intra-group agreements between the Issuer, other LBCM Group entities and Lloyds Bank. The intra-group agreements cover banking services (including relationship management, product management, financial markets product sales and capital markets origination) and organisation support services (including client services, products and marketing support, performance management and asset and portfolio management, control, commercial banking client delivery, data services, security, change management, property, payments, document management, IT, sourcing, complaints management, HR, finance, corporate affairs, risk, secretariat, audit, legal and digital services). The intra-group agreement between the LBCM Group entities and Lloyds Bank contains a provision which addresses the requirements in the PRA’s Operational Continuity In Resolution (“**OCIR**”) rules regarding continuity of supply of services in resolution scenarios. For more information see “*Note 7 to the financial statements – Operating expenses*” of the 2018 Annual Report.

Ratings of the Issuer

As at the date of this Prospectus: (i) long-term senior obligations of the Issuer are rated “A” by S&P, “A1” by Moody’s and “A” by Fitch; and (ii) short-term senior obligations of the Issuer are rated “A-1” by S&P, “P-1” by Moody’s and “F1” by Fitch.

Expected ratings in relation to Notes issued by the Issuer under the Programme

S&P is expected to rate: Senior Notes issued by the Issuer under the Programme with a maturity of one year or more “A” and Senior Notes issued by the Issuer under the Programme with a maturity of less than one year “A-1”.

Fitch is expected to rate: Senior Notes issued by the Issuer under the Programme with a maturity of one year or more “A” and Senior Notes issued by the Issuer under the Programme with a maturity of less than one year “F1”.

Moody’s is expected to rate: Senior Notes issued by the Issuer under the Programme with a maturity of one year or more “A1” and Senior Notes issued by the Issuer under the Programme with a maturity of less than one year “P-1”.

The credit ratings referred to and included in this Prospectus have been issued by S&P, Fitch and Moody’s, each of which is established in the EU and is registered under Regulation (EC) No. 1060/2009 (as amended) of the European Parliament and of the Council of 16 September 2009 on credit rating agencies.

Tranches of Notes to be issued under the Programme will be rated or unrated. Where a Tranche of Notes is to be rated, such rating will not necessarily be the same as the rating assigned to Notes already issued. Whether or not a rating in relation to any Tranche of Notes will be treated as having been issued by a credit rating agency established in the EU and registered under Regulation (EC) No. 1060/2009 (as amended) on credit rating agencies will be disclosed in the relevant Final Terms.

A rating is not a recommendation to buy, sell or hold securities and may be subject to change, suspension or withdrawal at any time by the assigning rating agency.

For detail on credit ratings risks see *“Risk Factors – Financial Soundness Related Risks”*. In particular, see *“Risk Factors – Financial Soundness Related Risks – The LBCM Group’s borrowing costs and access to the capital markets is dependent on a number of factors, including any reduction in the Issuer’s credit ratings, and increased costs or reduction in access could materially adversely affect the LBCM Group’s results of operations, financial condition or prospects”*.

Material Contracts

The Issuer and its subsidiaries are party to various contracts in the ordinary course of business. These include the intra-group agreements entered into between the Issuer, other LBCM Group entities and Lloyds Bank. For more information see *“Lloyds Bank Corporate Markets plc – The Shared Services Model”*.

Competitive Environment

The LBCM Group provides financial services to individual and business customers, in the UK and overseas.

The markets for UK financial services, and the other markets within which the LBCM Group operates, are competitive, and management expects such competition to continue or intensify in response to competitor behaviour, including non-traditional competitors, consumer demand, technological changes such as the growth of digital banking, and the impact of regulatory actions and other factors.

For more information see *“Risk Factors – Business and Economic Risks – 4.6 The LBCM Group’s businesses are conducted in competitive environments, with increased competition scrutiny, and the LBCM Group’s financial performance depends upon management’s ability to respond effectively to competitive pressures”*.

Regulation

Approach of the Financial Conduct Authority (“FCA”)

As per the FSMA (amended by the Financial Services Act 2012), the FCA has a strategic function to ensure that the relevant markets function well. In support of this, the FCA has three operational objectives: to secure an appropriate degree of protection for consumers; to protect and enhance the integrity of the UK financial system and to promote effective competition in the interests of consumers.

The FCA Handbook sets out rules and guidance across a range of conduct issues with which financial institutions are required to comply including high level principles of business and detailed conduct of business standards and reporting standards.

Regulatory Approach of the PRA

As per the Financial Services Act 2012, the PRA has two statutory objectives: to promote the safety and soundness of the firms which it supervises and, with respect to insurers, to contribute to the securing of an appropriate degree of protection for policyholders. The PRA's regulatory and supervisory approach incorporates three key characteristics: to take a judgement-based approach, a forward-looking approach, and a focused-approach.

The PRA has largely inherited the prudential aspects of the former FSA Handbook, including regulations and guidance relating to capital adequacy and liquidity among several other things.

Other bodies impacting the regulatory regime

The Bank of England and HM Treasury

The agreed framework for co-operation in the field of financial stability in the financial markets is detailed in the Memorandum of Understanding published jointly by HM Treasury, the FCA (formerly the FSA) and the Bank of England (now including the PRA) (together, the "**Tripartite Authorities**"). The Bank of England has specific responsibilities in relation to financial stability, including: (i) ensuring the stability of the monetary system; (ii) oversight of the financial system infrastructure, in particular payments systems in the UK and abroad; and (iii) maintaining a broad overview of the financial system through its monetary stability role. The Bank of England also wholly incorporates the PRA.

*UK Financial Ombudsman Service ("**FOS**")*

The FOS provides consumers with a free and independent service designed to resolve disputes where the customer is not satisfied with the response received from the regulated firm. The FOS resolves disputes for eligible persons that cover most financial products and services provided in (or from) the UK. The jurisdiction of the FOS extends to include firms conducting activities under the Consumer Credit Act 1974. Although the FOS takes account of relevant regulation and legislation, its guiding principle is to resolve cases on the basis of what is fair and reasonable; in this regard, the FOS is not bound by law or even its own precedent. The decisions made by the FOS are binding on regulated firms.

*The Financial Services Compensation Scheme ("**FSCS**")*

The FSCS was established under the FSMA and is the UK's statutory fund of last resort for customers of authorised financial services firms. Companies within the LBCM Group are responsible for contributing to compensation schemes in respect of banks and other authorised financial services firms that are unable to meet their obligations to customers. The FSCS can pay compensation to customers if a firm is unable, or likely to be unable, to pay claims against it. The FSCS is funded by levies on firms authorised by the PRA and the FCA, including companies within the LBCM Group.

*UK Competition and Markets Authority ("**CMA**")*

Since 1 April 2014, the competition functions previously exercised by the Office of Fair Trading and the Competition Commission have been transferred to the new CMA or the FCA. The CMA's regulatory and enforcement powers impact the banking sector in a number of ways, including powers to investigate and prosecute a number of criminal offences under competition law. In addition, the CMA is now the lead enforcer under the Unfair Terms in Consumer Contracts Regulations 1999.

UK Information Commissioner's Office

The UK Information Commissioner's Office is responsible for overseeing data protection and freedom of information. The Data Protection Act 2018 (which enshrines the General Data Protection Regulation) controls, among other things, the retention and use of data relating to individual customers. The Freedom of Information Act 2000 (the "FOIA") sets out a scheme under which any person can obtain information held by, or on behalf of, a "public authority" without needing to justify the request. A public authority will not be required to disclose information if certain exemptions set out in the FOIA apply.

The Payments System Regulator ("PSR")

The PSR is an independent economic regulator for the £75 trillion payment systems industry, which was launched in April 2015. Payment systems form a vital part of the UK's financial system – they underpin the services that enable funds to be transferred between people and institutions. The purpose of PSR is to make payment systems work well for those that use them. The PSR is a subsidiary of the FCA, but has its own statutory objectives, Managing Director and Board. In summary its objectives are: (i) to ensure that payment systems are operated and developed in a way that considers and promotes the interests of all the businesses and consumers that use them; (ii) to promote effective competition in the markets for payment systems and services - between operators, payment services providers and infrastructure providers; and (iii) to promote the development of and innovation in payment systems, in particular the infrastructure used to operate those systems.

Competition Regulation

As noted above, competition functions previously exercised by the Office of Fair Trading and the Competition Commission have been transferred to the CMA or the FCA. The CMA's regulatory and enforcement powers impact the banking sector in a number of ways, including powers to investigate and prosecute a number of criminal offences under competition law.

The FCA has concurrent competition powers in relation to the provision of financial services in the UK, in addition to its competition objective. The FCA has been undertaking a programme of work to assess markets across financial services to ascertain whether or not competition is working effectively in the best interests of consumers. The FCA will also act as an observer on the "Open Banking" steering group and be involved in developing and testing "prompts" to encourage customers to consider their banking arrangements.

The PSR became operational in April 2015 with concurrent competition powers in respect of UK payment systems, in addition to a statutory objective to promote effective competition. The PSR has completed two market reviews into the provision of indirect access and into the ownership and competitiveness of payments infrastructure. The final report for indirect access was published in July 2016 noting some concerns with quality of access, limited choice and barriers to switching. The final report for competitiveness of payments infrastructure, also published in July 2016, noted some concerns with competition in payments infrastructure.

In addition, the PRA also has a secondary objective under the Financial Services (Banking Reform) Act to, so far as reasonably possible, act in a way which facilitates effective competition.

The UK Government has a continuing interest in competition. In November 2015, the UK Government published a document entitled "A better deal: boosting competition to bring down bills for families and firms". This document focuses on the competition aspects of the UK Government's productivity plan and aims to promote competition in various sectors, including financial services.

For more information see "*Risk Factors – Business and Economic Risks – 4.6 The LBCM Group's businesses are conducted in competitive environments, with increased competition scrutiny, and the LBCM Group's financial performance depends upon management's ability to respond effectively to competitive pressures*".

EU Regulation

The UK is subject to the directives introduced under the Financial Services Action Plan. However, these directives are regularly reviewed at EU level and could be subject to change. The LBCM Group will continue to monitor the progress of these initiatives, provide specialist input on their drafting and assess the likely impact on its business.

CRD IV implements the Basel III agreement in the EU and introduces significant changes in the prudential regulatory regime applicable to banks including: increased minimum capital ratios; changes to the definition of capital and the calculation of risk-weighted assets; and the introduction of new measures relating to leverage, liquidity and funding. CRD IV also makes changes to rules on corporate governance, including remuneration, and introduces standardised EU regulatory reporting requirements which will specify the information that must be reported to supervisors in areas such as own funds, large exposures and financial information.

On 29 January 2014, the European Commission published its long-awaited proposals for structural reform of EU banks in the form of a draft regulation. The proposals apply to the largest EU banks and groups – on the basis of historical data the European Commission estimates that 29 EU banks may be subject to such proposed regulation. The European Commission’s publication is only a proposal at this stage. It may well be amended, perhaps substantially, by the European Parliament and the Council before it is adopted.

For more information see *“Risk Factors – 3.4 The LBCM Group faces risks associated with the development of the international and national prudential, legal and regulatory environment”* and *“Business and Economic Risks – 4.2 Political, legal, regulatory, constitutional and economic uncertainty arising from the outcome of the referendum on the UK’s membership of the European Union could adversely impact the LBCM Group’s business, results of operations, financial condition and prospects”*.

U.S. Regulation

In the United States, the Issuer maintains a branch in New York, licensed by the New York State Department of Financial Services (“**NYDFS**”) and subject to regulation and examination by the NYDFS and the Federal Reserve Bank of New York (“**FRBNY**”).

The licensing authority of the Issuer’s U.S. branch has the authority, in certain circumstances, to take possession of the business and property of the Issuer located in the state of the office it licenses. Such circumstances generally include violations of law, unsafe business practices and insolvency.

The existence of a branch in the U.S. subjects the Issuer and its subsidiaries doing business or conducting activities in the U.S. to oversight by the Board of Governors of the Federal Reserve System (“**Federal Reserve Board**”).

The Issuer is a foreign banking organisation treated as a bank holding company within the meaning of the U.S. Bank Holding Company Act of 1956 (“**BHC Act**”) in accordance with the provisions of the International Banking Act of 1978 and has elected, with the permission of the Federal Reserve Board, to be treated as a financial holding company under the BHC Act.

Financial holding companies may engage in a broader range of financial and related activities than are permitted to bank holding companies that do not maintain financial holding company status, including underwriting and dealing in all types of securities. To maintain financial holding company status, the Issuer is required to meet certain capital ratios and be deemed to be “well managed” for purposes of the Federal Reserve Board’s regulations. The LBCM Group’s direct and indirect activities and investments in the U.S. are limited to those that are “financial in nature” or “incidental” or “complementary” to a financial activity, as determined by the Federal Reserve Board.

The LBCM Group is also required to obtain the prior approval of the Federal Reserve Board before acquiring, directly or indirectly, the ownership or control of more than 5 per cent. of any class of the voting shares of any U.S. bank or bank holding company.

The LBCM Group's U.S. broker dealer, Lloyds Securities Inc., is subject to regulation and supervision by the Securities and Exchange Commission ("SEC") and the Financial Industry Regulatory Authority with respect to its securities activities, including sales methods, trade practices, use of safekeeping of customers' funds and securities, capital structure, recordkeeping, the financing of customers' purchases and conduct of directors, officers and employees.

U.S. regulation, including changes implemented under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "**Dodd-Frank Act**"), addresses systemic risk oversight, bank capital standards, the resolution of failing systemically significant financial institutions in the U.S., OTC derivatives, restrictions on the ability of banking entities to engage in proprietary trading activities and make investments in and sponsor certain private equity funds and hedge funds (known as the "**Volcker rule**"), asset securitisation activities and securities market conduct and oversight.

Among other requirements, the Dodd-Frank Act also required entities that are swap dealers and major swap participants to register with the U.S. Commodity Futures Trading Commission ("**CFTC**"). The Issuer is registered as a swap dealer and as such, is subject to regulation and supervision by the CFTC and the National Futures Association with respect to its swap activities, including risk management, practices, trade documentation and reporting, business conduct and recordkeeping, among others.

For more information see "*Regulatory and Legal Risks – 3.1 The LBCM Group and its businesses are subject to substantial regulation and oversight. Adverse legal or regulatory developments could have a significant material adverse effect on the LBCM Group's business, results of operations, financial condition or prospects*".

Other Jurisdictions

The LBCM Group also undertakes activities in and from Germany, Singapore and the Crown Dependencies, and historically has undertaken activity in and from the British Overseas Territory of Gibraltar. Consequently, certain entities and activities within the LBCM Group are separately subject to regulation in those jurisdictions, including by (but not limited to) the German Federal Financial Supervisory Authority, the Monetary Authority of Singapore, the Jersey Financial Services Commission, the Guernsey Financial Services Commission, the Isle of Man Financial Services Authority, and in relation to other relevant legal and regulatory requirements including for example local ombudsman services, as appropriate.

Legal Actions and Regulatory Matters

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

Major Shareholders and Related Party Transactions

Major Shareholders

The Issuer is wholly-owned by LBG.

Related Party Transactions

The Issuer, as at 31 December 2018, had related party transactions with its fellow Lloyds Banking Group undertakings and with 8 key management personnel.

Corporate Governance

In order to comply with the requirements of the Ring-fencing Rules, Lloyds Banking Group has established a corporate governance structure for the Issuer to enable a degree of independence and separation between the Issuer (as the non-ring-fenced bank) and Lloyds Bank (as the ring-fenced bank).

The structure includes separate decision-making processes for the Issuer, an independent board of directors of the Issuer comprising a majority of non-executive directors, and an independent executive team of the Issuer. These arrangements are designed to enable the management of the Issuer to retain the ability to monitor and manage the activities of the LBCM Group within appropriate risk appetites, limits and policies.

Directors of the Issuer

The directors of the Issuer and their respective principal outside activities, where significant to the LBCM Group, are as follows:

| Name | Principal outside activities |
|--|--|
| Non-Executive Directors | |
| Lord Lupton CBE Chairman | Senior Advisor to Greenhill Europe. The Board has recognised that potential conflicts may arise in relation to this position. The Board has authorised the potential conflicts and requires Lord Lupton to recuse himself from discussions should the need arise. In addition, Lord Lupton is Chairman of the Trustees of the Lovington Foundation and an Independent Non-Executive Director of LBG. |
| John Cummins Independent Non-Executive Director | Managing Director of Future Cities, Legal & General Capital plc and Director of two joint ventures with Legal & General plc and Director and Trustee of the Centre for Cities, a charitable company limited by guarantee. The Board has recognised that potential conflicts may arise as a result of these positions. The Board has authorised the potential conflicts and requires John Cummins to recuse himself from discussions should the need arise. |
| Andrew McIntyre Independent Non-Executive Director | Non-Executive Director, Senior Independent Director and Chair of the Audit and Risk Committee of C. Hoare & Co., Member of the Financial Reporting Review Panel (a sub-committee of the Financial Reporting Council) and Non-Executive Director and Chair of the Audit Committee of the National Bank of Greece S.A. In addition, Andrew McIntyre is a Non-Executive Director and Chair of the Audit Committee of the Ecclesiastical Insurance Group plc, Member of the Appointments Committee and Chair of the Audit Committee of Hermes Property Unit Trust and Chair of |

| Name | Principal outside activities |
|---|---|
| | Audit Committee of Cavamont Holdings Limited. 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. |
| John Owen Independent Non-Executive Director | None. |
| Carla Antunes Da Silva Non-Executive Director | Group Strategy, Corporate Ventures and Investor Relations Director for LBG and an attendee of the Group Executive Committee. This role is a permitted interest under the Issuer's articles of association however, for good order, the Board has authorised the potential conflicts that may arise as a result of this role and requires Carla Antunes Da Silva to recuse herself from discussions, should the need arise. Carla Antunes Da Silva does not act a representative of LBG as the shareholder of LBCM in her role as a Non-Executive Director on the Board. In addition, Carla Antunes Da Silva is a Non-Executive Director of Associação Laboratório de Investimento Social (Social Finance Portugal) and a Non-Executive Director of Novo Banco, Portugal. |
| Jennifer Tippin Non-Executive Director | Group People and Productivity Director for LBG and Member of the Group Executive Committee. This role is a permitted interest under the Issuer's articles of association however, for good order, the Board has authorised the potential conflicts that may arise as a result of this role and requires Jennifer Tippin to recuse herself from discussions, should the need arise. Jennifer Tippin does not act as a representative of LBG as the shareholder of LBCM in her role as a Non-Executive Director on the Board. In addition, Jennifer Tippin is a Non-Executive Director of Kent Community NHS Foundation Trust. |
| Executive Directors | |
| Mark Grant Executive Director and Chief Executive Officer | None. |
| Chris Edis Executive Director and Chief Financial Officer | None. |

Other than as set out above, none of the directors of the Issuer has any actual or potential conflict between their duties to the Issuer and their private interests or other duties as listed above.

TAXATION

1 General

The comments below are of a general nature and are not intended to be exhaustive. They assume that there will be no substitution of the Issuer and do not address the consequences of any such substitution (notwithstanding that such substitution may be permitted by the terms and conditions of the Notes). Any Noteholders who are in doubt as to their own tax position should consult their professional advisers.

2 United Kingdom Taxation

The comments below are based on current United Kingdom tax law as applied in England and Wales and HMRC practice (which may not be binding on HMRC). They do not necessarily apply where the income is deemed for tax purposes to be the income of any other person. They relate only to the position of persons who are the absolute beneficial owners of their Notes and Coupons and may not apply to certain classes of persons (such as dealers) to whom special rules may apply. Any Noteholders who are in doubt as to their tax position or may be subject to tax in a jurisdiction other than the United Kingdom should consult their professional advisers.

Taxation of Interest on the Notes

- (i) Any Notes which carry a right to interest within the meaning of section 987 of the Income Tax Act 2007 (the “Act”) will constitute “quoted eurobonds” provided they are and continue to be listed on a recognised stock exchange within the meaning of section 1005 of the Act or admitted to trading on a “multilateral trading facility” operated by an EEA-regulated recognised stock exchange within the meaning of section 987 of the Act. Payments of interest by the Issuer on the Notes, if they are “quoted eurobonds” may be made without withholding or deduction for or on account of United Kingdom income tax. The London Stock Exchange is a recognised stock exchange for the purposes of section 1005 of the Act. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List (within the meaning of and in accordance with the provisions of Part VI of the Financial Services and Markets Act 2000) by the United Kingdom Listing Authority and admitted to trading on the London Stock Exchange.
- (ii) Payments of interest by the Issuer on the Notes may be paid without withholding or deduction for or on account of United Kingdom income tax provided that it continues to be a bank within the meaning of section 991 of the Act and provided that the interest on the Notes is paid in the ordinary course of its business within the meaning of section 878 of the Act.
- (iii) Interest on the Notes may be paid without withholding or deduction for or on account of United Kingdom income tax where at the time interest on the Notes is paid, the Issuer reasonably believes either:
 - (a) that the beneficial owner is a United Kingdom resident company or is a non-United Kingdom resident company which is within the charge to United Kingdom corporation tax as regards the payment of interest; or
 - (b) that the payment is made to one of the bodies or persons, and in accordance with any applicable conditions, set out in sections 935 to 937 of the Act,provided that HMRC has not given a direction (in circumstances where it has reasonable grounds to believe that the above exemption is not available in respect of such payment of interest at the time the payment is made) that the interest should be paid under deduction of tax.
- (iv) Interest on Notes with a maturity date of less than one year and which are not issued with the intention, or under a scheme or arrangement the effect of which is, that such Notes form part of a borrowing

intended to be capable of remaining outstanding for a year or more may be paid without withholding or deduction for or on account of United Kingdom tax.

- (v) Where Notes are issued at an issue price of less than 100 per cent. of their principal amount any payments in respect of the accrued discount will not generally be made subject to any withholding or deduction on account of United Kingdom income tax as long as they do not constitute payments in respect of interest.
- (vi) Where Notes are to be, or may fall to be, redeemed at a premium, as opposed to being issued at a discount, then any such element of premium may constitute a payment of interest and, if so, any such payment of interest may (subject to paragraphs (i) to (iii) above) be subject to United Kingdom withholding tax at the basic rate of income tax (currently 20 per cent.).
- (vii) In all other cases, an amount must generally be withheld from payments of interest on the Notes on account of United Kingdom income tax at the basic rate (currently 20 per cent.), subject to the availability of other reliefs under domestic law or to any direction to the contrary HMRC may provide in respect of any relief which may be available pursuant to the provisions of an applicable double taxation treaty.

United Kingdom Source Interest

Interest with a United Kingdom source may be chargeable to United Kingdom tax by direct assessment. Where the interest is paid without withholding or deduction for or on account of United Kingdom tax, the interest will not be assessed to United Kingdom tax in the hands of holders of the Notes (other than certain trustees) who are not resident for tax purposes in the United Kingdom, except where such persons carry on a trade, profession or vocation in the United Kingdom through a United Kingdom branch or agency in connection with which the interest is received or to which the Notes are attributable or (in the case of companies) such persons carry on a trade in the United Kingdom through a permanent establishment in the United Kingdom in connection with which the interest is received or to which the Notes are attributable, in which case United Kingdom tax may be levied on the United Kingdom branch, agency or permanent establishment. There are exemptions for interest received by certain categories of agent.

Where interest has been paid under deduction of United Kingdom income tax, Noteholders who are not resident in the United Kingdom for tax purposes may be able to recover all or part of the tax deducted under an applicable double taxation treaty.

Noteholders should recognise that the provisions relating to additional amounts referred to in “*Terms and Conditions of the Notes – Taxation*” would not apply if HMRC sought to assess directly the person entitled to the relevant interest to United Kingdom tax. However, exemption from, or reduction of, such United Kingdom tax liability might be available under an applicable double taxation treaty.

SUBSCRIPTION AND SALE

Summary of Programme Agreement

Subject to the terms and on the conditions contained in a pro forma programme agreement set out in a procedures memorandum dated 25 June 2019 (as modified and/or supplemented and/or restated as at the date of the issue of the Notes, the “**Programme Agreement**”) between the Issuer, the Arranger, the Dealer (the “**Permanent Dealer**”) and such additional persons that may be appointed as dealers in respect of the Programme (and whose appointment has not been terminated), the Notes will be offered on a continuous basis by the Issuer to the Permanent Dealer and any such additional dealers. However, the Issuer has reserved the right to sell Notes directly on its own behalf to Dealers that are not Permanent Dealers. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Notes may also be sold by the Issuer through the Dealers, acting as agents of the Issuer. The Programme Agreement also provides for Notes to be issued in syndicated Tranches that are jointly and severally underwritten by two or more Dealers.

The Issuer may pay each relevant Dealer a commission as agreed between them in respect of Notes subscribed by it. The Issuer has agreed to reimburse the Arranger for certain of its expenses incurred in connection with the establishment and update of the Programme.

The Issuer has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Programme Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

Other Relationships

Some of the Dealers and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Issuer or any of its affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions.

Certain of the Dealers and their affiliates may have positions, deal or make markets in the Notes issued under the Programme, related derivatives and reference obligations, including (but not limited to) entering into hedging strategies on behalf of the Issuer or any of its affiliates, investor clients, or as principal in order to manage their exposure, their general market risk, or other trading activities.

In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or any of its affiliates. Certain of the Dealers or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the Issuer’s securities, including potentially any Notes which may be offered under the Programme. Any such short positions could adversely affect future trading prices of any Notes offered under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

SELLING RESTRICTIONS

United States

The Notes have not been and will not be registered under the Securities Act and the Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

Bearer Notes having a maturity of more than one year are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended, and U.S. Treasury regulations promulgated thereunder.

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that, except as permitted by the Programme Agreement, it will not offer, sell or, in the case of Bearer Notes, deliver Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of an identifiable Tranche of which such Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each Dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting out the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in the preceding sentence have the meanings given to them by Regulation S.

The Notes are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S.

In addition, until 40 days after the commencement of the offering of Notes, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering of such Tranche of Notes) may violate the registration requirements of the Securities Act.

This Prospectus has been prepared by the Issuer for use in connection with the offer and sale of the Notes outside the United States. The Issuer and the Dealers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Prospectus does not constitute an offer to any person in the United States. Distribution of this Prospectus by any non-U.S. person outside the United States to any U.S. person or to any other person within the United States is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any such U.S. person or other person within the United States is prohibited.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA would not, if the Issuer was not an authorised person, apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Prohibition of Sales to EEA Retail Investors

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Prospectus as completed by the relevant Final Terms in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision, the expression “retail investor” means a person who is one (or more) of the following:

- (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or
- (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

Australia

No prospectus or other disclosure document (as defined in the Corporations Act 2001 of Australia (the “**Australian Corporations Act**”) in relation to the Programme or any Notes has been, or will be, lodged with the Australian Securities and Investments Commission (“**ASIC**”) or any other government agency. Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree that, unless the relevant Final Terms (or a relevant supplement to this Prospectus) otherwise provides, it:

- (a) has not made or invited, and will not make or invite, an offer of the Notes for issue or sale in Australia (including an offer or invitation which is received by a person in Australia); and
- (b) has not distributed or published, and will not distribute or publish, this Prospectus or any other offering material or advertisement relating to the Notes in Australia,

unless:

- (i) the aggregate consideration payable by each offeree is at least A\$500,000 (or its equivalent in an alternative currency, in either case, disregarding moneys lent by the offeror or its associates) or the offer or invitation does not otherwise require disclosure to investors under Parts 6D.2 or 7.9 of the Australian Corporations Act;
- (ii) the offer or invitation does not constitute an offer to a “retail client” for the purposes of section 761G and 761GA of the Australian Corporations Act;
- (iii) such action complies with any applicable laws, regulations and directives (including without limitation, the licensing requirements set out in Chapter 7 of the Australian Corporations Act) in Australia; and
- (iv) such action does not require any document to be lodged with ASIC.

In addition, each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, that it will comply with the directive issued by the Australian Prudential Regulation Authority dated 21 March 2018 as contained in Banking exemption No. 1 where the Dealer offers Notes for sale in relation to an issuance. This order requires all offers and transfers to be in parcels of not less than A\$500,000 (or its equivalent in another currency) in aggregate principal amount. Banking exemption No. 1 does not apply to offers for sale and transfers which occur outside Australia.

Belgium

The Notes may not be distributed in Belgium by way of an offer of securities to the public, as defined in Article 3 §1 of the Belgian Law of 16 June 2006 on public offerings of investment instruments and the admission of investment instruments to trading on regulated markets, as amended from time to time, (the “**Prospectus Law**”), save in those circumstances set out in Article 3 §2-4 of the Prospectus Law.

The offering is exclusively conducted under applicable private placement exemptions and therefore it has not been and will not be notified to, and this Prospectus or any other offering material relating to the Notes has not been and will not be approved by, the Belgian Financial Services and Markets Authority (*Autorité des Services et marchés financiers / Autoriteit voor financiële diensten en markten*).

Accordingly, the offering may not be advertised and each of the Dealers has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or resold, transferred or delivered, and will not offer, sell, resell, transfer or deliver, the Notes and that it has not distributed, and will not distribute, any memorandum, information circular, brochure or any similar documents, directly or indirectly, to any individual or legal entity in Belgium other than:

- (i) qualified investors, as defined in Article 10 of the Prospectus Law;
- (ii) investors required to invest a minimum of €100,000 (per investor and per transaction); and
- (iii) in any other circumstances set out in Article 3 §2-4 of the Prospectus Law.

This Prospectus has been issued only for the personal use of the above investors and exclusively for the purpose of the offering of Notes. Accordingly, the information contained herein may not be used for any other purpose nor disclosed to any other person in Belgium.

Bermuda

This Prospectus and the Notes offered hereby have not been, and will not be, filed or registered under the laws and regulations of Bermuda, nor has any regulatory authority in Bermuda passed comment upon or approved the accuracy or adequacy of this Prospectus. The Notes offered hereby may not be offered to the public in Bermuda, except in compliance with the provisions of the Investment Business Act 2006 of Bermuda which regulates the sale of securities in Bermuda and neither this Prospectus, which has not been submitted to the Bermuda Minister of Finance, the Bermuda Registrar of Companies or the Bermuda Monetary Authority, nor any offering material or information contained herein relating to the Notes, may be supplied to the public in Bermuda or used in connection with any offer for the subscription or sale of Notes to the public in Bermuda.

Cayman Islands

No offer or invitation by, or on behalf of, the Issuer to subscribe for the Notes may be made from a place of business in the Cayman Islands to the public in the Cayman Islands.

Dubai International Financial Centre

Each Dealer represents and agrees, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered and will not offer the Notes to be issued under the Programme to any person in the Dubai International Financial Centre unless such offer is:

- (i) an “Exempt Offer” in accordance with the Markets Rules (MKT) module of the Dubai Financial Services Authority (the “**DFSA**”) Rulebook; and

- (ii) made only to persons who meet the Professional Client criteria set out in Rule 2.3.3 of the Conduct of Business Module of the DFSA Rulebook.

France

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (i) Offer to the public in France:

it has only made and will only make an offer of Notes to the public in France in the period beginning on the notification of the approval of this Prospectus to the *Autorité des marchés financiers* (“AMF”) by the competent authority of a member state of the European Economic Area, other than the AMF, which has implemented the EU Prospectus Directive 2003/71/EC, as amended, all in accordance with Articles L.412-1 and L.621-8 of the French Code *monétaire et financier* and the *Règlement général* of the AMF, and ending at the latest on the date which is 12 months after the date of the approval of such prospectus; or

- (ii) Private placement in France:

it has not offered or sold and will not offer or sell, directly or indirectly, any Notes to the public in France and it has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in France, this Prospectus, the relevant Final Terms or any other offering material relating to the Notes and such offers, sales and distributions have been and will be made in France only to (a) persons providing investment services relating to portfolio management for the account of third parties (*personnes fournissant le service d'investissement de gestion de portefeuille pour compte de tiers*), and/or (b) qualified investors (*investisseurs qualifiés*) acting for their own account, all as defined in, and in accordance with, Articles L.411-1, L.411-2 and D.411-1 of the French *Code monétaire et financier*.

Gibraltar

Gibraltar is part of the European Union (“EU”) and the European Economic Area (“EEA”) by virtue of United Kingdom’s membership (since it is a European territory for whose external relations a Member State is responsible). It is, therefore obliged to implement EU Directives and Regulations (which have direct effect) except those in respect of Common Agricultural Policy, Customs Union or Common external tariff, such as the requirement to levy value added tax.

Gibraltar has implemented the EU Prospectus Directive 2003/71/EC through its national legislation, the Prospectuses Act 2005 on 2 August 2005, as amended from time to time (“GPA”).

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including 2 August 2005 (the “**Gibraltar Implementation Date**”), it has not made and will not make an offer of the Notes which are the subject of the offering contemplated by this Prospectus as completed by the relevant Final Terms in relation thereto to the public in Gibraltar except that it may, with effect from and including the Gibraltar Implementation Date, make an offer of such Notes to the public in Gibraltar if:

- (i) this Prospectus as completed by the relevant Final Terms in relation to the Notes has been approved by the Gibraltar Financial Services Commission (the “GFSC”) or, where appropriate, approved in another relevant Member State and notified to the GFSC, in accordance with the requirements of the GPA and the Issuer has consented in writing;

- (ii) the offer is addressed only to “qualified investors” as defined in the GPA;
- (iii) the offer is addressed to fewer than 150 persons per Member State, other than qualified investors;
or
- (iv) the offer falls within the meaning of the other circumstances specified in section 6(4)(c) to (e) of the GPA,

and offers of the Notes referred to in paragraphs (ii) to (iv) above shall not require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive or require the Issuer to comply with the procedures stipulated under the GPA in respect of publication of prospectuses as they are not deemed to be offers to the public.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (i) with respect to anything done by it in relation to the Notes, in, from or otherwise involving Gibraltar, it has complied and will continue to comply with all provisions applicable to it under the Gibraltar Financial Services (Investment and Fiduciary Services) Act 1989 (the “**1989 Act**”), the Gibraltar Financial Services (Markets in Financial Instruments) Act 2018 (the “**MiFID 2 Act**”), the Gibraltar Financial Services (Banking) Act 1992 (the “**Banking Act**”) and any regulations made thereunder and the GPA; and
- (ii) it will not issue or cause to be issued, make or cause to be made, any investment advertisement or promotion in or from within Gibraltar, unless:
 - (a) it is authorised and/or approved to do so under the provisions applicable to it under the 1989 Act, the MiFID 2 Act and the Banking Act; and
 - (b) it has received the prior written approval of the Issuer.

Guernsey

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree that the Notes cannot be marketed, offered or sold in or to persons resident in Guernsey other than in compliance with the licensing requirements of the Protection of Investors (Bailiwick of Guernsey) Law, 1987 (the “**POI Law**”) as amended or any exemption therefrom.

The Prospectus Rules 2008 issued by the Guernsey Financial Services Commission (“**GFSC**”) do not apply to this Prospectus and, accordingly, this Prospectus has not been, nor is required to be, submitted to or approved or authorised by the GFSC for circulation in Guernsey. This Prospectus may not be distributed or circulated directly or indirectly to any persons in the Bailiwick of Guernsey other than by a person (i) licensed to do so under the terms of the POI Law, or (ii) exempt from the requirement to be so in compliance with section 29(1)(c) of the POI Law.

Hong Kong

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes except for Notes which are a “structured product” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the “**SFO**”) other than (a) to “professional investors” as

defined in the SFO and any rules made under the SFO; or (b) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the “C(WUMP)O”) or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and

- (ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the SFO and any rules made under the SFO.

Ireland

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that:

- (i) it will not offer, underwrite the issue of, or place, the Notes otherwise than in conformity with the provisions of the European Union (Markets in Financial Instruments) Regulations 2017 (as amended) (the “**MiFID II Regulations**”) including, without limitation, Regulation 5 thereof or any rules or codes of conduct made under the MiFID II Regulations, and the provisions of the Investor Compensation Act 1998 (as amended);
- (ii) it will not offer, underwrite the issue of, or place, the Notes, otherwise than in conformity with the provisions of the Companies Act 2014 of Ireland (as amended), the Central Banks Acts 1942 to 2015 (as amended) and any codes of conduct rules made under Section 117(1) of the Central Bank Act 1989 (as amended);
- (iii) it will not offer, underwrite the issue of, or place, or do anything in Ireland in respect of the Notes otherwise than in conformity with the provisions of the Prospectus (Directive 2003/71/EC) Regulations 2005 (as amended) and any rules issued by the Central Bank of Ireland under Section 1363 of the Companies Act 2014 of Ireland;
- (iv) it will not offer, underwrite the issue of, place, or otherwise act in Ireland in respect of the Notes, otherwise than in conformity with the provisions of the Market Abuse Regulation (EU 596/2014) (as amended) and any rules and guidance issued by the Central Bank of Ireland under Section 1370 of the Companies Act 2014 of Ireland; and
- (v) no Notes will be offered or sold with a maturity of less than 12 months except in full compliance with Notice BSD C 01/02 issued by the Central Bank of Ireland.

Isle of Man

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has only engaged in, and will only engage in, investment activity with Isle of Man persons, and that it has only communicated or caused to be communicated and will only communicate or cause to be communicated to, Isle of Man persons invitations or inducements to engage in investment activity, in the circumstances permitted in terms of paragraph 2(d) of Schedule 1 to the Isle of Man Regulated Activities Order 2011 (as amended in 2013, 2016 and 2018), or if it has otherwise complied and will otherwise comply with all applicable Isle of Man laws and regulations with respect to anything done by it in relation to any Notes in, from or otherwise involving the Isle of Man.

This Prospectus has not been, and is not required to be, filed or lodged with any regulatory or other authority in the Isle of Man. The Issuer is not subject to regulatory approval in the Isle of Man and holders of Notes are not protected by any statutory compensation arrangements in the event of the Issuer's failure. The Isle of Man Financial Services Authority does not vouch for the financial soundness of the Issuer or the correctness of any statements made or opinions expressed with regard to it.

Israel

The Notes offered hereby are not being sold pursuant to a prospectus that has been qualified with the Israeli Securities Authority. As such, the Notes may not be offered in Israel or to Israeli residents other than to persons who have confirmed in writing prior to and in connection with their investment that (i) they are among the types of investors listed in Sections (1) – (9) of Appendix 1 of the Securities Law, 5728-1968, of the State of Israel (an “**Exempted Investor**”), (ii) they are aware of the legal consequences of their qualifying as an Exempted Investor and consent thereto, and (iii) they are purchasing the Notes for their own account, for investment purposes, and without a present intention of resale.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the “**Financial Instruments and Exchange Act**”). Accordingly, each of the Dealers has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the account or benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the account or benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

Jersey

An offer for subscription, sale or exchange of the Notes will not be circulated in Jersey and this Prospectus will not be circulated in Jersey unless all relevant legal and regulatory requirements of Jersey law have been complied with prior to such circulation. Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, on terms to this effect.

Malta

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that: (i) it has not issued or caused to be issued and it will not issue or cause to be issued any investment advertisement, as defined in the Investment Services Act (Chapter 370 of the Laws of Malta) (the “**ISA**”), in relation to the Notes or the offer of Notes, in or from within Malta, except that it may issue or cause to be issued such investment advertisement in or from within Malta if it is issued or its contents have been approved by a licence holder in terms of the ISA or if and to the extent that an exemption from the requirements set out in article 11(1)(b) of the ISA applies under Maltese law; (ii) if any offer of Notes is made to the public in Malta and/or any advertisement or any other document or information in relation to an offer of Notes or the Notes is issued or caused to be issued in or from Malta, such offer will be made and/or such advertisement, document or information will be so issued or caused to be issued in accordance with Maltese law; (iii) it has complied and will comply with all applicable provisions of the ISA (and all rules and regulations

issued thereunder) with respect to anything done by it in relation to the Notes in, from, or otherwise involving Malta; and (iv) it will conduct itself in accordance with any codes or rules of conduct and any conditions or requirements imposed by the Malta Financial Services Authority with respect to anything done by it in relation to the Notes in, from, or otherwise involving Malta.

Each Dealer has further represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not issue or cause to be issued any investment advertisement, as defined in the ISA, in relation to the Notes or the offer of Notes, in or from within Malta, unless it is authorised to do so by the Issuer.

Monaco

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree that the Notes shall not be marketed, offered or sold, directly or indirectly, to the public in Monaco other than by a Monaco duly authorised intermediary acting as a professional institutional investor which has such knowledge and experience in financial and business matters as to be capable of evaluating the risks and merits of an investment in the Notes. Consequently, the Notes may only be communicated to banks duly licensed by the *Autorité de Contrôle Prudentiel* and by the *Ministère d'Etat* and/or to fully licensed portfolio management companies the licence of which has been granted by the *Commission de Contrôle des Activités Financières* by virtue of Law n° 1.338 of 7 September 2007.

The recipients of this Prospectus perfectly understand English and expressly waive the possibility of a French translation of this Prospectus. *Les destinataires du présent document comprennent parfaitement la langue anglaise et renoncent expressément à une traduction française.*

People's Republic of China

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Notes are not being offered or sold and may not be offered or sold by it or any of its affiliates, directly or indirectly, in the People's Republic of China (for such purposes, not including the Hong Kong and Macau Special Administrative Regions or Taiwan), except as permitted by the securities laws of the People's Republic of China.

Republic of Italy

The offering of the Notes has not been registered with the *Commissione Nazionale per le Società e la Borsa* (“**CONSOB**”) pursuant to Italian securities legislation and, accordingly, no Notes may be offered, sold or delivered, nor may copies of this Prospectus or of any other document relating to any Notes be distributed in Italy, except, in accordance with any Italian securities, tax and other applicable laws and regulations.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or delivered, and will not offer, sell or deliver any Notes or distribute any copy of this Prospectus or any other document relating to the Notes in Italy except:

- (a) to qualified investors (*investitori qualificati*), as defined pursuant to Article 100 of Legislative Decree no. 58 of 24 February 1998 (the “**Financial Services Act**”) and Article 34-ter, paragraph 1, letter (b) of CONSOB regulation No. 11971 of 14 May 1999 (the “**Issuers Regulation**”), all as amended from time to time; or
- (b) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Issuers Regulation.

In any event, any offer, sale or delivery of the Notes or distribution of copies of this Prospectus or any other document relating to the Notes in Italy under paragraph (a) or (b) above must be:

- (i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Financial Services Act, Legislative Decree No. 385 of 1 September 1993 (the “**Banking Act**”) and CONSOB Regulation No. 20307 of 15 February 2018, all as amended from time to time;
- (ii) in compliance with Article 129 of the Banking Act, as amended from time to time, and the implementing guidelines of the Bank of Italy, as amended from time to time; and
- (iii) in compliance with any other applicable laws and regulations, including any limitation or requirement which may be imposed from time to time by CONSOB or the Bank of Italy or other competent authority.

Republic of Korea

The Notes have not been and will not be registered with the Financial Services Commission of Korea for public offering in Korea under the Financial Investment Services and Capital Markets Act and its subordinate decrees and regulations (collectively the “**FSCMA**”). The Notes may not be offered, sold or delivered, directly or indirectly, or offered or sold to any person for re-offering or resale, directly or indirectly, in Korea or to any resident of Korea except as otherwise permitted under the applicable laws and regulations of Korea, including the FSCMA and the Foreign Exchange Transaction Law and its subordinate decrees and regulations (collectively, the “**FETL**”). Without prejudice to the foregoing, the number of the Notes offered in Korea or to a resident in Korea shall be less than fifty, and for a period of one year from the Issue Date of the Notes, none of the Notes may be divided resulting in an increased number of the Notes. Furthermore, the Notes may not be resold to Korean residents unless the purchaser of the Notes complies with all applicable regulatory requirements (including but not limited to government reporting requirements under the FETL) in connection with the purchase of the Notes.

San Marino

This Prospectus has not been registered with the Central Bank of San Marino (“*Banca Centrale della Repubblica di San Marino*”, also “**BCSM**”). Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that Notes may only be offered or sold to the public in San Marino pursuant to and in compliance with the Law 2005/165 “*Legge sulle imprese e sui servizi bancari, finanziari ed assicurativi*”, the BCSM Rule 2007/07 and BCSM Rules 2006-03, as amended, and any regulation issued thereunder. Therefore, no offer will be made to the public, whether directly or indirectly, in San Marino unless it is in compliance with the LISF and BCSM Rules 2006-03 and 2007/07 and any regulation issued thereunder.

It is specified that also in the case of purchase in San Marino by “professional clients”, neither the Issuer, the LBCM Group nor foreign distributors can place the Notes directly in San Marino because in any case they must contact an authorised party in San Marino which can provide investment services. A direct placement of the Notes, in the absence of specific authorisation by the BCSM, would involve in a violation pursuant to Article 134 of Law 2005/165.

Singapore

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Prospectus has not been registered as a prospectus with the Monetary Authority of

Singapore. Accordingly, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, represent and agree, that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the “SFA”)) pursuant to Section 274 of the SFA (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1), or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275, of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

- (i) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (ii) where no consideration is or will be given for the transfer;
- (iii) where the transfer is by operation of law;
- (iv) as specified in Section 276(7) of the SFA; or
- (v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2005 of Singapore.

Spain

This Prospectus has not been registered with the Spanish Securities Market Regulator (*Comisión Nacional del Mercado de Valores*). Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that that it will only offer securities with a nominal value each of at least €100,000, pursuant to and in accordance with the consolidated text of the Securities Market Law approved by Royal Legislative Decree 4/2015, Spanish Royal Decree 1310/2005, both as amended from time to time, and any regulation issued thereunder.

Sweden

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that no offer will be made to the public in Sweden unless it is in compliance with the Swedish Financial Instruments Trading Act (*Sw. lag (1991:980) om handel med finansiella instrument*) and any other applicable Swedish law.

Switzerland

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that, except where explicitly permitted by the relevant Final Terms:

- (i) it will not publicly offer the Notes in or from Switzerland, as such term is defined or interpreted under the Swiss Code of Obligations (“**CO**”); and
- (ii) to the extent the Notes qualify as structured products (the “**Structured Products**”) within the meaning of the Swiss Collective Investment Schemes Act (the “**CISA**”), it will not offer, sell, advertise or distribute the Notes in or from Switzerland, as such terms are defined or interpreted under the CISA, except to qualified investors as defined in article 10 CISA (the “**Qualified Investors**”).

The Notes may not be publicly offered in or from Switzerland, except in the case of Notes, the Final Terms of which explicitly permit a public offer in Switzerland. Offering or marketing material relating to Notes, the Final Terms of which do not explicitly permit a public offer in Switzerland, may not be publicly distributed or otherwise made publicly available in Switzerland.

To the extent the Notes qualify as Structured Products, the Notes may not be offered, sold, advertised or distributed, directly or indirectly, in or from Switzerland, except (i) to Qualified Investors or (ii) in the case of Notes, the Final Terms of which explicitly permit a public offer in Switzerland. Offering or marketing material relating to Notes, which qualify as Structured Products and the Final Terms of which do not explicitly permit a public offer in Switzerland, may not be distributed or otherwise made available in Switzerland, except to Qualified Investors.

The Notes do not constitute participations in a collective investment scheme within the meaning of the CISA. Therefore, the Notes are not subject to the approval of, or supervision by, the Swiss Financial Market Supervisory Authority (“**FINMA**”), and investors in the Notes will not benefit from protection under the CISA or supervision by FINMA.

Taiwan

The Notes, if listed on the Taipei Exchange for sale to professional or general investors in Taiwan and to the extent permitted by the relevant Taiwan laws and regulations, may be sold in Taiwan to professional or general investors, as applicable, or, if not listed on the Taipei Exchange, may be made available, (i) to Taiwan resident investors outside Taiwan for purchase by such investors outside Taiwan; (ii) to the Offshore Banking Units of Taiwan banks (“**OBU**”), the Offshore Securities Units of Taiwan securities firms (“**OSU**”) or the Offshore Insurance Unit of Taiwan insurance companies (“**OIU**”) purchasing the Notes either for their proprietary account or for the accounts of their non-Taiwan clients or for re-sale to qualifying Taiwan and non-Taiwan investors (“**OBU/OSU/OIU Channel Sales**”); and/or (iii) to investors in Taiwan through certain licensed Taiwan financial institutions to the extent permitted under relevant Taiwan laws and regulations, but may not, otherwise be offered, sold or resold in Taiwan.

To the extent the Notes are offered to non-Taiwan clients via OBU/OSU/OIU Channel Sales, the relevant offering documents provided to such clients shall contain the following notification:

The Notes offered herein have not been reviewed or approved by the Taiwan authorities and are not subject to any filing or reporting requirement. The Notes are only permitted to be recommended or introduced to or purchased by clients of an OBU/OSU/OIU which clients reside outside Taiwan. Clients of an OBU/OSU/OIU are not eligible to use the financial consumer dispute resolution mechanism under the Taiwan Financial Consumer Protection Law.

United Arab Emirates (excluding the Dubai International Financial Centre)

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree, that the Notes to be issued have not been and will not be offered, sold or publicly promoted or advertised by it in the United Arab Emirates other than in compliance with any laws applicable in the United Arab Emirates governing the issue, offering and sale of securities.

General

These selling restrictions may be modified by the agreement of the Issuer and the Dealers following a change in a relevant law, regulation or directive.

No representation is made that any action has been taken in any jurisdiction that would permit a public offering of any of the Notes, or possession or distribution of this Prospectus or any other offering material or any Final Terms, in any country or jurisdiction where action for that purpose is required.

Neither the Issuer nor the Dealers represent that Notes may at any time lawfully be sold in compliance with any appropriate registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

Each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, that it shall, to the best of its knowledge and belief, comply with all relevant laws, regulations and directives in each jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes this Prospectus, any other offering material or any Final Terms and, that it will, obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws, regulations and directives in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sale or deliveries, and neither the Issuer nor any other Dealer shall have responsibility therefor.

TRANSFER RESTRICTIONS

Each purchaser of Notes outside the United States pursuant to Regulation S and each subsequent purchaser of such Notes in resales prior to the expiry of the distribution compliance period (as used in “**Selling Restrictions**”), by its acceptance of such Notes, will be deemed to have represented, agreed and acknowledged that:

- (i) It is, or at the time Notes are purchased will be, the beneficial owner of such Notes and (a) it is not a U.S. person and it is located outside the United States (as such terms are defined in Regulation S) and (b) it is not an affiliate of the Issuer or a person acting on behalf of such an affiliate.
- (ii) It understands that such Notes have not been and will not be registered under the Securities Act and that, prior to the expiry of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such Notes except in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States.
- (iii) It understands that the Issuer, the Registrar, the Dealers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.
- (iv) It understands that the Notes offered in reliance on Regulation S will be represented by a Global Certificate or a Global Note. Prior to the expiration of the distribution compliance period, before any interest in the Global Certificate or the Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Global Certificate or the Global Note, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.
- (v) It understands that such Notes, unless otherwise determined by the Issuer in accordance with applicable law, will bear a legend to the following:

“THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE “SECURITIES ACT”) OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES, EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT.”

MiFID II product governance / Professional investors and ECPs only target market: Solely for the purposes of each manufacturer’s product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, “**MiFID II**”); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration the manufacturers’ target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers’ target market assessment) and determining appropriate distribution channels.

PROHIBITION OF SALES TO EEA RETAIL INVESTORS: The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“**EEA**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive 2002/92/EC, as amended or superseded (“**IMD**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No 1286/2014 (the “**PRIIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

[Singapore Securities and Futures Act Product Classification: In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the “**SFA**”) and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the “**CMP Regulations 2018**”), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes [are] / [are not] prescribed capital markets products (as defined in the CMP Regulations 2018) and [are] [Excluded] / [Specified] Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendation on Investment Products.)³

FORM OF FINAL TERMS

Final Terms dated [●]

Lloyds Bank Corporate Markets plc

Legal Entity Identifier (LEI): 213800MBWEIJDM5CU638

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
under the £10,000,000,000

Euro Medium Term Note Programme

PART A – CONTRACTUAL TERMS

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “**Conditions**”) contained in the Trust Deed dated [date] and set forth in the Prospectus dated [date] [and the supplemental Prospectus[es] dated [date[s]]] which [together] constitute[s] a base prospectus for the purposes

³ For any Notes to be offered to Singapore investors, LBCM to consider whether it needs to re-classify the Notes pursuant to Section 309B of the SFA prior to the launch of the offer.

of the Prospectus Directive (Directive 2003/71/EC, as amended or superseded), to the extent that such amendments have been implemented in the relevant Member State of the European Economic Area (the “**Prospectus Directive**”). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Prospectus [as so supplemented]. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectus. The Prospectus [and the supplemental Prospectus[es]] [is] [are] available for viewing at www.londonstockexchange.com/exchange/news/market-news/market-news-home.html and copies may be obtained from Lloyds Bank Corporate Markets plc, 25 Gresham Street, London EC2V 7HN.

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “**Conditions**”) contained in the Trust Deed dated [**original date**] and set forth in the Prospectus dated [**original date**] [and the supplemental Prospectus[es] dated [**date[s]**]] and incorporated by reference into the Prospectus dated [**current date**] and which are attached hereto. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC, as amended or superseded) and amendments thereto, to the extent that such amendments have been implemented in the relevant Member State of the European Economic Area (the “**Prospectus Directive**”) and must be read in conjunction with the Prospectus dated [**current date**] [and the supplemental Prospectus[es] dated [**date[s]**]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectus. The Prospectuses [and the supplemental Prospectus[es]] are available for viewing at www.londonstockexchange.com/exchange/news/market-news/market-news-home.html and copies may be obtained from Lloyds Bank Corporate Markets plc, 25 Gresham Street, London EC2V 7HN.]

| | | |
|---|---|--|
| 1 | Issuer: | Lloyds Bank Corporate Markets plc (the “ Issuer ”) |
| 2 | (i) Series Number: | [•] |
| | (ii) [Tranche Number:] | [•] |
| | (iii) [Date on which Notes will be consolidated and form a single Series] | [The Notes will be consolidated and form a single Series with [•] on [the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, which is expected to occur on or about [•]]/Not Applicable] |
| 3 | Specified Currency: | [•] |
| 4 | Aggregate Nominal Amount: | [•] |
| | (i) Series: | [•] |
| | (ii) Tranche: | [•] |
| 5 | Issue Price: | [•] per cent. of the Aggregate Nominal Amount [plus accrued interest from [•]] |
| 6 | (i) Specified Denominations: | [•] [and integral multiples of [•] in excess thereof up to and including [•]. No Notes in definitive form will be issued with a denomination above [•]] |
| | (ii) Calculation Amount: | [•] |

| | | |
|----|---|--|
| 7 | (i) [Issue Date:] | [●] |
| | (ii) [Interest Commencement Date:] | [Issue Date/[●]/Not Applicable] |
| 8 | Maturity Date: | [[●]/Interest Payment Date falling in or nearest to [●]], subject to adjustment in accordance with the Business Day Convention specified at paragraph [14(vii)][15(xix)][16(iv)] below.] |
| 9 | Interest Basis: | [[●] per cent. Fixed Rate] [[●] per cent. to be reset on [●] [[and [●]] and every [●] anniversary thereafter Fixed Rate Reset]] [[[●] [[●] LIBOR] / [EURIBOR] / [CDOR] / [SONIA] / [SOFR]] [[+/-] [●] per cent.] Floating Rate] [Zero Coupon] |
| 10 | Redemption Basis: | [Redemption at par/Redemption at [●] per Calculation Amount] |
| 11 | Change of Interest or Redemption/Payment Basis: | [[●]/Not Applicable] |
| 12 | Put/Call Options: | [Put Option] [Call Option] [(further particulars specified below)] |
| 13 | Status of the Notes: | Senior |

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

| | | |
|----|-----------------------------------|---|
| 14 | Fixed Rate Note Provisions | [Applicable/Not Applicable] |
| | (i) Rate[(s)] of Interest: | [●] per cent. per annum [payable [annually/semi annually/ quarterly/ monthly] in arrear] |
| | (ii) Interest Payment Date(s): | [●] in each year [from and including [●]][until and including [●]][, subject, in each case, to adjustment in accordance with the Business Day Convention specified at paragraph 14(vii) below.] |
| | (iii) Fixed Coupon Amount[(s)]: | [[●] per Calculation Amount] |
| | (iv) Broken Amount(s): | [[[●] per Calculation Amount][[●] calculated by reference to the Aggregate Nominal Amount], payable on the Interest Payment Date falling [in/on] [●]/Not Applicable] |
| | (v) Day Count Fraction: | [Actual/365] [Actual/365 (Fixed)] [Actual/360] [30/360] [30E/360] |

| | | |
|----|--|--|
| | | [30E/360 (ISDA)] [Actual/Actual ICMA] |
| | (vi) Determination Dates: | [[●] in each year/Not Applicable] |
| | (vii) Business Day Convention: | [Floating Rate Business Day Convention]/[Following Business Day Convention (Adjusted)]/[Following Business Day Convention (Unadjusted)]/[Modified Following Business Day Convention (Adjusted)]/[Modified Following Business Day Convention (Unadjusted)]/[Preceding Business Day Convention (Adjusted)]/[Preceding Business Day Convention (Unadjusted)]/[Not Applicable] |
| 15 | Fixed Rate Reset Note Provisions | [Applicable/Not Applicable] |
| | (i) Initial Rate of Interest: | [●] per cent. per annum [payable [annually/semi annually/quarterly/monthly] in arrear] |
| | (ii) Interest Payment Date(s): | [●] [and [●]] in each year [from and including [●]][until and including [●]], subject, in each case, to adjustment in accordance with the Business Day Convention specified at paragraph 15(xix) below.] |
| | (iii) First Reset Date: | [●] |
| | (iv) Second Reset Date: | [[●]/Not Applicable] |
| | (v) Anniversary Date(s): | [[●]/Not Applicable] |
| | (vi) Reset Determination Dates: | [●] |
| | (vii) Reset Rate: | [[semi-annual][annualised]Mid-Swap Rate] [Benchmark Gilt Rate] |
| | (viii) Swap Rate Period: | [[●]/Not Applicable] |
| | (ix) Screen Page: | [ICESWAP 1]/[ICESWAP 2]/[ICESWAP 3]/[ICESWAP 4]/[ICESWAP 5]/[ICESWAP 6] / [●]/[Not Applicable] |
| | (x) Fixed Leg | [[semi-annual]/[annual] calculated on a[n Actual/365]/[30/360]/[●] day count basis]/[Not Applicable] |
| | (xi) Floating Leg | [[3]/[6]/[●]-month [LIBOR]/[EURIBOR]/[●] rate calculated on an[Actual/365]/[Actual/360]/[●] day count basis]/[Not Applicable] |
| | (xii) Margin[(s)]: | [+/-] [●] per cent. per annum |
| | (xiii) Fixed Coupon Amount[(s)] to (but excluding) the First Reset Date: | [[●] per Calculation Amount] |
| | (xiv) Broken Amount[(s)]: | [[[●] per Calculation Amount][[●] calculated by reference to the Aggregate Nominal Amount], payable |

| | | |
|---------|--------------------------------------|--|
| | | on the Interest Payment Date falling [in/on] [●]/Not Applicable] |
| (xv) | Day Count Fraction: | [Actual/365] [Actual/365 (Fixed)] [Actual/360] [30/360] [30E/360] [30E/360 (ISDA)] [Actual/Actual ICMA] |
| (xvi) | Determination Dates: | [[●] in each year/Not Applicable] |
| (xvii) | Calculation Agent: | [●] |
| (xviii) | Benchmark Determination Agent: | [●]/[Calculation Agent]/[Not Applicable] |
| (xix) | Business Day Convention: | [Floating Rate Business Day Convention]/[Following Business Day Convention (Adjusted)]/[Following Business Day Convention (Unadjusted)]/[Modified Following Business Day Convention (Adjusted)]/[Modified Following Business Day Convention (Unadjusted)]/[Preceding Business Day Convention (Adjusted)]/[Preceding Business Day Convention (Unadjusted)]/[Not Applicable] |
| (xx) | First Reset Period Fallback: | [●] |
| 16 | Floating Rate Note Provisions | [Applicable/Not Applicable] |
| (i) | Interest Period(s): | [●] |
| (ii) | Specified Interest Payment Dates: | [●][from and including [●]][until and including [●]] |
| (iii) | Interest Period Date: | [Not Applicable]/ [[●] in each year[, subject, in each case, to adjustment in accordance with the Business Day Convention specified in paragraph 16(iv) below/, not subject to any adjustment[, as the Business Day Convention in paragraph 16(iv) below is specified to be Not Applicable]] |
| (iv) | Business Day Convention: | [Floating Rate Business Day Convention]/[Following Business Day Convention (Adjusted)]/[Following Business Day Convention (Unadjusted)]/[Modified Following Business Day Convention (Adjusted)]/[Modified Following Business Day Convention (Unadjusted)]/[Preceding Business Day Convention (Adjusted)]/[Preceding Business Day Convention (Unadjusted)]/[Not Applicable] |
| (v) | Business Centre(s): | [●] |

- (vi) Manner in which the Rate(s) of Interest is/are to be determined: [Screen Rate Determination/ISDA Determination]
- (vii) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) / Calculation Agent (if not the Issuing and Paying Agent): [[●]/Not Applicable]
- (viii) Screen Rate Determination: [Applicable – Term Rate/Applicable – Overnight Rate/Not Applicable]
- Calculation Method: [Weighted Average/Compounded Daily]
 - Reference Rate: [[[●]]-month] [[[●]] LIBOR]/[EURIBOR]/ [CDOR] [SONIA]/[SOFR]
 - Interest Determination Date(s): [[●] [TARGET/[●]] Business Days [in [●]] prior to the [●] day in each Interest Accrual Period/each Interest Payment Date][[●] Business Days prior to the end of each Interest Period] [●]
 - Relevant Screen Page: [[●]/Not Applicable]
 - Relevant Time: [●]
 - Observation Method: [Lag/Lock-out]
 - Observation Look-back Period: [[●]/Not Applicable]
 - D [365/360/[●]]
- (ix) ISDA Determination: [Applicable/Not Applicable]
- Floating Rate Option: [●]
 - Designated Maturity: [●]
 - Reset Date: [●]
 - ISDA Definitions: [●]/[Not Applicable]
- (x) Linear Interpolation: [Not Applicable/Applicable – the Rate of Interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation]
- (xi) Margin[(s)]: [[+/-] [●] per cent. per annum]/[Not Applicable]
- (xii) Minimum Rate of Interest: [[●] per cent. per annum]/[Not Applicable]
- (xiii) Maximum Rate of Interest: [[●] per cent. per annum]/[Not Applicable]
- (xiv) Day Count Fraction: [Actual/365]
[Actual/365 (Fixed)]
[Actual/360]
[30/360]
[30E/360]
[30E/360 (ISDA)]

| | | |
|--|---|---|
| | | [Actual/Actual ICMA] |
| 17 | Zero Coupon Note Provisions | [Applicable/Not Applicable] |
| | (i) Amortisation Yield: | [●] per cent. per annum |
| | (ii) Amortisation Yield compounding basis: | [Compounded/Non-compounded] [annually/semi-annually/other] |
| | (iii) Reference Price: | [●] |
| | (iv) Any other formula/basis of determining amount payable: | [●] |
| PROVISIONS RELATING TO REDEMPTION | | |
| 18 | Call Option | [Applicable/Not Applicable] |
| | (i) Optional Redemption Date(s): | [●][, subject, in each case, to adjustment in accordance with the Business Day Convention specified at paragraph [14(vii)][15(xix)][16(iv)] above.] |
| | (ii) Optional Redemption Amount(s): | [[●] per Calculation Amount/Early Redemption Amount] |
| | (iii) If redeemable in part: | |
| | (a) Minimum Redemption Amount: | [●] |
| | (b) Maximum Redemption Amount: | [●] |
| | (iv) Notice period: | [●]/[Not less than five nor more than [●] days] |
| 19 | Put Option | [Applicable/Not Applicable] |
| | (i) Optional Redemption Date(s): | [●][, subject, in each case, to adjustment in accordance with the Business Day Convention specified at paragraph [14(vii)][15(xix)][16(iv)] above.] |
| | (ii) Optional Redemption Amount(s): | [[●] per Calculation Amount/Early Redemption Amount] |
| | (iii) Notice period: | [●] |
| 20 | Final Redemption Amount | [[●] per Calculation Amount/[●]] |
| 21 | Early Redemption Amount | |
| | Early Redemption Amount(s) payable on redemption for taxation reasons, or on event of default or other early redemption: | [[●] per Calculation Amount / [●]] |

GENERAL PROVISIONS APPLICABLE TO THE NOTES

- | | | |
|----|---|---|
| 22 | Form of Notes | [Bearer Notes - [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note] [Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note] [Registered Notes – Global Certificate – [Euroclear/Clearstream Luxembourg]] |
| 23 | New Global Note: | [Yes]/[No] |
| 24 | Additional Financial Centre(s) or other special provisions relating to payment dates: | [Not Applicable/[●]] |
| 25 | Talons for future Coupons to be attached to Definitive Notes (and dates on which such Talons mature): | [Yes. As the Notes have more than 27 coupon payments, [a] Talon[s] may be required if, on exchange into definitive form, more than 27 coupon payments are still to be made/No] |

THIRD PARTY INFORMATION

[(*Relevant third party information*) has been extracted from (*specify source*). The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by (*specify source*), no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of the Issuer:

By: [●]
Duly authorised

PART B – OTHER INFORMATION

1 LISTING

- (i) Listing: London
- (ii) Admission to trading: Application [has been made/is expected to be made] for the Notes to be admitted to trading on the London Stock Exchange’s Regulated Market with effect from [●].
- (iii) Estimate of total expenses related to admission to trading: [●]

2 RATINGS

- Ratings: [The Notes to be issued have not been rated.]
[The Notes to be issued [have been rated/are expected to be rated]:
[S&P: [●]]
[Moody’s: [●]]
[Fitch: [●]]]

3 [NOTIFICATION]

The [FCA acting under Part VI of the FSMA/[●]] [has been requested to provide/has provided] the [●] with a certificate of approval attesting that the Prospectus has been drawn up in accordance with the Prospectus Directive.]

4 [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE]

Save as discussed in [“Subscription and Sale”], so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the issue.]

5 [Fixed Rate Notes only – YIELD]

Indication of yield: [●]

6 [Floating Rate Notes only – HISTORICAL INTEREST RATES]

Details of historical [LIBOR/EURIBOR/SONIA/SOFR] rates can be obtained from [Reuters/[●]].]

7 OPERATIONAL INFORMATION

- ISIN: [●]
- Common Code: [●]
- CFI: [●]
- FISN: [●]
- Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking S.A. and the relevant identification number(s): [Not Applicable/[●]].
- Delivery: Delivery [against/free of] payment

| | |
|--|---|
| Names and addresses of additional Paying Agent(s) (if any): | [●]/[Not Applicable] |
| Name and address of Calculation Agent: | [●]/[Not Applicable] |
| [Intended to be held in a manner which would allow Eurosystem eligibility: | [Yes. Note that the designation “yes” simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper [(and registered in the name of a nominee of one of the ICSDs acting as common safekeeper)] [<i>include this text for registered notes</i>] and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]/ [No. Whilst the designation is specified as “no” at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of the ICSDs as common safekeeper [(and registered in the name of a nominee of one of the ICSDs acting as common safekeeper)] [<i>include this text for registered notes</i>]. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]] |
| Relevant Benchmark[s]: | [[<i>specify benchmark</i>] is provided by [<i>administrator legal name</i>]]. As at the date hereof, [[<i>administrator legal name</i>][appears]/[does not appear]] in the register of administrators and benchmarks established and maintained by ESMA pursuant to Article 36 (Register of administrators and benchmarks) of the Benchmark Regulation]/[As far as the Issuer is aware, as at the date hereof, [<i>specify benchmark</i>] does not fall within the scope of the Benchmark Regulation]/[Not Applicable] |
| 8 DISTRIBUTION | |
| U.S. Selling Restrictions: | [Reg S Category 2; TEFRA C/TEFRA D/TEFRA not applicable] |

GENERAL INFORMATION

- 1 Application has been made to the UK Listing Authority for the Notes issued under the Programme to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on its regulated market which is a regulated market for the purpose of MiFID. It is expected that each Tranche of Notes will be admitted separately as and when issued upon submission to the UK Listing Authority and to the London Stock Exchange of the relevant Final Terms and any other information required by the UK Listing Authority or any other relevant authority, subject only to the issue of a temporary or permanent Global Note (or one or more Certificates) in respect of each Tranche. The listing of the Programme in respect of the Notes is expected to be granted on or about 25 June 2019. Prior to official listing and admission to trading, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. The Issuer has obtained all necessary consents, approvals and authorisations in the United Kingdom in connection with the establishment of the Programme and the issue and performance of the Notes. The establishment of the Programme and the issue of Notes under it was authorised by resolutions of the Board dated 18 April 2019.
- 2 There has been no significant change in the financial position of the LBCM Group since 31 December 2018, the date to which the LBCM Group's last published audited financial information (as set out in the 2018 Annual Report) was prepared. There has been no material adverse change in the prospects of the Issuer since 31 December 2018, the date to which the Issuer's last published audited financial information (as set out in the 2018 Annual Report) was prepared.
- 3 There are no governmental, legal or arbitration proceedings (including any such proceedings pending or threatened of which the Issuer is aware) during the 12 months preceding the date of this Prospectus, which may have or have had in the recent past, significant effects on the financial position or profitability of the Issuer or the LBCM Group.
- 4 Each permanent and definitive Bearer Note having a maturity of more than one year, and any Coupon or Talon with respect to such a Bearer Note will bear the following legend:

“Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code”.
- 5 Notes have been accepted for clearing through the Euroclear and Clearstream, Luxembourg systems (which are the entities in charge of keeping the records). The Common Code and the International Securities Identification Number (“ISIN”) and (where applicable) the identification number for any other relevant clearing system for each Series of Notes will be set out in the relevant Final Terms. The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855 Luxembourg.
- 6 Where information in this Prospectus has been sourced from third parties this information has been accurately reproduced and as far as the Issuer is aware and is able to ascertain from the information published by such third parties no facts have been omitted which would render the reproduced information inaccurate or misleading. The source of third party information is identified where used.
- 7 For so long as Notes may be issued pursuant to this Prospectus, the following documents will be available, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection at the offices of Lloyds Bank Corporate Markets plc, 25 Gresham Street, London EC2V 7HN:
 - 7.1 the Trust Deed (which includes the form of the Global Notes, the definitive Bearer Notes, the Certificates, the Coupons and the Talons);
 - 7.2 the Agency Agreement;

- 7.3** the Articles of Association of the Issuer;
 - 7.4** the 2017 Annual Report, 2018 Annual Report and the 2018 Carve Out Financial Statements;
 - 7.5** each set of Final Terms; and
 - 7.6** a copy of this Prospectus together with any Supplemental Prospectus or drawdown prospectus and, in each case, any document incorporated by reference therein.
- 8** Unless otherwise stated in the applicable Final Terms, the Issuer does not intend to provide post-issuance information in connection with any issue of Notes.
 - 9** This Prospectus and the Final Terms for Notes that are listed on the Official List and admitted to trading on the Market will be published on the website of the Regulatory News Service operated by the London Stock Exchange at www.londonstockexchange.com.
 - 10** Copies of the latest audited consolidated Annual Reports of the Issuer and copies of the Trust Deed will be available for inspection at the specified offices of each of the Paying Agents during normal business hours, so long as any of the Notes are outstanding.
 - 11** PricewaterhouseCoopers LLP, Chartered Accountants and Statutory Auditors (members of the Institute of Chartered Accountants in England and Wales) have:
 - 11.1** audited, and rendered unqualified audit reports on, (i) the consolidated published financial statements of the Issuer for the period commencing from, and including, the incorporation of the Issuer (28 September 2016) to, and including, 31 December 2017 and (ii) the annual consolidated published financial statements of the Issuer for the financial year ended 31 December 2018; and
 - 11.2** rendered a qualified accountant's report on the 2018 Carve Out Financial Statements of the Issuer (see the Accountant's Report with respect to such financial information on pages F-99 to F-100 of this Prospectus).
 - 12** The Legal Entity Identifier (LEI) of the Issuer is 213800MBWEIJDM5CU638.

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Lloyds Bank Corporate Markets plc

Annual report and accounts
for the period ended 31 December 2017

Registered office

25 Gresham Street
London
EC2V 7HN

Registered number

10399850

Current directors

C A S Antunes da Silva
J J Cummins
M A Grant
Lord Lupton
A J McIntyre
J S W Owen
P J Piers
J L Tippin

Company Secretary

S N Slattery

Member of Lloyds Banking Group

MONDAY



LD8 *L72JDYFV* #12
26/03/2018
COMPANIES HOUSE

Lloyds Bank Corporate Markets plc

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Member of Lloyds Banking Group

Strategic report

For the period ended 31 December 2017

The directors present their Strategic report on the Company for the period from incorporation on 28 September 2016 to 31 December 2017 ("the period").

The Company has been established to be the Non Ring-Fenced bank of Lloyds Banking Group ("the Group") as a result of the central requirement of the Financial Services (Banking Reform) Act 2013 and is a wholly owned subsidiary of Lloyds Banking Group plc. Relevant activities will be transferred during 2018. The Company did not trade during the period.

Once the relevant activities have been transferred, the Company will provide a range of banking and financial services through branches and offices in the UK and overseas. Revenue will be earned through interest and fees on a range of products including loans and capital markets products to financial institutions, commercial and corporate customers.

During the period the Company issued ordinary share capital of £20,050,000, had no income or expenses and recorded no profit. The Statement of financial position consists only of Share capital and Cash and cash equivalents.

Future developments

Information about the future developments is provided within the Principal risks and uncertainties section below.

Capital position at 31 December 2017

As at 31 December 2017, the Company had a common equity tier 1 capital ratio and a total capital ratio of 200 per cent.

Capital resources of the Company comprise entirely shareholders' equity of £20,050,000. Risk-weighted assets of the Company amount to £10,025,000, reflecting credit risk arising out of Amounts due from other group undertakings.

In accordance with the Capital Requirements Directive, the Company is required to hold a minimum of €5 million (£4.4 million as at 31 December 2017) of capital, which currently exceeds its capital requirement of £0.8 million based on its risk-weighted assets. The Company's capital resources, as stated above, exceed the higher requirement.

Principal risks and uncertainties

During the period there was limited risk associated with the business of the Company, but as the relevant activities are transferred during 2018 the risk profile of the Company will change. The significant risks which could impact the delivery of the Company's strategy are associated with achieving the mobilisation conditions in the banking licence application, the successful execution of the business transfers into LBCM during 2018 and raising the required levels of funding.

The Company will ensure that its business activities are consistent with its documented strategy and reasonable expectations from the Group's external stakeholders. The Company will build and maintain open and transparent relationships with its regulators.

The Company has adopted the core risk management principles of the Group. The Company's board and senior management will be responsible for managing the Company's portfolio, the Company's Risk Appetite and the Company's Risk Profile.

Key performance indicators ("KPIs")

The Company has not traded during the period, neither have the relevant activities been transferred and therefore the Company's directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business.

The 2017 Strategic report has been approved by the board of directors.

On behalf of the board



M A Grant
Director

22 MARCH 2018

Directors' report

For the period ended 31 December 2017

The directors present their first report and the audited financial statements of the Company for the period.

General information

The Company is limited by shares, was incorporated on 28 September 2016, and is domiciled in England and Wales (registered number: 10399850). On incorporation, the Company was named 25 Gresham Finance Limited, and subsequently changed its name to Lloyds Bank Corporate Markets plc on 21 April 2017 following the passing of a special resolution on 20 April 2017 to re-register the Company as a public limited company.

The Company's sole shareholder is Lloyds Banking Group plc which, on incorporation, subscribed for 50,000 ordinary shares of £1 each. On 21 July 2017, a further 20,000,000 ordinary shares of £1 each were issued to the sole shareholder.

The Prudential Regulatory Authority ("PRA") granted to the Company a conditional banking licence with restrictions, with effect from 25 July 2017. The banking licence is expected to be de-restricted and the relevant activities transferred into the Company during 2018 and the Company has not traded during the period.

Dividends

No dividends were paid or proposed during the period.

Post balance sheet events

Details of events since the Balance sheet date are set out in note 10.

Going concern

The going concern of the Company is dependent on successfully funding its balance sheet and maintaining adequate levels of capital. In order to satisfy themselves that the Company has adequate resources to continue to operate for the foreseeable future, the directors have considered a number of key dependencies and have considered projections for the Company's capital and funding position. Taking all of these factors into account, the directors consider that it is appropriate to adopt the going concern basis in preparing the financial statements.

Directors

The current directors of the Company are shown on the front cover.

The following changes have taken place since the date of incorporation and the approval of the Annual report and accounts:

| | |
|------------------------|---|
| C A S Antunes da Silva | (appointed 14 March 2018) |
| A J M Bester | (appointed 22 March 2017, resigned 3 August 2017) |
| J J Cummins | (appointed 29 September 2017) |
| M G Culmer | (appointed 28 September 2016, resigned 3 August 2017) |
| M A Grant | (appointed 3 August 2017) |
| Lord Lupton | (appointed 3 August 2017) |
| A J McIntyre | (appointed 29 September 2017) |
| J S W Owen | (appointed 29 September 2017) |
| P J Piers | (appointed 3 August 2017) |
| J L Tippin | (appointed 14 March 2018) |

Appointment and retirement of directors

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

Company Secretary

The following changes have taken place since the date of incorporation and the approval of the Annual report and accounts:

| | |
|----------------------------|---|
| Lloyds Secretaries Limited | (appointed 28 September 2016, resigned 3 August 2017) |
| S N Slattery | (appointed 3 August 2017) |

Directors' indemnities

The directors of the Company, including the former directors who resigned during the period, have entered into individual deeds of indemnity with Lloyds Banking Group plc which constitute 'qualifying third party indemnity provisions' for the purposes of the Companies Act 2006. The Deeds indemnify the directors to the maximum extent permitted by law and remain in force for the director's period of office. The Deeds were in force from the date of appointment of directors and at the date of approval of the financial statements. Directors no longer in office but who served on the board of the Company at any time in the financial period have the benefit of this contract of indemnity during that period of service. In addition, Lloyds Banking Group plc had appropriate directors' and officers' liability insurance cover in place throughout the financial period. Deeds for existing directors are available for inspection at the registered office of Lloyds Banking Group plc.

Directors' report (continued)

For the period ended 31 December 2017

Directors' interests

The directors do not have any interest in the shares of the Company. Lord Lupton is also a director of Lloyds Banking Group plc. His interest in shares of Lloyds Banking Group plc is shown in the report and accounts of that company.

Conflicts of interest

The Board has a comprehensive procedure for reviewing and, as permitted by the Companies Act 2016 and the Company's articles of association, approving actual and potential conflicts of interest.

Directors have a continuing duty to notify the chairman and 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. In accordance with the Company's articles of association, Directors may hold a position with another company in the Lloyds Banking Group (permitted interests) and no authorisation in respect of permitted interests is required by the Board. The following interests have been disclosed:

Lord Lupton is a senior advisor 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 Non-Executive Director, Senior Independent Director and Chair of the Audit and Risk Committee of C. Hoare & Co., a UK regulated private bank; a member of a Financial Reporting Council ("FRC") sub-committee called the Financial Reporting Review Panel ("FRRP"); and has a continuing financial relationship with EY, as a former partner of the firm, in the form of a fixed annuity. The Board has recognised that potential conflicts may arise in relation to these positions, and the continuing financial relationship with EY. The Board has authorised the potential conflicts and requires Andrew McIntyre to recuse himself from discussions, should the need arise.

John Cummins has a personal investment in a Fintech company, Shieldpay, a developer and supplier of secure anti-fraud payments systems to banks and other organisations and holds the position of Managing Director for Urban Renewal and Clean Energy, Legal and General Capital, Legal and General Group plc. The Board has recognised that potential conflicts may arise and requires John Cummins to recuse himself from discussions, should the need arise.

Branches, future developments and financial risk management objectives and policies

The Company did not trade during the period and does not have any branches. Information regarding future developments and financial risk management objectives and policies of the Company 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.

Share capital

Information about share capital is shown in note 6. This information is incorporated into this report by reference. The Company issued ordinary share capital of £50,000 on 28 September 2016 and a further £20,000,000 on 21 July 2017 and did not repurchase any of its own shares during the period. There are no restrictions on the transfer of shares in the Company other than set out in the articles of association and certain restrictions which may from time to time be imposed by law and regulations. The directors manage the business of the Company under the powers set out in the Companies Act 2006 and the Company's articles of association; these powers include those in relation to the issue or buy back of the Company's shares.

Change of control

The Company is not party to any significant contracts that are subject to change of control provisions in the event of a takeover bid. There are no agreements between the Company and its Directors or employees providing compensation for loss of office or employment that occurs because of a takeover bid.

Research and development activities

The Company did not undertake any research and development activities during the period.

Employees

As at 31 December 2017, the Company did not have any employees.

Significant contracts

The Company has not entered into any significant contracts during the period.

Directors' report (continued)

For the period ended 31 December 2017

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial period. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union. 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 Company and of the profit or loss of the Company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors of the ultimate parent company are responsible for the maintenance and integrity of the of the ultimate parent company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

In the case of each director in office at the date the Directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditors

PricewaterhouseCoopers LLP was appointed as auditor of the Company on 28 October 2016 under section 485(2) of the Companies Act 2006.

A resolution will be proposed at the 2018 annual general meeting to re-appoint PricewaterhouseCoopers LLP as auditors. The Company's Audit Committee is satisfied that the external auditors are independent and effective.

On behalf of the board

P. Piers

P J Piers
Director

22 MARCH 2018

Independent auditors' report to the members of Lloyds Bank Corporate Markets plc

Report on the audit of the financial statements

Opinion

In our opinion, Lloyds Bank Corporate Markets plc's (the "Company") financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of its result and cash flows for the period starting 28 September 2016, then ended ("the period");
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and accounts (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 December 2017; the Cash Flow Statement and the Statement of Changes in Equity for the period; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the "Auditors' responsibilities for the audit of the financial statements" section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

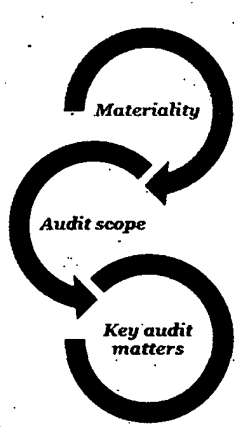
We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company, its parent undertakings or significant affiliates.

Other than those disclosed in Note 3 to the financial statements, we have provided no non-audit services to the Company in the period.

Our audit approach

Overview

| | |
|---|--|
|  | <p>Overall materiality: £200,000 based on 1% of total assets.</p> |
| | <p>The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment and other qualitative factors.</p> <p>We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the accounting processes and controls and the industry in which the Company operates.</p> <p>The Company was established in the period and has yet to commence operations. There have been limited activities to date.</p> <p>The scope of our work comprises a statutory audit of the Company's financial statements, opining on whether they have been properly prepared in accordance with the relevant accounting framework (IFRSs as adopted by the European Union) and the Companies Act 2006.</p> |
| | <p>The area of focus for our audit which involved the greatest allocation of our resources and effort was Related Party Transactions Accounting and Disclosure. This was discussed with the Audit Committee as part of our audit plan communicated in January 2018. This was the key audit matter for discussion at the conclusion of our audit and is discussed in more detail in this report.</p> |

Auditors' 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 auditors' 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 auditors' report.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We gained an understanding of the legal and regulatory framework applicable to the Company and the industry in which it operates, and considered the risk of acts by the Company which were contrary to applicable laws and regulations, including fraud.

We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

We focused on laws and regulations that could give rise to a material misstatement in the Company's financial statements, including but not limited to, the Companies Act 2006 and the Prudential Regulation Authority's regulations. Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation, review of minutes of board and committee meetings and enquiries of management.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits, we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

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

| | |
|--|---|
| Overall materiality | £200,000 |
| How we determined it | 1% of total assets |
| Rationale for benchmark applied | Total assets is an appropriate measure as, while the Company has been established and has raised equity, it has not commenced operations in the period. |

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £10,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which it operates.

The Company was established on 28 September 2016 and has a first accounting period to 31 December 2017. The Company was established in anticipation of obtaining a banking licence and had not yet commenced operations at the period end.

Key audit matters

Key audit matters are those matters that, in the auditor's professional judgement, were of most significance in the 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) identified by the auditors, including 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, and any comments we make on the results of our procedures thereon, 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. This is not a complete list of all risks identified by our audit.

| Key audit matter | How our audit addressed the key audit matter |
|--|--|
| <p><i>Related Party Transactions Accounting and Disclosure</i></p> <p>The costs incurred by Lloyds Banking Group plc in setting up and supporting the Company in the period have not been recharged to the Company.</p> <p>We have therefore evaluated the accounting treatment adopted, and the adequacy of the disclosure made in respect of these arrangements.</p> | <p>We reviewed and challenged management's assessment of the relevant services and costs and their evaluation as to whether they are related party transactions that require disclosure.</p> <p>We considered whether the arrangements should have been given an alternate accounting treatment and whether the disclosures are appropriate.</p> <p>Based on the evidence obtained and the work performed, we are satisfied that the accounting treatment and disclosures are appropriate.</p> |

Going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, 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 the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. 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 based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the period ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements (Companies Act 2006).

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 4, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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 Company'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 Company or to cease operations, or have no realistic alternative but to do so.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

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 Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

We were appointed by the directors on 28 October 2016 to audit the financial statements for the period ended 31 December 2017 and subsequent financial periods. This is therefore our first period of uninterrupted engagement.



Darren Meek (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

23 March 2018

Statement of financial position

As at 31 December 2017

| | Note | As at 31 December 2017 £'000 |
|-------------------------------------|------|------------------------------------|
| ASSETS | | |
| Cash and cash equivalents | 7 | 20,050 |
| Total assets | | 20,050 |
| EQUITY | | |
| Share capital | 6 | 20,050 |
| Retained earnings | | |
| Total equity | | 20,050 |
| Total equity and liabilities | | 20,050 |

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

The financial statements were approved by the board of directors and were signed on its behalf by:

P. Piers

P J Piers
Director

22 MARCH 2018

Statement of changes in equity

For the period ended 31 December 2017

| | Share capital £'000 | Retained earnings £'000 | Total equity £'000 |
|------------------------|---------------------------|-------------------------------|--------------------------|
| At 28 September 2016 | - | - | - |
| Issue of share capital | 20,050 | - | 20,050 |
| <hr/> | | | |
| At 31 December 2017 | 20,050 | - | 20,050 |

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

Cash flow statement

For the period ended 31 December 2017

For the period ended
31 December 2017
£'000

| | |
|---|--------|
| Cash flows generated from financing activities | |
| Issue of share capital | 20,050 |
| <hr/> | |
| Net cash generated from financing activities | 20,050 |
| <hr/> | |
| Change in Cash and cash equivalents | 20,050 |
| Cash and cash equivalents at beginning of the period | - |
| <hr/> | |
| Cash and cash equivalents at end of period | 20,050 |
| <hr/> | |
| Cash and cash equivalents comprise | |
| Cash at bank | 20,050 |
| <hr/> | |

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

Notes to the financial statements

For the period ended 31 December 2017

1. Accounting policies

1.1 Basis of preparation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006. IFRS comprises accounting standards prefixed IFRS issued by the International Accounting Standards Board (IASB) and those prefixed IAS issued by the IASB's predecessor body as well as interpretations issued by the IFRS Interpretations Committee (IFRS IC) and its predecessor body. The EU endorsed version of IAS 39 Financial Instruments: Recognition and Measurement relaxes some of the hedge accounting requirements; the Company has not taken advantage of this relaxation, and therefore there is no difference in application to the Company between IFRS as adopted by the EU and IFRS as issued by the IASB. The financial information has been prepared under the historical cost convention, as modified by the revaluation of investment properties, available-for-sale financial assets, trading securities and certain other financial assets and liabilities at fair value through profit or loss and all derivative contracts.

The going concern of the Company is dependent on successfully funding its balance sheet and maintaining adequate levels of capital. In order to satisfy themselves that the Company has adequate resources to continue to operate for the foreseeable future, the directors have considered a number of key dependencies and have considered projections for the Company's capital and funding position. Taking all of these factors into account, the directors consider that it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

Details of those pronouncements which will be relevant to the Company but which were not effective at 31 December 2017 and which have not been applied in preparing these financial statements are given in note 11. No standards have been early adopted.

A Statement of comprehensive income has not been presented in these financial statements as this would show £nil amounts for the period.

1.2 Financial assets and liabilities

Financial assets comprise Cash and cash equivalents. The Company has no financial liabilities.

Financial assets and liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are derecognised when the rights to receive cash flows, or obligations to pay cash flows, have expired.

2. Critical accounting estimates and judgements in applying accounting policies

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions. These assumptions can affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although those estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

There are no significant estimates or judgements that have been used in the preparation of these financial statements.

3. Other operating expenses

Fees payable to the Company's auditors for the audit of the financial statements of £37,500 and for non-audit services of £10,000 are borne by a fellow group company and not recharged to the Company.

4. Staff costs

The Company did not have any employees during the period.

5. Directors' emoluments

The directors' emoluments payable for services provided to the Company are set out below.

| | 2017 £'000 |
|-------------------------|---------------|
| Executive directors | 202 |
| Non-Executive directors | 213 |
| | <hr/> |
| | 415 |
| | <hr/> |
| Highest paid director: | 105 |

All amounts were paid by other Group companies and have not been charged to the Company.

Notes to the financial statements

For the period ended 31 December 2017

6. Share capital

As at 31
December 2017
£'000

| | |
|--|--------|
| Allotted, issued and fully paid 20,050,000 ordinary shares of £1 each | 20,050 |
|--|--------|

Share capital and control

There are no restrictions on the transfer of shares in the Company 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 holder of the ordinary shares, who held 100 per cent of the total ordinary share capital at 31 December 2017, is entitled to receive the Company's report and accounts, attend, speak and vote at general meetings and appoint proxies to exercise voting rights. The holder of the ordinary shares may also receive a dividend (subject to the provisions of the Company's articles of association) and on a winding up may share in the assets of the Company.

7. Related party transactions

During the period, related entities within the Lloyds Banking Group have borne the costs associated with establishing the Company and providing it with administrative support and directors' services. These costs have not been charged to the Company. Disclosures related to directors' emoluments are included in Note 5.

At year-end, the Company had the following balance on deposit with Lloyds Bank plc, which was on normal commercial terms.

As at 31
December 2017
£'000

| | |
|---|--------|
| Cash and cash equivalents held with group undertakings Lloyds Bank plc | 20,050 |
|---|--------|

8. Capital disclosures

Capital is actively managed at an appropriate level of frequency. Regulatory ratios are a key factor in budgeting and planning processes with updates of expected ratios reviewed regularly by the Asset and Liability Committee. Capital raised takes account of evolving regulatory requirements, expected growth and currency of risk assets. Capital policies and procedures are subject to independent oversight.

The Company measures the amount of capital it holds using the regulatory framework defined by the Capital Requirements Directive and Regulation (CRD IV) as implemented in the UK through Prudential Regulation Authority (PRA) policy statement PS7/13.

The minimum amount of capital required to be held by the Company under the capital regulations is the higher of the initial capital limit of €5 million (£4.4 million as at 31 December 2017) and the Company's Pillar 1 capital requirement, being 8 per cent of the Company's risk weighted assets calculated in respect of credit risk, counterparty credit risk, operational risk and market risk. As at 31 December 2017 the initial capital limit exceeded the Company's Pillar 1 capital requirement.

Under the regulatory framework Pillar 1 is supplemented through additional requirements under Pillar 2A which is set by the PRA. The Company is currently subject to a Pillar 2A capital requirement of £6.5m.

A range of additional bank specific regulatory capital buffers apply under CRD IV. These include a capital conservation buffer of 1.25 per cent of risk-weighted assets (increasing to 2.5 per cent by 2019) and a time-varying countercyclical capital buffer which is currently 0 per cent for the Company. Other capital buffers do not currently apply to the Company as they are either not applicable or are applied at the discretion of the regulator.

During the period to 31 December 2017 the Company complied with all regulatory capital requirements.

Regulatory capital development

The regulatory framework within which the Company operates continues to be developed at a global level through the Financial Stability Board (FSB) and Basel Committee on Banking Supervision (BCBS), at a European level mainly through the European Commission (EC) and the issuance of CRD IV technical standards and guidelines by the European Banking Authority (EBA) and within the UK by the PRA and through directions from the Financial Policy Committee (FPC). The Company continues to monitor these developments very closely, analysing potential capital impacts to ensure it continues to maintain a strong capital position that exceeds the minimum regulatory requirements and the Company's risk appetite and is consistent with market expectations.

Notes to the financial statements (continued)

For the period ending 31 December 2017

8. Capital disclosures (continued)

Capital resources

The Company's capital resources comprise entirely of shareholders' equity which represents the strongest form of capital and is categorised as common equity tier 1 capital.

The Company's CRD IV capital resources are:

| | As at 31 December 2017 £'000 |
|------------------------------|------------------------------------|
| Common equity tier 1 capital | 20,050 |

9. Contingent liabilities and capital commitments

There were no contingent liabilities at the balance sheet date. During 2018 relevant activities associated with the setup of the Company are expected to be transferred and such transfers are expected to be funded by borrowings from other group undertakings.

10. Post balance sheet events

The Company issued a further £100,000,000 of ordinary share capital on 19 January 2018.

11. Future developments

The following pronouncements will be relevant to the Company but were not effective at 31 December 2017 and have not been applied in preparing these financial statements.

| Pronouncement | Nature of change | Effective date |
|---|---|---|
| IFRS 9 'Financial Instruments' | Replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 requires financial assets to be classified into one of three measurement categories, fair value through profit or loss, fair value through other comprehensive income and amortised cost, on the basis of the objectives of the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instruments. IFRS 9 also replaces the existing 'incurred loss' impairment approach with an expected credit loss approach. The hedge accounting requirements of IFRS 9 are more closely aligned with risk management practices and follow a more principle based approach than IAS 39. | Annual periods beginning on or after 1 January 2018 |
| IFRS 15 'Revenue from Contracts with Customers' | Replaces IAS 18 Revenue and IAS 11 Construction Contracts. IFRS 15 establishes principles for reporting useful information about the nature, amount and uncertainty of revenue and cash flows arising from an entity's contracts with customers. | Annual periods beginning on or after 1 January 2018 |
| Amendments to other accounting standards | The IASB has issued amendments to IFRS 2 'Classification and Measurement of Share-based Payment Transactions' and IAS 40: 'Transfers of Investment Property'. | Annual periods beginning on or after 1 January 2018 |
| | The IASB has issued amendments to IAS 12 Income Taxes and IFRIC 23 Uncertainty over Income Tax Treatments. | Annual periods beginning on or after 1 January 2019 |

The full impact of future adoption of these pronouncements is being assessed by the Company. Adoption would not cause any material adjustments to the reported numbers in these financial statements.

12. Ultimate parent undertaking and controlling party

The Company'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.

Lloyds Bank Corporate Markets plc

Report and Accounts
2018

Member of Lloyds Banking Group

Lloyds Bank Corporate Markets plc
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Registered office: 25 Gresham Street, London EC2V 7HN. Registered in England no 10399850.

Strategic report

The directors present their strategic report on Lloyds Bank Corporate Markets plc (the Bank) and its subsidiary undertakings (the Group) for the year ended 31 December 2018.

The Bank and the Group provide a wide range of banking and financial services through branches and offices in the UK and overseas, with operations across the UK, the Crown Dependencies and Gibraltar, USA, Singapore and Germany. 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 Lloyds Banking Group plc (also referred to herein as LBG) along with the banking business of LBG in territories outside the EEA. The Group contributes to the financial results of the Commercial Banking Division of LBG.

Our strategic purpose as part of LBG is to Help Britain Prosper through creating a responsible business that focuses on customers' needs and delivering long-term sustainable success. Our client focussed business model provides a competitive advantage with the diversity and strength of our client franchise enabling scalable business propositions, relative cost efficiencies and resilient returns on capital deployed. We are investing in a number of technologically enabled productivity improvements that will benefit both customers and colleagues as we improve the client experience and further simplify the business model. Working with LBG teams providing services to us, we will leverage the extensive experience in delivering successful transformation programmes, contributing to the strategic priorities of providing a leading customer experience, digitising the business, maximising our capabilities and transforming ways of working.

Principal activities

Lloyds Bank Corporate Markets (LBCM) supports a diverse range of customers and provides a broad range of banking products to help them achieve their financial goals. The Group's revenue is earned through interest and fees on a range of financial services products to commercial clients including loans, deposits, trade and asset finance, debt capital markets, and derivatives; and current accounts, savings accounts, mortgages, car finance and personal loans in the Retail market in our Crown Dependencies businesses.

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

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

Future developments

The Group has a number of strategic investment programmes including investment in scalable infrastructure across the Crown Dependencies business to support client and colleague experiences whilst creating efficiencies in operating model; optimising the legal entity structure of LBCM to leverage efficiencies in capital and funding; and investing in new technology and capability within our Markets proposition worldwide to generate new revenue pools whilst also creating enhanced risk management and 'straight through processing'.

Financial performance

Relevant business and companies transferred from other parts of LBG during May to December 2018 as part of the Ring Fencing programme to establish LBCM as the Non Ring Fenced bank of LBG. This was a complex multi-year project which culminated in multiple migration events and the go live of the new Bank and Group. The board closely monitored the establishment of the new Bank and Group, and consider the successful go live a key measure of performance in the year.

Our focus on our Customers is key to the success of our strategy. We measure our success in meeting customer focussed objectives such as customer satisfaction and complaint levels through a range of customer insight and feedback including net promoter scores. Our ongoing commitment to treat customers fairly and consistently delivering great service is central to our ways of working. Other key performance indicators regularly monitored include business performance and profitability versus plan; and that appropriate levels of capital, funding and liquidity are in place in both the actual results and forward operating plan. Key metrics are noted below in tables 1 and 2.

The Income Statement for 2018 is not representative of a full year's income derived from the Group's activities due to the staggered nature of the transfers across the year. Neither the Bank nor the Group traded during 2017 and therefore there are no comparatives other than Cash and Share Capital.

During the year ended 31 December 2018, the Group recorded a profit before tax of £190 million. The board was satisfied with this result against the backdrop of challenging market conditions which led to lower levels of client markets activity. Total income was £455 million, comprising net interest income of £103 million, net fee and commission income of £121 million and net trading income of £231 million. Operating expenses were £273 million, predominantly consisting of management charges relating to the Intra Group Agreement (IGA) and staff costs paid to LBG. Credit quality across the portfolio is strong and a net impairment gain of £8 million was recognised as a result of the release of a provision in the Jersey lending business. In 2018, the Group recorded a tax expense of £37 million.

Total assets of the Group at 31 December 2018 were £78,471 million, predominantly represented by the business transferred from other LBG companies as referred to above, plus subsequent new lending. Within this total are financial assets at fair value through profit or loss of £17,171 million, derivative financial instruments of £15,867 million and financial assets at amortised cost of £29,992 million (including £20,684 million advances to customers).

Total liabilities of the Group were £74,479 million at 31 December 2018 including customer deposits of £26,870 million, financial liabilities at fair value through profit or loss of £14,008 million; derivative financial instruments of £14,511 million and debt securities in issue of £12,942 million. Total equity at the year end was £3,992 million.

Lloyds Bank Corporate Markets plc
Strategic report

Financial performance (continued)

Risk-weighted assets of the Group at 31 December 2018 were £19,868 million.

During the year the Group issued a further £100 million of ordinary share capital and received £2,975 million in capital contributions, recognised through retained earnings. Including other retained earnings, regulatory capital deductions and other regulatory adjustments, the Group's common equity tier 1 capital at 31 December 2018 was £2,723 million. The common equity tier 1 capital ratio was 13.7 per cent.

In addition, the Group issued other equity instruments totalling £782 million and dated subordinated liabilities totalling £725 million which qualify for recognition as additional tier 1 capital instruments and tier 2 capital instruments respectively, subject to certain regulatory adjustments (reflected below). The Group's tier 1 capital at 31 December 2018 was £3,480 million and the tier 1 capital ratio was 17.5 per cent. Total capital at 31 December 2018 was £4,152 million and the total capital ratio was 20.9 per cent.

Table 1: Capital resources (audited)

| | 2018 £m |
|--|---------------|
| Common equity tier 1 | |
| Shareholders' equity per balance sheet | 3,210 |
| Cash flow hedging reserve | (5) |
| Debit valuation adjustment | (71) |
| Sub-total | 3,134 |
| Less: deductions from common equity tier 1 | |
| Prudent valuation adjustment | (199) |
| Excess of expected losses over impairment provisions and value adjustments | (20) |
| Securitisation deductions | (191) |
| Deferred tax assets | (1) |
| Common equity tier 1 capital | 2,723 |
| Additional tier 1 instruments | 757 |
| Total tier 1 capital | 3,480 |
| Tier 2 instruments | 672 |
| Total capital resources | 4,152 |
| Risk-weighted assets (unaudited) | 19,868 |
| Common equity tier 1 capital ratio | 13.7% |
| Tier 1 capital ratio | 17.5% |
| Total capital ratio | 20.9% |

Table 2: Risk-weighted assets (unaudited)

| | 2018 £m |
|---|---------------|
| Foundation Internal Ratings Based (IRB) Approach | 8,287 |
| Retail IRB Approach | 22 |
| Other IRB Approach | 652 |
| IRB Approach | 8,961 |
| Standardised Approach | 3,929 |
| Total credit risk | 12,890 |
| Counterparty credit risk | 3,389 |
| Contributions to the default fund of a central counterparty | 193 |
| Credit valuation adjustment risk | 397 |
| Operational risk | 1,378 |
| Market risk | 1,607 |
| Underlying risk-weighted assets | 19,854 |
| Threshold risk-weighted assets | 14 |
| Total risk-weighted assets | 19,868 |

Strategic report

Principal risks and uncertainties

The most significant risks for the Group which could impact the delivery of our long-term strategic objectives and our approach to each risk are detailed below. These principal risks and uncertainties are reviewed and reported to Board Risk Committee regularly.

There remains continued uncertainty around both the UK and global political and macroeconomic environment. The potential impacts of external factors have been considered in all principal risks to ensure any significant uncertainties continue to be monitored and are appropriately mitigated.

As part of the LBG's ongoing assessment of the potential implications of the UK leaving the European Union, LBCM Group continues to consider the impact to its customers, colleagues and products – as well as legal, regulatory, tax, financial and capital implications.

Capital risk

The risk that we have a sub-optimal quantity or quality of capital or that capital is inefficiently deployed across the LBCM Group.

Key mitigating actions

- A comprehensive capital management framework that includes setting of capital risk appetite and dividend policy
- Close monitoring of capital and leverage ratios to ensure we meet regulatory requirements and risk appetite
- Comprehensive stress testing analyses to evidence capital adequacy

Funding and liquidity risk

The risk that we do not have sufficiently stable and diverse sources of funding. Liquidity risk is the risk we have insufficient financial resources to meet our commitments as they fall due.

Key mitigating actions

- Holding liquid assets to cover potential cash and collateral outflows and to meet regulatory requirements
- Undertaking daily monitoring against a number of market and specific early warning indicators
- Maintaining a contingency funding plan detailing actions and strategies available in stressed condition

Market risk

The risk that our capital or earnings profile is affected by adverse market rates, in particular changes in interest and foreign exchange rates (and their volatilities), inflation rates, commodity prices and credit spreads through activity in the banking and markets businesses.

Key mitigating actions

- Undertaking regular monitoring of market risk positions versus limits and triggers to ensure they remain within limits
- Mitigating actions vary depending on exposure but, in general, seek to reduce risk in a cost effective manner given market liquidity
- Structural hedge programmes implemented to manage liability margins and margin compression

Operational risk: overall

Operational risks may disrupt services to customers, cause reputational damage, and result in financial loss. These include the availability, resilience and security of our core IT systems, unlawful or inappropriate use of customer data, theft of sensitive data, fraud and financial crime threats, and the potential for failings in our customer processes.

Key mitigating actions

- Investing in enhanced cyber controls to protect against external threats to the confidentiality or integrity of electronic data, or the availability of systems, and to ensure effective third-party assurance
- Enhancing the resilience of systems that support critical business processes with independent verification of progress on an annual basis
- Significant investment in compliance with General Data Protection Regulation (GDPR) and Basel Committee on Banking Supervision standards
- Working with industry bodies and law enforcement agencies to identify and combat fraud and money laundering

Operational risk: Shared Services Model (SSM)

LBG's chosen ringfencing operating model introduces residual risk for LBCM Group in the execution of that model as a Shared Service Recipient.

Key Risk areas include:

- Key reliance on the SSM increases the prominence of internal service provision risk
- Business process risk (i.e. non-adherence to key processes, including those relating to market, operational, capital, credit 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 shared service from LBG IT
- Operational risk around business resilience, change activity and sourcing

Key mitigating actions

LBCM Group has arrangements in place to assess, monitor and take action on risks arising from the Shared Services Model. These arrangements include:

- Service performance and reporting to ensure that management Information is provided to the LBCM Group Executive to monitor and respond to the effectiveness of the service provision
- Service agreements in the form of legally binding IGAs are in place to ensure required standard for services
- Service governance arrangements are in place to ensure that LBCM can manage, monitor and escalate service risks to relevant boards
- Service audit rights are incorporated within the IGAs, allowing LBCM to audit the services provided by LBG

Lloyds Bank Corporate Markets plc
Strategic report

Principal risks and uncertainties (continued)

Credit risk

The risk that parties with whom we have contracted, fail to meet their financial obligations.

Key mitigating actions

- Credit policy, incorporating prudent lending criteria, independently set but aligned with the LBCM board-approved risk appetites, to effectively manage risk
- Robust risk assessment and credit sanctioning to ensure we lend appropriately and responsibly
- Extensive and thorough credit processes and controls to ensure effective risk identification, management and oversight
- Effective governance processes delivered by the shared service and supported by independent credit risk assurances
- Early identification of signs of stress leading to engagement with the customer

Model risk

The risk of financial loss, regulatory censure, reputational damage or customer detriment as a result of deficiencies in the development, application and on-going operation of models and rating systems.

Key mitigating actions

A comprehensive model risk management framework including:

- Defined roles and responsibilities, with clear ownership and accountability
- Principles regarding the requirements of data integrity, development, validation, implementation and on-going maintenance
- Regular model monitoring
- Independent review of models
- Periodic validation and re-approval of models

Regulatory and legal risk

The risk that LBCM Group is exposed to fines, censure, or legal or enforcement action; or to civil or criminal proceedings in the courts (or equivalent) and/or LBCM Group is unable to enforce its rights due to failing to comply with applicable laws (including codes of practice which could have legal implications), regulations, codes of conduct or legal obligations.

Key mitigating actions

- Effective, well established compliance and legal risk management policies and procedures which ensure appropriate controls and systems are in place to comply with applicable laws, rules and regulations
- Robust framework and processes in place to monitor on-going compliance with new legislation
- Continued investment in people, processes, training and IT to assess impact and help meet our legal and regulatory commitments
- Effective engagement with regulatory authorities and industry bodies on forthcoming regulatory changes, market reviews and investigations
- Effective mechanisms in place to identify, assess and monitor risks, with appropriate oversight and escalation routes in place
- Conduct on-going horizon scanning to identify and address changes on regulatory and legal requirements

Conduct risk

The risk of customer detriment due to poor design, distribution and execution of products and services or other activities which could undermine the integrity of the market or distort competition leading to unfair customer outcomes, regulatory censure and financial and reputational loss.

Key mitigating actions

- Conduct policies and procedures are in place to ensure appropriate controls and systems that deliver fair customer outcomes
- Conduct risk appetite metrics provide a granular view of how our products and services are performing for customers through the customer lifecycle
- Product approval, continuous product review processes and customer outcome testing (across products and services) supported by conduct management information
- Root cause analysis and clear customer accountabilities for colleagues, with rewards driven by customer-centric metrics
- Further enhancements and embedding of our framework to support all customers, including those in vulnerable circumstances

People risk

People risks include that we fail to maintain organisational skills, capability, resilience and capacity levels in response to organisational, political and external market change and evolving business needs.

Key mitigating actions

- Focused action to attract, retain and develop high calibre people. Delivering initiatives which reinforce behaviours to generate the best outcomes for customers and colleagues
- Managing organisational capability and capacity to ensure there are the right skills and resources to meet our customers' needs
- Effective remuneration arrangements to promote appropriate colleague behaviours and meet regulatory expectations
- Key people resources provided under the model are managed by a People Services Agreement (PSA).

Strategic report

Governance

Against a background of increased regulatory focus on governance and risk management, the most significant challenges arise from embedding the requirements arising from the implementation of Ring-Fencing legislation in January 2019 and the continuing evolution of the Senior Manager & Certification Regime (SM&CR).

Key mitigating actions

- Effective establishment, embedding and monitoring of the governance arrangements. This includes, but is not limited to, the Corporate Governance Framework (the board and its committees and the executive committees), Shared Service and Credit Governance
- On-going evolution of risk and governance arrangements to continue to be appropriately compliant with regulatory objectives

Climate change

The emerging risks associated with climate change are physical risks arising from climate and weather-related events, and transition risks, which are the financial risks resulting from the process of adjustment towards a lower carbon economy. Both of these risks may cause the impairment of asset values and impact the creditworthiness of our clients, which could result in currently profitable business deteriorating over the term of agreed facilities. Conversely propositions currently outside of appetite may constitute an acceptable opportunity in the future. There is increased focus on these risks by key stakeholders including businesses, clients and investors, and the regulatory landscape is evolving to reflect these risks.

There is also a risk that campaign groups or other bodies could seek to take legal action (including indirect action) against the Group and/or the financial services industry for investing in or lending to organisations that they deem to be responsible for, or contributing to, climate change.

Key mitigating actions

- Sustainability is part of LBG's Helping Britain Prosper Plan
- As part of LBG, we are taking a strategic approach to align with the UK Government's Clean Growth Strategy and have committed to adopting the approach set out by the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD)
- We are therefore identifying new opportunities to support customers and clients and to finance the UK's transition to a lower carbon economy
- We will embed sustainability into the way we do business and manage our own operations in a more sustainable way, identifying and managing material sustainability related risks across the Group, and disclosing these in line with the TCFD recommendations.
- We will ensure that appropriate training is provided to business and Risk colleagues to enable them to have effective sustainability conversations with their clients.

The 2018 Strategic report has been approved by the board of directors.

On behalf of the board

Mark A Grant

Director

Lloyds Bank Corporate Markets plc

23 April 2019

Lloyds Bank Corporate Markets plc
Directors' report

The directors present their report for the year ended 31 December 2018.

Results

The consolidated income statement on page 19 shows a statutory profit before tax from continuing operations for the year ended 31 December 2018 of £190 million (period ended 31 December 2017: £nil).

Dividends

During the year the Bank paid no dividends. The directors have not recommended a final dividend for the year ended 31 December 2018.

Post balance sheet events

Details of events since the balance sheet date are set out in note 38 on page 79.

Going concern

The going concern of the Bank and the 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 the Group have adequate resources to continue to operate for the foreseeable future, the directors have considered the principal risks and uncertainties and capital position set out in the Strategic report on pages 1 to 5 and additionally have considered projections for the Bank's and the Group's capital and funding position. The directors conclude that the Bank and the 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.

Directors

The names of the current directors are shown on page 9. Changes to the composition of the board since 1 January 2018 up to the date of this report are shown in the table below:

| | Joined the board | Resigned from the board |
|----------------------------|---------------------------|--------------------------|
| Carla A S Antunes da Silva | appointed 14 March 2018 | |
| Jennifer L Tippin | appointed 14 March 2018 | |
| Philip J Piers | | resigned 31 January 2019 |
| Christopher J K Edis | appointed 1 February 2019 | |

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 shareholders in a general meeting.

Information included in the Strategic report

The disclosures for Principal risks and uncertainties and key performance indicators that would otherwise be required to be disclosed in the Directors' report can be found in the Strategic report on pages 1 to 5.

Directors' indemnities

The directors of the Bank, including the former director who retired after the year end, have entered into individual deeds of indemnity with LBG which constituted 'qualifying third party indemnity provisions' for the purposes of the Companies Act 2006. The deeds indemnify the directors to the maximum extent permitted by law and remain in force. The deeds were in force during the whole of the financial year or from the date of appointment in respect of the directors appointed in 2018 and 2019. In addition, LBG had appropriate Directors' and Officers' liability insurance cover in place throughout 2018.

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 the LBG's subsidiary companies, including former directors who retire during the year, and to colleagues of the Group subject to the provisions of the Senior Managers and Certification Regime. Such deeds were in force during the financial year ended 31 December 2018 and remain in force as at the date of this report.

Directors' interests

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

Conflicts of interest

The board has a comprehensive procedure for reviewing and, as permitted by the Companies Act 2006 and the Bank's articles of association, approving actual and potential conflicts of interest. Directors have a continuing duty to notify the Chairman 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 advisor 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.

Lloyds Bank Corporate Markets plc
Directors' report

Conflicts of interest (continued)

Andrew McIntyre is Non-Executive Director, Senior Independent Director and Chair of the Audit and Risk Committee of C. Hoare & Co., a UK regulated private bank; a member of a Financial Reporting Council ("FRC") sub-committee called the Financial Reporting Review Panel ("FRRP"); Non-Executive director and Chair of Audit Committee of National Bank of Greece S.A; and has a continuing financial relationship with EY, as a former partner of the firm, in the form of a fixed annuity. The board has recognised that potential conflicts may arise in relation to these positions, and the continuing financial relationship with EY. The board has authorised the potential conflicts and requires Andrew McIntyre to recuse himself from discussions, should the need arise.

John Cummins is Managing Director for Urban Renewal and Clean Energy, Legal & General Capital plc and in that role has been appointed as a director of two joint ventures with Legal & General plc and has been appointed director and trustee of Centre for Cities, a charitable company limited by guarantee set up as a think tank to improve the performance of UK city economies and conduct research into urban matters. In addition, John Cummins has personal investments in a Fintech company, Shieldpay, a developer and supplier of secure anti-fraud payment systems to banks and other organisations; and Auden Group Limited, a social lending company. The board has recognised that potential conflicts may arise as a result of these positions. The board has authorised the potential conflicts and requires John Cummins to recuse himself from discussions, should the need arise.

Jennifer Tippin is Group People and Productivity Director for Lloyds Banking Group and is a member of the Group Executive Committee (GEC). This role is a permitted interest under the Bank's articles of association but for the sake of good order the board has authorised the potential conflicts that may arise as a result of this role and requires Jennifer Tippin to recuse herself from discussions, should the need arise. Jennifer Tippin does not act as a representative of the Group shareholder in her role as a Non-executive director on the Bank's board.

Carla Antunes da Silva is Group Strategy, Corporate Ventures and Investor Relations Director for Lloyds Banking Group and is an attendee of the GEC. This role is a permitted interest under the Bank's articles of association but for the sake of good order the board has authorised the potential conflicts that may arise as a result of this role and requires Carla Antunes da Silva to recuse herself from discussions, should the need arise. Carla Antunes da Silva does not act as a representative of the Group shareholder in her role as a Non-executive director on the Bank's board.

Branches, future developments and financial risk management objectives and policies

The Bank provides a wide range of banking and financial services through branches and offices in the UK and overseas. Information regarding future developments and financial risk management objectives and policies of the Group 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.

Share capital

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

The Bank issued ordinary share capital of £100 million on 18 January 2018 and did not repurchase any of its own shares during the year. 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.

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.

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.

Research and development activities

The Bank did not undertake any research and development activities during the year.

Employees

The Group employed an average of 624 colleagues during 2018 (2017: nil). This represents colleagues based in Singapore, USA, Gibraltar and the Crown Dependencies. UK based colleagues are employed through other LBG companies and costs recharged via the IGA. Information concerning the employees of Lloyds Banking Group is available in the annual report and accounts of LBG (see note 40 below).

Significant contracts

The Group has entered into a shared service contract with Lloyds Bank plc for the provision of services (refer to note 7).

Details of related party transactions are set out in note 30 on pages 52 to 53.

Directors' report

Statement of directors' responsibilities

The directors are responsible for preparing the Annual report and accounts in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have prepared the Bank and Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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: select suitable accounting policies and then apply them consistently; make judgements and accounting estimates that are reasonable and prudent; and state whether applicable IFRSs as adopted by the European Union have been followed.

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 and, as regards the Group financial statements, Article 4 of the IAS Regulation. 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. The directors are responsible for the maintenance and integrity in relation 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 are shown on page 9 of this annual report, confirms that, to the best of his or her knowledge:

- the financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities and financial position and the profit or loss of the Bank and the Group; and
- the Strategic report and the Directors' report include a fair review of the development and performance of the business and the position of the Bank and Group, together with a description of the principal risks and uncertainties that they face.

The directors consider that the Annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Bank's 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 of which the Bank's auditors are 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 auditors are aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of the Companies Act 2006.

A resolution will be proposed at the 2019 annual general meeting to re-appoint PricewaterhouseCoopers LLP as auditors. The Bank's Audit Committee is satisfied that the external auditors remain independent and effective.

The financial statements were approved by the board of directors and signed on its behalf by:

Christopher J K Edis

Director
23 April 2019

Lloyds Bank Corporate Markets plc
Registered in England & Wales
Company Number 10399850

Lloyds Bank Corporate Markets plc
Directors

| | |
|----------------------------|---|
| John J Cummins | <i>Non-executive director</i> |
| Christopher J K Edis | <i>Executive director and Chief Financial Officer</i> |
| Mark A Grant | <i>Executive director and Chief Executive Officer</i> |
| Lord Lupton | <i>Non-executive director and Chairman</i> |
| Andrew J McIntyre | <i>Non-executive director</i> |
| John S W Owen | <i>Non-executive director</i> |
| Carla A S Antunes da Silva | <i>Non-executive director</i> |
| Jennifer L Tippin | <i>Non-executive director</i> |

Lloyds Bank Corporate Markets plc
Forward looking statements

This Annual Report contains certain forward looking statements with respect to the business, strategy, plans and/or results of the Lloyds Bank Corporate Markets Group and its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about the Lloyds Bank Corporate Markets Group's or its directors' and/or management's beliefs and expectations, are forward looking statements. Words such as 'believes', 'anticipates', 'estimates', 'expects', 'intends', 'aims', 'potential', 'will', 'would', 'could', 'considered', 'likely', 'estimate' and variations of these words and similar future or conditional expressions are intended to identify forward looking statements but are not the exclusive means of identifying such statements. 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.

Examples of such forward looking statements include, but are not limited to: projections or expectations of the Lloyds Bank Corporate Markets 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 Lloyds Bank Corporate Markets Group's future financial performance; the level and extent of future impairments and write-downs; statements of plans, objectives or goals of the Lloyds Bank Corporate Markets Group or its management including in respect of statements about the future business and economic environments in the UK and elsewhere including, but not limited to, future trends in interest rates, foreign exchange rates, credit and equity market levels and demographic developments; statements about competition, regulation, disposals and consolidation or technological developments in the financial services industry; and statements of assumptions underlying such statements.

Factors that could cause actual business, strategy, plans and/or results (including but not limited to the payment of dividends) to differ materially from forward looking statements made by the Lloyds Bank Corporate Markets Group or on its behalf include, but are not limited to: general economic and business conditions in the UK and internationally; market related trends and developments; fluctuations in interest rates, inflation, exchange rates, stock markets and currencies; the ability to access sufficient sources of capital, liquidity and funding when required; changes to the Lloyds Bank Corporate Markets Group's or Lloyds Banking Group plc's credit ratings; the ability to derive cost savings and other benefits including, but without limitation as a result of any acquisitions, disposals and other strategic transactions; changing customer behaviour including consumer spending, saving and borrowing habits; changes to borrower or counterparty credit quality; instability in the global financial markets, including Eurozone instability, instability as a result of the exit by the UK from the European Union (EU) and the potential for other countries to exit the EU or the Eurozone and the impact of any sovereign credit rating downgrade or other sovereign financial issues; technological changes and risks to the security of IT and operational infrastructure, systems, data and information resulting from increased threat of cyber and other attacks; natural, pandemic and other disasters, adverse weather and similar contingencies outside the Lloyds Bank Corporate Markets Group's or Lloyds Banking Group plc's control; inadequate or failed internal or external processes or systems; acts of war, other acts of hostility, terrorist acts and responses to those acts, geopolitical, pandemic or other such events; changes in laws, regulations, accounting standards or taxation, including as a result of the exit by the UK from the EU, or a further possible referendum on Scottish independence; changes to regulatory capital or liquidity requirements and similar contingencies outside the Lloyds Bank Group's or Lloyds Banking Group plc's control; the policies, decisions and actions of governmental or regulatory authorities or courts in the UK, the EU, the US or elsewhere including the implementation and interpretation of key legislation and regulation together with any resulting impact on the future structure of the Lloyds Bank Group; the ability to attract and retain senior management and other employees and meet its diversity objectives; actions or omissions by the Lloyds Bank Group's directors, management or employees including industrial action; changes to the Lloyds Bank Group's post-retirement defined benefit scheme obligations; the extent of any future impairment charges or write-downs caused by, but not limited to, depressed asset valuations, market disruptions and illiquid markets; the value and effectiveness of any credit protection purchased by the Lloyds Bank Group; the inability to hedge certain risks economically; the adequacy of loss reserves; the actions of competitors, including non-bank financial services, lending companies and digital innovators and disruptive technologies; and exposure to regulatory or competition scrutiny, legal, regulatory or competition proceedings, investigations or complaints. Please refer to the latest Annual Report on Form 20-F filed by Lloyds Banking Group plc with the US Securities and Exchange Commission for a discussion of certain factors together with examples of forward looking statements.

Lloyds Banking Group may also make or disclose written and/or oral forward looking statements in reports filed with or furnished to the US Securities and Exchange Commission, Lloyds Banking Group annual reviews, half-year announcements, proxy statements, offering circulars, prospectuses, press releases and other written materials and in oral statements made by the directors, officers or employees of Lloyds Banking Group to third parties, including financial analysts.

Except as required by any applicable law or regulation, the forward looking statements contained in this Annual Report are made as of the date hereof, and Lloyds Bank Corporate Markets Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statements contained in this Annual Report to reflect any change in the Lloyds Bank Group's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. The information, statements and opinions contained in this Annual Report 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.

Lloyds Bank Corporate Markets plc
Independent auditors' report

Independent auditors' report to the members of Lloyds Bank Corporate Markets plc

Report on the audit of the financial statements

Opinion

In our opinion, Lloyds Bank Corporate Markets plc's group (the "Group") financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's and of the company's affairs as at 31 December 2018 and of the Group's profit and the Group's and the company's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Report and Accounts (the "Annual Report"), which comprise: the Group and company balance sheets as at 31 December 2018; the Group consolidated income statement, the Group and company statements of comprehensive income, the Group and company cash flow statements, and the Group and company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the company.

Other than those disclosed in note 7 to the financial statements, we have provided no non-audit services to the Group or the company in the period from 1 January 2018 to 31 December 2018.

Our audit approach

Context

During the year, the Group and company acquired certain subsidiaries and business activities from affiliated entities in the Lloyds Banking Group, in readiness for compliance with the UK Financial Services (Banking Reform) Act 2013 ring-fencing requirements on 1 January 2019.

As at the year-end date, the Group operates across a number of territories including the UK, the Crown Dependencies and Gibraltar, Singapore and the USA. The company operates across the UK, Singapore and the USA. The Group and company receive considerable operational support through shared service arrangements with other parts of the Lloyds Banking Group.

Lloyds Bank Corporate Markets plc
Independent auditors' report

Overview

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|-------------------|---|
| Materiality | <ul style="list-style-type: none"> • Overall Group materiality: £34 million (2017: N/A), based on 1% of capital resources. • Overall company materiality: £34 million (2017: £0.2 million), based on 1% of capital resources. • Specific materiality applied to the Group Income Statement: £17 million. • Specific materiality applied to the company income statement: £17 million |
| Audit scope | <ul style="list-style-type: none"> • The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment, the financial significance of components and other qualitative factors (including history of misstatement through fraud or error). • We performed full scope audit procedures over components considered financially significant in the context of the Group and the company. These comprised components in the UK, Jersey and the USA. We performed other procedures including testing entity level controls, information technology general controls and analytical review procedures to mitigate the risk of material misstatement in the residual components. |
| Key audit matters | <ul style="list-style-type: none"> • Expected credit loss allowances (Group and company). • Valuation of complex financial instruments (Group and company). • Accounting for the business acquisitions made in the year and certain funding transactions (Group and company). • Privileged access to IT systems (Group and company). |

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of banking laws and regulations such as, but not limited to, regulations relating to consumer credit and unethical and prohibited business practices, the regulations of the Financial Conduct Authority, Prudential Regulation Authority, UK tax legislation, equivalent laws are regulations applicable to significant component teams, and those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006 and the UK Financial Services (Banking Reform) Act 2013.

We considered the extent to which non-compliance might have a material effect on the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates and significant one-off or unusual transactions. The Group and company engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the Group and company engagement team and/or component auditors included:

- Discussions with management and those charged with governance including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluation and testing of the operating effectiveness of management's entity level controls designed to prevent and detect irregularities, in particular their code of conduct and whistleblowing helpline;
- Assessment of matters reported on the Group's whistleblowing helpline and the results of management's investigation of such matters;
- Performing testing over period end adjustments;
- Incorporating unpredictability into the nature, timing and/or extent of our testing;
- Reviewing key correspondence with the PRA, FCA, Federal Reserve, Department of Financial Services for New York State, the Jersey Regulator and other regulators;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to expected credit loss allowances and valuation of complex financial instruments (see related key audit matters below); and
- Identifying and testing journal entries, in particular any manual journal entries posted by infrequent users or senior management, posted on unusual days, posted with descriptions indicating a higher level of risk, or posted late with a favourable impact on financial performance.

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There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the 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) identified by the auditors, including 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, and any comments we make on the results of our procedures thereon, 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. This is not a complete list of all risks identified by our audit.

| Key audit matter | How our audit addressed the key audit matter |
|--|---|
| <p>Expected credit loss allowances</p> <p>Group and company</p> <p>Refer to page 29 (Accounting Policies) and page 32 to 34 (Critical Accounting Estimates and Judgements).</p> <p>The determination of expected credit loss allowances is subjective and judgmental. There are a number of judgements and assumptions reflected in the financial statements, including the application of forward looking economic scenarios and identification of significant increases in credit risk.</p> <p><i>Use of economic scenarios</i></p> <p>Management's economics team develops future economic scenarios by using a statistical model and a number of qualitative factors. Four scenarios are chosen from the model output which represent distinct economic scenarios and sensitivities of historical loss experience. These four scenarios together with relative weightings are then provided to the Group for incorporation into the Stage allocation process and the calculation of expected credit loss allowances.</p> <p><i>Determination of the expected credit loss allowances</i></p> <p>An expected credit loss allowance is determined on loans and advances which are not classified as being credit impaired at the reporting date (referred to as being in Stages 1 and 2) using the statistical model based on key assumptions including significant increase in credit risk criteria (which determines whether a loan is in Stage 1 or 2), probability of default and loss given default. The expected credit loss calculation model is separate to the underlying loan systems, hence the complete and accurate transfer of data into the model is an important step in ensuring the integrity of the calculation of the expected credit loss.</p> <p>Expected credit loss allowances relating to credit impaired loans and advances (referred to herein also as being in Stage 3) are estimated on an individual basis. Judgement is required to determine when a loan is considered to be credit impaired, and then to estimate the expected credit loss based on expected future cash flows related to that loan under multiple weighted scenario outcomes.</p> | <p><i>Use of economic scenarios</i></p> <p>We evaluated management's process and tested key controls relating to the generation, selection and weighting applied to economic scenarios.</p> <p>We found these key controls were designed, implemented and operated effectively, and therefore determined that we could place reliance on these key controls for the purposes of our audit.</p> <p>We engaged our internal economic experts as well as actuarial modelling specialists to assist us as we considered:</p> <ul style="list-style-type: none"> - The identification and use of appropriate external economic data; - The operation of the management's internally developed statistical model; - The approach to selection of economic scenarios representing an upside, downside and severe downside in addition to the base case scenario used for internal planning; and - The review, challenge and approval of the scenarios adopted through the governance process. <p>We critically assessed the assumptions adopted in the base case economic scenario and compared this both to our independent view of the economic outlook as well as market consensus, and investigated economic variables outside of our thresholds. We assessed the risk of bias in the forecasts, as well as the existence of contrary evidence. We considered the political uncertainties that existed at the year-end and how these might impact on the economic scenarios selected.</p> <p>We also independently ran the model and performed testing to evaluate the level of non-linearity reflected in the expected credit loss allowances.</p> <p>Based on the evidence obtained, we consider that the economic scenarios adopted and the associated weightings reflect an unbiased, probability weighted view that appropriately captures the impact of non-linearity.</p> <p><i>Expected losses on Stage 1 and 2 positions</i></p> <p>We understood management's process and tested key controls around the determination of expected credit loss allowances, including controls relating to:</p> <ul style="list-style-type: none"> - Appropriateness of modelling methodologies and monitoring of model performance; - Periodic model review, validation and approval; - The identification of credit impairment events; and - The review, challenge and approval of the expected credit loss allowances, including the impairment model outputs and key management judgements. |

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| | <p>We found these key controls were designed, implemented and operated effectively, and therefore determined that we could place reliance on these key controls for the purposes of our audit.</p> <p>We understood and assessed the appropriateness of the impairment models developed and used by management. This included assessing and challenging the appropriateness of key modelling judgements (including, for example, the criteria used to determine significant increase in credit risk) and quantifying the impact of the use of proxies and simplifications, assessing whether these were appropriate.</p> <p>We tested the completeness and accuracy of key data inputs, sourced from underlying systems that are applied in the calculation. We tested the reconciliation of loans and advances between underlying source systems and the expected credit loss models.</p> <p>We tested the formulae applied within the calculation files.</p> <p>We used credit risk modelling specialists to support the audit team in the performance of these audit procedures.</p> <p><i>Expected losses on Stage 3 positions</i></p> <p>We performed the following procedures to test the completeness of credit impaired assets requiring a Stage 3 expected credit loss allowance:</p> <ul style="list-style-type: none"> - We critically assessed the criteria for determining whether a credit impairment event had occurred; - We haphazardly tested a sample of Stage 1 and 2 loans. For each sample, we independently assessed whether they had indicators of a credit impairment event (e.g. a customer experiencing financial difficulty or in breach of covenant) and therefore whether they were appropriately categorised. <p>For a sample of stage 3 credit impaired loans, we:</p> <ul style="list-style-type: none"> - Evaluated the basis on which the allowance was determined, and the evidence supporting the analysis performed by management; - We independently challenged whether the key assumptions used, such as the recovery strategies, collateral rights and ranges of potential outcomes, were appropriate, given the borrower's circumstances; and - Re-performed management's allowance calculation, testing key inputs including expected future cash flows, discount rates, valuations of collateral held and the weightings applied to scenario outcomes. <p>Based on the evidence obtained, we concluded that the methodologies, modelled assumptions, management judgements and data used within the allowance assessment to be appropriate and compliant with the requirements of IFRS 9.</p> |
| <p>Valuation of complex financial instruments</p> <p>Group and company</p> <p>Refer to pages 27 (Accounting Policies), page 56 (Note 32) and page 32 (Critical Accounting Estimates and Judgements).</p> <p>The Group and company hold a portfolio of fair value assets and liabilities classified as level 3 instruments as valuations are subjective and determined using bespoke models which rely on a range of unobservable inputs.</p> <p>The Group and company also apply credit, debit and funding valuation adjustments to uncollateralised derivative positions. Certain unobservable inputs are used to calculate these adjustments.</p> | <p>We understood and tested the key controls around the valuation processes including the independent price verification and valuation governance controls.</p> <p>Our testing indicated that these key controls were designed, implemented and operated effectively, and we therefore determined that we could place reliance on these key controls for the purposes of our audit.</p> <p>With the support of valuation specialists in the audit team, we performed the following testing:</p> <ul style="list-style-type: none"> - Tested the completeness of the level 3 population through review and testing of the methodology to identify level 3 products; - Tested the completeness of the uncollateralised derivatives population used for the valuation adjustments by reconciling to the source systems; |

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| | <ul style="list-style-type: none"> - Evaluated the appropriateness of the valuation methodologies and tested their application; - Evaluated key inputs and assumptions, with reference to matters including historic performance and market information and perspectives; and - Assessed the appropriateness of the methodology used in calculating credit, debit and funding valuation adjustments and tested their application. <p>Based on the evidence obtained, we determined that the methodologies, inputs and assumptions are appropriate.</p> |
| <p>Accounting for the business acquisitions made in the year and certain funding transactions Group and company</p> <p>Refer to page 32 (Critical accounting estimates and judgements).</p> <p>During the year, the Group and company acquired certain subsidiaries and business activities from affiliated companies within the Lloyds Banking Group.</p> <p><i>Accounting judgement</i></p> <p>Accounting for the transactions requires the application of judgement, notably with regard to the determination of the nature of the transactions and accounting for any deferred valuation reserves on the acquired activities (i.e. the Fair Value through Other Comprehensive Income and Foreign Currency Translation Reserves).</p> <p>Judgement was also required to determine the appropriate accounting for the initial capital contributed to the company, of £2.975m.</p> <p><i>Operational complexity</i></p> <p>There was operational complexity in effecting the transfers which increased the risk of error in the accounting.</p> | <p><i>Accounting judgements</i></p> <p>We evaluated the following accounting judgements with support from our internal accounting specialists:</p> <ul style="list-style-type: none"> - Whether the transferred activities met the definition of a business under accounting standards; - The treatment of the Fair Value through Other Comprehensive Income and Foreign Currency Translation Reserves, being that the Group and company recognise any amounts that the transferor had previously accumulated in respect of the transferred activities, with a corresponding adjustment to retained earnings; and - Whether the capital contributions recorded by the company had been appropriately recognised. <p>We tested that the accounting treatments determined were appropriately applied in the financial statements.</p> <p><i>Operational complexity</i></p> <p>We evaluated and tested the key controls around the transfer of the activities, including the reconciliation controls supporting the completeness and accuracy of the transfers, impairment and valuation controls supporting the values at which positions were transferred and the reconciliation controls over the cash settlements.</p> <p>Our testing indicated that these key controls were designed, implemented and operated effectively, and therefore determined that we could place reliance on them for the purposes of our audit.</p> <p>We performed the following procedures over the transferred activities:</p> <ul style="list-style-type: none"> - Tested the valuation of positions at transfer date to assess whether they were consistent with predecessor values; - Tested relevant cash and transfer reconciliations; - Tested whether the cash consideration paid for the transfers was equivalent to book value; and - Tested the journals to recognise the transferred activities. <p>Based on the evidence obtained, we found that the transferred activities are appropriately reported in the financial statements.</p> |
| <p>Privileged access to IT systems Group and company</p> <p>The Group's financial reporting processes are reliant on automated processes, controls and data managed by IT systems. These processes, and associated controls, are largely provided and operated by the Lloyds Banking Group as part of the shared service arrangement.</p> <p>As part of our audit work we identified control matters in relation to the management of IT privileged access to IT platforms supporting applications in-scope for financial reporting. While there is an ongoing programme of activities to address such</p> | <p>With the support of IT audit specialists in the audit team, we evaluated and tested the design and operating effectiveness of the key controls, which are provided through the shared service arrangement, that are used to manage IT privileged access across the in-scope IT platforms relevant to the Group. We tested controls over:</p> <ul style="list-style-type: none"> - The completeness and accuracy of the Access Controls Lists (ACLs) from IT platforms that are used by downstream IT security processes; - The on boarding and management of IT privileged accounts through the privileged access restriction tool (including static IT privileged accounts); |

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| <p>control matters, the fact that these were open during the period meant there was a risk that automated functionality, reports and data from the systems were not reliable.</p> | <ul style="list-style-type: none"> - The monitoring of security events on IT platforms by the Security Operations Centre; and - The approval, recertification and timely removal of access from IT systems. <p>This work identified a number of IT privileged accounts that had not been on boarded to the privileged access restriction tool as at 31 December 2018.</p> <p>Consequently, we performed an assessment of each of the areas within our audit approach where we seek to place reliance on automated functionality and data within relevant IT systems. In each case we identified a combination of mitigating controls, performed additional audit procedures and assessed other mitigating factors in order to respond to the impact on our overall audit approach.</p> |
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How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the company, the accounting processes and controls, and the industry in which they operate.

The Group and company operate in a number of territories as described in the Context. The Group and company receive considerable operational support through shared service arrangements with other parts of the Lloyds Banking Group.

Any components which were considered individually financially significant in the context of the Group's consolidated financial statements (defined as components that represent more than or equal to 10% of the total assets of the consolidated Group) were considered full scope components. This included the commercial lending and financial markets businesses in the UK, the company's US branch and Lloyds Bank International Limited (a wholly owned subsidiary incorporated in Jersey).

In establishing the overall approach to the Group audit, we determined the type of work that is required to be performed over the components by us, as the Group and company engagement team, or auditors within PwC UK and from other PwC network firms operating under our instruction ('component auditors').

Where the work was performed by component auditors, we determined the level of involvement we needed to have in their audit work to be able to conclude whether sufficient appropriate audit evidence has been obtained as a basis for our opinion on the consolidated financial statements as a whole. This included regular communication with the component auditors throughout the audit, the issuance of instructions, a review of the results of their work on the key audit matters, site visits and attendance at formal clearance meetings.

We considered the individual financial significance of other components in relation to primary statement account balances. We considered the presence of any significant audit risks and other qualitative factors (including history of misstatements through fraud or error). Any component which was not already included as a full scope audit component but was identified as being individually financially significant in respect of one of more account balances was subject to specific audit procedures over those account balances. Inconsequential components (defined as components which, in our judgement, did not represent a reasonable possibility of a risk of material misstatement either individually or in aggregate) were eliminated from further consideration for specific audit procedures although they were subject to Group and company level analytical review procedures.

All remaining components which were neither inconsequential nor individually financially significant were subject to procedures which mitigated the risk of material misstatement including testing of entity level controls, information technology general controls and Group and component level analytical review procedures.

Certain account balances were audited centrally by the Group and company engagement team. In addition, we performed testing over certain activities and controls operating in the shared service centres across the Lloyds Banking Group.

Components within the scope of our audit contributed 98% of Group total assets and 92% of Group total income.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

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

| | Group financial statements | Company financial statements |
|--|--|---|
| Overall materiality | £34 million (2017: N/A). | £34 million (2017: £0.2 million). |
| How we determined it | 1% of capital resources. | 1% of capital resources. |
| Rationale for benchmark applied | Capital resources is used as a benchmark as it is a primary focus for the users of the financial statements. Specific materiality for the Group Income Statement is £17 million, determined with reference to Overall materiality (as above) and the point during the year at which the acquisitions of business, including the subsidiaries, took place. | Capital resources is used as a benchmark as it is a primary focus for the users of the financial statements. Specific materiality for the company income statement is £17 million, determined with reference to Overall materiality (as above) and the point during the year at which the acquisitions of business took place. |

For each component in the scope of our Group and company audits, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £25 million and £34 million. Specific materiality allocated for the income statement was between £12.5 million and £17 million. Certain components were audited to a local statutory audit materiality that was also less than the allocated materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £1.7 million (Group) (2017: N/A) and £1.7 million (Company) (2017: £10,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's and company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Group's and company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, 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 the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. 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 based on these responsibilities.

With respect to the Strategic Report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' report.

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Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities set out on page 8, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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 company'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 company or to cease operations, or have no realistic alternative but to do so.

Auditors' 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 auditors' 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 auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

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 company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the directors on 28 September 2016 to audit the financial statements for the year ended 31 December 2017 and subsequent financial periods. The period of total uninterrupted engagement is 2 years, covering the years ended 31 December 2017 to 31 December 2018.

Darren Meek (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
24 April 2019

Lloyds Bank Corporate Markets plc
Consolidated income statement
For the year ended 31 December 2018

| | Note | 2018 £m |
|--|------|------------|
| Interest and similar income | | 354 |
| Interest and similar expense | | (251) |
| Net interest income | 4 | 103 |
| Fee and commission income | | 148 |
| Fee and commission expense | | (27) |
| Net fee and commission income | 5 | 121 |
| Net trading income | 6 | 231 |
| Other income | | 352 |
| Total income | | 455 |
| Operating expenses | 7 | (273) |
| Trading surplus | | 182 |
| Impairment credit | 8 | 8 |
| Profit before tax | | 190 |
| Tax expense | 10 | (37) |
| Profit for the year | | 153 |
| <hr/> | | |
| Profit attributable to ordinary shareholders | | 135 |
| Profit attributable to other equity holders | | 18 |
| Profit for the year | | 153 |

No comparative information is presented as the Group did not trade in the prior period.

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

Lloyds Bank Corporate Markets plc
Statements of comprehensive income
For the year ended 31 December 2018

| Note | The Group 2018 £m | The Bank 2018 £m |
|--|----------------------------------|---------------------------------|
| Profit for the year | 153 | 106 |
| Other comprehensive income | | |
| <i>Items that may subsequently be reclassified to profit or loss:</i> | | |
| Movements in revaluation reserve in respect of fair value through other comprehensive income assets (debt securities): | | |
| Change in fair value | (11) | (11) |
| Tax | 4 | 4 |
| | (7) | (7) |
| Movements in cash flow hedging reserve: | | |
| Effective portion of changes in fair value taken to other comprehensive income | 6 | 6 |
| Net income statement transfers | - | - |
| Tax | (1) | (1) |
| | 5 | 5 |
| Movements in foreign currency translation : | | |
| Currency translation differences, (tax: nil) | 2 | - |
| Other comprehensive income for the year, net of tax | - | (2) |
| Total comprehensive income for the year | 153 | 104 |
| Total comprehensive income attributable to ordinary shareholders | 135 | 86 |
| Total comprehensive income attributable to other equity holders | 18 | 18 |
| Total comprehensive income for the year | 153 | 104 |

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

No comparatives are presented as neither the Group or Bank traded in the prior period

Balance sheets

As at 31 December 2018

| | Note | The Group | The Bank | The Bank |
|---|------|-------------------------|------------------------|------------------------|
| | | 2018 £m | 2018 £m | 2017 £m |
| Assets | | | | |
| Cash and balances at central banks | 11 | 14,448 | 14,441 | 20 |
| Items in the course of collection from banks | | 2 | - | - |
| Financial assets at fair value through profit or loss | 12 | 17,171 | 17,092 | - |
| Derivative financial instruments | 13 | 15,867 | 15,921 | - |
| Loans and advances to banks | 14 | 2,583 | 2,561 | - |
| Loans and advances to customers | 14 | 20,684 | 17,036 | - |
| Debt securities | 14 | 132 | 132 | - |
| Due from fellow Lloyds Banking Group undertakings | 14 | 6,593 | 1,388 | - |
| Financial assets at amortised cost | 14 | 29,992 | 21,117 | - |
| Financial assets at fair value through other comprehensive income | 17 | 412 | 412 | - |
| Property, plant and equipment | 18 | 15 | 6 | - |
| Deferred tax asset | 21 | 6 | 4 | - |
| Investment in subsidiary undertakings of the Bank | 19 | - | 908 | - |
| Other assets | 20 | 558 | 533 | - |
| Total assets | | 78,471 | 70,434 | 20 |
| Equity and liabilities | | | | |
| | Note | The Group 2018 £m | The Bank 2018 £m | The Bank 2017 £m |
| Liabilities | | | | |
| Deposits from banks | | 3,177 | 3,176 | - |
| Customer deposits | | 26,870 | 14,180 | - |
| Due to fellow Lloyds Banking Group undertakings | | 1,794 | 6,501 | - |
| Financial liabilities at fair value through profit or loss | 22 | 14,008 | 14,008 | - |
| Derivative financial instruments | 13 | 14,511 | 14,510 | - |
| Debt securities in issue | 23 | 12,942 | 12,942 | - |
| Current tax liability | | 23 | 19 | - |
| Other liabilities | 24 | 429 | 401 | - |
| Subordinated liabilities | 25 | 725 | 725 | - |
| Total liabilities | | 74,479 | 66,462 | - |
| Equity | | | | |
| Share capital | 26 | 120 | 120 | 20 |
| Other reserves | 27 | (15) | (17) | - |
| Retained earnings | 28 | 3,105 | 3,087 | - |
| Shareholders' equity | | 3,210 | 3,190 | 20 |
| Other equity instruments | 29 | 782 | 782 | - |
| Total equity | | 3,992 | 3,972 | 20 |
| Total equity and liabilities | | 78,471 | 70,434 | 20 |

The Group did not trade in the prior period.

The Group has elected to take the exemption under section 408 of the Companies Act 2006 not to present the Bank's income statement. The Bank recorded a profit after tax for the year of £106 million.

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

The financial statements were approved by the board of directors and were signed on its behalf by:

Mark A Grant
Director
23 April 2019

Christopher J K Edis
Director

Lloyds Bank Corporate Markets plc
Statements of changes in equity
For the year ended 31 December 2018

| The Group | Share capital £m | Other reserves £m | Retained earnings £m | Total equity £m |
|--|---------------------|-------------------------|----------------------------|--------------------|
| As at 28 September 2016 | - | - | - | - |
| Result for the period | - | - | - | - |
| Total comprehensive income | - | - | - | - |
| Transactions with owners | | | | |
| Issue of share capital | 20 | - | - | 20 |
| Total transactions with owners | 20 | - | - | 20 |
| Total equity at 31 December 2017 | 20 | - | - | 20 |
| Comprehensive income | | | | |
| Profit for the year | - | - | 153 | 153 |
| <i>Other comprehensive income for the year</i> | | | | |
| Movements in revaluation reserve in respect of financial assets held at fair value through other comprehensive income, net of tax: | | | | |
| Debt securities | - | (7) | - | (7) |
| Movements in cash flow hedging reserve, net of tax | - | 5 | - | 5 |
| Currency translation differences (tax: nil) | - | 2 | - | 2 |
| Total other comprehensive income | - | - | - | - |
| Total comprehensive income/(expense) | - | - | 153 | 153 |
| Transactions with owners | | | | |
| Distributions on other equity instruments, net of tax | - | - | (18) | (18) |
| Issue of ordinary shares | 100 | - | - | 100 |
| Establishment of foreign currency translation opening reserve | - | (15) | 15 | - |
| Opening reserves adjustment in respect of other transfers | - | - | (20) | (20) |
| Capital contribution received | - | - | 2,975 | 2,975 |
| Total transactions with owners | 100 | (15) | 2,952 | 3,037 |
| Shareholders equity at 31 December 2018 | 120 | (15) | 3,105 | 3,210 |
| Issue of other equity instruments | | | | 782 |
| Total equity at 31 December 2018 | | | | 3,992 |

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

Lloyds Bank Corporate Markets plc
Statements of changes in equity
For the year ended 31 December 2018

| The Bank | Share capital £m | Other reserves £m | Retained earnings £m | Total equity £m |
|--|-----------------------------|----------------------------------|-------------------------------------|--------------------------------|
| As at 28 September 2016 | - | - | - | - |
| Result for the period | - | - | - | - |
| Total comprehensive income | - | - | - | - |
| Transactions with owners | | | | |
| Issue of share capital | 20 | - | - | 20 |
| Total transactions with owners | 20 | - | - | 20 |
| Total equity at 31 December 2017 | 20 | - | - | 20 |
| Comprehensive income | | | | |
| Profit for the year | - | - | 106 | 106 |
| <i>Other comprehensive income for the year</i> | | | | |
| Movements in revaluation reserve in respect of financial assets held at fair value through other comprehensive income, net of tax: | | | | |
| Debt securities | - | (7) | - | (7) |
| Movements in cash flow hedging reserve, net of tax | - | 5 | - | 5 |
| Currency translation differences (tax: nil) | - | - | - | - |
| Total other comprehensive expense | - | (2) | - | (2) |
| Total comprehensive income | - | (2) | 106 | 104 |
| Transactions with owners | | | | |
| Distributions on other equity instruments, net of tax | - | - | (18) | (18) |
| Issue of ordinary shares | 100 | - | - | 100 |
| Establishment of foreign currency translation opening reserve | - | (15) | 15 | - |
| Opening reserves adjustment in respect of other transfers | - | - | 9 | 9 |
| Capital contribution received | - | - | 2,975 | 2,975 |
| Total transactions with owners | 100 | (15) | 2,981 | 3,066 |
| Shareholders equity at 31 December 2018 | 120 | (17) | 3,087 | 3,190 |
| Issue of other equity instruments | | | | 782 |
| Total equity at 31 December 2018 | | | | 3,972 |

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

Lloyds Bank Corporate Markets plc
Cash flow statements
For the year ended 31 December 2018

| | Note | The Group 2018 £m | The Bank 2018 £m | The Bank 2017 £m |
|--|------|-------------------------|------------------------|------------------------|
| Profit before tax | | 190 | 135 | - |
| Adjustments for: | | | | |
| Change in operating assets | 37a | (10,834) | (18,123) | - |
| Change in operating liabilities | 37b | 34,635 | 41,916 | - |
| Non-cash and other items | 37c | (13) | (5) | - |
| Net cash generated from operating activities | | 23,978 | 23,923 | - |
| Cash flows from investing activities | | | | |
| Purchase of fixed assets | | (47) | (8) | - |
| Proceeds from sale and maturity of fixed assets | | 4 | - | - |
| Acquisition of businesses | | (13,049) | (13,049) | - |
| Cash acquired on acquisition of businesses | | 7 | - | - |
| Net cash used in investing activities | | (13,085) | (13,057) | - |
| Cash flows generated from financing activities | | | | |
| Distributions on other equity instruments | | (18) | (18) | - |
| Receipt of capital contribution from parent company | | 2,975 | 2,975 | - |
| Issue of subordinated liabilities | | 725 | 725 | - |
| Issue of other equity instruments (AT1) | | 782 | 782 | - |
| Issue of ordinary share capital | | 100 | 100 | 20 |
| Net cash generated by financing activities | | 4,564 | 4,564 | 20 |
| Effect of exchange rate changes on cash and cash equivalents | | 1 | - | - |
| Change in Cash and cash equivalents | | 15,458 | 15,430 | 20 |
| Cash and cash equivalents at beginning of year | | 20 | 20 | - |
| Cash and cash equivalents at end of year | 37d | 15,478 | 15,450 | 20 |

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

Lloyds Bank Corporate Markets plc
Notes to the financial statements

1 Basis of preparation

The financial statements of Lloyds Bank Corporate Markets plc have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) as applied in accordance with the provisions of the Companies Act 2006. IFRS comprises accounting standards prefixed IFRS issued by the International Accounting Standards Board (IASB) and those prefixed IAS issued by the IASB's predecessor body as well as interpretations issued by the IFRS Interpretations Committee (IFRS IC) and its predecessor body. As noted below, in adopting IFRS 9, the Group has elected to continue applying hedge accounting under IAS 39. The EU endorsed version of IAS 39 Financial Instruments: Recognition and Measurement relaxes some of the hedge accounting requirements; the Group has not taken advantage of this relaxation, and therefore there is no difference in application to the Group between IFRS as adopted by the EU and IFRS as issued by the IASB.

The financial information has been prepared under the historical cost convention, as modified by the revaluation of 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.

To improve transparency and ease of reference, the capital resources disclosure required under IFRS has been included within the Strategic report on page 1. This disclosure is covered by the Audit opinion (included from page 11) and referenced as audited.

The going concern of the Bank and the 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 the Group have adequate resources to continue to operate for the foreseeable future, the directors have considered a number of key dependencies which are set out in the Principal risks and uncertainties section under Funding and liquidity on page 3 and additionally have considered projections for the Group's capital and funding position. Taking all of these factors into account, the directors consider that it is appropriate to continue to adopt the going concern basis in preparing the financial statements. The Bank relies on its holding company for issuance of equity and subordinated debt.

The Group has adopted IFRS 9 and IFRS 15 with effect from 1 January 2018. No comparatives have required adjustment.

(i) IFRS 9 *Financial Instruments*

IFRS 9 replaces IAS 39 and addresses classification, measurement and derecognition of financial assets and liabilities, the impairment of financial assets measured at amortised cost or fair value through other comprehensive income and general hedge accounting.

Impairment: IFRS 9 replaces the IAS 39 'incurred loss' impairment approach with an 'expected credit loss' approach. The revised approach applies to financial assets including finance lease receivables, recorded at amortised cost or fair value through other comprehensive income; loan commitments and financial guarantees that are not measured at fair value through profit or loss are also in scope. The expected credit loss approach requires an allowance to be established upon initial recognition of an asset reflecting the level of losses anticipated after having regard to, amongst other things, expected future economic conditions. Subsequently the amount of the allowance is affected by changes in the expectations of loss driven by changes in associated credit risk.

Classification and measurement: IFRS 9 requires financial assets to be classified into one of the following measurement categories: fair value through profit or loss, fair value through other comprehensive income and amortised cost. Classification is made on the basis of the objectives of the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instruments. The requirements for derecognition are broadly unchanged from IAS 39.

General hedge accounting: The new hedge accounting model aims to provide a better link between risk management strategy, the rationale for hedging and the impact of hedging on the financial statements. The standard does not explicitly address macro hedge accounting solutions, which are being considered in a separate IASB project – Accounting for Dynamic Risk Management. Until this project is finalised, the IASB has provided an accounting policy choice to retain IAS 39 hedge accounting in its entirety or choose to apply the IFRS 9 hedge accounting requirements. The Group has elected to continue applying hedge accounting as set out in IAS 39.

(ii) IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 has replaced IAS 18 Revenue and IAS 11 Construction Contracts. The core principle of IFRS 15 is that revenue reflects the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled. The recognition of such revenue is in accordance with five steps to: identify the contract; identify the performance obligations; determine the transaction price; allocate the transaction price to the performance obligations; and recognise revenue when the performance obligations are satisfied. The application of these pronouncements has not had any impact for amounts recognised in these financial statements.

Details of those IFRS pronouncements which will be relevant to the Group but which were not effective at 31 December 2018 and which have not been applied in preparing these financial statements are given in Note 39.

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 (including structured entities) are included in the financial statements on the basis of accounts made up to the reporting date. Details of the Bank's subsidiaries are given in note 41.

Notes to the financial statements

2 Accounting policies (continued)

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 are changes to any of the above elements. Subsidiaries are consolidated from the date on which control is transferred to the Group; they are de-consolidated from the date that control ceases.

Structured entities are entities that are designed so that their activities are not governed by way of voting rights. In assessing whether the Group has power over such entities in which it has an interest, the Group considers factors such as the purpose and design of the entity; its practical ability to direct the relevant activities of the entity; the nature of the relationship with the entity; and the size of its exposure to the variability of returns of the entity.

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

Predecessor accounting has been applied to the business transfers in 2018 as described in note 3. Although not required to be utilised in 2018, the acquisition method of accounting will be used to account for business combinations by the Group. The consideration for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition related costs are expensed as incurred except those relating to the issuance of debt instruments (see note 2c(5)) or share capital (see note 2l). Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair value at the acquisition date.

b Revenue recognition

(1) Net interest income

Interest income and expense are recognised in the income statement for all interest-bearing financial instruments using the effective interest method, 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 redemption fees, and related penalties, and premiums and discounts that are an integral part of the overall return.

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 note 2f 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 the Group fulfils its performance obligations. The Group 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(2) below.

c Financial assets and liabilities

On initial recognition, financial assets are classified as measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss, depending on the Group's business model for managing the financial assets and whether the cash flows represent solely payments of principal and interest. The Group 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. The Group reclassifies financial assets when and only when its business model for managing those assets changes. A reclassification will only take place when the change is significant to the Group'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 the Group elects at initial recognition to account for the instruments at fair value through other comprehensive income. For these instruments, 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.

The Group initially recognises loans and advances, deposits, debt securities in issue and subordinated liabilities when the Group 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 the Group is committed to purchase or sell an asset.

Lloyds Bank Corporate Markets plc
Notes to the financial statements

2 Accounting policies (continued)

Financial assets are derecognised when the contractual right to receive cash flows from those assets has expired or when the Group 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 the Group 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. Interest income is accounted for using the effective interest method (see note 2b 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. 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. 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. In addition, the Group recognises a charge for expected credit losses in the income statement (see note 2f 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 or where they are designated at fair value through profit or loss to reduce an accounting mismatch. All derivatives are carried at fair value through profit or loss.

Trading securities, which are debt securities 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 the criteria to be measured at amortised cost or fair value through other comprehensive income as they are managed on a fair value basis and accordingly are 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 or where they are designated at fair value through profit or loss in order to reduce an accounting mismatch; where the liabilities are part of a group of liabilities (or assets and liabilities) which is managed, and its performance evaluated, on a fair value basis; or where the liabilities contain one or more embedded derivatives that significantly modify the cash flows arising under the contract and would otherwise need to be separately accounted for. Financial liabilities measured at fair value through profit or loss 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. If the market is not active the Group establishes a fair value by using valuation techniques. The fair values of derivative financial instruments are adjusted where appropriate to reflect credit risk (via credit valuation adjustments (CVAs), debit valuation adjustments (DVAs) and funding valuation adjustments (FVAs)), market liquidity and other risks.

(4) Borrowings

Borrowings (which include deposits from banks, customer deposits, 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, net of tax, 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 is recognised in profit or loss.

Lloyds Bank Corporate Markets plc
Notes to the financial statements

2 Accounting policies (continued)

(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 under these arrangements are included in deposits from banks, customer deposits, or trading liabilities. Conversely, securities purchased under agreements to resell (reverse repos), where the Group does not acquire substantially all of the risks and rewards of ownership, are recorded as loans and advances measured at amortised cost or trading assets. 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 Derivative financial instruments and hedge accounting

As permitted by IFRS 9, the Group continues to apply the requirements of IAS 39 to its hedging relationships. All derivatives are recognised at their fair value. Derivatives are carried in the balance sheet as assets when their fair value is positive and as liabilities when their fair value is negative. Refer to note 32(3) (Financial instruments: Financial assets and liabilities carried at fair value) for details of valuation techniques and significant inputs to valuation models.

Changes in the fair value of all derivative instruments, other than those in effective cash flow and net investment hedging relationships, are recognised immediately in the income statement. As noted in (2) and (3) 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.

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.

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, or forecast to be highly effective, in achieving its documented objective, hedge accounting is discontinued. Note 13 provides details of the types of derivatives held by the Group and presents separately those designated in hedge relationships. Further information on hedge accounting is set out below.

(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 identified and 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 hedge 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.

(3) Net investment hedges

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income, the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of. The hedging instrument used in net investment hedges may include non-derivative liabilities as well as derivative financial instruments.

Lloyds Bank Corporate Markets plc
Notes to the financial statements

2 Accounting policies (continued)

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

f Impairment of financial assets

The impairment charge in the income statement includes the change in expected credit losses and certain fraud costs. Expected credit losses are recognised for loans and advances to customers and banks, other financial assets held at amortised cost, financial assets measured at fair value through other comprehensive income, and certain loan commitments and financial guarantee contracts. Expected credit losses are calculated by 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 the Group at the point of default after taking into account the value of any collateral held 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, 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 are in Stage 2; and financial assets which have defaulted or are otherwise considered to be credit impaired are allocated to Stage 3. Predecessor accounting has been applied to the business transfers in 2018 as described in note 3 and impairment allowances for financial assets were brought in to the financial statements at the predecessor carrying values.

An assessment takes place of whether credit risk has increased significantly within the period since the assets were acquired through a common control transaction which had existing impairment provisions (refer note 3). It considers the change in the risk of default occurring over the remaining expected life of the financial instrument. The assessment is unbiased, probability-weighted and uses forward-looking information consistent with that used in the measurement of expected credit losses. In determining whether there has been a significant increase in credit risk, the Group 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 historic delinquency. 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. Where the credit risk subsequently improves such that it no longer represents a significant increase in credit risk since origination, 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. The Group uses this 90 day backstop for all its products except for UK mortgages. For UK mortgages, the Group uses a backstop of 180 days past due as mortgage exposures more than 90 days past due, but less than 180 days, typically show high cure rates and this aligns with the Group's risk management practices.

In certain circumstances, the Group 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 in default (for a return to Stage 2). 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 and are recognised when received. 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 concessions 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 adjusted if appropriate, 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 the event that an asset's carrying amount is determined to be greater than its recoverable amount it is written down immediately. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

Lloyds Bank Corporate Markets plc
Notes to the financial statements

2 Accounting policies (continued)

h Leases

(1) As lessee

The leases entered into by the Group are primarily operating leases. Operating lease rentals payable are charged to the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the end of the lease period, any payment made to the lessor by way of penalty is recognised as an expense in the period of termination.

(2) As lessor

Assets leased to customers are classified as finance leases if the lease agreements transfer substantially all 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 residual value, is recognised as a receivable, net of allowances for expected credit losses, 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 leases. Unguaranteed residual values are reviewed regularly to identify any impairment.

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

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.

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.

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 re-measured 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 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.

Lloyds Bank Corporate Markets plc
Notes to the financial statements

2 Accounting policies (continued)

j Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The principal functional currency of the Group and the Bank is sterling. 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 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 group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows: the assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on the acquisition of a foreign entity, are translated into sterling at foreign exchange rates ruling at the balance sheet date; and the income and expenses of foreign operations are translated into sterling at average exchange rates unless these do not approximate to the foreign exchange rates ruling at the dates of the transactions in which case income and expenses are translated at the dates of the transactions.

Foreign exchange differences arising on the translation of a foreign operation are recognised in other comprehensive income and accumulated in a separate component of equity together with exchange differences arising from the translation of borrowings and other currency instruments designated as hedges of such investments (see note 2d(3) above). On disposal or liquidation of a foreign operation, the cumulative amount of exchange differences relating to that foreign operation are 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 note 2f 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 the Group'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 balances with central banks and amounts due from banks with a maturity of less than three months.

n Investment in subsidiaries of the bank

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

3 Critical accounting estimates and judgements

The preparation of the Group'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.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty in these financial statements, which together are deemed critical to the Group's results and financial position, are as follows:

Lloyds Bank Corporate Markets plc
Notes to the financial statements

3 Critical accounting estimates and judgements (continued)

Fair value of financial instruments (estimate)

At 31 December 2018, the carrying value of the Group's financial instrument assets held at fair value was £17,171 million, and its financial instrument liabilities held at fair value was £14,008 million. Included within these balances are derivative assets of £15,867 million and derivative liabilities of £14,511 million. The Group's accounting policy for its financial instruments is set out in notes 2c and 2d.

In accordance with IFRS 13 Fair Value Measurement, the Group categorises financial instruments carried on the balance sheet at fair value using a three level hierarchy. Financial instruments categorised as level 1 are valued using quoted market prices and therefore there is minimal judgement applied in determining fair value. The valuation techniques for level 2 and particularly level 3 financial instruments involve management judgements and estimates, the extent of which depends on the complexity of the instrument and the availability of market observable information. For example, a judgement is made that the position is level 1, 2 or 3 or in selecting a valuation methodology. An example of an estimate would be quantitative inputs to level 3.

In addition, in line with market practice, the Group 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 32. Further details of the Group's level 3 financial instruments and the sensitivity of their valuation including the effect of applying reasonably possible alternative assumptions in determining their fair value are also set out in note 32.

Business Transfers and use of Predecessor Accounting (judgement)

A business is defined as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities. It was judged that the assets, liabilities and subsidiaries which transferred from LBG entities during the year met this definition and therefore constitutes the transfer of a business.

IFRS does not prescribe the specific treatment for business combinations in these circumstances. The Group's accounting policy for such transfers of business is to apply predecessor accounting. This means that the transferred assets and liabilities were not restated to their fair values in the consolidated accounts of LBCM and no goodwill was recognised. Instead, they were brought into the LBCM financial statements at the predecessor carrying values which, for loans, include any existing impairment provisions, the origination PDs and staging. The Group and Bank also recognise any amounts that the transferee had previously accumulated on transferred assets and liabilities in relation to fair value through other comprehensive income and foreign currency translation reserves. Predecessor accounting is only adopted on a prospective basis and therefore the comparative period information is not presented for the transferred businesses. LBCM paid consideration equivalent to predecessor carrying value.

Allowance for Impairment Losses (estimate)

The calculation of the expected credit loss (ECL) allowances and provisions against loans commitments and guarantees under IFRS 9 requires a number of judgements, assumptions and estimates. The most significant are set out below:

Probability 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. The definition of default involves judgement – for example default may be deemed to have occurred when there is evidence that a customer is experiencing significant financial difficulty which is likely to affect the ability to repay amounts due. The definition of default adopted by the Group is described in note 2f Impairment of financial assets.

Lifetime of an exposure

The PD of a financial asset is dependent on its expected life. A range of approaches, segmented by product type, has been adopted by the Group to estimate a product's expected life. These include using the full contractual life and taking into account behavioural factors such as early repayments and refinancing. Changes to the assumed expected lives of the Group's assets could have a material effect on the ECL allowance recognised by the Group.

Significant increase in credit risk

Performing assets are classified as either Stage 1 or Stage 2. An ECL allowance equivalent to 12 months expected losses is established against assets in Stage 1; assets classified as Stage 2 carry an ECL allowance equivalent to lifetime expected losses. Assets are transferred from Stage 1 to Stage 2 when there has been a significant increase in credit risk (SICR) since initial recognition.

The Group uses a quantitative test together with qualitative indicators to determine whether there has been a SICR for an asset. For Commercial a doubling of PD with a minimum increase in PD of 1 per cent and a resulting change in the underlying grade is treated as a SICR. All financial assets are assumed to have suffered a SICR if they are more than 30 days past due.

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. The Group monitors the effectiveness of SICR criteria on an ongoing basis.

Origination PDs

The assessment of whether there has been a significant increase in credit risk is a relative measure, dependent on an asset's PD at origination. Generally this information is not available and consequently management judgement has been used to determine a reasonable basis for estimating the original PD. Management used various information sources, including regulatory PDs and credit risk data available at origination, or where this is not available the first available data. In addition, the Group has not created a forward looking view of PDs at initial recognition for the back book as to do so would involve the use of hindsight and could introduce the risk of bias. The use of proxies and simplifications is not considered to materially impact the ECL allowance on transition.

Lloyds Bank Corporate Markets plc
Notes to the financial statements

3 Critical accounting estimates and judgements (continued)

Post-model adjustments

Limitations in the Group's impairment models may be identified through its on-going assessment of the models. In these circumstances, management judgement is used to make appropriate adjustments to the Group's allowance for impairment losses.

Forward looking information

The measurement of expected credit losses is required to reflect an unbiased probability-weighted range of possible future outcomes. In order to do this, the Group has developed an economic model to project sixteen key impairment drivers using information derived mainly from external sources. These drivers include factors such as the unemployment rate, the house price index, commercial property prices and corporate credit spreads. The model-generated economic scenarios for the six years beyond 2018 are mapped to industry-wide historical loss data by portfolio. Combined losses across portfolios are used to rank the scenarios by severity of loss. Four scenarios from specified points along the loss distribution are selected to reflect the range of outcomes; the central scenario reflects the Group's base case assumptions used for medium-term planning purposes, an upside and a downside scenario are also selected together with a severe downside scenario. Rare occurrences of adverse economic events can lead to relatively large credit losses which means that typically the most likely outcome is less than the probability-weighted outcome of the range of possible future

To allow for this a relatively unlikely severe downside scenario is therefore included. At 1 January and 31 December 2018, the base case, upside and downside scenarios each carry a 30 per cent weighting; the severe downside scenario is weighted at 10 per cent. The choice of alternative scenarios and scenario weights is a combination of quantitative analysis and judgemental assessment to ensure that the full range of possible outcomes and material non-linearity of losses are captured. A committee under the chairmanship of the Chief Economist meets quarterly, to review and, if appropriate, recommend changes to the economic scenarios to the Chief Financial Officer and Chief Risk Officer. Findings dealing with all aspects of the expected credit loss calculation are presented to the Group Audit Committee.

For each major product grouping models have been developed which utilise historical credit loss data to produce PDs for each scenario; an overall weighted average PD is used to assist in determining the staging of financial assets and related ECL.

The key UK economic assumptions made by the Group as at 31 December 2018 averaged over a five-year period are shown below:

| | Base case | Upside | Downside | Severe downside |
|-------------------------------------|-----------|--------|----------|--------------------|
| UK economic assumptions | % | % | % | % |
| At 31 December 2018 | | | | |
| Interest rate | 1.25 | 2.34 | 1.30 | 0.71 |
| Unemployment rate | 4.5 | 3.9 | 5.3 | 6.9 |
| House price growth | 2.5 | 6.1 | (4.8) | (7.5) |
| Commercial real estate price growth | 0.4 | 5.3 | (4.7) | (6.4) |

| | Base case | Upside | Downside | Severe downside |
|-------------------------------------|-----------|--------|----------|--------------------|
| UK economic assumptions | % | % | % | % |
| At 1 January 2018 | | | | |
| Interest rate | 1.18 | 2.44 | 0.84 | 0.01 |
| Unemployment rate | 5.0 | 4.0 | 6.1 | 7.1 |
| House price growth | 2.7 | 7.0 | (2.4) | (8.2) |
| Commercial real estate price growth | 0.0 | 3.0 | (2.5) | (5.4) |

The Group's base-case economic scenario has changed little over the year and reflects a broadly stable outlook for the economy. Although there remains considerable uncertainty about the economic consequences of the UK's planned exit from the European Union, the Group considers that at this stage the range of possible economic outcomes is adequately reflected in its choice and weighting of scenarios. The averages shown above do not fully reflect the peak to trough changes in the stated assumptions over the period. The tables below illustrate the variability of the assumptions from the start of the scenario period to the peak and trough.

| | Base case | Upside | Downside | Severe downside |
|---|-----------|--------|----------|--------------------|
| UK economic assumptions - start to peak | % | % | % | % |
| At 31 December 2018 | | | | |
| Interest rate | 1.75 | 4.00 | 1.75 | 1.25 |
| Unemployment rate | 4.8 | 4.3 | 6.3 | 8.6 |
| House price growth | 13.7 | 34.9 | 0.6 | (1.6) |
| Commercial real estate price growth | 0.1 | 26.9 | (0.5) | (0.5) |

Lloyds Bank Corporate Markets plc
Notes to the financial statements

3 Critical accounting estimates and judgements (continued)

| | Base case | Upside | Downside | Severe downside |
|---|-----------|--------|----------|--------------------|
| UK economic assumptions - start to trough | % | % | % | % |
| At 31 December 2018 | | | | |
| Interest rate | 0.75 | 0.75 | 0.75 | 0.25 |
| Unemployment rate | 4.1 | 3.5 | 4.3 | 4.2 |
| House price growth | 0.4 | 2.3 | (26.5) | (33.5) |
| Commercial real estate price growth | (0.1) | 0.0 | (23.8) | (33.8) |

Post-model adjustments

Limitations in the Group's impairment models or input data may be identified through the on-going assessment and validation of the output of the models. In these circumstances, management make appropriate adjustments to the Group's allowance for impairment losses. These adjustments are generally modelled taking into account the particular attributes of the exposure which have not been adequately captured by the primary impairment models. At 31 December 2018, post-model adjustments were of negligible impact on the Group's ECL and not individually significant.

Sensitivity analysis

The total of the Stage 1 and 2 provision as at 31 December 2018 is £13 million for the Group and £9 million for the Bank. It is considered that sensitivities on these amounts are not material. It is estimated that the downside scenario weighted at 100 per cent compared to the base scenario would result in an increase in ECL in the range of 10 per cent to 20 per cent in both the Group and Bank.

Other equity instruments (judgement)

Details of the Additional Tier 1 securities issued are included below in note 29. The judgement was made to account for these instruments as part of equity.

4 Net interest income

| | 2018 £m |
|---|--------------|
| Interest and similar income: | |
| Loans and advances to customers | 246 |
| Loans and advances to banks | 106 |
| Interest receivable on financial assets held at amortised cost | 352 |
| Financial assets at fair value through other comprehensive income | 2 |
| Total interest and similar income | 354 |
| Interest and similar expense: | |
| Deposits from banks, excluding liabilities under sale and repurchase agreements | (4) |
| Customer deposits, excluding liabilities under sale and repurchase agreements | (207) |
| Debt securities in issue | (20) |
| Subordinated liabilities | (20) |
| Total interest and similar expense | (251) |
| Net interest income | 103 |

Included within Interest income is £nil in respect of credit impaired financial assets.

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5 Net fee and commission income

| | 2018 |
|--|-------------|
| | £m |
| Fee and commission income: | |
| Commercial banking and treasury fees | 137 |
| Current accounts | 3 |
| Private banking and asset management | 2 |
| Credit and debit card fees | 2 |
| Other fees and commissions | 4 |
| Total fee and commission income | 148 |
| Fee and commission expense | (27) |
| Net fee and commission income | 121 |

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.

6 Net trading income

| | 2018 |
|--|-------------|
| | £m |
| Foreign exchange translation gains | 53 |
| Gains on foreign exchange trading transactions | 345 |
| Total foreign exchange | 398 |
| Securities and other losses (see below) | (167) |
| Net trading income | 231 |

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

| | 2018 |
|--|--------------|
| | £m |
| Net income arising on assets and liabilities mandatorily held at fair value through profit or loss: | |
| Financial instruments held for trading | (176) |
| Other financial instruments mandatorily held at fair value through profit or loss: | |
| Debt securities, loans and advances | 3 |
| Net income arising on liabilities held at fair value through profit or loss – debt securities in issue | 6 |
| Securities and other losses | (167) |

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Notes to the financial statements

7 Operating expenses

| | 2018 £m |
|--------------------------------------|------------|
| Staff costs | 78 |
| Management charges payable | 180 |
| Other operating expenses | 15 |
| Total other operating expense | 273 |

Services are received by the Group from other parts of LBG via a shared service provision model. This is governed via Internal 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. UK based colleagues are employed through other LBG companies and costs recharged via the IGA. The terms of the contract are negotiated and renewable to ensure market rate expense for services provided.

The Group had an average of 624 colleagues during the year based in Singapore, USA, Gibraltar and the Crown Dependencies.

Fees payable to the Bank's auditors

| | 2018 £m | 2017 £m |
|---|------------|------------|
| Fees payable for the audit of the Bank's current year annual report | 1.8 | - |
| Audit of the Bank's subsidiaries pursuant to legislation | 0.7 | - |
| Other services provided pursuant to legislation | 0.1 | - |
| Other services – audit related services | 0.3 | - |
| Total fees payable to the Bank's auditors | 2.9 | - |

Fees payable to the auditors for the audit of the 2017 financial statements was £37,500 and for non-audit services £10,000. These costs were borne by a fellow group company and not recharged.

8 Impairment credit

| The Group | Stage 1 £m | Stage 2 £m | Stage 3 £m | Total £m |
|---|---------------|---------------|---------------|-------------|
| Year ended 31 December 2018 | | | | |
| Changes in credit quality | (2) | - | 3 | 1 |
| Additions/(repayments) | 1 | (2) | 8 | 7 |
| Total impairment | (1) | (2) | 11 | 8 |
| In respect of: | | | | |
| Financial assets at amortised cost | | | | |
| Loans and advances to customers | - | (2) | 11 | 9 |
| Loan commitments and financial guarantees | (1) | - | - | (1) |
| Total impairment | (1) | (2) | 11 | 8 |

Lloyds Bank Corporate Markets plc
Notes to the financial statements

8 Impairment credit (continued)

The Group's impairment credit comprises the following items:

Transfers between stages

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

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/(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 as a result of repayments of outstanding balances.

Movements in the Group's impairment allowances are shown in note 16.

9 Directors' emoluments

The directors' emoluments payable for services provided to the Bank are set out below:

| | 2018 | 2017 |
|-------------------------|--------------|-------|
| | £'000 | £'000 |
| Executive directors | 1,468 | 202 |
| Non-executive directors | 690 | 213 |
| | 2,158 | 415 |
| Highest paid director: | 1,171 | 105 |

All amounts in the comparative period were paid by other companies within Lloyds Banking Group and have not been charged to the Bank.

10 Taxation

| | 2018 |
|--|-------------|
| | £m |
| a) Analysis of charge for the year | |
| UK corporation tax: | |
| – Current tax on taxable profit for the year | 26 |
| – Adjustments in respect of prior years | (2) |
| Current tax charge | 24 |
| Foreign tax: | |
| – Current tax on taxable profit for the year | 11 |
| – Adjustments in respect of prior years | - |
| Current tax charge | 35 |
| UK deferred tax: | |
| – Current year | - |
| – Adjustments in respect of prior years | 2 |
| Deferred tax charge (see note 21) | 2 |
| Tax charge | 37 |

UK corporation tax is calculated at a rate of 19 per cent of the taxable profit for the year.

Lloyds Bank Corporate Markets plc
Notes to the financial statements

10 Taxation (continued)

b) Factors affecting the tax charge for the year

A reconciliation of the charge that would result from applying the standard UK corporation tax rate to the profit before tax to the actual tax charge for the year is given below:

| | 2018 |
|--|---------------|
| | £m |
| Profit before tax | 190 |
| Tax charge thereon at UK corporation tax rate of 19% | (36) |
| Factors affecting credit: | |
| – Impact of surcharge on banking profits | (8) |
| – Non-deductible costs | (7) |
| – Non-taxable income and other deductions | 12 |
| – Losses on which deferred tax not recognised | (2) |
| – Derecognition of losses that arose in previous years | (2) |
| – Differences in overseas tax rates | 6 |
| Tax charge on profit on ordinary activities | (37) |
| Effective rate | 19.47% |

11 Cash and balances at central banks

Cash and cash equivalents for the purposes of the Cash flow statement include the following:

| | 2018 | 2017 |
|--------------------------------|---------------|------|
| | £m | £m |
| The Group | | |
| Cash balances at central banks | 14,441 | 20 |
| On demand deposits | 7 | - |
| | 14,448 | 20 |
| The Bank | | |
| Cash balances at central banks | 14,441 | 20 |
| On demand deposits | - | - |
| | 14,441 | 20 |

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12 Financial assets at fair value through profit or loss

| | The Group 2018 £m | The Bank 2018 £m |
|---|-------------------------|------------------------|
| Trading assets | 17,089 | 17,089 |
| Other financial assets at fair value through profit or loss | 82 | 3 |
| Total | 17,171 | 17,092 |

These assets are comprised as follows:

| | The Group | | The Bank | |
|-------------------------------------|-------------------------------------|--|-------------------------------------|--|
| | Trading assets 2018 £m | Other financial assets at fair value through profit or loss 2018 £m | Trading assets 2018 £m | Other financial assets at fair value through profit or loss 2018 £m |
| Loans and advances to customers | 11,295 | 3 | 11,295 | 3 |
| Loans and advances to banks | 612 | - | 612 | - |
| Debt securities: | | | | |
| Government securities | 4,898 | 59 | 4,898 | - |
| Asset-backed securities: | | | | |
| Mortgage-backed securities | 10 | - | 10 | - |
| Other asset-backed securities | 43 | - | 43 | - |
| Corporate and other debt securities | 231 | - | 231 | - |
| | 5,182 | 59 | 5,182 | - |
| Treasury bills and other bills | - | 20 | - | - |
| Total | 17,089 | 82 | 17,089 | 3 |

At 31 December 2018 £4,773 million of trading and other financial assets at fair value through profit or loss of the Group and £4,791 million of the Bank had a contractual residual maturity of greater than one year.

Included in financial assets at fair value through profit or loss are reverse repurchase agreements treated as collateralised loans with a carrying value of £11,669 million.

For amounts included above which are subject to repurchase and reverse repurchase agreements see note 32.

During the year the Group and Bank acquired financial assets at fair value through profit or loss of £75 million.

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13 Derivative financial instruments

| | Contract/ notional amount 2018 £m | Fair value assets 2018 £m | Fair value liabilities 2018 £m |
|---|--|------------------------------------|---|
| The Group | | | |
| Trading | | | |
| Exchange rate contracts: | | | |
| Spot, forwards and futures | 29,359 | 907 | 731 |
| Currency swaps | 227,530 | 2,979 | 3,096 |
| Options purchased | 9,056 | 485 | - |
| Options written | 9,947 | - | 496 |
| | 275,892 | 4,371 | 4,323 |
| Interest rate contracts: | | | |
| Interest rate swaps | 2,554,455 | 9,419 | 7,970 |
| Forward rate agreements | 412,453 | 4 | 4 |
| Options purchased | 27,903 | 1,802 | - |
| Options written | 21,853 | - | 1,883 |
| Futures | 126,805 | 4 | - |
| | 3,143,469 | 11,229 | 9,857 |
| Credit derivatives | 10,383 | 81 | 153 |
| Equity and other contracts | 2,370 | 186 | 178 |
| Total derivative assets/liabilities held for trading | 3,432,114 | 15,867 | 14,511 |
| Hedging | | | |
| Derivatives designated as fair value hedges: | | | |
| Interest rate swaps | 5,366 | - | - |
| Derivatives designated as cash flow hedges: | | | |
| Interest rate swaps | 1,998 | - | - |
| Total derivative assets/liabilities held for hedging | 7,364 | - | - |
| Total derivative assets/liabilities held for trading and hedging | 3,439,478 | 15,867 | 14,511 |
| <hr/> | | | |
| | Contract/ notional amount 2018 £m | Fair value assets 2018 £m | Fair value liabilities 2018 £m |
| The Bank | | | |
| Trading | | | |
| Exchange rate contracts: | | | |
| Spot, forwards and futures | 29,359 | 907 | 732 |
| Currency swaps | 227,530 | 2,980 | 3,096 |
| Options purchased | 9,056 | 485 | - |
| Options written | 9,947 | - | 496 |
| | 275,892 | 4,372 | 4,324 |
| Interest rate contracts: | | | |
| Interest rate swaps | 2,554,451 | 9,475 | 7,968 |
| Forward rate agreements | 412,453 | 4 | 4 |
| Options purchased | 27,903 | 1,802 | - |
| Options written | 21,853 | - | 1,883 |
| Futures | 126,805 | 4 | - |
| | 3,143,465 | 11,285 | 9,855 |
| Credit derivatives | 10,383 | 81 | 153 |
| Equity and other contracts | 2,370 | 183 | 178 |
| Total derivative assets/liabilities held for trading | 3,432,110 | 15,921 | 14,510 |
| Hedging | | | |
| Derivatives designated as fair value hedges: | | | |
| Interest rate swaps | 5,366 | - | - |
| Derivatives designated as cash flow hedges: | | | |
| Interest rate swaps | 1,998 | - | - |
| Total derivative assets/liabilities held for hedging | 7,364 | - | - |
| Total derivative assets/liabilities held for trading and hedging | 3,439,474 | 15,921 | 14,510 |

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13 Derivative financial instruments (continued)

During the year the Group acquired derivative assets of £23,065 million, with Bank acquiring £22,984 million and the Group and Bank acquired derivative liabilities of £23,327 million.

The amounts for the derivative assets and liabilities in the above tables include the amounts offset in note 34.

The Group holds derivatives as part of the following strategies:

- Customer driven, where derivatives are held as part of the provision of risk management products to Group customers;
- To manage and hedge the Group's interest rate and foreign exchange risk arising from normal banking business. The hedge accounting strategy adopted by the Group is to utilise a combination of fair value and cash flow hedge approaches as described in note 35.

The principal derivatives used by the Group 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.

The notional amount of the contract does not represent the Group's real exposure to credit risk which is limited to the current cost of replacing contracts with a positive value to the Group should the counterparty default.

To reduce credit risk the Group uses a variety of credit enhancement techniques such as netting and collateralisation, where security is provided against the exposure. Further details are provided in note 35 Credit risk.

Details of the Group's hedging instruments are set out below:

| The Group - 31 December 2018 | Maturity | | | | |
|------------------------------|-------------------|--------------|-------------------|-------------|-------------------|
| | Less than 1 month | 1 - 3 months | 3 months - 1 year | 1 - 5 years | More than 5 years |
| Fair value hedges | | | | | |
| <i>Interest rate</i> | | | | | |
| Interest rate swap | | | | | |
| Notional | - | - | - | 4,153 | 1,213 |
| Average fixed interest rate | - | - | - | 1.15% | 2.65% |
| Cash flow hedges | | | | | |
| <i>Interest rate</i> | | | | | |
| Interest rate swap | | | | | |
| Notional | - | - | 170 | 978 | 850 |
| Average fixed interest rate | - | - | 0.01% | 1.16% | 1.38% |

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

| The Group - 31 December 2018 | Carrying amount | | | Changes in fair value used for calculating hedge ineffectiveness (YTD) £m |
|------------------------------|---------------------------------------|--------------|-------------------|---|
| | Contract/ notional amount £m | Assets £m | Liabilities £m | |
| Fair value hedges | | | | |
| <i>Interest rate</i> | | | | |
| Interest rate swaps | 5,366 | - | - | 50 |
| Cash flow hedges | | | | |
| <i>Interest rate</i> | | | | |
| Interest rate swaps | 1,998 | - | - | 6 |

All amounts are held within derivative financial instruments.

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13 Derivative financial instruments (continued)

The Group's hedged items are as follows:

| The Group - 31 December 2018 | Carrying amount of the hedged item | | Accumulated amount of fair value adjustment on the hedge item | | Change in fair value of hedged item for ineffectiveness assessment (YTD) |
|---|---------------------------------------|-------------------|---|-------------------|---|
| | Assets £m | Liabilities £m | Assets £m | Liabilities £m | £m |
| Fair value hedges | | | | | |
| <i>Interest rate</i> | | | | | |
| Fixed rate issuance ¹ | - | 5,448 | - | 45 | (45) |
| Change in fair value of hedged item for ineffectiveness assessment (YTD) | | | | | |
| Cash flow hedge/ currency translation reserve | | | | | |
| Continuing hedges | | | | | |
| Discontinued hedges | | | | | |
| £m | | | | | |
| Cash flow hedges | | | | | |
| <i>Interest rate</i> | | | | | |
| Customer loans ² | | | (6) | 6 | - |

¹ Included within debt securities in issue.

² Included within loans and advances to customers.

The cash flow hedge/currency translation reserve in the above table is calculated on a pre-deferred tax basis.

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.

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

| The Group - 31 December 2018 | Gain (loss) recognised in other comprehensive income £m | Hedge ineffectiveness recognised in the income statement 1 | Amounts reclassified from reserves to income statement as: | |
|---------------------------------|---|--|---|--|
| | | | Hedged item affected income statement £m | Income statement line item that includes reclassified amount |
| Fair value hedges | | | | |
| <i>Interest rate</i> | | | | |
| Fixed rate issuance | n/a | 5 | n/a | n/a |
| Cash flow hedges | | | | |
| <i>Interest rate</i> | | | | |
| Customer loans | 6 | - | - | Interest income |

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

There were no forecast transactions for which cash flow hedge accounting had to cease in 2018 as a result of the highly probable cash flows no longer being expected to occur.

14 Financial assets at amortised cost

1) The Group

A. Loans and advances to customers

| | Stage 1 £m | Stage 2 £m | Stage 3 £m | Total £m |
|--|---------------|---------------|---------------|---------------|
| Balance at 1 January 2018 | - | - | - | - |
| Acquisitions | 13,389 | 29 | 319 | 13,737 |
| Advances/ (repayments) | 7,074 | (10) | (16) | 7,048 |
| Transfers between stages | (4) | 4 | - | - |
| At 31 December 2018 | 20,459 | 23 | 303 | 20,785 |
| Allowance for impairment losses | (9) | (2) | (90) | (101) |
| Total loans and advances to customers | 20,450 | 21 | 213 | 20,684 |

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14 Financial assets at amortised cost (continued)

B. Loans and advances to banks

| | Stage 1 £m | Stage 2 £m | Stage 3 £m | Total £m |
|--|---------------|---------------|---------------|--------------|
| Balance at 1 January 2018 | - | - | - | - |
| Acquisitions | 1,970 | 8 | - | 1,978 |
| Advances/ (repayments) | 615 | (8) | - | 607 |
| At 31 December 2018 | 2,585 | - | - | 2,585 |
| Allowance for impairment losses | (2) | - | - | (2) |
| Total loans and advances to banks | 2,583 | - | - | 2,583 |

C. Debt securities

| | Stage 1 £m | Stage 2 £m | Stage 3 £m | Total £m |
|--|---------------|---------------|---------------|-------------|
| Balance at 1 January 2018 | - | - | - | - |
| Acquisitions | 160 | - | - | 160 |
| Net increase (decrease) in debt securities | (28) | - | - | (28) |
| At 31 December 2018 | 132 | - | - | 132 |
| Allowance for impairment losses | - | - | - | - |
| Total debt securities | 132 | - | - | 132 |

| | | | | |
|--|--------------|----------|----------|--------------|
| Due from fellow Lloyds Banking Group undertakings | 6,593 | - | - | 6,593 |
|--|--------------|----------|----------|--------------|

| | | | | |
|---|---------------|-----------|------------|---------------|
| Total financial assets at amortised cost | 29,758 | 21 | 213 | 29,992 |
|---|---------------|-----------|------------|---------------|

2) The Bank

A. Loans and advances to customers

| | Stage 1 £m | Stage 2 £m | Stage 3 £m | Total £m |
|--|---------------|---------------|---------------|---------------|
| Balance at 1 January 2018 | - | - | - | - |
| Acquisitions | 11,521 | - | 277 | 11,798 |
| Advances/ (repayments) | 5,328 | - | - | 5,328 |
| At 31 December 2018 | 16,849 | - | 277 | 17,126 |
| Allowance for impairment losses | (8) | - | (82) | (90) |
| Total loans and advances to customers | 16,841 | - | 195 | 17,036 |

B. Loans and advances to banks

| | Stage 1 £m | Stage 2 £m | Stage 3 £m | Total £m |
|--|---------------|---------------|---------------|--------------|
| Balance at 1 January 2018 | - | - | - | - |
| Acquisitions | 1,911 | - | - | 1,911 |
| Advances/ (repayments) | 651 | - | - | 651 |
| At 31 December 2018 | 2,562 | - | - | 2,562 |
| Allowance for impairment losses | (1) | - | - | (1) |
| Total loans and advances to banks | 2,561 | - | - | 2,561 |

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14 Financial assets at amortised cost (continued)

C. Debt securities

| | Stage 1 £m | Stage 2 £m | Stage 3 £m | Total £m |
|--|---------------|---------------|---------------|---------------|
| Balance at 1 January 2018 | - | - | - | - |
| Acquisitions | 160 | - | - | 160 |
| Net increase (decrease) in debt securities | (28) | - | - | (28) |
| At 31 December 2018 | 132 | - | - | 132 |
| Allowance for impairment losses | - | - | - | - |
| Total debt securities | 132 | - | - | 132 |
| Due from fellow Lloyds Banking Group undertakings | 1,388 | - | - | 1,388 |
| Total financial assets at amortised cost | 20,922 | - | 195 | 21,117 |

Transfers of assets between stages are deemed to take place at the start of the year. All other movements in the value of the asset are deemed to take place within the Stage under which that asset is reported at the end of the year.

Net increase and decrease in balances comprise new loans originated and repayments of outstanding balances throughout the reporting year. 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 2018 £7,846 million of loans and advances to customers of the Group and £5,772 million of the Bank had a contractual residual maturity of greater than one year.

15 Finance lease receivables

The Group's finance lease receivables are classified as loans and advances to customers and accounted for at amortised cost. The balance is analysed as follows:

| | 2018 £m |
|--|------------|
| Gross investment in finance leases, receivable: | |
| Not later than 1 year | 6 |
| Later than 1 year and not later than 5 years | 27 |
| Later than 5 years | 196 |
| | 229 |
| Unearned future finance income on finance leases | (91) |
| Rentals received in advance | (2) |
| Net investment in finance leases | 136 |

The net investment in finance leases represents amounts recoverable as follows:

| | 2018 £m |
|--|------------|
| Not later than 1 year | (3) |
| Later than 1 year and not later than 5 years | 3 |
| Later than 5 years | 136 |
| Net investment in finance leases | 136 |

Equipment leased to customers under finance leases primarily relates to structured financing transactions in connection with infrastructure assets. During 2018 no contingent rentals in respect of finance leases were recognised in the income statement. There was no allowance for uncollectable finance lease receivables included in the allowance for impairment losses.

All balances were acquired in the period.

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16 Allowance for impairment losses

Analysis of movement in the allowance for impairment losses by stage.

| The Group | Stage 1 £m | Stage 2 £m | Stage 3 £m | Total £m |
|---|-----------------------|-----------------------|-----------------------|---------------------|
| <i>In respect of drawn balances</i> | | | | |
| Balance at 1 January 2018 | - | - | - | - |
| Acquisitions | 8 | - | 105 | 113 |
| Transfers to Stage 1 | - | - | - | - |
| Transfers to Stage 2 | - | - | - | - |
| Transfers to Stage 3 | - | - | - | - |
| Impact of transfers between stages | - | - | - | - |
| Items charged/(credited) to the Income Statement | - | 2 | (11) | (9) |
| Total charge | - | 2 | (11) | (9) |
| Recoveries of advances written off in previous years | - | - | 1 | 1 |
| Discount unwind | - | - | (5) | (5) |
| At 31 December 2018 | 8 | 2 | 90 | 100 |
| <i>In respect of undrawn balances</i> | | | | |
| Balance at 1 January 2018 | - | - | - | - |
| Acquisitions | 2 | - | - | 2 |
| Transfers to Stage 1 | - | - | - | - |
| Transfers to Stage 2 | - | - | - | - |
| Transfers to Stage 3 | - | - | - | - |
| Impact of transfers between stages | - | - | - | - |
| Items charged to the Income Statement | 1 | - | - | 1 |
| Total charge | 1 | - | - | 1 |
| At 31 December 2018 | 3 | - | - | 3 |
| Total | 11 | 2 | 90 | 103 |
| <i>In respect of:</i> | | | | |
| Loans and advances to banks | 2 | - | - | 2 |
| Loans and advances to customers | 9 | 2 | 90 | 101 |
| Debt securities | - | - | - | - |
| Financial assets at amortised cost | 11 | 2 | 90 | 103 |
| Other assets | - | - | - | - |
| Provisions in relation to loan commitments and financial guarantees | - | - | - | - |
| Total | 11 | 2 | 90 | 103 |
| The Bank | | | | |
| | Stage 1 £m | Stage 2 £m | Stage 3 £m | Total £m |
| <i>In respect of drawn balances</i> | | | | |
| Balance at 1 January 2018 | - | - | - | - |
| Acquisitions | 5 | - | 89 | 94 |
| Transfers to Stage 1 | - | - | - | - |
| Transfers to Stage 2 | - | - | - | - |
| Transfers to Stage 3 | - | - | - | - |
| Impact of transfers between stages | - | - | - | - |
| Items charged/(credited) to the Income Statement | 1 | - | (2) | (1) |
| Total charge | 1 | - | (2) | (1) |
| Recoveries of advances written off in previous years | - | - | - | - |
| Discount unwind | - | - | (5) | (5) |
| At 31 December 2018 | 6 | - | 82 | 88 |

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16 Allowance for impairment losses (continued)

| The Bank (continued) | Stage 1 £m | Stage 2 £m | Stage 3 £m | Total £m |
|---|-----------------------|-----------------------|-----------------------|---------------------|
| <i>In respect of undrawn balances</i> | | | | |
| Balance at 1 January 2018 | - | - | - | - |
| Acquisitions | 3 | - | - | 3 |
| Transfers to Stage 1 | - | - | - | - |
| Transfers to Stage 2 | - | - | - | - |
| Transfers to Stage 3 | - | - | - | - |
| Impact of transfers between stages | - | - | - | - |
| Items charged to the Income Statement | - | - | - | - |
| Total charge | - | - | - | - |
| At 31 December 2018 | 3 | - | - | 3 |
| Total | 9 | - | 82 | 91 |
| <i>In respect of:</i> | | | | |
| Loans and advances to banks | 1 | - | - | 1 |
| Loans and advances to customers | 8 | - | 82 | 90 |
| Debt securities | - | - | - | - |
| Financial assets at amortised cost | 9 | - | 82 | 91 |
| Other assets | - | - | - | - |
| Provisions in relation to loan commitments and financial guarantees | - | - | - | - |
| Total | 9 | - | 82 | 91 |

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 2018.

Net increase and decrease in balances comprise the movements in the expected credit loss as a result of 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. Consequently, recoveries on assets previously written-off also occur in Stage 3 only.

17 Financial assets at fair value through other comprehensive income

| | The Group 2018 £m | The Bank 2018 £m |
|--|----------------------------------|---------------------------------|
| Debt securities: | | |
| Government securities | - | - |
| Bank and building society certificates of deposit | 136 | 136 |
| Asset-backed securities: | | |
| Mortgage-backed securities | - | - |
| Other asset-backed securities | 121 | 121 |
| Corporate and other debt securities | 73 | 73 |
| | 330 | 330 |
| Treasury and other bills | 82 | 82 |
| Total financial assets at fair value through other comprehensive income | 412 | 412 |

At 31 December 2018 £195 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 have been assessed at Stage 1 at initial recognition and 31 December 2018.

During the year the Group and Bank acquired financial assets at fair value through other comprehensive income of £194 million.

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18 Property, plant and equipment

| The Group | Premises £m | Equipment £m | Operating Lease assets £m | Total £m |
|---|----------------|-----------------|---------------------------------|-------------|
| Cost or valuation: | | | | |
| At 1 January 2018 | - | - | - | - |
| Acquisition of businesses | 10 | 34 | 2 | 46 |
| Additions | - | 1 | - | 1 |
| Disposals | - | (2) | (2) | (4) |
| At 31 December 2018 | 10 | 33 | - | 43 |
| Accumulated depreciation and impairment | | | | |
| At 1 January 2018 | - | - | - | - |
| Acquisition of businesses | 6 | 24 | 1 | 31 |
| Charge for the year | - | 2 | - | 2 |
| Disposals | (1) | (3) | (1) | (5) |
| At 31 December 2018 | 5 | 23 | - | 28 |
| Balance sheet amount at 31 December 2018 | 5 | 10 | - | 15 |
| Balance sheet amount at 31 December 2017 | - | - | - | - |

| The Bank | Premises £m | Equipment £m | Operating Lease assets £m | Total £m |
|---|----------------|-----------------|---------------------------------|-------------|
| Cost or valuation: | | | | |
| At 1 January 2018 | - | - | - | - |
| Acquisition of businesses | - | 6 | - | 6 |
| Additions | - | 2 | - | 2 |
| Disposals | - | - | - | - |
| At 31 December 2018 | - | 8 | - | 8 |
| Accumulated depreciation and impairment | | | | |
| At 1 January 2018 | - | - | - | - |
| Acquisition of businesses | - | 2 | - | 2 |
| Charge for the year | - | - | - | - |
| Disposals | - | - | - | - |
| At 31 December 2018 | - | 2 | - | 2 |
| Balance sheet amount at 31 December 2018 | - | 6 | - | 6 |
| Balance sheet amount at 31 December 2017 | - | - | - | - |

During the year £17 million of plant, property and equipment (£46 million cost with depreciation and impairment of £31 million) was acquired by the Group and £4 million (£6 million cost with depreciation and impairment of £2 million) acquired by Bank.

19 Investment in subsidiary undertakings of the Bank

| | 2018 £m |
|-----------------------|------------|
| At 1 January | - |
| Additions | 908 |
| Disposals | - |
| Impairment | - |
| At 31 December | 908 |

Investment in subsidiary undertakings is stated at cost less impairment.

All subsidiary entities were acquired during the current reporting period as part of the LBG strategy to create a ring-fenced bank.

The Bank's interest in each of these entities is in the form of ordinary share capital.

Details of the subsidiaries and related undertakings are given on page 80 and are incorporated by reference.

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20 Other assets

| | The Group 2018 £m | The Bank 2018 £m |
|------------------------------|-------------------------|------------------------|
| Settlement balances | 474 | 474 |
| Other assets and prepayments | 84 | 60 |
| | 558 | 533 |

During the year, the Bank acquired Other assets of £28 million,

21 Deferred tax asset

The movement in the Deferred tax asset is as follows:

| | The Group 2018 £m | The Bank 2018 £m |
|---|-------------------------|------------------------|
| Brought forward | - | - |
| Charge for the year (see note 10) | (2) | 1 |
| Transfers from other group undertakings | 5 | - |
| | 3 | 1 |
| Amount charged to equity | | |
| – Cash flow hedges | (1) | (1) |
| – Fair value through other comprehensive income | 4 | 4 |
| – Other | - | - |
| At 31 December | 6 | 4 |

The deferred tax charge in the Consolidated income statement comprises the following temporary differences:

| | 2018 £m | 2018 £m |
|--------------------------------|------------|------------|
| Accelerated capital allowances | 2 | - |
| Tax losses carried forward | 1 | (1) |
| Other temporary differences | (1) | - |
| | 2 | (1) |

The Deferred tax asset comprises:

| | The Group 2018 £m | The Bank 2018 £m |
|---|-------------------------|------------------------|
| Accelerated capital allowances | (9) | - |
| Tax losses carried forward | 1 | 1 |
| Subsidiary pension scheme | 2 | - |
| Cash flow hedges | 7 | (1) |
| Fair value through other comprehensive income | 4 | 4 |
| Other temporary differences | 1 | - |
| At 31 December | 6 | 4 |

As a result of legislation enacted in 2016, the UK corporation tax rate will reduce from 19 per cent to 17 per cent on 1 April 2020. The Group measures its deferred tax assets and liabilities at the value expected to be recoverable or payable in future periods, and re-measures them at each reporting date based on the most recent estimates of utilisation or settlement, including the impact of bank surcharge where appropriate.

The effect of these rate reductions on the Group's and the Bank's deferred tax balances is estimated to be not significant.

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22 Financial liabilities at fair value through profit or loss

| The Group and the Bank | 2018 |
|---|---------------|
| | £m |
| Liabilities designated at fair value through profit or loss: Debt securities in issue | 1,062 |
| Trading liabilities: | |
| Liabilities in respect of securities sold under repurchase agreements | 11,440 |
| Other deposits | 10 |
| Short positions in securities | 1,496 |
| | 12,946 |
| Financial liabilities at fair value through profit or loss | 14,008 |

At 31 December 2018, the Group and the Bank had £1,308 million of trading and other liabilities at fair value through profit or loss with a contractual residual maturity of greater than one year.

Liabilities designated at fair value through profit or loss primarily represent debt securities in issue which either contain substantive embedded derivatives which would otherwise need to be recognised and measured at fair value separately from the related debt securities, or which are accounted for at fair value to significantly reduce an accounting mismatch.

For the fair value of collateral pledged in respect of repurchase agreements see note 32.

23 Debt securities in issue

| The Group and the Bank | 2018 |
|--|---------------|
| | £m |
| Medium-term notes issued | 45 |
| Certificates of deposit issued | 5,353 |
| Commercial paper | 1,162 |
| Amounts due to fellow Group undertakings | 6,382 |
| Total debt securities in issue | 12,942 |

At 31 December 2018 £7,316 million of debt securities in issue of the Group and of the Bank had a contractual residual maturity of greater than one year.

24 Other liabilities

| | The Group | The Bank |
|------------------------------|------------------|-----------------|
| | 2018 | 2018 |
| | £m | £m |
| Settlement balances | 342 | 342 |
| Other creditors and accruals | 87 | 59 |
| | 429 | 401 |

25 Subordinated liabilities

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

| | Dated subordinated |
|---|---------------------------|
| The Group and the Bank | 2018 |
| | £m |
| At 1 January 2018 | - |
| Issued during the year | 696 |
| Repurchases and redemptions during the year | - |
| Foreign exchange movements | 26 |
| Other movements (all non-cash) | 3 |
| At 31 December 2018 | 725 |

There were no repurchases during the year.

| Issued during the year | 2018 |
|---|-------------|
| Dated Subordinated Liabilities: | £m |
| Euro Floating Rate Notes 2028 callable 2023 | 264 |
| Euro Floating Rate Notes 2030 callable 2025 | 301 |
| US\$ Floating Rate Notes 2033 callable 2028 | 131 |

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26 Share capital

| The Group and the Bank | 2018 | 2017 |
|---|-------------|------|
| | £m | £m |
| Allotted, issued and fully paid | | |
| 120,050,000 (2017: 20,050,000) ordinary shares of £1 each | 120 | 20 |

Share capital and control

There are no 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 2018, 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.

As permitted by the Companies Act 2006, the Bank has removed references to authorised share capital from its articles of association.

27 Other reserves

| | The Group | The Bank |
|---|------------------|-----------------|
| | 2018 | 2018 |
| | £m | £m |
| Revaluation reserve in respect of debt securities held at fair value through other comprehensive income | (7) | (7) |
| Cash flow hedging reserve | 5 | 5 |
| Foreign currency translation reserve | (13) | (15) |
| At 31 December 2018 | (15) | (17) |

Movements in other reserves were as follows:

| | The Group | The Bank |
|--|------------------|-----------------|
| | £m | £m |
| Revaluation reserve in respect of debt securities held at fair value through other comprehensive income | | |
| At 1 January 2018 | - | - |
| Change in fair value | (1) | (1) |
| Transfers in | (10) | (10) |
| Deferred Tax | - | - |
| Current Tax | - | - |
| | (11) | (11) |
| Realised gains and losses transferred to other comprehensive income | | |
| Disposals | - | - |
| Deferred Tax | 4 | 4 |
| Current Tax | - | - |
| | 4 | 4 |
| At 31 December 2018 | (7) | (7) |

| | The Group | The Bank |
|---|------------------|-----------------|
| | £m | £m |
| Cash flow hedging reserve | | |
| At 1 January 2018 | - | - |
| Change in fair value of hedging derivatives | 6 | 6 |
| Deferred Tax | - | - |
| | 6 | 6 |
| Income statement transfers | - | - |
| Deferred Tax | (1) | (1) |
| | (1) | (1) |
| At 31 December 2018 | 5 | 5 |

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27 Other reserves (continued)

| | The Group £m | The Bank £m |
|--|-----------------|----------------|
| Foreign currency translation reserve | | |
| At 1 January 2018 | - | - |
| Currency translation differences arising in the year | 2 | - |
| Foreign currency (losses) gains on net investment hedges (tax: £nil) | - | - |
| Opening reserves adjustment in respect of foreign currency translation reserve | (15) | (15) |
| At 31 December 2018 | (13) | (15) |

28 Retained earnings

| | The Group £m | The Bank £m |
|--|-----------------|----------------|
| At 1 January 2018 | - | - |
| Profit for the year ¹ | 153 | 106 |
| Distributions on other equity instruments, net of tax | (18) | (18) |
| Opening reserves adjustment in respect of foreign currency translation reserve | 15 | 15 |
| Opening reserves adjustment in respect of other transfers | (19) | 9 |
| Capital contribution received ² | 2,975 | 2,975 |
| At 31 December 2018 | 3,105 | 3,087 |

¹ No income statement has been shown for the Bank, as permitted by Section 408 of the Companies Act 2006. The profit before tax of the Bank was £135million.

² During the period £2,975 million in capital contributions was received from a related undertaking and recognised through retained earnings.

29 Other equity instruments

During the year the Bank has in issue £782 million of Sterling, Dollar and Euro Additional Tier 1 (AT1) securities to Lloyds Banking Group plc. The AT1 securities are fixed rate resetting or floating rate Perpetual Subordinated Permanent Write-Down Securities with no fixed maturity or redemption date.

The principal terms of the AT1 securities are described below:

- The securities rank behind the claims against the Bank of unsubordinated creditors on a Winding-Up.
- The floating rate AT1 securities will be reset quarterly both prior to and following the first call date.
- Interest on the securities will be due and payable only at the sole discretion of the Bank and the Bank may at any time elect to cancel any Interest Payment (or any part thereof) which would otherwise be payable on any Interest Payment Date. There are also certain restrictions on the payment of interest as specified in the terms.
- The securities are undated and are repayable, at the option of the Bank, in whole at the first call date, or at any Interest Payment date thereafter. In addition, the AT1 securities are repayable, at the option of the Bank, in whole for certain regulatory or tax reasons.
- 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.

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30 Related party transactions

Balances and transactions with fellow Lloyds Banking Group undertakings

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

In accordance with IFRS10 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:

| | 2018 |
|--|--------------|
| | £m |
| Assets, included within: | |
| Derivative financial instruments | 57 |
| Trading and other assets at fair value through profit or loss | - |
| Loans and receivables: due from fellow Lloyds Banking Corporate Markets Group undertakings | 418 |
| Financial assets at fair value through other comprehensive income | - |
| | 475 |
| Liabilities, included within: | |
| Due to fellow Lloyds Banking Corporate Markets Group undertakings | 4,951 |
| Trading and other financial liabilities at fair value through profit or loss | - |
| Derivative financial instruments | - |
| Debt securities in issue | - |
| Subordinated liabilities | - |
| | 4,951 |

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 2018 the Bank earned interest income on the above asset balances of £4 million and incurred interest expense on the above liability balances of £25 million.

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

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 Lloyds Banking Group. These are included on the balance sheet as follows:

| | 2018 |
|--|---------------|
| | £m |
| Assets, included within: | |
| Loans and receivables: due from fellow Lloyds Banking Group undertakings | 967 |
| Trading and other financial assets at fair value through profit or loss | 261 |
| Derivative financial instruments | 2,936 |
| | 4,164 |
| Liabilities, included within: | |
| Due to fellow Lloyds Banking Group undertakings | 1,550 |
| Financial liabilities at FVTPL | 1,065 |
| Derivative financial instruments | 3,496 |
| Debt securities in issue | 6,382 |
| Other equity instruments (AT1) | 782 |
| Subordinated liabilities | 725 |
| | 14,000 |

These balances include the Group'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 2018 the Bank earned £12 million interest income on the above asset balances; the Bank incurred £117 million interest expense on the above liability balances.

The Bank earned Fee and Commission Income of £100 million and incurred Fee and Commission Expense of £20 million, both in respect of transactions with the ultimate parent.

Lloyds Bank Corporate Markets plc
Notes to the financial statements

30 Related party transactions (continued)

Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank. Accordingly the Group and Bank's key management personnel are the members of the LBCM board. The table below represents Key management personnel emoluments.

Key management personnel emoluments

| | 2018 | 2017 |
|------------------------------|--------------|-------|
| | £'000 | £'000 |
| Short term employee benefits | 2,353 | 198 |
| Post employment benefits | 17 | 12 |
| | 2,370 | 210 |

The amounts disclosed above relate wholly to directors of the Group.

31 Contingent liabilities and capital commitments

| | The Group | The Bank |
|---|------------------|-----------------|
| | 2018 | 2018 |
| | £m | £m |
| Contingent liabilities | | |
| Acceptances and endorsements | 163 | 163 |
| Other: | | |
| Other items serving as direct credit substitutes | 147 | 147 |
| Performance bonds and other transaction-related contingencies | 155 | 155 |
| | 302 | 302 |
| Total contingent liabilities | 465 | 465 |

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

| | The Group | The Bank |
|--|------------------|-----------------|
| | 2018 | 2018 |
| | £m | £m |
| Commitments | | |
| Less than 1 year original maturity: | | |
| Mortgage offers made | 21 | - |
| Other commitments | 7,026 | 6,325 |
| | 7,047 | 6,325 |
| 1 year or over original maturity - 3rd party | 9,499 | 9,041 |
| Total commitments | 16,546 | 15,366 |

Of the amounts shown above in respect of undrawn formal standby facilities, credit lines and other commitments to lend £16,464 million for the Group and £15,366 million for the Bank were irrevocable.

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

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Notes to the financial statements

32 Financial instruments

(1) 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 tables analyse 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 | | Designated at fair value through profit or loss £m | At fair value through other comprehensive income £m | Held at amortised cost £m |
|---|---|---|-------------|---|--|------------------------------|
| | | Held for trading £m | Other £m | | | |
| At 31 December 2018 | | | | | | |
| Financial assets | | | | | | |
| Cash and balances at central banks | - | - | - | - | - | 14,448 |
| Items in the course of collection from banks | - | - | - | - | - | 2 |
| Financial assets at fair value through profit or loss | - | 17,089 | 82 | - | - | - |
| Derivative financial instruments | - | 15,867 | - | - | - | - |
| Loans and advances to banks | - | - | - | - | - | 2,583 |
| Loans and advances to customers | - | - | - | - | - | 20,684 |
| Debt securities | - | - | - | - | - | 132 |
| Due from fellow Lloyds Banking Group undertakings | - | - | - | - | - | 6,593 |
| Financial assets at amortised cost | - | - | - | - | - | 29,992 |
| Financial assets at fair value through other comprehensive income | - | - | - | - | 412 | - |
| Total financial assets | - | 32,956 | 82 | - | 412 | 44,442 |

| The Group (continued) | Derivatives designated as hedging instruments £m | Mandatorily held at fair value through profit or loss | | Designated at fair value through profit or loss £m | At fair value through other comprehensive income £m | Held at amortised cost £m |
|--|---|---|-------------|---|--|------------------------------|
| | | Held for trading £m | Other £m | | | |
| At 31 December 2018 | | | | | | |
| Financial liabilities | | | | | | |
| Deposits from banks | - | - | - | - | - | 3,177 |
| Customer deposits | - | - | - | - | - | 26,870 |
| Due to fellow Lloyds Banking Group undertakings | - | - | - | - | - | 1,794 |
| Financial liabilities at fair value through profit or loss | - | 12,946 | - | 1,062 | - | - |
| Derivative financial instruments | - | 14,511 | - | - | - | - |
| Debt securities in issue | - | - | - | - | - | 12,942 |
| Subordinated liabilities | - | - | - | - | - | 725 |
| Total financial liabilities | - | 27,457 | - | 1,062 | - | 45,508 |

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32 Financial instruments (continued)

| The Bank | Derivatives designated as hedging instruments £m | Mandatorily held at fair value through profit or loss | | Designated at fair value through profit or loss £m | At fair value through other com- prehensive income £m | Held at amortised cost £m |
|---|--|--|-------------|--|--|------------------------------------|
| | | Held for trading £m | Other £m | | | |
| At 31 December 2018 | | | | | | |
| Financial assets | | | | | | |
| Cash and balances at central banks | - | - | - | - | - | 14,441 |
| Financial assets at fair value through profit or loss | - | 17,089 | 3 | - | - | - |
| Derivative financial instruments | - | 15,921 | - | - | - | - |
| Loans and advances to banks | - | - | - | - | - | 2,561 |
| Loans and advances to customers | - | - | - | - | - | 17,036 |
| Debt securities | - | - | - | - | - | 132 |
| Due from fellow Lloyds Banking Group undertakings | - | - | - | - | - | 1,388 |
| Financial assets at amortised cost | - | - | - | - | - | 21,117 |
| Financial assets at fair value through other comprehensive income | - | - | - | - | 412 | - |
| Total financial assets | - | 33,010 | 3 | - | 412 | 35,558 |

| The Bank (continued) | Derivatives designated as hedging instruments £m | Mandatorily held at fair value through profit or loss | | Designated at fair value through profit or loss £m | At fair value through other com- prehensive income £m | Held at amortised cost £m |
|--|--|--|-------------|--|--|------------------------------------|
| | | Held for trading £m | Other £m | | | |
| At 31 December 2018 | | | | | | |
| Financial liabilities | | | | | | |
| Deposits from banks | - | - | - | - | - | 3,176 |
| Customer deposits | - | - | - | - | - | 14,180 |
| Due to fellow Lloyds Banking Group undertakings | - | - | - | - | - | 6,501 |
| Items in course of transmission to banks | - | - | - | - | - | - |
| Financial liabilities at fair value through profit or loss | - | 12,946 | - | 1,062 | - | - |
| Derivative financial instruments | - | 14,510 | - | - | - | - |
| Debt securities in issue | - | - | - | - | - | 12,942 |
| Subordinated liabilities | - | - | - | - | - | 725 |
| Total financial liabilities | - | 27,456 | - | 1,062 | - | 37,524 |

Lloyds Bank Corporate Markets plc
Notes to the financial statements

32 Financial instruments (continued)

(2) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is a measure 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 held by the Group. 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 the Group.

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

The 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, items in course of transmission to banks, notes in circulation and liabilities arising from non-participating investment contracts.

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 the Group'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 the Group's consolidated balance sheet. These items include intangible assets, such as the value of the Group's branch network, the long-term relationships with depositors and credit card relationships; premises and equipment; and shareholders' equity. These items are material and accordingly the Group believes that the fair value information presented does not represent the underlying value of the Group.

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 the Group's systems and that the profit and loss and risk reporting are consistent throughout the trade life cycle. 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) reserve.

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 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. Certain of the Group's asset-backed securities and derivatives, principally where there is no trading activity in such securities, are also classified as level 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.

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32 Financial instruments (continued)

(3) Financial assets and liabilities carried at fair value

(A) Financial assets, excluding derivatives

Valuation hierarchy

At 31 December 2018, the Group's financial assets carried at fair value, excluding derivatives, totalled £17,583 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 56). 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 |
|--|-----------------------|-----------------------|-----------------------|---------------------|
| As at 31 December 2018 | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Loans and advances to customers | - | 11,295 | 3 | 11,298 |
| Loans and advances to banks | - | 612 | - | 612 |
| Debt securities: | | | | |
| Government securities | 4,899 | - | - | 4,899 |
| Other public sector securities | - | - | - | - |
| Bank and building society certificates of deposit | - | 59 | - | 59 |
| Asset-backed securities: | | | | |
| Mortgage-backed securities | - | 10 | - | 10 |
| Other-asset-backed securities | - | 43 | - | 43 |
| Corporate and other debt securities | - | 230 | - | 230 |
| | 4,899 | 342 | - | 5,241 |
| Equity shares | - | - | - | - |
| Treasury and other bills | 20 | - | - | 20 |
| Total financial assets at fair value through profit or loss | 4,919 | 12,249 | 3 | 17,171 |
| <hr/> | | | | |
| The Group | Level 1 £m | Level 2 £m | Level 3 £m | Total £m |
| Financial assets at fair value through other comprehensive income | | | | |
| Debt securities: | | | | |
| Government securities | - | - | - | - |
| Bank and building society certificates of deposit | - | 136 | - | 136 |
| Asset-backed securities: | | | | |
| Mortgage-backed securities | - | - | - | - |
| Other-asset-backed securities | - | - | 121 | 121 |
| Corporate and other debt securities | - | 73 | - | 73 |
| | - | 209 | 121 | 330 |
| Equity shares | - | - | - | - |
| Treasury and other bills | 82 | - | - | 82 |
| Total financial assets at fair value through other comprehensive income | 82 | 209 | 121 | 412 |
| Total financial assets carried at fair value, excluding derivatives | 5,001 | 12,458 | 124 | 17,583 |

Lloyds Bank Corporate Markets plc
Notes to the financial statements

32 Financial instruments (continued)

| The Bank | Level 1 £m | Level 2 £m | Level 3 £m | Total £m |
|--|---------------|---------------|---------------|---------------|
| As at 31 December 2018 | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Loans and advances to customers | - | 11,295 | 3 | 11,298 |
| Loans and advances to banks | - | 612 | - | 612 |
| Debt securities: | | | | |
| Government securities | 4,898 | - | - | 4,898 |
| Other public sector securities | - | - | - | - |
| Bank and building society certificates of deposit | - | - | - | - |
| Asset-backed securities: | | | | |
| Mortgage-backed securities | - | 10 | - | 10 |
| Other-asset-backed securities | - | 43 | - | 43 |
| Corporate and other debt securities | - | 231 | - | 231 |
| | 4,898 | 284 | - | 5,182 |
| Equity shares | - | - | - | - |
| Treasury and other bills | - | - | - | - |
| Total financial assets at fair value through profit or loss | 4,898 | 12,191 | 3 | 17,092 |
| Financial assets at fair value through other comprehensive income | | | | |
| Debt securities: | | | | |
| Government securities | - | - | - | - |
| Bank and building society certificates of deposit | - | 136 | - | 136 |
| Asset-backed securities: | | | | |
| Mortgage-backed securities | - | - | - | - |
| Other-asset-backed securities | - | - | 121 | 121 |
| Corporate and other debt securities | - | - | 73 | 73 |
| | - | 136 | 194 | 330 |
| Equity shares | - | - | - | - |
| Treasury and other bills | 82 | - | - | 82 |
| Total financial assets at fair value through other comprehensive income | 82 | 136 | 194 | 412 |
| Total financial assets carried at fair value, excluding derivatives | 4,980 | 12,327 | 197 | 17,504 |

Movements in level 3 portfolio

The table below analyses movements in level 3 financial assets, excluding derivatives, carried at fair value:

| The Group and the Bank | Financial assets at fair value through profit or loss £m | At fair value through other comprehensive income £m | Total level 3 assets carried at fair value, excluding derivatives £m |
|--|---|--|---|
| Opening balance | - | - | - |
| Exchange and other adjustments | 1 | - | 1 |
| (Losses) gains recognised in other comprehensive income within the revaluation reserve in respect of financial assets at fair value through other comprehensive income | (1) | - | (1) |
| Purchases | 3 | 194 | 197 |
| At 31 December 2018 | 3 | 194 | 197 |

Lloyds Bank Corporate Markets plc
Notes to the financial statements

32 Financial instruments (continued)

Valuation methodology for financial assets, excluding derivatives

Loans and advances to customers and banks

These assets are principally reverse repurchase agreements. The fair value of these assets is determined using discounted cash flow techniques. The discount rates are derived from observable repo curves specific to the type of security purchased under the reverse repurchase agreement.

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, the Group 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.

(B) Financial liabilities, excluding derivatives

Valuation hierarchy

At 31 December 2018, the Group's financial liabilities carried at fair value, excluding derivatives, totalled £14,008 million. The table below analyses these financial liabilities by balance sheet classification, liability type and valuation methodology (level 1, 2 or 3, as described on page 56). 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 |
|---|----------------------|----------------------|----------------------|--------------------|
| As at 31 December 2018 | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| Liabilities held at fair value through profit or loss | - | 1,062 | - | 1,062 |
| Trading liabilities: | | | | |
| Liabilities in respect of securities sold under repurchase | - | 11,440 | - | 11,440 |
| Short positions in securities | 1,397 | 99 | - | 1,496 |
| Other positions | - | 10 | - | 10 |
| Total Trading liabilities | 1,397 | 11,549 | - | 12,946 |
| Total financial liabilities carried at fair value, excluding derivatives | 1,397 | 12,611 | - | 14,008 |

Movements in level 3 portfolio

There have been no movements in level 3 financial liabilities, excluding derivatives, carried at fair value during the year.

Valuation methodology for financial liabilities, excluding derivatives

Liabilities held at fair value through profit or loss

These principally comprise debt securities in issue which are classified as level 2 and their fair value is determined using techniques whose inputs are based on observable market data. The carrying amount of the securities is adjusted to reflect the effect of changes in own credit spreads and the resulting gain or loss is recognised in other comprehensive income.

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 repo curves specific to the type of security sold under the repurchase agreement.

(C) Derivatives

All the Group's derivative assets and liabilities are carried at fair value. At year end such assets totalled £15,867 million for the Group and £15,921 million for the Bank and liabilities totalled £14,511 million for the Group and £14,510 million for the Bank. The table below analyses these derivative balances by valuation methodology (level 1, 2 or 3, as described on page 56). The fair value measurement approach is recurring in nature. There were no significant transfers between level 1 and level 2 during the year.

| The Group | Level 1 £m | Level 2 £m | Level 3 £m | Total £m |
|-------------------------------|----------------------|----------------------|----------------------|--------------------|
| As at 31 December 2018 | | | | |
| Derivative assets | 4 | 14,941 | 922 | 15,867 |
| Derivative liabilities | - | 13,804 | 707 | 14,511 |
| The Bank | | | | |
| As at 31 December 2018 | | | | |
| Derivative assets | 4 | 14,995 | 922 | 15,921 |
| Derivative liabilities | - | 13,803 | 707 | 14,510 |

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32 Financial instruments (continued)

Where the Group's 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, the Group calibrates its models using observable at-the-money data; where necessary, the Group adjusts for out-of-the-money positions using a market standard consensus pricing service.

Complex interest rate and foreign exchange products where there is significant dispersion of consensus pricing or where implied funding costs are 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 are used to calculate CVA, FVA, and own credit adjustments, but are not considered significant in determining the classification of the derivative and debt portfolios. Consequently, those inputs do not form part of the level 3 sensitivities presented.

Movements in level 3 portfolio

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

| The Group and the Bank | Derivative assets £m | Derivative liabilities £m |
|--|---------------------------------|--------------------------------------|
| Opening balance | - | - |
| Gains recognised in the income statement within other income | - | 68 |
| Purchases | 922 | 639 |
| At 31 December 2018 | 922 | 707 |

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, excluding monoline counterparties

The following table summarises the movement on this valuation adjustment account for the Group during 2018.

| Uncollateralised derivative valuation adjustments | 2018 £m |
|--|--------------------|
| At 1 January 2018 | - |
| Transfers in | 225 |
| Income statement charge | 85 |
| At 31 December 2018 | 310 |
| Represented by | 2018 £m |
| Credit Valuation Adjustment (CVA) | 271 |
| Debit Valuation Adjustment (DVA) | (97) |
| Funding Valuation Adjustment | 136 |
| | 310 |

Credit and Debit Valuation Adjustments (CVA and DVA) are applied to the Group's over-the-counter derivative exposures with counterparties that are not subject to standard collateral arrangements (CSAs). These adjustments reflect the level of interest rates, foreign exchange rates, expectations of counterparty creditworthiness and the Group's own credit spread respectively.

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

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32 Financial instruments (continued)

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 becomes credit 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 the Group.

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 £47.7 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 (in total contributing £nil of the overall CVA balance at 31 December 2018).

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 implied CDS spread.

A one per cent rise in the CDS spread would lead to an increase in the DVA of £21.1 million to £118.5 million.

The risk exposures that are used for the CVA and DVA calculations are strongly influenced by interest rates and foreign exchange rates. Due to the nature of the Group's business and client hedging needs, CVA/DVA exposures and valuation adjustments tend to fall when interest rates rise. A one per cent rise in interest rates would lead to a £8.4 million fall in the overall valuation adjustment to £166.2 million. The CVA model used by the Group does not assume any correlation between the level of interest rates and default rates.

The Group 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 approximately £13.6 million.

(ii) Market liquidity

The Group includes mid to bid-offer valuation adjustments against the expected cost of closing out the net market risk in the Group's trading positions within a timeframe 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 2018, the Group's derivative trading business held mid to bid-offer valuation adjustments of £62.5 million.

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32 Financial instruments (continued)

(D) Sensitivity of level 3 valuations

| The Group and the Bank | | | Effect of reasonably possible alternative | | |
|--|------------------------|--|---|--------------------------|----------------------------|
| | Valuation technique(s) | Significant unobservable inputs ¹ | Carrying value £m | Favourable changes £m | Unfavourable changes £m |
| At 31 December 2018 | | | | | |
| Financial Assets at fair value through profit or loss | | | | | |
| Loans and advances to customers | Comparable Pricing | Price | 3 | - | - |
| | | | 3 | - | - |
| Financial Assets at fair value through other comprehensive income | | | | | |
| Asset-backed securities | Comparable Pricing | Price | 121 | - | (1) |
| | Discounted cash flow | Discount margin | - | - | - |
| | Comparable Pricing | Price | 73 | 3 | (3) |
| | | | 194 | 3 | (4) |
| Derivative financial assets | | | | | |
| Interest rate derivatives | Option pricing model | Inflation Volatility | 311 | 3 | (3) |
| | Option pricing model | Interest Rate Volatility | 612 | 3 | (2) |
| | | | 923 | 6 | (5) |
| Level 3 financial assets carried at fair value | | | 1,120 | 9 | (9) |
| Derivative financial liabilities | | | | | |
| Interest rate derivatives | Option pricing model | Inflation Volatility | (237) | - | - |
| | Option pricing model | Interest Rate Volatility | (470) | - | - |
| | | | (707) | - | - |
| Level 3 financial liabilities carried at fair value | | | (707) | - | - |

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 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.

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32 Financial instruments (continued)

Reasonably possible alternative assumptions

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

Debt securities

Reasonably possible alternative assumptions have been determined in respect of the Group's structured credit investment by flexing credit spreads.

Derivatives

Reasonably possible alternative assumptions have been determined in respect of swaptions in the Group'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 of 19 per cent to 80 per cent.

(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 the Group which are carried at amortised cost by valuation methodology (level 1, 2 or 3, as described on page 56). 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 | Level 1 £m | Level 2 £m | Level 3 £m |
|---|------------------------------|--------------------------|-----------------------|-----------------------|-----------------------|
| As at 31 December 2018 | | | | | |
| Loans and advances to customers | 20,684 | 20,701 | - | 4,604 | 16,097 |
| Loans and advances to banks | 2,583 | 2,583 | - | - | 2,583 |
| Debt securities | 132 | 127 | - | 127 | - |
| Due from fellow Lloyds Banking Group undertakings | 6,593 | 6,593 | - | - | 6,593 |
| Reverse repos included in above amounts: | | | | | |
| Loans and advances to customers | 4,604 | 4,604 | - | 4,604 | - |
| Loans and advances to banks | - | - | - | - | - |

| The Bank | Carrying value £m | Fair value £m | Level 1 £m | Level 2 £m | Level 3 £m |
|---|------------------------------|--------------------------|-----------------------|-----------------------|-----------------------|
| As at 31 December 2018 | | | | | |
| Loans and advances to customers | 17,036 | 17,051 | - | 4,604 | 12,447 |
| Loans and advances to banks | 2,561 | 2,561 | - | - | 2,561 |
| Debt securities | 132 | 127 | - | 127 | - |
| Due from fellow Lloyds Banking Group undertakings | 1,388 | 1,388 | - | - | 1,388 |
| Reverse repos included in above amounts: | | | | | |
| Loans and advances to customers | 4,604 | 4,604 | - | 4,604 | - |
| Loans and advances to banks | - | - | - | - | - |

Valuation methodology

Loans and advances to customers

The Group 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 the variable rate loans and those 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 the Group and other financial institutions. Certain loans secured on residential properties are made at a fixed rate for a limited period, typically two to five years, after which the loans revert to the relevant variable rate. The fair value of such loans is estimated by reference to the 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. No adjustment is made to put it in place by the Group to manage its interest rate exposure.

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32 Financial instruments (continued)

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 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.

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.

Reverse repurchase agreements

The carrying amount is deemed a reasonable approximation of fair value given the short-term nature of these instruments.

(B) Financial liabilities

Valuation hierarchy

The table below analyses the fair values of the financial liabilities of the Group which are carried at amortised cost by valuation methodology (level 1, 2 or 3, as described on page 56).

| The Group | Carrying value £m | Fair value £m | Level 1 £m | Level 2 £m | Level 3 £m |
|---|----------------------|------------------|---------------|---------------|---------------|
| As at 31 December 2018 | | | | | |
| Deposits from banks | 3,177 | 3,196 | - | 3,196 | - |
| Customer deposits | 26,870 | 26,910 | - | 26,910 | - |
| Due to fellow Lloyds Banking Group undertakings | 1,794 | 1,794 | - | 1,794 | - |
| Debt securities in issue | 12,942 | 12,897 | - | 12,897 | - |
| Subordinated liabilities | 725 | 725 | - | 725 | - |
| Repos included in above amounts: | | | | | |
| Deposits from banks | - | - | - | - | - |
| Customer deposits | 372 | 372 | - | 372 | - |
| Due to fellow Lloyds Banking Group undertakings | - | - | - | - | - |

| The Bank | Carrying value £m | Fair value £m | Level 1 £m | Level 2 £m | Level 3 £m |
|---|----------------------|------------------|---------------|---------------|---------------|
| As at 31 December 2018 | | | | | |
| Deposits from banks | 3,176 | 3,195 | - | 3,195 | - |
| Customer deposits | 14,180 | 14,226 | - | 14,226 | - |
| Due to fellow Lloyds Banking Group undertakings | 6,501 | 6,501 | - | 6,501 | - |
| Debt securities in issue | 12,942 | 12,897 | - | 12,897 | - |
| Subordinated liabilities | 725 | 725 | - | 725 | - |
| Repos included in above amounts: | | | | | |
| Deposits from banks | - | - | - | - | - |
| Customer deposits | 372 | 372 | - | 372 | - |
| Due to fellow Lloyds Banking Group undertakings | - | - | - | - | - |

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.

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 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 the Group's own credit spread.

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32 Financial instruments (continued)

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.

Repurchase agreements

The carrying amount is deemed a reasonable approximation of fair value given the short-term nature of these instruments.

(5) Reclassifications of financial assets

There have been no reclassifications of financial assets in 2018.

33 Business combinations

During the year, the Group acquired 100% of the voting equity instruments and obtained control of a number of fellow Lloyds Banking Group undertakings representing the element of their commercial banking businesses required to be transferred in order to ensure compliance with the Ring-fencing legislation for a total consideration of £13 billion. The legal entities transferred during the year are those listed in note 41 below. All entities transferred have remained under common control of the ultimate parent.

Consistent with predecessor accounting (refer note 3), the consideration paid was equal to book value and hence no goodwill or discount arose on acquisition. Total consideration was paid as cash.

The Bank did not dispose of any operations of the acquiree as part of this business combination.

Predecessor accounting has been applied prospectively as described in note 3.

34 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 the Group has enforceable master netting agreements or collateral arrangements in place with counterparties.

| | Gross amounts of assets and liabilities ¹ £m | Amounts 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 2018 | | | | | | |
| Financial assets | | | | | | |
| Financial assets at fair value through profit or loss: | | | | | | |
| Excluding reverse repos | 5,264 | - | 5,264 | - | (1,418) | 3,846 |
| Reverse repos | 16,259 | (4,352) | 11,907 | - | (11,907) | - |
| | 21,523 | (4,352) | 17,171 | - | (13,325) | 3,846 |
| Derivative financial instruments | 29,191 | (13,324) | 15,867 | (3,143) | (10,150) | 2,574 |
| Loans and advances to banks: | | | | | | |
| Excluding reverse repos | 2,583 | - | 2,583 | (1,179) | - | 1,404 |
| Reverse repos | - | - | - | - | - | - |
| | 2,583 | - | 2,583 | (1,179) | - | 1,404 |
| Loans and advances to customers: | | | | | | |
| Excluding reverse repos | 18,723 | (2,643) | 16,080 | (456) | - | 15,624 |
| Reverse repos | 4,604 | - | 4,604 | - | (4,604) | - |
| | 23,327 | (2,643) | 20,684 | (456) | (4,604) | 15,624 |
| Debt securities | 132 | - | 132 | - | - | 132 |
| Financial assets at fair value through other comprehensive income | 412 | - | 412 | - | - | 412 |

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34 Offsetting of financial assets and liabilities (continued)

| | Gross amounts of assets and liabilities ¹ £m | Amounts 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 2018 | | | | | | |
| Financial liabilities | | | | | | |
| Deposits from banks: | | | | | | |
| Excluding repos | 3,177 | - | 3,177 | (2,067) | - | 1,110 |
| Repos | - | - | - | - | - | - |
| | 3,177 | - | 3,177 | (2,067) | - | 1,110 |
| Customer deposits: | | | | | | |
| Excluding repos | 26,611 | (113) | 26,498 | (1,077) | - | 25,421 |
| Repos | 372 | - | 372 | - | - | 372 |
| | 26,983 | (113) | 26,870 | (1,077) | - | 25,793 |
| Financial liabilities at fair value through profit or loss: | | | | | | |
| Excluding repos | 1,506 | - | 1,506 | - | - | 1,506 |
| Repos | 16,855 | (4,353) | 12,502 | (3,837) | (8,665) | - |
| | 18,361 | (4,353) | 14,008 | (3,837) | (8,665) | 1,506 |
| Derivative financial instruments | 30,366 | (15,855) | 14,511 | (1,635) | (2,687) | 10,189 |

¹ After impairment allowance.

² The amounts set off in the balance sheet as shown above 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.

35 Financial risk management

Financial instruments are fundamental to the Group's activities and, as a consequence, the risks associated with financial instruments represent a significant component of the risks faced by the Group.

The primary risks affecting the Group through its use of financial instruments are: credit risk; market risk, which includes interest rate risk and currency risk; and liquidity risk. Information about the Group's management of these risks is given below.

(1) Credit risk

The Group's credit risk exposure arises in respect of the instruments below. 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 measure the credit risk of loans and advances to customers and banks 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 the Group derives the exposure at default; and (iii) the likely loss ratio on the defaulted obligations, the loss given default. The Group 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 derivative based transactions.

A. Maximum credit exposure

The maximum credit risk exposure of the Group and the Bank 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.

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35 Financial risk management (continued)

| The Group | Maximum exposure £m | Offset ² £m | Net exposure £m |
|---|------------------------------------|-----------------------------------|--------------------------------|
| 31 December 2018 | | | |
| Loans and advances to banks, net ¹ | 2,583 | - | 2,583 |
| Loans and advances to customers, net ¹ | 20,684 | (456) | 20,228 |
| Debt securities, net ¹ | 132 | - | 132 |
| | 23,399 | (456) | 22,943 |
| Financial assets at fair value through other comprehensive income | 412 | - | 412 |
| Financial assets at fair value through profit or loss: | | | |
| Loans and advances | 11,910 | - | 11,910 |
| Debt securities, treasury and other bills | 5,261 | - | 5,261 |
| | 17,171 | - | 17,171 |
| Derivative assets | 15,867 | (8,343) | 7,524 |
| Off-balance sheet items: | | | |
| Acceptances and endorsements | 163 | - | 163 |
| Other items serving as direct credit substitutes | 147 | - | 147 |
| Performance bonds and other transaction related contingencies | 155 | - | 155 |
| Irrevocable commitments and guarantees | 16,464 | - | 16,464 |
| | 16,929 | - | 16,929 |
| | 73,778 | (8,799) | 64,979 |
| <hr/> | | | |
| The Bank | Maximum exposure £m | Offset ² £m | Net exposure £m |
| 31 December 2018 | | | |
| Loans and advances to banks, net ¹ | 2,561 | - | 2,561 |
| Loans and advances to customers, net ¹ | 17,036 | (456) | 16,580 |
| Debt securities, net ¹ | 132 | - | 132 |
| | 19,729 | (456) | 19,273 |
| Financial assets at fair value through other comprehensive income | 412 | - | 412 |
| Financial assets at fair value through profit or loss: | | | |
| Loans and advances | 11,910 | - | 11,910 |
| Debt securities, treasury and other bills | 5,182 | - | 5,182 |
| | 17,092 | - | 17,092 |
| Derivative assets | 15,867 | (8,343) | 7,524 |
| Off-balance sheet items: | | | |
| Acceptances and endorsements | 163 | - | 163 |
| Other items serving as direct credit substitutes | 147 | - | 147 |
| Performance bonds and other transaction related contingencies | 155 | - | 155 |
| Irrevocable commitments and guarantees | 15,366 | - | 15,366 |
| | 15,831 | - | 15,831 |
| | 68,931 | (8,799) | 60,132 |

¹ Amounts shown net of related impairment allowances.

² 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.

B. Concentrations of exposure

The Group's management of concentration risk includes single name, industry sector and country limits as well as controls over the Group's overall exposure to certain products.

At 31 December 2018 the most significant concentrations of exposure were in Financial, business and other services (comprising 78 per cent of total loans and advances to customers) and to Manufacturing (comprising 8 per cent of the total).

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35 Financial risk management (continued)

Loans and advances to customers

| | The Group £m | The Bank £m |
|---|-----------------|----------------|
| 31 December 2018 | | |
| Agriculture, forestry and fishing | 7 | - |
| Energy and water supply | 160 | 160 |
| Manufacturing | 1,564 | 1,556 |
| Construction | 216 | 9 |
| Transport, distribution and hotels | 181 | 166 |
| Postal and telecommunications | 316 | 311 |
| Property companies | 1,172 | 1,088 |
| Financial, business and other services | 16,160 | 13,836 |
| Mortgages | 707 | - |
| Other: Personal | 83 | - |
| Lease financing | 136 | - |
| Hire purchase | 81 | - |
| Total loans and advances to customers before allowance for impairment losses | 20,783 | 17,126 |
| Allowance for impairment losses (note 16) | (101) | (90) |
| Total loans and advances to customers | 20,682 | 17,036 |

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 the Group 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.

| | Corporate | |
|----------------------|-----------|-------------|
| | Grade | IFRS 9 PD% |
| Good quality | 1-10 | 0.00-0.50 |
| Satisfactory quality | 11-14 | 0.51-3.00 |
| Lower quality | 15-18 | 3.01-20.00 |
| Below standard | 19 | 20.01-99.99 |
| Credit impaired | 20-23 | 100 |

| The Group | Loans and advances to banks £m | Loans and advances to customers £m |
|--|---|---|
| Gross carrying amount | | |
| At 31 December 2018 | | |
| Stage 1 | | |
| Good quality | 2,584 | 19,594 |
| Satisfactory quality | - | 712 |
| Lower quality | - | 153 |
| Below standard, but not credit-impaired | - | - |
| | 2,584 | 20,459 |
| Stage 2 | | |
| Good quality | - | - |
| Satisfactory quality | - | 1 |
| Lower quality | - | 22 |
| Below standard, but not credit-impaired | - | - |
| | - | 23 |
| Stage 3 | | |
| Credit-impaired | - | 303 |
| <i>Purchased or originated credit-impaired</i> | | |
| Credit-impaired | 1 | - |
| Total | 2,585 | 20,785 |

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35 Financial risk management (continued)

| The Group | Loans and advances to customers | |
|--|--|--|
| Loan commitments and financial guarantees | £m | |
| At 31 December 2018 | | |
| Stage 1 | | |
| Good quality | 16,209 | |
| Satisfactory quality | 281 | |
| Lower quality | 56 | |
| Below standard, but not credit-impaired | - | |
| | 16,546 | |
| Stage 2 | | |
| Good quality | - | |
| Satisfactory quality | - | |
| Lower quality | - | |
| Below standard, but not credit-impaired | - | |
| | - | |
| Stage 3 | | |
| Credit-impaired | - | |
| <i>Purchased or originated credit-impaired</i> | - | |
| Credit-impaired | - | |
| Total | 16,546 | |
| <hr/> | | |
| | Loans and advances to banks | Loans and advances to customers |
| The Bank | £m | £m |
| Gross carrying amount | | |
| At 31 December 2018 | | |
| Stage 1 | | |
| Good quality | 2,562 | 16,031 |
| Satisfactory quality | - | 665 |
| Lower quality | - | 153 |
| Below standard, but not credit-impaired | - | - |
| | 2,562 | 16,849 |
| Stage 2 | | |
| Good quality | - | - |
| Satisfactory quality | - | - |
| Lower quality | - | - |
| Below standard, but not credit-impaired | - | - |
| | - | - |
| Stage 3 | | |
| Credit-impaired | - | 277 |
| <i>Purchased or originated credit-impaired</i> | - | - |
| Credit-impaired | - | - |
| Total | 2,562 | 17,126 |

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35 Financial risk management (continued)

| The Bank | Loans and advances to customers £m |
|--|---------------------------------------|
| Loan commitments and financial guarantees | |
| At 31 December 2018 | |
| Stage 1 | |
| Good quality | 15,029 |
| Satisfactory quality | 281 |
| Lower quality | 56 |
| Below standard, but not credit-impaired | - |
| | 15,366 |
| Stage 2 | |
| Good quality | - |
| Satisfactory quality | - |
| Lower quality | - |
| Below standard, but not credit-impaired | - |
| Stage 3 | |
| Credit-impaired | - |
| <i>Purchased or originated credit-impaired</i> | - |
| Credit-impaired | - |
| Total | 15,366 |

Loans and advances carried at fair value through profit or loss includes £11,907 million for the Group and for the Bank of trading assets of which £15,029 million for the Group and for the Bank have a good quality rating and £281 million for the Group and the Bank have a satisfactory rating. The remaining £3 million Loans and advances carried at fair value through profit or loss for the Group and for the Bank is Other assets mandatorily held at fair value through profit or loss, all of which is viewed by the business as investment grade.

Debt securities held at amortised cost

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

| The Group and the Bank | Investment grade ¹ £m | Other ² £m | Total £m |
|---|-------------------------------------|--------------------------|-------------|
| 31 December 2018 | | | |
| Asset-backed securities: | | | |
| Mortgage-backed securities | - | - | - |
| Other asset-backed securities | 132 | - | 132 |
| Corporate and other debt securities | - | - | - |
| Gross exposure | 132 | - | 132 |
| Allowance for impairment losses | | | - |
| Total debt securities held at amortised cost | | | 132 |

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

² Other comprises sub-investment grade (2018: £nil million for the Group and £nil for the Bank) and not rated (2018: £nil million for the Group and £nil for the Bank).

Financial assets at fair value through other comprehensive income

An analysis of financial assets at fair value through other comprehensive income is included in note 17. The credit quality of financial assets at fair value through other comprehensive income (excluding equity shares) is set out below:

Lloyds Bank Corporate Markets plc
Notes to the financial statements

35 Financial risk management (continued)

| The Group | Investment grade ¹ £m | Other ² £m | Total £m |
|--|-------------------------------------|--------------------------|-------------|
| 31 December 2018 | | | |
| <i>Debt securities</i> | | | |
| Government securities | - | - | - |
| Bank and building society certificates of deposit | 118 | - | 118 |
| Asset-backed securities: | | | |
| Mortgage-backed securities | 121 | - | 121 |
| Other asset-backed securities | - | 73 | 73 |
| | 121 | 73 | 194 |
| Corporate and other debt securities | 18 | - | 18 |
| Total debt securities | 257 | 73 | 330 |
| Treasury and other bills | 82 | - | 82 |
| Total financial assets at fair value through other comprehensive income | 339 | 73 | 412 |

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

² Other comprises sub-investment grade (2018: £nil million) and not rated (2018: £73 million).

| The Bank | Investment grade ¹ £m | Other ² £m | Total £m |
|--|-------------------------------------|--------------------------|-------------|
| 31 December 2018 | | | |
| <i>Debt securities</i> | | | |
| Government securities | - | - | - |
| Bank and building society certificates of deposit | 118 | - | 118 |
| Asset-backed securities: | | | |
| Mortgage-backed securities | 121 | - | 121 |
| Other asset-backed securities | - | 73 | 73 |
| | 121 | 73 | 194 |
| Corporate and other debt securities | 18 | - | 18 |
| Total debt securities | 257 | 73 | 330 |
| Treasury and other bills | 82 | - | 82 |
| Total financial assets at fair value through other comprehensive income | 339 | 73 | 412 |

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

² Other comprises sub-investment grade (2018: £nil million) and not rated (2018: £73 million).

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 12. The credit quality of debt securities, treasury and other bills held at fair value through profit or loss is set out below.

Lloyds Bank Corporate Markets plc
Notes to the financial statements

35 Financial risk management (continued)

| The Group | Investment grade ¹ £m | Other ² £m | Total £m |
|---|-------------------------------------|--------------------------|--------------|
| 31 December 2018 | | | |
| <i>Trading assets</i> | | | |
| Government securities | 4,898 | - | 4,898 |
| Bank and building society certificates of deposit | - | - | - |
| Asset-backed securities: | | | |
| Mortgage-backed securities | 10 | - | 10 |
| Other asset-backed securities | 43 | - | 43 |
| | 53 | - | 53 |
| Corporate and other debt securities | 205 | 26 | 231 |
| Total held as trading assets | 5,156 | 26 | 5,182 |
| <i>Other assets mandatorily at fair value through profit or loss</i> | | | |
| Government securities | - | - | - |
| Bank and building society certificates of deposit | 59 | - | 59 |
| Corporate and other debt securities | - | - | - |
| Total debt securities mandatorily at fair value through profit or loss | 59 | - | 59 |
| Treasury and other bills | 20 | - | 20 |
| Total other assets mandatorily at fair value through profit or loss | 79 | - | 79 |
| | 5,235 | 26 | 5,261 |
| Due from fellow Lloyds Banking Group undertakings: | | | |
| Corporate and other debt securities | - | - | - |
| Total held at fair value through profit or loss | 5,235 | 26 | 5,261 |

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

² Other comprises sub-investment grade (2018: £nil million) and not rated (2018: £26 million).

| The Bank | Investment grade ¹ £m | Other ² £m | Total £m |
|---|-------------------------------------|--------------------------|--------------|
| 31 December 2018 | | | |
| <i>Trading assets</i> | | | |
| Government securities | 4,898 | - | 4,898 |
| Bank and building society certificates of deposit | - | - | - |
| Asset-backed securities: | | | |
| Mortgage-backed securities | 10 | - | 10 |
| Other asset-backed securities | 43 | - | 43 |
| | 53 | - | 53 |
| Corporate and other debt securities | 205 | 26 | 231 |
| Total held as trading assets | 5,156 | 26 | 5,182 |
| <i>Other assets mandatorily at fair value through profit or loss</i> | | | |
| Government securities | - | - | - |
| Bank and building society certificates of deposit | - | - | - |
| Corporate and other debt securities | - | - | - |
| Total debt securities mandatorily at fair value through profit or loss | - | - | - |
| Treasury and other bills | - | - | - |
| Total other assets mandatorily at fair value through profit or loss | - | - | - |
| | 5,156 | 26 | 5,182 |
| Due from fellow Lloyds Banking Group undertakings: | | | |
| Corporate and other debt securities | - | - | - |
| Total held at fair value through profit or loss | 5,156 | 26 | 5,182 |

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

² Other comprises sub-investment grade (2018: £nil million) and not rated (2018: £26 million).

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Notes to the financial statements

35 Financial risk management (continued)

Derivative assets

An analysis of derivative assets is given in note 13.

The Group reduces exposure to credit risk by using master netting agreements and by obtaining collateral in the form of cash or highly liquid securities. In respect of the net credit risk relating to derivative assets of £15,867 million for the Group, cash collateral of £3,143 million for the Group was held and a further £119 million for the Group was due from OECD banks.

| The Group | Investment grade ¹ £m | Other ² £m | Total £m |
|--|-------------------------------------|--------------------------|---------------|
| 31 December 2018 | | | |
| Trading and other | 12,091 | 838 | 12,929 |
| Hedging | - | - | - |
| | 12,091 | 838 | 12,929 |
| Due from fellow Lloyds Banking Group undertakings: | | | 2,938 |
| Total derivative financial instruments | | | 15,867 |

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

² Other comprises sub-investment grade (2018: £638 million) and not rated (2018: £200 million).

| The Bank | Investment grade ¹ £m | Other ² £m | Total £m |
|--|-------------------------------------|--------------------------|---------------|
| 31 December 2018 | | | |
| Trading and other | 12,091 | 838 | 12,929 |
| Hedging | - | - | - |
| | 12,091 | 838 | 12,929 |
| Due from fellow Lloyds Banking Group undertakings: | | | 2,992 |
| Total derivative financial instruments | | | 15,921 |

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

² Other comprises sub-investment grade (2018: £638 million) and not rated (2018: £200 million).

Financial guarantees and irrevocable loan commitments

Financial guarantees represent undertakings that the Group 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. The Group 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 Group 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.

Loans and receivables

The Group holds collateral in respect of loans and advances to banks and customers as set out below. The Group 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 banks

There were reverse repurchase agreements which are accounted for as collateralised loans within loans and advances to banks with a carrying value of £2,583 million for the Group and the Bank, against which the Group and the Bank held collateral of £1,179 million.

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

Commercial lending

Reverse repurchase transactions

At 31 December 2018 there were reverse repurchase agreements which were accounted for as collateralised loans with a carrying value of £4,604 million for the Group and the Bank against which the Group and the Bank held collateral with a fair value of £3,143 million all of which the Group was able to repledge. No collateral in the form of cash was provided in respect of reverse repurchase agreements to the Group or the Bank. These transactions were generally conducted under terms that are usual and customary for standard secured lending activities.

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35 Financial risk management (continued)

Stage 3 secured lending

The value of collateral is re-evaluated and its legal soundness re-assessed if there is observable evidence of distress of the borrower; this evaluation is used to determine potential loss allowances and management's strategy to try to either repair the business or recover the debt.

Stage 3 secured commercial lending and associated collateral relates to lending to property companies and to customers in the financial, business and other services; transport, distribution and hotels; and construction industries.

Stage 1 and Stage 2 secured lending

For Stage 1 and Stage 2 secured commercial lending, the Group reports assets gross of collateral and therefore discloses the maximum loss exposure. The Group believes that this approach is appropriate as collateral values at origination and during a period of good performance may not be representative of the value of collateral if the obligor enters a distressed state.

Stage 1 and Stage 2 secured commercial lending is predominantly managed on a cash flow basis. On occasion, it may include an assessment of underlying collateral, although, for Stage 3 lending, this will not always involve assessing it on a fair value basis. No aggregated collateral information for the entire unimpaired secured commercial lending portfolio is provided to key management personnel.

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 £11,669 million for the Group and the Bank. Collateral is held with a fair value of £11,669 million for the Group and the Bank, all of which the Group is able to repledge.

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

The Group reduces exposure to credit risk by using master netting agreements and by obtaining collateral in the form of cash or highly liquid securities. In respect of the net derivative assets after offsetting of amounts under master netting arrangements of £8,343 million for the Group and the Bank, cash collateral of £3,663 million for the Group and for the Bank was held.

Irrevocable loan commitments and other credit-related contingencies

At 31 December 2018, there were no irrevocable loan commitments or other credit-related contingencies for the Group or the Bank.

E. Collateral pledged as security

The Group 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

Deposits from banks

Included in deposits from banks are balances arising from repurchase transactions of £nil million for the Group and £nil million for the Bank; the fair value of the collateral provided under these agreements at 31 December 2018 was £nil million for the Group and £nil million for the Bank.

Customer deposits

Included in customer deposits are balances arising from repurchase transactions of £372 million for the Group and the Bank; the fair value of the collateral provided under these agreements at 31 December 2018 was £372 million for the Group and the Bank.

Trading and other 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 £nil million for the Group and the Bank.

Securities lending transactions

The following on balance sheet financial assets have been lent to counterparties under securities lending transactions:

| | The Group and the Bank |
|---|-------------------------------|
| | 2018 |
| | £m |
| Financial assets at fair value through profit or loss | 945 |
| Financial assets at fair value through other comprehensive income | 892 |
| Total | 1,837 |

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Notes to the financial statements

35 Financial risk management (continued)

(2) Market risk

Interest rate risk

Interest rate risk arises from the different repricing characteristics of the assets and liabilities. Liabilities are 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 the Group's discretion and that for competitive reasons generally reflect changes in the Bank of England's base rate. The rates on the remaining deposits are contractually fixed for their term to maturity.

Many banking assets are sensitive to interest rate movements; there is a large volume of managed rate assets such as variable rate mortgages which may be considered as a natural offset to the interest rate risk arising from the managed rate liabilities. However, a significant proportion of the Group's lending assets, for example many personal loans and mortgages, bear interest rates which are contractually fixed.

The Group's risk management policy is to optimise reward whilst 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 and is managed through the Group'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 the Lloyds Banking Group Asset and Liability Committee.

The Group and the Bank establish hedge accounting relationships for interest rate risk using cash flow hedges and fair value hedges. The Group and the Bank are 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 suitable hedge items to be documented into accounting hedge relationships. The Group and the Bank are 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. The Group and the Bank apply 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 the Group 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 2018 the aggregate notional principle of interest rate swaps designated as fair value hedges was £5,366 million for the Group and Bank with a net fair value asset of £nil and a net fair value liability of £nil. There were gains recognised on the hedging instruments of £50 million for the Group and Bank. There were losses on the hedged items attributable to the hedged risk of £46 million for the Group and Bank. The gains and losses relating to the fair value hedges are recorded in net trading income.

In addition the Group has cash flow hedges which are primarily used to hedge the variability in the cost of funding within the commercial business. Note 13 shows when the hedged cash flows are expected to occur and when they will affect income for the designated cash flow hedges. The notional principle of the interest rate swaps designated as cash flow hedges at 31 December 2018 was £1,998 million for the Group and Bank with a fair value asset of £nil and a fair value liability of £nil. Ineffectiveness recognised in the income statement that arises from cash flow hedges was £nil for the Group and Bank.

Currency 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. The Group also manages foreign currency risk via cash flow hedge accounting, utilising currency swaps.

Risk arises from the Group's investments in its overseas operations. The Group'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.

The Group's main overseas operations are in the USA, Europe and Singapore. Details of the Group's structural foreign currency exposures, after net investment hedges, are as follows:

| | US Dollar | Other non-sterling |
|---|-----------|--------------------|
| The Group | £m | £m |
| 31 December 2018 | | |
| Group exposure | 69 | 1 |
| Net investment hedges | - | - |
| Total structural foreign currency exposures, after net investment hedges | 69 | 1 |

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35 Financial risk management (continued)

(3) Liquidity risk

Liquidity risk is defined as the risk that the Group 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. The Group carries out monthly stress testing of its liquidity position against a range of scenarios, including those prescribed by the PRA. The Group'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 groupings based on the remaining period at the balance sheet date; balances with no fixed maturity are included in the over 5 years 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 |
|--|------------------------|------------------|-------------------|-----------------|-----------------------|-------------|
| 31 December 2018 | | | | | | |
| Deposits from banks | 1 | 304 | 143 | 588 | 2,141 | 3,177 |
| Customer deposits | 19,749 | 3,264 | 2,521 | 253 | 1,083 | 26,870 |
| Derivative financial instruments | 1,686 | 768 | 1,057 | 2,191 | 8,809 | 14,511 |
| Trading and other financial liabilities at fair value through profit or loss | 3,286 | 6,689 | 2,725 | 685 | 623 | 14,008 |
| Debt securities in issue | 1,182 | 1,698 | 2,746 | 5,556 | 1,760 | 12,942 |
| Subordinated liabilities | 725 | - | - | - | - | 725 |

| 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 |
|--|------------------------|------------------|-------------------|-----------------|-----------------------|-------------|
| 31 December 2018 | | | | | | |
| Deposits from banks | 1 | 304 | 142 | 588 | 2,141 | 3,176 |
| Customer deposits | 8,161 | 2,909 | 1,842 | 184 | 1,084 | 14,180 |
| Derivative financial instruments | 1,686 | 768 | 1,056 | 2,191 | 8,809 | 14,510 |
| Trading and other financial liabilities at fair value through profit or loss | 3,286 | 6,689 | 2,725 | 685 | 623 | 14,008 |
| Debt securities in issue | 1,182 | 1,698 | 2,746 | 5,556 | 1,760 | 12,942 |
| Subordinated liabilities | 725 | - | - | - | - | 725 |

The following tables set out the amounts and residual maturities of off balance sheet contingent liabilities and commitments.

| The Group | 1-3 months £m | 3-12 months £m | 1-5 years £m | Over 5 years £m | Total £m |
|--|------------------|-------------------|-----------------|-----------------------|---------------|
| 31 December 2018 | | | | | |
| Acceptances and endorsements | 117 | 46 | - | - | 163 |
| Other contingent liabilities | 140 | 48 | 114 | - | 302 |
| Total contingent liabilities | 257 | 94 | 114 | - | 465 |
| Lending commitments and guarantees | 21 | - | - | - | 21 |
| Other commitments | 1,818 | 5,208 | 9,113 | 386 | 16,525 |
| Total commitments and guarantees | 1,839 | 5,208 | 9,113 | 386 | 16,546 |
| Total contingents and commitments | 2,096 | 5,302 | 9,227 | 386 | 17,011 |

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35 Financial risk management (continued)

| The Bank | 1-3 months £m | 3-12 months £m | 1-5 years £m | Over 5 years £m | Total £m |
|--|------------------|-------------------|-----------------|-----------------------|---------------|
| 31 December 2018 | | | | | |
| Acceptances and endorsements | 117 | 46 | - | - | 163 |
| Other contingent liabilities | 140 | 48 | 114 | - | 302 |
| Total contingent liabilities | 257 | 94 | 114 | - | 465 |
| Lending commitments and guarantees | - | - | - | - | - |
| Other commitments | 1,686 | 4,639 | 8,658 | 383 | 15,366 |
| Total commitments and guarantees | 1,686 | 4,639 | 8,658 | 383 | 15,366 |
| Total contingents and commitments | 1,943 | 4,733 | 8,772 | 383 | 15,831 |

36 Capital disclosures

Capital management

Capital is actively managed on an ongoing basis, covering the Group, the Bank on an individual basis and its regulated subsidiaries. Regulatory capital ratios are a key factor in budgeting and planning processes with updates on forecast ratios reviewed regularly by the LBCM Asset and Liability Committee. Target capital levels take account of evolving regulatory requirements, capacity for growth and to cover uncertainties. Capital policies and procedures are subject to independent oversight.

The Group measures the amount of capital it holds in accordance with the regulatory framework defined by the Capital Requirements Directive and Regulation (CRD IV), as implemented in the UK by the Prudential Regulation Authority (PRA) and supplemented through additional regulation under the PRA Rulebook.

The minimum amount of total capital, under Pillar 1 of the regulatory framework, is set at 8 per cent of total risk-weighted assets calculated in respect of credit risk, counterparty credit risk, operational risk and market risk. At least 4.5 per cent of risk-weighted assets are required to be covered by common equity tier 1 (CET1) capital.

The minimum requirement for capital is supplemented by Pillar 2 of the regulatory framework. Under Pillar 2A, additional requirements are set through the issuance of a bank specific Individual Capital Requirement (ICR), which adjusts the Pillar 1 minimum requirement for those risks not covered or not fully covered under Pillar 1. A key input into the PRA's ICR process is a bank's own assessment of the amount of capital it needs, a process known as the Internal Capital Adequacy Assessment Process (ICAAP).

A range of additional bank specific regulatory capital buffers apply under CRD IV, which are required to be met with CET1 capital. These include a capital conservation buffer (1.875 per cent of risk-weighted assets during 2018, increasing to 2.5 per cent from 1 January 2019) and a time-varying countercyclical capital buffer (currently 0.5 per cent of risk-weighted assets).

The Group has adopted the IFRS 9 transitional arrangements for capital set out under the relevant CRD IV amendment. The arrangements allow for the initial net impact of IFRS 9 on CET1 capital, resulting from the increase in accounting impairment provisions, plus the capital impact of any subsequent increases in Stage 1 and Stage 2 expected credit losses (net of movements in regulatory expected losses), to be phased in over a five year transition period. For 2018 the phase in factor allowed 95 per cent of the resultant transitional adjustment to be added back to CET1 capital. The phase in factor will reduce to 85 per cent in 2019. As at 31 December 2018 no capital relief under the transitional arrangements has been recognised by the Group.

Regulatory capital development

The regulatory framework within which the Group operates continues to be developed at a global level through the Financial Stability Board (FSB) and Basel Committee on Banking Supervision (BCBS), at a European level mainly through the European Commission (EC) and the issuance of CRD IV technical standards and guidelines by the European Banking Authority (EBA) and within the UK by the PRA and through directions from the Financial Policy Committee (FPC). The Group continues to monitor these developments very closely, analysing potential capital impacts to ensure the Group and individual regulated entities continue to maintain a strong capital position that exceeds the minimum regulatory requirements and the Group's risk appetite and is consistent with market expectations.

Capital resources

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

- Common equity tier 1 (CET1) capital represents the strongest form of capital consisting of shareholders' equity after a number of regulatory adjustments and deductions are applied. These include the elimination of the cash flow hedging reserve and debit valuation adjustment.
- 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 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.

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Notes to the financial statements

36 Capital disclosures (continued)

The Group's CRD IV capital resources are summarised as follows:

| | 2018 £m |
|------------------------------|--------------|
| Common equity tier 1 capital | 2,723 |
| Additional tier 1 capital | 757 |
| Tier 2 capital | 672 |
| Total capital | 4,152 |

37 Notes to the Cash flow statement

a Change in operating assets

| | The Group £m | The Bank £m |
|---|-----------------|-----------------|
| Change in financial assets held at amortised cost | (6,275) | (5,894) |
| Changes in amounts due from fellow Lloyds Banking Group undertakings | 6,206 | (1,388) |
| Change in derivative financial instruments and financial assets at fair value | (9,852) | (9,908) |
| Change in other operating assets | (913) | (933) |
| Change in operating assets | (10,834) | (18,123) |

b Change in operating liabilities

| | The Group 2018 £m | The Bank 2018 £m |
|--|-------------------------|------------------------|
| Change in deposits from banks | 3,177 | 3,176 |
| Change in customer deposits | 13,964 | 14,007 |
| Changes in amounts due to fellow Lloyds Banking Group undertakings | (540) | 6,501 |
| Change in debt securities in issue | 12,942 | 12,942 |
| Change in derivative financial instruments and financial liabilities at fair value | 5,192 | 5,191 |
| Change in other operating liabilities | (100) | 99 |
| Change in operating liabilities | 34,635 | 41,916 |

c Non-cash and other items

| | The Group 2018 £m | The Bank 2018 £m |
|--|-------------------------|------------------------|
| Depreciation and amortisation | 2 | 2 |
| Foreign exchange element on balance sheet ¹ | 2 | - |
| Other non-cash items | (17) | (7) |
| Non-cash and other items | (13) | (5) |

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 2018 £m | The Bank 2018 £m |
|---|-------------------------|------------------------|
| Cash and balances with central banks | 14,448 | 14,441 |
| Less: mandatory reserve deposits ¹ | (12) | (12) |
| | 14,436 | 14,429 |
| Loans and advances to banks | 2,583 | 2,561 |
| Less: amounts with a maturity of three months or more | (1,541) | (1,540) |
| | 1,042 | 1,021 |
| Total cash and cash equivalents | 15,478 | 15,450 |

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

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38 Events since the balance sheet date

There are no post balance sheet events requiring disclosure in these financial statements.

39 Future accounting developments

The following pronouncements are not applicable for the year ending 31 December 2018 and have not been applied in preparing these financial statements. Save as disclosed below, the impact of these accounting changes is still being assessed by the Group and reliable estimates cannot be made at this stage.

With the exception of certain minor amendments, as at the date of signing these financial statements these pronouncements have been endorsed by the EU.

IFRS 16 Leases

IFRS 16 replaces IAS 17 'Leases' and is effective for annual periods beginning on or after 1 January 2019.

The Group's accounting as a lessor will remain aligned to the current approach under IAS 17; however for lessee accounting there will no longer be a distinction between finance and operating leases. The transition approach adopted by the Group will result in the recognition of right of use assets and lease liabilities of approximately £73 million in respect of leased properties previously accounted for as operating leases. As permitted by the transition options under IFRS 16, comparative figures for the prior year will not be restated. Going forward, the Group will recognise a finance charge on the lease liability and a depreciation charge on the right-of-use asset, whereas previously the Group included lease rentals within operating expenses. The Group intends to take advantage of a number of exemptions within IFRS 16, including the election not to recognise a lease liability and a right-of-use asset for leases for which the underlying asset is of low value.

Minor amendments to other accounting standards

The IASB has issued a number of minor amendments to IFRSs effective 1 January 2019 and 1 January 2020 (including IAS 19 Employee Benefits, IAS 12 Income Taxes and IFRIC 23 Uncertainty over Income Tax Treatments). The Group will adopt the changes to IAS 12 Income Taxes with effect from 1 January 2019, resulting in the presentation of the tax benefit of distributions on other equity instruments in the Group's income statement; these impacts are currently recognised directly in equity. Comparative information will be restated. For the comparative year ended 31 December 2018, this will result in the reclassification of a tax credit of £7 million. These changes will have no impact on the Group's reported balance sheet or profit before tax. The amendments to other accounting standards are not expected to have a significant impact on the Group.

40 Ultimate parent undertaking and controlling party

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; the accounts of Lloyds Bank Corporate Markets plc also are downloadable via the same link.

Lloyds Bank Corporate Markets plc
Notes to the financial statements

41 Subsidiaries and related undertakings

In compliance with Section 409 of the Companies Act 2006, the following comprises a list of all related undertakings of the Bank, as at 31 December 2018. The list includes each undertaking's registered office and the percentage of the class(es) of shares held by the Group. All shares held are ordinary shares unless indicated otherwise in the notes.

The Bank directly or indirectly holds 100% of the share class and a majority of voting rights in the following undertakings.

| Subsidiary undertakings | Bank interest | Registered Address |
|---|------------------------|---|
| Black Horse Offshore Limited | 100.00% | PO Box 311, 11-12 Esplanade, St Helier, Jersey JE4 8ZU |
| Lloyds America Securities Corporation | 100.00% ^a . | 1095 Avenue of the America's, 34th Floor, New York, NY 10036, United States |
| Lloyds Bank (International Services) Limited (formerly Lloyds Bank (Gibraltar) Limited) | 100.00% | 11-12 Esplanade, St Helier, Jersey JE2 3QA |
| Lloyds Bank Corporate Asset Finance (No.1) Limited | 100.00% | 25 Gresham Street, London EC2V 7HN |
| Lloyds Bank Corporate Markets Wertpapierhandelsbank GMBH | 100.00% | Thurn-Und, Frankfurt Am Main, 60313, Germany |
| Lloyds Bank International Limited | 100.00% | 11-12 Esplanade, St Helier, Jersey JE2 3QA |
| Lloyds Corporate Services (Jersey) Limited | 100.00% | 11-12 Esplanade, St Helier, Jersey JE2 3QA |
| Lloyds Holdings (Jersey) Limited | 100.00% | 11-12 Esplanade, St Helier, Jersey JE2 3QA |
| Lloyds Investment Fund Managers Limited | 100.00% | 11-12 Esplanade, St Helier, Jersey JE2 3QA |
| Lloyds Merchant Bank Asia Limited | 100.00% ^b . | 138 Market Street #21-01, Capitagreen, 048946, Singapore |
| Lloyds Nominees (Guernsey) Limited | 100.00% | PO Box 123, Sarnia House, Le Truchot, St. Peter Port, Guernsey, GY1 4EF |
| Lloyds Securities Inc. | 100.00% ^c . | 1095 Avenue of the America's, 34th Floor, New York, NY 10036, United States |
| Nominees (Jersey) Limited | 100.00% | 11-12 Esplanade, St Helier, Jersey JE2 3QA |

Notes

a. 10,000 US\$ No par value

b. 2,000,000 SGD 1.00 Preferred ordinary Sg\$1 13,000,000 SGD 1.00 Ordinary Sg\$1

c. 10 US\$ 0.1% common

Accountant's Report



The Directors
Lloyds Bank Corporate Markets plc
25 Gresham Street
London
EC2V 7HN

25 June 2019

Dear Sirs

Lloyds Bank Corporate Markets plc

We report on the financial information for the year ended 31 December 2018 set out in page F-101 below (the “**Carve Out Financial Statements**”). The Carve Out Financial Statements have been prepared for inclusion in the prospectus dated 25 June 2019 (the “**Prospectus**”) of Lloyds Bank Corporate Markets plc (the “**Issuer**”) on the basis of the accounting policies set out in note 1 to the Carve Out Financial Statements. This report is required by item 11.1 of Annex XI to the Prospectus Directive Regulation (the “**PD Regulation**”) and is given for the purpose of complying with that item and for no other purpose.

Responsibilities

The Directors of the Issuer are responsible for preparing the Carve Out Financial Statements in accordance with the basis of preparation set out in note 1 to the Carve Out Financial Statements.

It is our responsibility to form an opinion as to whether the Carve Out Financial Statements give a true and fair view, for the purposes of the Prospectus and to report our opinion to you.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and for any responsibility arising under item 5.5.4R(f) of the Prospectus Rules to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 13.1 of Annex XI to the PD Regulation, consenting to its inclusion in the Prospectus.

Basis of qualified opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the Carve Out Financial Statements. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the Issuer's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that

PricewaterhouseCoopers LLP, 1 Embankment Place, London, WC2N 6RH
T: +44 (0) 2075 835 000, F: +44 (0) 2072 124 652, www.pwc.co.uk

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the Carve Out Financial Statements are free from material misstatement whether caused by fraud or other irregularity or error.

As discussed in Note 1, the Carve Out Financial Statements do not include comparative figures for the prior year as required by IAS 1, 'Presentation of financial statements'. Our opinion is therefore qualified in this respect.

Qualified opinion

In our opinion, except for the absence of comparative financial information as described above, the Carve Out Financial Statements give, for the purposes of the Prospectus defined above, a true and fair view of the state of affairs of the Issuer as at the date stated and of its profits, cash flows and changes in equity for the period then ended in accordance with the basis of preparation set out in Note 1 to the Carve Out Financial Statements, and International Financial Reporting Standards as adopted by the European Union.

Declaration

For the purposes of Prospectus Rule 5.5.4R(f) we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with item 1.2 of Annex XI to the PD Regulation.

Yours faithfully

PricewaterhouseCoopers LLP
Chartered Accountants

Lloyds Bank Corporate Markets plc

Carve Out Financial Statements 2018

Member of Lloyds Banking Group

Lloyds Bank Corporate Markets plc
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Registered office: 25 Gresham Street, London EC2V 7HN. Registered in England no 10399850.

Lloyds Bank Corporate Markets plc
Combined income statement
For the year ended 31 December 2018

| | Note | 2018 £m |
|--|------|------------|
| Interest and similar income | | 635 |
| Interest and similar expense | | (424) |
| Net interest income | 4 | 211 |
| Fee and commission income | | 327 |
| Fee and commission expense | | (31) |
| Net fee and commission income | 5 | 296 |
| Net trading income | 6 | 385 |
| Other income | | 681 |
| Total income | | 892 |
| Operating expenses | 7 | (469) |
| Trading surplus | | 423 |
| Impairment credit | 8 | 3 |
| Profit before tax | | 426 |
| Tax expense | 10 | (83) |
| Profit for the year | | 343 |
| <hr/> | | |
| Profit attributable to ordinary shareholders | | 307 |
| Profit attributable to other equity holders | | 36 |
| Profit for the year | | 343 |

Interest and similar expenses include certain funding costs that have been allocated to LBCM on the basis that it operated as part of Lloyds Banking Group (LBG). Operating expenses include certain direct and indirect costs that have been allocated to LBCM on the basis that it operated as part of the wider Group. These allocations have been determined based on internal funding and cost allocation methodologies utilised by LBG. Further details are provided in the basis of preparation (page 6). Had LBCM operated independently during the full period the level of costs incurred would have been influenced by a number of factors including the chosen capital and funding structure and credit spreads applicable to LBCM.

Lloyds Bank Corporate Markets plc
Combined statement of comprehensive income
For the year ended 31 December 2018

| | Note | Group 2018 £m |
|---|------|---------------------|
| Profit for the year | | 343 |
| Other comprehensive income | | |
| <i>Items that may subsequently be reclassified to profit or loss:</i> | | |
| Movements in revaluation reserve in respect of fair value through other comprehensive income (debt securities): | | |
| Change in fair value | | (11) |
| Tax | | 4 |
| | | (7) |
| Movements in cash flow hedging reserve: | | |
| Effective portion of changes in fair value taken to other comprehensive income | | 6 |
| Net income statement transfers | | - |
| Tax | | (1) |
| | | 5 |
| Movements in foreign currency translation : | | |
| Currency translation differences, (tax: nil) | | 2 |
| Other comprehensive income for the year, net of tax | | - |
| Total comprehensive income for the year | | 343 |
| | | |
| Total comprehensive income attributable to ordinary shareholders | | 307 |
| Total comprehensive income attributable to other equity holders | | 36 |
| Total comprehensive income for the year | | 343 |

Lloyds Bank Corporate Markets plc
Combined balance sheet
As at 31 December 2018

| | | Group |
|---|------|---------------|
| | | 2018 |
| | Note | £m |
| Assets | | |
| Cash and balances at central banks | 11 | 14,448 |
| Items in the course of collection from banks | | 2 |
| Financial assets at fair value through profit or loss | 12 | 17,171 |
| Derivative financial instruments | 13 | 15,867 |
| Loans and advances to banks | 14 | 2,583 |
| Loans and advances to customers | 14 | 20,684 |
| Debt securities | 14 | 132 |
| Due from fellow Lloyds Banking Group undertakings | 14 | 6,593 |
| Financial assets at amortised cost | 14 | 29,992 |
| Financial assets at fair value through other comprehensive income | 17 | 412 |
| Property, plant and equipment | 18 | 15 |
| Deferred tax asset | 21 | 6 |
| Other assets | 20 | 558 |
| Investment in subsidiary undertakings of the Group | 19 | - |
| Total assets | | 78,471 |
| Equity and liabilities | | |
| | | Group |
| | | 2018 |
| | Note | £m |
| Liabilities | | |
| Deposits from banks | | 3,177 |
| Customer deposits | | 26,870 |
| Due to fellow Lloyds Banking Group undertakings | | 1,794 |
| Financial liabilities at fair value through profit or loss | 22 | 14,008 |
| Derivative financial instruments | 13 | 14,511 |
| Debt securities in issue | 23 | 12,942 |
| Current tax liability | | 23 |
| Other liabilities | 24 | 429 |
| Subordinated liabilities | 25 | 725 |
| Total liabilities | | 74,479 |
| Equity | | |
| Share capital | 26 | 120 |
| Other reserves | 27 | (15) |
| Retained earnings | 28 | 3,105 |
| Shareholders' equity | | 3,210 |
| Other equity instruments | 29 | 782 |
| Total equity | | 3,992 |
| Total equity and liabilities | | 78,471 |

Lloyds Bank Corporate Markets plc
Combined statement of changes in equity
For the year ended 31 December 2018

| | Share capital £m | Invested capital ¹ £m | Other reserves £m | Retained earnings £m | Total equity £m |
|--|------------------------|--|-------------------------|----------------------------|--------------------|
| As at 31 December 2017 | 20 | | - | - | 20 |
| Comprehensive income | | | | | |
| Profit for the year | - | 190 | - | 153 | 343 |
| <i>Other comprehensive income for the year</i> | | | | | |
| Movements in revaluation reserve in respect of financial assets held at fair value through other comprehensive income, net of tax: | | | | | |
| Debt securities | - | | (7) | - | (7) |
| Movements in cash flow hedging reserve, net of tax | - | | 5 | - | 5 |
| Currency translation differences (tax: nil) | - | | 2 | - | 2 |
| Total other comprehensive income | - | - | - | - | - |
| Total comprehensive income | - | 190 | - | 153 | 343 |
| Transactions with owners | | | | | |
| Initial net investment from LBG | | 16,269 | | | 16,269 |
| Transactions with LBG | | (3,410) | | | (3,410) |
| Changes in ownership interest on transfer of business | - | (13,049) | - | | (13,049) |
| Capital contribution received ² | | | - | 2,975 | 2,975 |
| Distributions on other equity instruments, net of tax | - | | | (18) | (18) |
| Issue of ordinary shares | 100 | | - | | 100 |
| Establishment of foreign currency translation opening reserve | | | (15) | 15 | - |
| Opening reserves adjustment in respect of other transfers | | | | (20) | (20) |
| Total transactions with owners | 100 | (190) | (15) | 2,952 | 2,847 |
| Shareholders equity at 31 December 2018 | 120 | - | (15) | 3,105 | 3,210 |
| Issue of other equity instruments | | | | | 782 |
| Total equity at 31 December 2018 | | | | | 3,992 |

¹ Invested capital represents the net assets during the period from 1 January 2018 up until the legal transfer of business transferred from other parts of LBG during May to December 2018 as part of the Ring Fencing programme to establish LBCM as the Non Ring Fenced bank of LBG. Transactions with LBG during this period represent movements in the net assets of the transferred business. On legal transfer of the relevant assets and liabilities to LBCM, the related invested capital balance is settled.

² This represents a cash contribution from LBG which was used to help fund the acquisition of the Non Ring Fenced business.

Lloyds Bank Corporate Markets plc
Combined cash flow statement
For the year ended 31 December 2018

| | Note | Group 2018 £m |
|--|------|---------------------|
| Profit before tax | | 426 |
| Adjustments for: | | |
| Change in operating assets | 37a | (7,614) |
| Change in operating liabilities | 37b | 34,635 |
| None cash and other items | 37c | (59) |
| Net cash generated from operating activities | | 27,388 |
| Cash flows from investing activities | | |
| Purchase of fixed assets | | (47) |
| Proceeds from sale and maturity of fixed assets | | 4 |
| Acquisition of businesses ¹ | | (13,049) |
| Cash acquired on acquisition of businesses | | 7 |
| Transactions with LBG ² | | (3,410) |
| Net cash used in investing activities | | (16,495) |
| Cash flows generated from financing activities | | |
| Distributions on other equity instruments | | (18) |
| Receipt of capital contribution from parent company | | 2,975 |
| Issue of subordinated liabilities | | 725 |
| Issue of other equity instruments (AT1) | | 782 |
| Issue of ordinary share capital | | 100 |
| Net cash generated by financing activities | | 4,564 |
| Effect of exchange rate changes on cash and cash equivalents | | 1 |
| Change in Cash and cash equivalents | | 15,458 |
| Cash and cash equivalents at beginning of year | | 20 |
| Cash and cash equivalents at end of year | 37d | 15,478 |

¹ In 2018, all the non-ringfenced related trade, assets and liabilities of LBG were transferred at book value into LBCM. These transfers totalled an amount of £13bn.

² As LBG uses a centralised approach to cash management and financing its operations, transactions between LBG and LBCM during the period before legal transfer of businesses to LBCM are accounted for through invested capital. The Transactions with LBG reflect the fact that LBCM did not retain cash generated from operating activities in the pre-transfer period and therefore this represents the cash outflow associated with repatriating such cash to LBG.

Lloyds Bank Corporate Markets plc
Notes to the Carve Out Financial Statements

1 Basis of preparation

Lloyds Bank Corporate Markets plc ("LBCM") 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 Lloyds Banking Group plc (also referred to herein as "LBG") along with the banking business of LBG in territories outside the EEA.

Relevant business (the "Transferred Business") transferred from other parts of LBG during May to December 2018 as part of the Ring Fencing programme to establish LBCM as the Non Ring Fenced bank of LBG.

Carve Out Financial Statements: The objective of preparing this carve out is, so far as possible, to present an historical record reflecting the events which actually occurred during the reporting period. As a consequence, the position shown will frequently not be that which might have existed if the carve out business ("LBCM") had been a stand-alone business. The position will be affected by the arrangements which apply to Lloyds Banking Group ("LBG") as a whole, which are a matter of historical fact and which it is not the purpose of the carve out financial information to alter. This historical record is not necessarily representative of future performance.

The Transferred Business did not comprise a separate legal entity or a separate group of entities for the full year ended 31 December 2018 (the "Track Record Period"). The Carve Out Financial Statements, which have been prepared specifically for the purpose of this Prospectus, are therefore prepared on a basis that combines the results, assets and liabilities of the Transferred Business as if all of the transfers described above had occurred on 1 January 2018, together with any further necessary adjustments to reflect the costs of carrying on such businesses, and by applying the principles underlying the consolidation procedures of IFRS 10 'Consolidated Financial Statements' ("IFRS 10") for the year ended 31 December 2018.

On such basis, the Carve Out Financial Statements set out the combined balance sheet, combined statements of changes in equity, results of operations and combined cash flows for the year ended 31 December 2018. The Carve Out Financial Statements in the Prospectus are prepared on a different basis from the statutory financial statements of LBCM plc for the comparable years albeit both are prepared in accordance with IFRS.

The Carve Out Financial Statements have been prepared in accordance with the requirements of the Prospectus Directive Regulation, the Listing Rules and this basis of preparation. This basis of preparation describes how the Carve Out Financial Statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, the Companies Act 2006 that applies to companies reporting under IFRS and IFRIC interpretations (together "IFRS"), except as described below in relation to comparative information. References to "IFRS" hereafter should be construed as references to IFRS as adopted by the EU.

IAS 1: Requirement for comparative information

Except when IFRSs permit or require otherwise, an entity shall present comparative information in respect of the preceding period for all amounts reported in the current period's financial statements. While it is possible to track the relevant assets and liabilities of the Transferred Business through the 2018 financial year, the relevant monitoring systems were not in place during 2017 to allow for the calculation and creation of 2017 comparative financial information. The Carve Out Financial Statements therefore do not include comparative information for 2017 as required by IAS1, 'Presentation of financial statements' and therefore is not fully compliant with IFRS.

IFRS does not provide for the preparation of combined financial information or for the specific accounting treatment set out below. Accordingly when preparing the Carve Out Financial Statements, certain accounting conventions commonly used for the preparation of Carve Out Financial Statements for inclusion in investment circulars as described in the Annexure to SIR 2000 "Standards for Investment Reporting applicable to public reporting engagements on historical financial information" issued by the UK Auditing Practices Board have been applied.

The Carve Out Financial Statements are presented in millions of pounds sterling ("£") except when otherwise indicated and on a historical cost basis as modified by the revaluation of financial assets and financial liabilities, including derivative instruments at fair value through profit or loss.

Following the Board's detailed review and analysis, the Carve Out Financial Statements have been prepared on a going concern basis. Management expects that appropriate funding and capitalisation will be in place for future operations. They also expect that post all transfers from Lloyds Bank and Bank of Scotland, LBCM will continue operating. The business's forecasts and projections, taking account of possible changes in trading performance, and including stress testing and scenario analysis, show that LBCM will be able to operate at adequate levels of both liquidity and capital for the foreseeable future.

The following summarises the accounting and other principles applied in preparing the Carve Out Financial Statements:

The key criterion for inclusion in the Carve Out Financial Statements throughout the Track Record Period is the identification of a customer or facilities that would not be able to remain within the ring fenced bank under the UK ring-fence regulation. In addition, all business conducted by LBG plc in its Non-EEA branches in Singapore, New York and Jersey also meets the definition of non-ring fenced and has been included throughout the Track Record Period.

Wholesale funding, derivative and associated balances

Up until their transfer, the Transferred Businesses were historically funded and hedged on a LBG group-wide basis and therefore, other than the customer deposits and any other funding instruments which were directly attributable to the Transferred Businesses, there are no direct funding instruments, balances or hedging relationships directly included within the Carve Out Financial Statements before 28th May 2018. To the extent appropriate, these transactions have been included within the net investment from LBG as net funding paid to/received from LBG for the period up until the point of transfer.

Lloyds Bank Corporate Markets plc

Notes to the Carve Out Financial Statements

1 Basis of preparation (continued)

LBG uses a Funds Transfer Pricing (“FTP”) mechanism to allocate the costs and income of funding, liquidity, capital and interest rate risk management borne by LBG to the Transferred Businesses. The FTP mechanism has been utilised to determine LBCM’s share of funding, liquidity, capital and hedging costs up until the transfer dates. The net cost recharge to LBCM being included as “Funds Transfer Pricing charge” within “Interest and similar expense”.

In May 2018, the Group established its own treasury function, and assumed direct responsibility for the management of the LBCM Group’s funding and liquidity, for Transferred Businesses from the point of their transfer. From this point on, for Transferred Businesses post their date of transfer, the funding costs of the group are separately identifiable and attributed to LBCM. As a result, the LBCM Group was not subject to the FTP allocation mechanism for Transferred Businesses from the point they transferred.

Operating cost allocation

Costs directly attributable to the non-ring fenced bank, for example, the costs associated with employing the relevant staff, are separately identifiable and have been included directly within the Carve Out Financial Statements.

In addition, there are a number of other indirect central costs which have been allocated into the Carve Out Financial Statements to reflect the fact that LBCM operated as part of the wider LBG. These costs primarily relate to IT functions and certain back office functions (such as Finance, Risk, Legal and Transformation). These costs are allocated in accordance with the pre-existing LBG methodology for cost allocations recharged through to its businesses and legal entities. The costs are allocated using drivers (such as volume-based drivers) that are specific to the cost being allocated. In addition a mark-up is applied to reflect the arm’s length nature of the relationship.

Taxation

Tax charges / credits in the Carve Out Financial Statements have been determined based on the tax charges / credits recorded in the legal entities comprising the LBCM Group, together with an allocation of the tax charges recorded in LBG associated with the business transferred. The tax charges recorded in the income statement may not necessarily be representative of the charges that may arise in the future.

Invested capital

The Transferred Business did not comprise a separate legal entity or a separate group of entities for the full Track Record Period and, as described above, a number of items in the income statement are presented as allocations of transactions of the wider LBG. The net invested capital from LBG represents a combination of the overall receivables and payables with LBG, funding balances with LBG and equity investment by LBG in the Transferred Business, which cannot be separately identified or allocated throughout the entire Track Record Period.

Application of new and revised standards

The Group has applied IFRS 9 and IFRS 15 with effect from 1 January 2018.

(i) IFRS 9 *Financial Instruments*

IFRS 9 replaces IAS 39 and addresses classification, measurement and derecognition of financial assets and liabilities, the impairment of financial assets measured at amortised cost or fair value through other comprehensive income and general hedge accounting.

Impairment: IFRS 9 replaces the IAS 39 ‘incurred loss’ impairment approach with an ‘expected credit loss’ approach. The revised approach applies to financial assets including finance lease receivables, recorded at amortised cost or fair value through other comprehensive income; loan commitments and financial guarantees that are not measured at fair value through profit or loss are also in scope. The expected credit loss approach requires an allowance to be established upon initial recognition of an asset reflecting the level of losses anticipated after having regard to, amongst other things, expected future economic conditions. Subsequently the amount of the allowance is affected by changes in the expectations of loss driven by changes in associated credit risk.

Classification and measurement: IFRS 9 requires financial assets to be classified into one of the following measurement categories: fair value through profit or loss, fair value through other comprehensive income and amortised cost. Classification is made on the basis of the objectives of the entity’s business model for managing its financial assets and the contractual cash flow characteristics of the instruments. The requirements for derecognition are broadly unchanged from IAS 39.

General hedge accounting: The new hedge accounting model aims to provide a better link between risk management strategy, the rationale for hedging and the impact of hedging on the financial statements. The standard does not explicitly address macro hedge accounting solutions, which are being considered in a separate IASB project – Accounting for Dynamic Risk Management. Until this project is finalised, the IASB has provided an accounting policy choice to retain IAS 39 hedge accounting in its entirety or choose to apply the IFRS 9 hedge accounting requirements. The Group has elected to continue applying hedge accounting as set out in IAS 39.

(ii) IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 has replaced IAS 18 Revenue and IAS 11 Construction Contracts. The core principle of IFRS 15 is that revenue reflects the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled. The recognition of such revenue is in accordance with five steps to: identify the contract; identify the performance obligations; determine the transaction price; allocate the transaction price to the performance obligations; and recognise revenue when the performance obligations are satisfied. The application of these pronouncements has not had any impact for amounts recognised in these financial statements.

Details of those IFRS pronouncements which will be relevant to the Group but which were not effective at 31 December 2018 and which have not been applied in preparing these financial statements are given in Note 39.

Notes to the Carve Out Financial Statements

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 (including structured entities) are included in the Carve Out Financial Statements on the basis of accounts made up to the reporting date. Details of the Group's subsidiaries are given in note 41.

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 are changes to any of the above elements. Subsidiaries are consolidated from the date on which control is transferred to the Group; they are de-consolidated from the date that control ceases.

Structured entities are entities that are designed so that their activities are not governed by way of voting rights. In assessing whether the Group has power over such entities in which it has an interest, the Group considers factors such as the purpose and design of the entity; its practical ability to direct the relevant activities of the entity; the nature of the relationship with the entity; and the size of its exposure to the variability of returns of the entity.

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

Predecessor accounting has been applied to the business transfers in 2018 as described in note 3. Although not required to be utilised in 2018, the acquisition method of accounting will be used to account for business combinations not under common control by the Group. The consideration for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition related costs are expensed as incurred except those relating to the issuance of debt instruments (see note 2c(5)) or share capital (see note 2l). Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair value at the acquisition date.

b Revenue recognition

(1) Net interest income

Interest income and expense are recognised in the income statement for all interest-bearing financial instruments using the effective interest method, 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 redemption fees, and related penalties, and premiums and discounts that are an integral part of the overall return.

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 note 2f 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 the Group fulfils its performance obligations. The Group 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(2) below.

c Financial assets and liabilities

On initial recognition, financial assets are classified as measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss, depending on the Group's business model for managing the financial assets and whether the cash flows represent solely payments of principal and interest. The Group 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. The Group reclassifies financial assets when and only when its business model for managing those assets changes. A reclassification will only take place when the change is significant to the Group'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 the Group elects at initial recognition to account for the instruments at fair value through other comprehensive income. For these instruments, 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.

The Group initially recognises loans and advances, deposits, debt securities in issue and subordinated liabilities when the Group 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 the Group is committed to purchase or sell an asset.

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Notes to the Carve Out Financial Statements

2 Accounting policies (continued)

Financial assets are derecognised when the contractual right to receive cash flows from those assets has expired or when the Group 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 the Group 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. Interest income is accounted for using the effective interest method (see note 2b 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. 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. 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. In addition, the Group recognises a charge for expected credit losses in the income statement (see note 2f 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 or where they are designated at fair value through profit or loss to reduce an accounting mismatch. All derivatives are carried at fair value through profit or loss.

Trading securities, which are debt securities 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 the criteria to be measured at amortised cost or fair value through other comprehensive income as they are managed on a fair value basis and accordingly are 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 or where they are designated at fair value through profit or loss in order to reduce an accounting mismatch; where the liabilities are part of a group of liabilities (or assets and liabilities) which is managed, and its performance evaluated, on a fair value basis; or where the liabilities contain one or more embedded derivatives that significantly modify the cash flows arising under the contract and would otherwise need to be separately accounted for. Financial liabilities measured at fair value through profit or loss 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. If the market is not active the Group establishes a fair value by using valuation techniques. The fair values of derivative financial instruments are adjusted where appropriate to reflect credit risk (via credit valuation adjustments (CVAs), debit valuation adjustments (DVAs) and funding valuation adjustments (FVAs)), market liquidity and other risks.

(4) Borrowings

Borrowings (which include deposits from banks, customer deposits, 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, net of tax, 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 is recognised in profit or loss.

Lloyds Bank Corporate Markets plc
Notes to the Carve Out Financial Statements

2 Accounting policies (continued)

(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 under these arrangements are included in deposits from banks, customer deposits, or trading liabilities. Conversely, securities purchased under agreements to resell (reverse repos), where the Group does not acquire substantially all of the risks and rewards of ownership, are recorded as loans and advances measured at amortised cost or trading assets. 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 Derivative financial instruments and hedge accounting

As permitted by IFRS 9, the Group continues to apply the requirements of IAS 39 to its hedging relationships. All derivatives are recognised at their fair value. Derivatives are carried in the balance sheet as assets when their fair value is positive and as liabilities when their fair value is negative. Refer to note 32(3) (Financial instruments: Financial assets and liabilities carried at fair value) for details of valuation techniques and significant inputs to valuation models.

Changes in the fair value of all derivative instruments, other than those in effective cash flow and net investment hedging relationships, are recognised immediately in the income statement. As noted in (2) and (3) 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.

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.

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, or forecast to be highly effective, in achieving its documented objective, hedge accounting is discontinued. Note 13 provides details of the types of derivatives held by the Group and presents separately those designated in hedge relationships. Further information on hedge accounting is set out below.

(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 identified and 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 hedge 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.

(3) Net investment hedges

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income, the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of. The hedging instrument used in net investment hedges may include non-derivative liabilities as well as derivative financial instruments.

Lloyds Bank Corporate Markets plc
Notes to the Carve Out Financial Statements

2 Accounting policies (continued)

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

f Impairment of financial assets

The impairment charge in the income statement includes the change in expected credit losses and certain fraud costs. Expected credit losses are recognised for loans and advances to customers and banks, other financial assets held at amortised cost, financial assets measured at fair value through other comprehensive income, and certain loan commitments and financial guarantee contracts. Expected credit losses are calculated by 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 the Group at the point of default after taking into account the value of any collateral held 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, 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 are in Stage 2; and financial assets which have defaulted or are otherwise considered to be credit impaired are allocated to Stage 3. Predecessor accounting has been applied to the business transfers in 2018 as described in note 3 and impairment allowances for financial assets were brought in to the Carve Out Financial Statements at the predecessor carrying values.

An assessment takes place of whether credit risk has increased significantly from initial recognition of the asset, which was acquired through a common control transaction. They had existing impairment provisions (refer note 3). It considers the change in the risk of default occurring over the remaining expected life of the financial instrument. The assessment is unbiased, probability-weighted and uses forward-looking information consistent with that used in the measurement of expected credit losses. In determining whether there has been a significant increase in credit risk, the Group 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 historic delinquency. 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. Where the credit risk subsequently improves such that it no longer represents a significant increase in credit risk since origination, 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. The Group uses this 90 day backstop for all its products except for UK mortgages. For UK mortgages, the Group uses a backstop of 180 days past due as mortgage exposures more than 90 days past due, but less than 180 days, typically show high cure rates and this aligns with the Group's risk management practices.

In certain circumstances, the Group 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 in default (for a return to Stage 2). 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 and are recognised when received. 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 concessions 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 adjusted if appropriate, 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 the event that an asset's carrying amount is determined to be greater than its recoverable amount it is written down immediately. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

Lloyds Bank Corporate Markets plc
Notes to the Carve Out Financial Statements

2 Accounting policies (continued)

h Leases

(1) As lessee

The leases entered into by the Group are primarily operating leases. Operating lease rentals payable are charged to the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the end of the lease period, any payment made to the lessor by way of penalty is recognised as an expense in the period of termination.

(2) As lessor

Assets leased to customers are classified as finance leases if the lease agreements transfer substantially all 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 residual value, is recognised as a receivable, net of allowances for expected credit losses, 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 leases. Unguaranteed residual values are reviewed regularly to identify any impairment.

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

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.

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.

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 re-measured 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 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.

Lloyds Bank Corporate Markets plc
Notes to the Carve Out Financial Statements

2 Accounting policies (continued)

j Foreign currency translation

Items included in the Carve Out Financial Statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The principal functional currency of the Group is sterling. 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 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 group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows: the assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on the acquisition of a foreign entity, are translated into sterling at foreign exchange rates ruling at the balance sheet date; and the income and expenses of foreign operations are translated into sterling at average exchange rates unless these do not approximate to the foreign exchange rates ruling at the dates of the transactions in which case income and expenses are translated at the dates of the transactions.

Foreign exchange differences arising on the translation of a foreign operation are recognised in other comprehensive income and accumulated in a separate component of equity together with exchange differences arising from the translation of borrowings and other currency instruments designated as hedges of such investments (see note 2d(3) above). On disposal or liquidation of a foreign operation, the cumulative amount of exchange differences relating to that foreign operation are 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 Carve Out 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 note 2f 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 the Group'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 balances with central banks and amounts due from banks with a maturity of less than three months.

n Investment in subsidiaries of the bank

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

3 Critical accounting estimates and judgements

The preparation of the Group's Carve Out 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.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty in these Carve Out Financial Statements, which together are deemed critical to the Group's results and financial position, are as follows:

Lloyds Bank Corporate Markets plc
Notes to the Carve Out Financial Statements

3 Critical accounting estimates and judgements (continued)

Fair value of financial instruments (estimate)

At 31 December 2018, the carrying value of the Group's financial instrument assets held at fair value was £17,171 million, and its financial instrument liabilities held at fair value was £14,008 million. In addition are derivative assets of £15,867 million and derivative liabilities of £14,511 million. The Group's accounting policy for its financial instruments is set out in notes 2c and 2d.

In accordance with IFRS 13 Fair Value Measurement, the Group categorises financial instruments carried on the balance sheet at fair value using a three level hierarchy. Financial instruments categorised as level 1 are valued using quoted market prices and therefore there is minimal judgement applied in determining fair value. The valuation techniques for level 2 and particularly level 3 financial instruments involve management judgements and estimates, the extent of which depends on the complexity of the instrument and the availability of market observable information. For example, a judgement is made that the position is level 1, 2 or 3 or in selecting a valuation methodology. An example of an estimate would be quantitative inputs to level 3.

In addition, in line with market practice, the Group 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 32. Further details of the Group's level 3 financial instruments and the sensitivity of their valuation including the effect of applying reasonably possible alternative assumptions in determining their fair value are also set out in note 32.

Business Transfers and use of Predecessor Accounting (judgement)

A business is defined as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities. It was judged that the assets, liabilities and subsidiaries which transferred from LBG entities during the year met this definition and therefore constitutes the transfer of a business.

IFRS does not prescribe the specific treatment for business combinations in these circumstances. The Group's accounting policy for such transfers of business is to apply predecessor accounting. This means that the transferred assets and liabilities were not restated to their fair values in the consolidated accounts of LBCM and no goodwill was recognised. Instead, they were brought into the LBCM financial statements at the predecessor carrying values which, for loans, include any existing impairment provisions, the origination PDs and staging. The Group also recognise any amounts that the transferor had previously accumulated on transferred assets and liabilities in relation to fair value through other comprehensive income and foreign currency translation reserves. LBCM paid consideration equivalent to predecessor carrying value.

Allowance for Impairment Losses (estimate)

The calculation of the expected credit loss (ECL) allowances and provisions against loans commitments and guarantees under IFRS 9 requires a number of judgements, assumptions and estimates. The most significant are set out below:

Probability 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. The definition of default involves judgement – for example default may be deemed to have occurred when there is evidence that a customer is experiencing significant financial difficulty which is likely to affect the ability to repay amounts due. The definition of default adopted by the Group is described in note 2f Impairment of financial assets.

Lifetime of an exposure

The PD of a financial asset is dependent on its expected life. A range of approaches, segmented by product type, has been adopted by the Group to estimate a product's expected life. These include using the full contractual life and taking into account behavioural factors such as early repayments and refinancing. Changes to the assumed expected lives of the Group's assets could have a material effect on the ECL allowance recognised by the Group.

Significant increase in credit risk

Performing assets are classified as either Stage 1 or Stage 2. An ECL allowance equivalent to 12 months expected losses is established against assets in Stage 1; assets classified as Stage 2 carry an ECL allowance equivalent to lifetime expected losses. Assets are transferred from Stage 1 to Stage 2 when there has been a significant increase in credit risk (SICR) since initial recognition.

The Group uses a quantitative test together with qualitative indicators to determine whether there has been a SICR for an asset. For Commercial a doubling of PD with a minimum increase in PD of 1 per cent and a resulting change in the underlying grade is treated as a SICR. All financial assets are assumed to have suffered a SICR if they are more than 30 days past due.

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. The Group monitors the effectiveness of SICR criteria on an ongoing basis.

Origination PDs

The assessment of whether there has been a significant increase in credit risk is a relative measure, dependent on an asset's PD at origination. Generally this information is not available and consequently management judgement has been used to determine a reasonable basis for estimating the original PD. Management used various information sources, including regulatory PDs and credit risk data available at origination, or where this is not available the first available data. In addition, the Group has not created a forward looking view of PDs at initial recognition for the back book as to do so would involve the use of hindsight and could introduce the risk of bias. The use of proxies and simplifications is not considered to materially impact the ECL allowance on transition.

Lloyds Bank Corporate Markets plc
Notes to the Carve Out Financial Statements

3 Critical accounting estimates and judgements (continued)

Post-model adjustments

Limitations in the Group's impairment models may be identified through its on-going assessment of the models. In these circumstances, management judgement is used to make appropriate adjustments to the Group's allowance for impairment losses.

Forward looking information

The measurement of expected credit losses is required to reflect an unbiased probability-weighted range of possible future outcomes. In order to do this, the Group has developed an economic model to project sixteen key impairment drivers using information derived mainly from external sources. These drivers include factors such as the unemployment rate, the house price index, commercial property prices and corporate credit spreads. The model-generated economic scenarios for the six years beyond 2018 are mapped to industry-wide historical loss data by portfolio. Combined losses across portfolios are used to rank the scenarios by severity of loss. Four scenarios from specified points along the loss distribution are selected to reflect the range of outcomes; the central scenario reflects the Group's base case assumptions used for medium-term planning purposes, an upside and a downside scenario are also selected together with a severe downside scenario. Rare occurrences of adverse economic events can lead to relatively large credit losses which means that typically the most likely outcome is less than the probability-weighted outcome of the range of possible future events.

To allow for this a relatively unlikely severe downside scenario is therefore included. At 1 January and 31 December 2018, the base case, upside and downside scenarios each carry a 30 per cent weighting; the severe downside scenario is weighted at 10 per cent. The choice of alternative scenarios and scenario weights is a combination of quantitative analysis and judgemental assessment to ensure that the full range of possible outcomes and material non-linearity of losses are captured. A Group committee under the chairmanship of the Chief Economist meets quarterly, to review and, if appropriate, recommend changes to the economic scenarios to the Chief Financial Officer and Chief Risk Officer. Findings dealing with all aspects of the expected credit loss calculation are presented to the Group Audit Committee.

For each major product grouping models have been developed which utilise historical credit loss data to produce PDs for each scenario; an overall weighted average PD is used to assist in determining the staging of financial assets and related ECL.

The key UK economic assumptions made by the Group as at 31 December 2018 averaged over a five-year period are shown below:

| | Base case | Upside | Downside | Severe downside |
|-------------------------------------|-----------|--------|----------|--------------------|
| UK economic assumptions | % | % | % | % |
| At 31 December 2018 | | | | |
| Interest rate | 1.25 | 2.34 | 1.30 | 0.71 |
| Unemployment rate | 4.5 | 3.9 | 5.3 | 6.9 |
| House price growth | 2.5 | 6.1 | (4.8) | (7.5) |
| Commercial real estate price growth | 0.4 | 5.3 | (4.7) | (6.4) |

| | Base case | Upside | Downside | Severe downside |
|-------------------------------------|-----------|--------|----------|--------------------|
| UK economic assumptions | % | % | % | % |
| At 1 January 2018 | | | | |
| Interest rate | 1.18 | 2.44 | 0.84 | 0.01 |
| Unemployment rate | 5.0 | 4.0 | 6.1 | 7.1 |
| House price growth | 2.7 | 7.0 | (2.4) | (8.2) |
| Commercial real estate price growth | 0.0 | 3.0 | (2.5) | (5.4) |

The Group's base-case economic scenario has changed little over the year and reflects a broadly stable outlook for the economy. Although there remains considerable uncertainty about the economic consequences of the UK's planned exit from the European Union, the Group considers that at this stage the range of possible economic outcomes is adequately reflected in its choice and weighting of scenarios. The averages shown above do not fully reflect the peak to trough changes in the stated assumptions over the period. The tables below illustrate the variability of the assumptions from the start of the scenario period to the peak and trough.

| | Base case | Upside | Downside | Severe downside |
|---|-----------|--------|----------|--------------------|
| UK economic assumptions - start to peak | % | % | % | % |
| At 31 December 2018 | | | | |
| Interest rate | 1.75 | 4.00 | 1.75 | 1.25 |
| Unemployment rate | 4.8 | 4.3 | 6.3 | 8.6 |
| House price growth | 13.7 | 34.9 | 0.6 | (1.6) |
| Commercial real estate price growth | 0.1 | 26.9 | (0.5) | (0.5) |

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3 Critical accounting estimates and judgements (continued)

| | Base case | Upside | Downside | Severe downside |
|---|-----------|--------|----------|--------------------|
| UK economic assumptions - start to trough | % | % | % | % |
| At 31 December 2018 | | | | |
| Interest rate | 0.75 | 0.75 | 0.75 | 0.25 |
| Unemployment rate | 4.1 | 3.5 | 4.3 | 4.2 |
| House price growth | 0.4 | 2.3 | (26.5) | (33.5) |
| Commercial real estate price growth | (0.1) | 0.0 | (23.8) | (33.8) |

Post-model adjustments

Limitations in the Group's impairment models or input data may be identified through the on-going assessment and validation of the output of the models. In these circumstances, management make appropriate adjustments to the Group's allowance for impairment losses. These adjustments are generally modelled taking into account the particular attributes of the exposure which have not been adequately captured by the primary impairment models. At 31 December 2018, post-model adjustments were of negligible impact on the Group's ECL and not individually significant.

Sensitivity analysis

The total of the Stage 1 and 2 provision as at 31 December 2018 is £13 million for the Group. It is considered that sensitivities on these amounts are not material. It is estimated that the downside scenario weighted at 100 per cent compared to the base scenario would result in an increase in ECL in the range of 10 per cent to 20 per cent for the Group.

Other equity instruments (judgement)

Details of the Additional Tier 1 securities issued are included below in note 29. The judgement was made to account for these instruments as part of equity.

4 Net interest income

| | 2018 £m |
|---|--------------|
| Interest and similar income: | |
| Loans and advances to customers | 441 |
| Loans and advances to banks | 192 |
| Interest receivable on financial assets held at amortised cost | 633 |
| Financial assets at fair value through other comprehensive income | 2 |
| Total interest and similar income | 635 |
| Interest and similar expense: | |
| Deposits from banks, excluding liabilities under sale and repurchase agreements | (4) |
| Customer deposits, excluding liabilities under sale and repurchase agreements | (300) |
| Debt securities in issue | (20) |
| Subordinated liabilities | (20) |
| Funds Transfer Pricing Charge LBG | (80) |
| Total interest and similar expense | (424) |
| Net interest income | 211 |

Included within Interest income is £nil in respect of credit impaired financial assets.

As explained in Note 1, up until May 2018 when LBCM established its own Treasury function, the LBG Funds Transfer Pricing (FTP) charge mechanism has been used to determine LBCM's share of the funding, liquidity, capital and hedging costs of non-ring fenced assets and liabilities transferred to LBCM.

LBG benefits from a lower funding cost than LBCM. Had the non-ring fenced assets transferred to LBCM been funded for the full year at a cost equivalent to that incurred by LBCM to fund these assets post-transfer, interest expense would have been £21 million higher.

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5 Net fee and commission income

| | 2018 £m |
|--|------------|
| Fee and commission income: | |
| Commercial banking and treasury fees | 313 |
| Current accounts | 5 |
| Private banking and asset management | 6 |
| Credit and debit card fees | 4 |
| Other fees and commissions | (1) |
| Total fee and commission income | 327 |
| Fee and commission expense | (31) |
| Net fee and commission income | 296 |

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.

6 Net trading income

| | 2018 £m |
|--|------------|
| Foreign exchange translation gains | 53 |
| Gains on foreign exchange trading transactions | 458 |
| Total foreign exchange | 511 |
| Securities and other losses (see below) | (126) |
| Net trading income | 385 |

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

| | 2018 £m |
|--|--------------|
| Net losses arising on assets and liabilities mandatorily held at fair value through profit or loss: | |
| Financial instruments held for trading | (134) |
| Other financial instruments mandatorily held at fair value through profit or loss: | |
| Debt securities, loans and advances | 2 |
| Net income arising on liabilities held at fair value through profit or loss – debt securities in issue | 6 |
| Securities and other losses | (126) |

The group recorded £31m of favourable foreign exchange translation gains on EUR and USD issuance proceeds between Jun and December 2018.

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Notes to the Carve Out Financial Statements

7 Operating expenses

| | 2018 £m |
|--------------------------------------|------------|
| Staff costs | 165 |
| Management charges payable | 255 |
| Other operating expenses | 49 |
| Total other operating expense | 469 |

Services are received by the Group from other parts of LBG via a shared service provision model. This is governed via Internal 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. UK based colleagues are employed through other LBG companies and costs recharged via the IGA. The terms of the contract are negotiated and renewable to ensure market rate expense for services provided.

The Group had an average of 624 colleagues during the year based in Singapore, USA, Gibraltar and the Crown Dependencies.

Fees payable to the Bank's auditors

| | 2018 £m |
|---|------------|
| Fees payable for the audit of the Bank's current year annual report | 1.8 |
| Audit of the Bank's subsidiaries pursuant to legislation | 0.7 |
| Other services provided pursuant to legislation | 0.1 |
| Other services – audit related services | 0.3 |
| Total fees payable to the Bank's auditors | 2.9 |

8 Impairment credit

| | Stage 1 £m | Stage 2 £m | Stage 3 £m | Total £m |
|---|---------------|---------------|---------------|-------------|
| Year ended 31 December 2018 | | | | |
| Changes in credit quality | (5) | - | 1 | (4) |
| Additions/(repayments) | 1 | (2) | 8 | 7 |
| Total impairment | (4) | (2) | 9 | 3 |
| In respect of: | | | | |
| Financial assets at amortised cost | | | | |
| Loans and advances to customers | - | (2) | 9 | 7 |
| Loan commitments and financial guarantees | (4) | - | - | (4) |
| Total impairment | (4) | (2) | 9 | 3 |

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8 Impairment credit (continued)

The Group's impairment credit comprises the following items:

Transfers between stages

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

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/(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 as a result of repayments of outstanding balances.

Movements in the Group's impairment allowances are shown in note 16.

9 Directors' emoluments

The directors' emoluments payable for services provided to the Group are set out below:

| | 2018 £'000 |
|-------------------------|---------------|
| Executive directors | 1,468 |
| Non-executive directors | 690 |
| | 2,158 |

| | |
|------------------------|-------|
| Highest paid director: | 1,171 |
|------------------------|-------|

Two executive directors are employed by other companies within LBG plc; the above emoluments reflect an allocation of their time reflecting their services to the Group but excluding their other activities within the LBG plc.

No directors exercised share options.

10 Taxation

| | 2018 £m |
|--|------------|
| a) Analysis of charge for the year | |
| UK corporation tax: | |
| – Current tax on taxable profit for the year | 62 |
| – Adjustments in respect of prior years | (2) |
| Current tax charge | 60 |
| Foreign tax: | |
| – Current tax on taxable profit for the year | 21 |
| – Adjustments in respect of prior years | 1 |
| Current tax charge | 82 |
| UK deferred tax: | |
| – Current year | (1) |
| – Adjustments in respect of prior years | 2 |
| Deferred tax charge (see note 21) | 1 |
| Tax charge | 83 |

UK corporation tax is calculated at a rate of 19 per cent of the taxable profit for the year.

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10 Taxation (continued)

b) Factors affecting the tax charge for the year

A reconciliation of the charge that would result from applying the standard UK corporation tax rate to the profit before tax to the actual tax charge for the year is given below:

| | 2018 |
|--|---------------|
| | £m |
| Profit before tax | 426 |
| Tax charge thereon at UK corporation tax rate of 19% | (81) |
| Factors affecting credit: | |
| – Impact of surcharge on banking profits | (21) |
| – Non-deductible costs | (9) |
| – Non-taxable income and other deductions | 21 |
| – Losses on which deferred tax not recognised | (3) |
| – Differences in overseas tax rates | 11 |
| – Adjustments in respect of prior years | (1) |
| Tax charge on profit on ordinary activities | (83) |
| Effective rate | 19.53% |

11 Cash and balances at central banks

Cash and cash equivalents for the purposes of the Cash flow statement include the following:

| | 2018 |
|--------------------------------|---------------|
| | £m |
| Cash balances at central banks | 14,441 |
| On demand deposits | 7 |
| | 14,448 |

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Notes to the Carve Out Financial Statements

12 Financial assets at fair value through profit or loss

| | 2018 £m |
|---|---------------|
| Trading assets | 17,089 |
| Other financial assets at fair value through profit or loss | 82 |
| Total | 17,171 |

These assets are comprised as follows:

| | Trading assets | Other financial assets at fair value through profit or loss |
|-------------------------------------|----------------|---|
| | 2018 £m | 2018 £m |
| Loans and advances to customers | 11,295 | 3 |
| Loans and advances to banks | 612 | - |
| Debt securities: | | |
| Government securities | 4,898 | 59 |
| Asset-backed securities: | | |
| Mortgage-backed securities | 10 | - |
| Other asset-backed securities | 43 | - |
| Corporate and other debt securities | 231 | - |
| | 5,182 | 59 |
| Treasury bills and other bills | - | 20 |
| Total | 17,089 | 82 |

At 31 December 2018 £4,773 million of trading and other financial assets at fair value through profit or loss of the Group had a contractual residual maturity of greater than one year.

Included in financial assets at fair value through profit or loss are reverse repurchase agreements treated as collateralised loans with a carrying value of £11,669 million.

For amounts included above which are subject to repurchase and reverse repurchase agreements see note 32.

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Notes to the Carve Out Financial Statements

13 Derivative financial instruments

| | Contract/ notional amount 2018 £m | Fair value assets 2018 £m | Fair value liabilities 2018 £m |
|---|--|------------------------------------|---|
| Trading | | | |
| Exchange rate contracts: | | | |
| Spot, forwards and futures | 29,359 | 907 | 731 |
| Currency swaps | 227,530 | 2,979 | 3,096 |
| Options purchased | 9,056 | 485 | - |
| Options written | 9,947 | - | 496 |
| | 275,892 | 4,371 | 4,323 |
| Interest rate contracts: | | | |
| Interest rate swaps | 2,554,455 | 9,419 | 7,970 |
| Forward rate agreements | 412,453 | 4 | 4 |
| Options purchased | 27,903 | 1,802 | - |
| Options written | 21,853 | - | 1,883 |
| Futures | 126,805 | 4 | - |
| | 3,143,469 | 11,229 | 9,857 |
| Credit derivatives | 10,383 | 81 | 153 |
| Equity and other contracts | 2,370 | 186 | 178 |
| Total derivative assets/liabilities held for trading | 3,432,114 | 15,867 | 14,511 |
| Hedging | | | |
| Derivatives designated as fair value hedges: | | | |
| Interest rate swaps | 5,366 | - | - |
| Derivatives designated as cash flow hedges: | | | |
| Interest rate swaps | 1,998 | - | - |
| Total derivative assets/liabilities held for hedging | 7,364 | - | - |
| Total derivative assets/liabilities held for trading and hedging | 3,439,478 | 15,867 | 14,511 |

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13 Derivative financial instruments (continued)

As part of the transfers from LBG the Group acquired derivative assets of £23,065 million and derivative liabilities of £23,327 million.

The amounts for the derivative assets and liabilities in the tables on page 22 include the amounts offset in note 34.

The Group holds derivatives as part of the following strategies:

- Customer driven, where derivatives are held as part of the provision of risk management products to Group customers;
- To manage and hedge the Group's interest rate and foreign exchange risk arising from normal banking business. The hedge accounting strategy adopted by the Group is to utilise a combination of fair value and cash flow hedge approaches as described in note 35.

The principal derivatives used by the Group 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.

The notional amount of the contract does not represent the Group's real exposure to credit risk which is limited to the current cost of replacing contracts with a positive value to the Group should the counterparty default.

To reduce credit risk the Group uses a variety of credit enhancement techniques such as netting and collateralisation, where security is provided against the exposure. Further details are provided in note 35 Credit risk.

Details of the Group's hedging instruments are set out below:

| 31 December 2018 | Maturity | | | | |
|-----------------------------|-------------------|--------------|-------------------|-------------|-------------------|
| | Less than 1 month | 1 - 3 months | 3 months - 1 year | 1 - 5 years | More than 5 years |
| Fair value hedges | | | | | |
| <i>Interest rate</i> | | | | | |
| Interest rate swap | | | | | |
| Notional | - | - | - | 4,153 | 1,213 |
| Average fixed interest rate | - | - | - | 1.15% | 2.65% |
| Cash flow hedges | | | | | |
| <i>Interest rate</i> | | | | | |
| Interest rate swap | | | | | |
| Notional | - | - | 170 | 978 | 850 |
| Average fixed interest rate | - | - | 0.01% | 1.16% | 1.38% |

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

| 31 December 2018 | Carrying amount | | | Changes in fair value used for calculating hedge ineffectiveness (YTD) £m |
|--------------------------|---------------------------------------|--------------|-------------------|---|
| | Contract/ notional amount £m | Assets £m | Liabilities £m | |
| Fair value hedges | | | | |
| <i>Interest rate</i> | | | | |
| Interest rate swaps | 5,366 | - | - | 50 |
| Cash flow hedges | | | | |
| <i>Interest rate</i> | | | | |
| Interest rate swaps | 1,998 | - | - | 6 |

All amounts are held within derivative financial instruments.

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13 Derivative financial instruments (continued)

Hedged items are as follows:

| | Carrying amount of the hedged item | | Accumulated amount of fair value adjustment on the hedge item | | Change in fair value of hedged item for ineffectiveness assessment (YTD) |
|----------------------------------|------------------------------------|-------------------|---|---|--|
| | Assets £m | Liabilities £m | Assets £m | Liabilities £m | £m |
| 31 December 2018 | | | | | |
| Fair value hedges | | | | | |
| <i>Interest rate</i> | | | | | |
| Fixed rate issuance ¹ | - | 5,448 | - | 45 | (45) |
| | | | | Change in fair value of hedged item for ineffectiveness assessment (YTD) | Cash flow hedge/currency translation reserve |
| | | | | | Continuing hedges |
| | | | | | Discontinued hedges |
| | | | | £m | £m |
| Cash flow hedges | | | | | |
| <i>Interest rate</i> | | | | | |
| Customer loans ² | | | | (6) | 6 |
| | | | | | - |

¹ Included within debt securities in issue.

² Included within loans and advances to customers.

The cash flow hedge/currency translation reserve in the above table is calculated on a pre-deferred tax basis.

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.

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

| | Gain (loss) recognised in other comprehensive income £m | Hedge ineffectiveness recognised in the income statement ¹ | Amounts reclassified from reserves to income statement as: | |
|--------------------------|--|---|--|--|
| | | | Hedged item affected income statement £m | Income statement line item that includes reclassified amount |
| 31 December 2018 | | | | |
| Fair value hedges | | | | |
| <i>Interest rate</i> | | | | |
| Fixed rate issuance | n/a | 5 | n/a | n/a |
| Cash flow hedges | | | | |
| <i>Interest rate</i> | | | | |
| Customer loans | 6 | - | - | Interest income |

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

There were no forecast transactions for which cash flow hedge accounting had to cease in 2018 as a result of the highly probable cash flows no longer being expected to occur.

14 Financial assets at amortised cost

A. Loans and advances to customers

| | Stage 1 £m | Stage 2 £m | Stage 3 £m | Total £m |
|--|---------------|---------------|---------------|---------------|
| Balance at 1 January 2018 | - | - | - | - |
| Acquisitions | 13,389 | 29 | 319 | 13,737 |
| Advances/ (repayments) | 7,074 | (10) | (16) | 7,048 |
| Transfers between stages | (4) | 4 | - | - |
| At 31 December 2018 | 20,459 | 23 | 303 | 20,785 |
| Allowance for impairment losses | (9) | (2) | (90) | (101) |
| Total loans and advances to customers | 20,450 | 21 | 213 | 20,684 |

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14 Financial assets at amortised cost (continued)

B. Loans and advances to banks

| | Stage 1 £m | Stage 2 £m | Stage 3 £m | Total £m |
|--|---------------|---------------|---------------|--------------|
| Balance at 1 January 2018 | - | - | - | - |
| Acquisitions | 1,970 | 8 | - | 1,978 |
| Advances/ (repayments) | 615 | (8) | - | 607 |
| At 31 December 2018 | 2,585 | - | - | 2,585 |
| Allowance for impairment losses | (2) | - | - | (2) |
| Total loans and advances to banks | 2,583 | - | - | 2,583 |

C. Debt securities

| | Stage 1 £m | Stage 2 £m | Stage 3 £m | Total £m |
|--|---------------|---------------|---------------|-------------|
| Balance at 1 January 2018 | - | - | - | - |
| Acquisitions | 160 | - | - | 160 |
| Net increase (decrease) in debt securities | (28) | - | - | (28) |
| At 31 December 2018 | 132 | - | - | 132 |
| Allowance for impairment losses | - | - | - | - |
| Total debt securities | 132 | - | - | 132 |

| | | | | |
|--|--------------|----------|----------|--------------|
| Due from fellow Lloyds Banking Group undertakings | 6,593 | - | - | 6,593 |
|--|--------------|----------|----------|--------------|

| | | | | |
|---|---------------|-----------|------------|---------------|
| Total financial assets at amortised cost | 29,758 | 21 | 213 | 29,992 |
|---|---------------|-----------|------------|---------------|

Transfers of assets between stages are deemed to take place at the start of the year, accordingly no transfers are reported in the period. All other movements in the value of the asset are deemed to take place within the Stage under which that asset is reported at the end of the year.

Net increase and decrease in balances 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 2018 £7,846 million of loans and advances to customers of the Group had a contractual residual maturity of greater than one year.

15 Finance lease receivables

The Group's finance lease receivables are classified as loans and advances to customers and accounted for at amortised cost. The balance is analysed as follows:

| | 2018 £m |
|--|------------|
| Gross investment in finance leases, receivable: | |
| Not later than 1 year | 6 |
| Later than 1 year and not later than 5 years | 27 |
| Later than 5 years | 196 |
| | 229 |
| Unearned future finance income on finance leases | (91) |
| Rentals received in advance | (2) |
| Net investment in finance leases | 136 |

The net investment in finance leases represents amounts recoverable as follows:

| | 2018 £m |
|--|------------|
| Not later than 1 year | (3) |
| Later than 1 year and not later than 5 years | 3 |
| Later than 5 years | 136 |
| Net investment in finance leases | 136 |

Equipment leased to customers under finance leases primarily relates to structured financing transactions in connection with infrastructure assets. During 2018 no contingent rentals in respect of finance leases were recognised in the income statement. There was no allowance for uncollectable finance lease receivables included in the allowance for impairment losses.

All balances were acquired in the period.

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16 Allowance for impairment losses

Analysis of movement in the allowance for impairment losses by stage.

| Group | Stage 1 £m | Stage 2 £m | Stage 3 £m | Total £m |
|---|---------------|---------------|---------------|-------------|
| <i>In respect of drawn balances</i> | | | | |
| Balance at 1 January 2018 | - | - | - | - |
| Acquisitions | 5 | - | 103 | 108 |
| Transfers to Stage 1 | - | - | - | - |
| Transfers to Stage 2 | - | - | - | - |
| Transfers to Stage 3 | - | - | - | - |
| Impact of transfers between stages | - | - | - | - |
| Items charged/(credited) to the Income Statement | 3 | 2 | (9) | (4) |
| Total charge | 3 | 2 | (9) | (4) |
| Recoveries of advances written off in previous years | - | - | 1 | 1 |
| Discount unwind | - | - | (5) | (5) |
| At 31 December 2018 | 8 | 2 | 90 | 100 |
| <i>In respect of undrawn balances</i> | | | | |
| Balance at 1 January 2018 | - | - | - | - |
| Acquisitions | 2 | - | - | 2 |
| Transfers to Stage 1 | - | - | - | - |
| Transfers to Stage 2 | - | - | - | - |
| Transfers to Stage 3 | - | - | - | - |
| Impact of transfers between stages | - | - | - | - |
| Items charged to the Income Statement | 1 | - | - | 1 |
| Total charge | 1 | - | - | 1 |
| At 31 December 2018 | 3 | - | - | 3 |
| Total | 11 | 2 | 90 | 103 |
| <i>In respect of:</i> | | | | |
| Loans and advances to banks | 2 | - | - | 2 |
| Loans and advances to customers | 9 | 2 | 90 | 101 |
| Debt securities | - | - | - | - |
| Financial assets at amortised cost | 11 | 2 | 90 | 103 |
| Other assets | - | - | - | - |
| Provisions in relation to loan commitments and financial guarantees | - | - | - | - |
| Total | 11 | 2 | 90 | 103 |

Notes to the Carve Out Financial Statements

16 Allowance for impairment losses (continued)

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 2018.

Net increase and decrease in balances comprise the movements in the expected credit loss as a result of 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. Consequently, recoveries on assets previously written-off also occur in Stage 3 only.

17 Financial assets at fair value through other comprehensive income

| | 2018 £m |
|--|------------|
| Debt securities: | |
| Government securities | - |
| Bank and building society certificates of deposit | 136 |
| Asset-backed securities: | |
| Mortgage-backed securities | - |
| Other asset-backed securities | 121 |
| Corporate and other debt securities | 73 |
| | 330 |
| Treasury and other bills | 82 |
| Total financial assets at fair value through other comprehensive income | 412 |

At 31 December 2018 £195 million of financial assets at fair value through other comprehensive income of the Group had a contractual residual maturity of greater than one year.

All assets have been assessed at Stage 1 at initial recognition and 31 December 2018.

As part of the transfers from LBG the Group acquired financial assets at fair value through other comprehensive income of £194 million.

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18 Property, plant and equipment

| | Premises £m | Equipment £m | Operating Lease assets £m | Total £m |
|---|----------------|-----------------|---------------------------------|-------------|
| Cost or valuation: | | | | |
| At 1 January 2018 | - | - | - | - |
| Acquisition of businesses | 10 | 34 | 2 | 46 |
| Additions | - | 1 | - | 1 |
| Disposals | - | (2) | (2) | (4) |
| At 31 December 2018 | 10 | 33 | - | 43 |
| Accumulated depreciation and impairment | | | | |
| At 1 January 2018 | - | - | - | - |
| Acquisition of businesses | 6 | 24 | 1 | 31 |
| Charge for the year | - | 2 | - | 2 |
| Disposals | (1) | (3) | (1) | (5) |
| At 31 December 2018 | 5 | 23 | - | 28 |
| Balance sheet amount at 31 December 2018 | 5 | 10 | - | 15 |

As part of the transfers from LBG £17 million of plant, property and equipment (£46 million cost with depreciation and impairment of £31 million) was acquired by the Group.

19 Investment in subsidiary undertakings of the Group

| | 2018 £m |
|-----------------------|------------|
| At 1 January | - |
| Additions | - |
| Disposals | - |
| Impairment | - |
| At 31 December | - |

Details of the subsidiaries and related undertakings are given in Note 41 on page 61

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20 Other assets

| | 2018 £m |
|------------------------------|------------|
| Settlement balances | 474 |
| Other assets and prepayments | 84 |
| | 558 |

As part of the transfers from LBG, the Group acquired Other assets of £28 million,

21 Deferred tax asset

The movement in the Deferred tax asset is as follows:

| | 2018 £m |
|---|------------|
| Brought forward | - |
| Charge for the year (see note 10) | (2) |
| Transfers from other group undertakings | 5 |
| | 3 |
| Amount charged to equity | |
| – Cash flow hedges | (1) |
| – Fair value through other comprehensive income | 4 |
| At 31 December | 6 |

The deferred tax charge in the Consolidated income statement comprises the following temporary differences:

| | 2018 £m |
|--------------------------------|------------|
| Accelerated capital allowances | 2 |
| Tax losses carried forward | 1 |
| Other temporary differences | (1) |
| | 2 |

The Deferred tax asset comprises:

| | 2018 £m |
|---|------------|
| Accelerated capital allowances | (9) |
| Tax losses carried forward | 1 |
| Subsidiary pension scheme | 2 |
| Cash flow hedges | 7 |
| Fair value through other comprehensive income | 4 |
| Other temporary differences | 1 |
| At 31 December | 6 |

As a result of legislation enacted in 2016, the UK corporation tax rate will reduce from 19 per cent to 17 per cent on 1 April 2020. The Group measures its deferred tax assets and liabilities at the value expected to be recoverable or payable in future periods, and re-measures them at each reporting date based on the most recent estimates of utilisation or settlement, including the impact of bank surcharge where appropriate.

The effect of these rate reductions on the Group's deferred tax balances is estimated to be not significant.

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22 Financial liabilities at fair value through profit or loss

| | 2018 £m |
|---|---------------|
| Liabilities designated at fair value through profit or loss: Debt securities in issue | 1,062 |
| Trading liabilities: | |
| Liabilities in respect of securities sold under repurchase agreements | 11,440 |
| Other deposits | 10 |
| Short positions in securities | 1,496 |
| | 12,946 |
| Financial liabilities at fair value through profit or loss | 14,008 |

At 31 December 2018, the Group had £1,308 million of trading and other liabilities at fair value through profit or loss with a contractual residual maturity of greater than one year.

Liabilities designated at fair value through profit or loss primarily represent debt securities in issue which either contain substantive embedded derivatives which would otherwise need to be recognised and measured at fair value separately from the related debt securities, or which are accounted for at fair value to significantly reduce an accounting mismatch.

For the fair value of collateral pledged in respect of repurchase agreements see note 32.

23 Debt securities in issue

| | 2018 £m |
|--|---------------|
| Medium-term notes issued | 45 |
| Certificates of deposit issued | 5,353 |
| Commercial paper | 1,162 |
| Amounts due to fellow Group undertakings | 6,382 |
| Total debt securities in issue | 12,942 |

At 31 December 2018 £7,316 million of debt securities in issue of the Group had a contractual residual maturity of greater than one year.

24 Other liabilities

| | 2018 £m |
|------------------------------|------------|
| Settlement balances | 342 |
| Other creditors and accruals | 87 |
| | 429 |

25 Subordinated liabilities

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

| | Dated subordinated 2018 £m |
|---|----------------------------------|
| At 1 January 2018 | - |
| Issued during the year | 696 |
| Repurchases and redemptions during the year | - |
| Foreign exchange movements | 26 |
| Other movements (all non-cash) | 3 |
| At 31 December 2018 | 725 |

There were no repurchases during the year.

| | 2018 £m |
|---|-------------|
| Issued during the year | 2018 |
| Dated Subordinated Liabilities: | £m |
| Euro Floating Rate Notes 2028 callable 2023 | 264 |
| Euro Floating Rate Notes 2030 callable 2025 | 301 |
| US\$ Floating Rate Notes 2033 callable 2028 | 131 |

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26 Share capital

| | 2018 £m |
|---|--------------------------|
| Allotted, issued and fully paid | |
| 120,050,000 (2017: 20,050,000) ordinary shares of £1 each | 120 |

Share capital and control

There are no 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 2018, 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.

As permitted by the Companies Act 2006, the Bank has removed references to authorised share capital from its articles of association.

27 Other reserves

| | 2018 £m |
|---|--------------------------|
| Revaluation reserve in respect of debt securities held at fair value through other comprehensive income | (7) |
| Cash flow hedging reserve | 5 |
| Foreign currency translation reserve | (13) |
| At 31 December 2018 | (15) |

Movements in other reserves were as follows:

| | £m |
|--|-------------|
| Revaluation reserve in respect of debt securities held at fair value through other comprehensive income | |
| At 1 January 2018 | - |
| Change in fair value | (1) |
| Transfers in | (10) |
| Deferred Tax | - |
| Current Tax | - |
| | (11) |
| Realised gains and losses transferred to other comprehensive income | |
| Disposals | - |
| Deferred Tax | 4 |
| Current Tax | - |
| | 4 |
| At 31 December 2018 | (7) |

| | £m |
|---|------------|
| Cash flow hedging reserve | |
| At 1 January 2018 | - |
| Change in fair value of hedging derivatives | 6 |
| Deferred Tax | - |
| | 6 |
| Income statement transfers | - |
| Deferred Tax | (1) |
| | (1) |
| At 31 December 2018 | 5 |

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27 Other reserves (continued)

| | £m |
|--|-------------|
| Foreign currency translation reserve | |
| At 1 January 2018 | - |
| Currency translation differences arising in the year | 2 |
| Foreign currency (losses) gains on net investment hedges (tax: £nil) | - |
| Opening reserves adjustment in respect of foreign currency translation reserve | (15) |
| At 31 December 2018 | (13) |

28 Retained earnings

| | £m |
|--|--------------|
| At 1 January 2018 | - |
| Profit for the year | 153 |
| Distributions on other equity instruments, net of tax | (18) |
| Opening reserves adjustment in respect of foreign currency translation reserve | - |
| Opening reserves adjustment in respect of other transfers | (20) |
| Capital contribution received ¹ | 2,975 |
| At 31 December 2018 | 3,105 |

¹ During the period £2,975 million in capital contributions was received from a related undertaking and recognised through retained earnings.

29 Other equity instruments

During the year the Group has in issue £782 million of Dollar and Euro Additional Tier 1 (AT1) securities to Lloyds Banking Group plc. The AT1 securities are fixed rate resetting or floating rate Perpetual Subordinated Permanent Write-Down Securities with no fixed maturity or redemption date.

The principal terms of the AT1 securities are described below:

- The securities rank behind the claims against the Bank of unsubordinated creditors on a Winding-Up.
- The floating rate AT1 securities will be reset quarterly both prior to and following the first call date.
- Interest on the securities will be due and payable only at the sole discretion of the Bank and the Bank may at any time elect to cancel any Interest Payment (or any part thereof) which would otherwise be payable on any Interest Payment Date. There are also certain restrictions on the payment of interest as specified in the terms.
- The securities are undated and are repayable, at the option of the Bank, in whole at the first call date, or at any Interest Payment date thereafter. In addition, the AT1 securities are repayable, at the option of the Bank, in whole for certain regulatory or tax reasons. Any repayments require the prior consent of the Prudential Regulation Authority.
- 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.

Lloyds Bank Corporate Markets plc
Notes to the Carve Out Financial Statements

30 Related party transactions

Balances and transactions with fellow Lloyds Banking Group undertakings

In accordance with IFRS10 Consolidated financial statements, transactions and balances within the Group 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.

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

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

| | 2018 |
|--|---------------|
| | £m |
| <hr/> | |
| Assets, included within: | |
| Loans and receivables: due from fellow Lloyds Banking Group undertakings | 967 |
| Trading and other financial assets at fair value through profit or loss | 261 |
| Derivative financial instruments | 2,936 |
| | <hr/> |
| | 4,164 |
| <hr/> | |
| Liabilities, included within: | |
| Due to fellow Lloyds Banking Group undertakings | 1,550 |
| Financial liabilities at FVTPL | 1,065 |
| Derivative financial instruments | 3,496 |
| Debt securities in issue | 6,382 |
| Other equity instruments (AT1) | 782 |
| Subordinated liabilities | 725 |
| | <hr/> |
| | 14,000 |

These balances include the Group'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.

Lloyds Bank Corporate Markets plc
Notes to the Carve Out Financial Statements

30 Related party transactions (continued)

Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank. Accordingly the Group's key management personnel are the members of the LBCM board. The table below represents Key management personnel emoluments.

Key management personnel emoluments

| | 2018 £'000 |
|------------------------------|---------------|
| Short term employee benefits | 2,353 |
| Post employment benefits | 17 |
| | 2,370 |

The amounts disclosed above relate wholly to directors of the Group.

31 Contingent liabilities and capital commitments

| | 2018 £m |
|---|------------|
| Contingent liabilities | £m |
| Acceptances and endorsements | 163 |
| Other: | |
| Other items serving as direct credit substitutes | 147 |
| Performance bonds and other transaction-related contingencies | 155 |
| | 302 |
| Total contingent liabilities | 465 |

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

| | 2018 £m |
|--|---------------|
| Commitments | £m |
| Less than 1 year original maturity: | |
| Mortgage offers made | 21 |
| Other commitments | 7,026 |
| | 7,047 |
| 1 year or over original maturity - 3rd party | 9,499 |
| Total commitments | 16,546 |

Of the amounts shown above in respect of undrawn formal standby facilities, credit lines and other commitments to lend £16,464 million for the Group were irrevocable.

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

Lloyds Bank Corporate Markets plc
Notes to the Carve Out Financial Statements

32 Financial instruments

(1) 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 tables analyse the carrying amounts of the financial assets and liabilities by category and by balance sheet heading.

| | Derivatives designated as hedging instruments £m | Mandatorily held at fair value through profit or loss | | Designated at fair value through profit or loss £m | At fair value through other com- prehensive income £m | Held at amortised cost £m |
|---|--|--|-------------|--|--|------------------------------------|
| | | Held for trading £m | Other £m | | | |
| At 31 December 2018 | | | | | | |
| Financial assets | | | | | | |
| Cash and balances at central banks | - | - | - | - | - | 14,448 |
| Items in the course of collection from banks | - | - | - | - | - | 2 |
| Financial assets at fair value through profit or loss | - | 17,089 | 82 | - | - | - |
| Derivative financial instruments | - | 15,867 | - | - | - | - |
| Loans and advances to banks | - | - | - | - | - | 2,583 |
| Loans and advances to customers | - | - | - | - | - | 20,684 |
| Debt securities | - | - | - | - | - | 132 |
| Due from fellow Lloyds Banking Group undertakings | - | - | - | - | - | 6,593 |
| Financial assets at amortised cost | - | - | - | - | - | 29,992 |
| Financial assets at fair value through other comprehensive income | - | - | - | - | 412 | - |
| Total financial assets | - | 32,956 | 82 | - | 412 | 44,442 |

| (continued) | Derivatives designated as hedging instruments £m | Mandatorily held at fair value through profit or loss | | Designated at fair value through profit or loss £m | At fair value through other com- prehensive income £m | Held at amortised cost £m |
|--|--|--|-------------|--|--|------------------------------------|
| | | Held for trading £m | Other £m | | | |
| At 31 December 2018 | | | | | | |
| Financial liabilities | | | | | | |
| Deposits from banks | - | - | - | - | - | 3,177 |
| Customer deposits | - | - | - | - | - | 26,870 |
| Due to fellow Lloyds Banking Group undertakings | - | - | - | - | - | 1,794 |
| Financial liabilities at fair value through profit or loss | - | 12,946 | - | 1,062 | - | - |
| Derivative financial instruments | - | 14,511 | - | - | - | - |
| Debt securities in issue | - | - | - | - | - | 12,942 |
| Subordinated liabilities | - | - | - | - | - | 725 |
| Total financial liabilities | - | 27,457 | - | 1,062 | - | 45,508 |

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Notes to the Carve Out Financial Statements

32 Financial instruments (continued)

(2) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is a measure 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 held by the Group. 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 the Group.

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

The 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, items in course of transmission to banks, notes in circulation and liabilities arising from non-participating investment contracts.

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 Carve Out Financial Statements are thus advised to use caution when using this data to evaluate the Group'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 the Group's consolidated balance sheet. These items include intangible assets, such as the value of the Group's branch network, the long-term relationships with depositors and credit card relationships; premises and equipment; and shareholders' equity. These items are material and accordingly the Group believes that the fair value information presented does not represent the underlying value of the Group.

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 the Group's systems and that the profit and loss and risk reporting are consistent throughout the trade life cycle. 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) reserve.

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 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. Certain of the Group's asset-backed securities and derivatives, principally where there is no trading activity in such securities, are also classified as level 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.

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Notes to the Carve Out Financial Statements

32 Financial instruments (continued)

(3) Financial assets and liabilities carried at fair value

(A) Financial assets, excluding derivatives

Valuation hierarchy

At 31 December 2018, the Group's financial assets carried at fair value, excluding derivatives, totalled £17,583 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 37). The fair value measurement approach is recurring in nature. There were no significant transfers between level 1 and 2 during the year.

| | Level 1 £m | Level 2 £m | Level 3 £m | Total £m |
|--|---------------|---------------|---------------|---------------|
| As at 31 December 2018 | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Loans and advances to customers | - | 11,295 | 3 | 11,298 |
| Loans and advances to banks | - | 612 | - | 612 |
| Debt securities: | | | | |
| Government securities | 4,899 | - | - | 4,899 |
| Other public sector securities | - | - | - | - |
| Bank and building society certificates of deposit | - | 59 | - | 59 |
| Asset-backed securities: | | | | |
| Mortgage-backed securities | - | 10 | - | 10 |
| Other-asset-backed securities | - | 43 | - | 43 |
| Corporate and other debt securities | - | 230 | - | 230 |
| | 4,899 | 342 | - | 5,241 |
| Equity shares | - | - | - | - |
| Treasury and other bills | 20 | - | - | 20 |
| Total financial assets at fair value through profit or loss | 4,919 | 12,249 | 3 | 17,171 |
| Financial assets at fair value through other comprehensive income | | | | |
| Debt securities: | | | | |
| Government securities | - | - | - | - |
| Bank and building society certificates of deposit | - | 136 | - | 136 |
| Asset-backed securities: | | | | |
| Mortgage-backed securities | - | - | - | - |
| Other-asset-backed securities | - | - | 121 | 121 |
| Corporate and other debt securities | - | 73 | - | 73 |
| | - | 209 | 121 | 330 |
| Equity shares | - | - | - | - |
| Treasury and other bills | 82 | - | - | 82 |
| Total financial assets at fair value through other comprehensive income | 82 | 209 | 121 | 412 |
| Total financial assets carried at fair value, excluding derivatives | 5,001 | 12,458 | 124 | 17,583 |

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32 Financial instruments (continued)

Movements in level 3 portfolio

The table below analyses movements in level 3 financial assets, excluding derivatives, carried at fair value:

| | Financial assets at fair value through profit or loss | At fair value through other compre- hensive income | Total level 3 assets carried at fair value, excluding derivatives |
|--|--|---|---|
| | £m | £m | £m |
| Opening balance | - | - | - |
| Exchange and other adjustments | 1 | - | 1 |
| (Losses) gains recognised in other comprehensive income within the revaluation reserve in respect of financial assets at fair value through other comprehensive income | (1) | - | (1) |
| Purchases | 3 | 194 | 197 |
| At 31 December 2018 | 3 | 194 | 197 |

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32 Financial instruments (continued)

Valuation methodology for financial assets, excluding derivatives

Loans and advances to customers and banks

These assets are principally reverse repurchase agreements. The fair value of these assets is determined using discounted cash flow techniques. The discount rates are derived from observable repo curves specific to the type of security purchased under the reverse repurchase agreement.

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, the Group 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.

(B) Financial liabilities, excluding derivatives

Valuation hierarchy

At 31 December 2018, the Group's financial liabilities carried at fair value, excluding derivatives, totalled £14,008 million. The table below analyses these financial liabilities by balance sheet classification, liability type and valuation methodology (level 1, 2 or 3, as described on page 37). The fair value measurement approach is recurring in nature. There were no significant transfers between level 1 and 2 during the year.

| | Level 1 £m | Level 2 £m | Level 3 £m | Total £m |
|---|---------------|---------------|---------------|---------------|
| As at 31 December 2018 | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| Liabilities held at fair value through profit or loss | - | 1,062 | - | 1,062 |
| Trading liabilities: | | | | |
| Liabilities in respect of securities sold under repurchase | - | 11,440 | - | 11,440 |
| Short positions in securities | 1,397 | 99 | - | 1,496 |
| Other positions | - | 10 | - | 10 |
| Total Trading liabilities | 1,397 | 11,549 | - | 12,946 |
| Total financial liabilities carried at fair value, excluding derivatives | 1,397 | 12,611 | - | 14,008 |

Movements in level 3 portfolio

There have been no movements in level 3 financial liabilities, excluding derivatives, carried at fair value during the year.

Valuation methodology for financial liabilities, excluding derivatives

Liabilities held at fair value through profit or loss

These principally comprise debt securities in issue which are classified as level 2 and their fair value is determined using techniques whose inputs are based on observable market data. The carrying amount of the securities is adjusted to reflect the effect of changes in own credit spreads and the resulting gain or loss is recognised in other comprehensive income.

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 repo curves specific to the type of security sold under the repurchase agreement.

(C) Derivatives

All the Group's derivative assets and liabilities are carried at fair value. At year end such assets totalled £15,867 million for the Group. Liabilities totalled £14,511 million for the Group. The table below analyses these derivative balances by valuation methodology (level 1, 2 or 3, as described on page 37). The fair value measurement approach is recurring in nature. There were no significant transfers between level 1 and level 2 during the year.

| | Level 1 £m | Level 2 £m | Level 3 £m | Total £m |
|-------------------------------|---------------|---------------|---------------|-------------|
| As at 31 December 2018 | | | | |
| Derivative assets | 4 | 14,941 | 922 | 15,867 |
| Derivative liabilities | - | 13,804 | 707 | 14,511 |

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32 Financial instruments (continued)

Where the Group's 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, the Group calibrates its models using observable at-the-money data; where necessary, the Group adjusts for out-of-the-money positions using a market standard consensus pricing service.

Complex interest rate and foreign exchange products where there is significant dispersion of consensus pricing or where implied funding costs are 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 are used to calculate CVA, FVA, and own credit adjustments, but are not considered significant in determining the classification of the derivative and debt portfolios. Consequently, those inputs do not form part of the level 3 sensitivities presented.

Movements in level 3 portfolio

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

| | Derivative assets | Derivative liabilities |
|--|----------------------|---------------------------|
| | £m | £m |
| Opening balance | - | - |
| Gains recognised in the income statement within other income | - | 68 |
| Purchases | 922 | 639 |
| At 31 December 2018 | 922 | 707 |

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, excluding monoline counterparties*

The following table summarises the movement on this valuation adjustment account for the Group during 2018.

| | |
|--|-------------|
| Uncollateralised derivative valuation adjustments | 2018 |
| | £m |
| At 1 January 2018 | - |
| Transfers in | 225 |
| Income statement charge | 85 |
| At 31 December 2018 | 310 |
| Represented by | 2018 |
| | £m |
| Credit Valuation Adjustment (CVA) | 271 |
| Debit Valuation Adjustment (DVA) | (97) |
| Funding Valuation Adjustment | 136 |
| | 310 |

Credit and Debit Valuation Adjustments (CVA and DVA) are applied to the Group's over-the-counter derivative exposures with counterparties that are not subject to standard collateral arrangements (CSAs). These adjustments reflect the level of interest rates, foreign exchange rates, expectations of counterparty creditworthiness and the Group's own credit spread respectively.

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

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Notes to the Carve Out Financial Statements

32 Financial instruments (continued)

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 becomes credit 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 the Group.

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 £47.7 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 (in total contributing £nil of the overall CVA balance at 31 December 2018).

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 implied CDS spread.

A one per cent rise in the CDS spread would lead to an increase in the DVA of £21.1 million to £118.5 million.

The risk exposures that are used for the CVA and DVA calculations are strongly influenced by interest rates and foreign exchange rates. Due to the nature of the Group's business and client hedging needs, CVA/DVA exposures and valuation adjustments tend to fall when interest rates rise. A one per cent rise in interest rates would lead to a £8.4 million fall in the overall valuation adjustment to £166.2 million. The CVA model used by the Group does not assume any correlation between the level of interest rates and default rates.

The Group 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 approximately £13.6 million.

(ii) Market liquidity

The Group includes mid to bid-offer valuation adjustments against the expected cost of closing out the net market risk in the Group's trading positions within a timeframe 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 2018, the Group's derivative trading business held mid to bid-offer valuation adjustments of £62.5 million.

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Notes to the Carve Out Financial Statements

32 Financial instruments (continued)

(D) Sensitivity of level 3 valuations

| | Valuation technique(s) | Significant unobservable inputs ¹ | Carrying value £m | Effect of reasonably possible alternative | |
|--|------------------------|--|----------------------|---|----------------------------|
| | | | | Favourable changes £m | Unfavourable changes £m |
| At 31 December 2018 | | | | | |
| Financial Assets at fair value through profit or loss | | | | | |
| Loans and advances to customers | Comparable Pricing | Price | 3 | - | - |
| | | | 3 | - | - |
| Financial Assets at fair value through other comprehensive income | | | | | |
| Asset-backed securities | Comparable Pricing | Price | 121 | - | (1) |
| | Discounted cash flow | Discount margin | - | - | - |
| | Comparable Pricing | Price | 73 | 3 | (3) |
| | | | 194 | 3 | (4) |
| Derivative financial assets | | | | | |
| Interest rate derivatives | Option pricing model | Inflation Volatility | 311 | 3 | (3) |
| | Option pricing model | Interest Rate Volatility | 612 | 3 | (2) |
| | | | 923 | 6 | (5) |
| Level 3 financial assets carried at fair value | | | 1,120 | 9 | (9) |
| Derivative financial liabilities | | | | | |
| Interest rate derivatives | Option pricing model | Inflation Volatility | (237) | - | - |
| | Option pricing model | Interest Rate Volatility | (470) | - | - |
| | | | (707) | - | - |
| Level 3 financial liabilities carried at fair value | | | (707) | - | - |

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 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.

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Notes to the Carve Out Financial Statements

32 Financial instruments (continued)

Reasonably possible alternative assumptions

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

Debt securities

Reasonably possible alternative assumptions have been determined in respect of the Group's structured credit investment by flexing credit spreads.

Derivatives

Reasonably possible alternative assumptions have been determined in respect of swaptions in the Group'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 of 19 per cent to 80 per cent.

(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 the Group which are carried at amortised cost by valuation methodology (level 1, 2 or 3, as described on page 37). 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.

| | Carrying value £m | Fair value £m | Level 1 £m | Level 2 £m | Level 3 £m |
|---|-------------------------|------------------|---------------|---------------|---------------|
| As at 31 December 2018 | | | | | |
| Loans and advances to customers | 20,684 | 20,701 | - | 4,604 | 16,097 |
| Loans and advances to banks | 2,583 | 2,583 | - | - | 2,583 |
| Debt securities | 132 | 127 | - | 127 | - |
| Due from fellow Lloyds Banking Group undertakings | 6,593 | 6,593 | - | - | 6,593 |
| Reverse repos included in above amounts: | | | | | |
| Loans and advances to customers | 4,604 | 4,604 | - | 4,604 | - |
| Loans and advances to banks | - | - | - | - | - |

Valuation methodology

Loans and advances to customers

The Group 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 the variable rate loans and those 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 the Group and other financial institutions. Certain loans secured on residential properties are made at a fixed rate for a limited period, typically two to five years, after which the loans revert to the relevant variable rate. The fair value of such loans is estimated by reference to the 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. No adjustment is made to put it in place by the Group to manage its interest rate exposure.

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32 Financial instruments (continued)

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 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.

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.

Reverse repurchase agreements

The carrying amount is deemed a reasonable approximation of fair value given the short-term nature of these instruments.

(B) Financial liabilities

Valuation hierarchy

The table below analyses the fair values of the financial liabilities of the Group which are carried at amortised cost by valuation methodology (level 1, 2 or 3, as described on page 37).

| | Carrying value £m | Fair value £m | Level 1 £m | Level 2 £m | Level 3 £m |
|---|-------------------------|------------------|---------------|---------------|---------------|
| As at 31 December 2018 | | | | | |
| Deposits from banks | 3,177 | 3,196 | - | 3,196 | - |
| Customer deposits | 26,870 | 26,910 | - | 26,910 | - |
| Due to fellow Lloyds Banking Group undertakings | 1,794 | 1,794 | - | 1,794 | - |
| Debt securities in issue | 12,942 | 12,897 | - | 12,897 | - |
| Subordinated liabilities | 725 | 725 | - | 725 | - |
| Repos included in above amounts: | | | | | |
| Deposits from banks | - | - | - | - | - |
| Customer deposits | 372 | 372 | - | 372 | - |
| Due to fellow Lloyds Banking Group undertakings | - | - | - | - | - |

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.

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 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 the Group's own credit spread.

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Notes to the Carve Out Financial Statements

32 Financial instruments (continued)

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.

Repurchase agreements

The carrying amount is deemed a reasonable approximation of fair value given the short-term nature of these instruments.

(5) Reclassifications of financial assets

There have been no reclassifications of financial assets in 2018.

33 Business combinations

During the year, the Group acquired 100% of the voting equity instruments and obtained control of a number of fellow LBG undertakings representing the element of their commercial banking businesses required to be transferred in order to ensure compliance with the Ring-fencing legislation for a total consideration of £13bn. This £13billion acquisition was funded through a capital contribution from LBG of £2.9bn as well as through loans from the wider LBG of £7.9bn and debt issuances [to LBG] of £3.6bn. The legal entities transferred during the year are those listed in note 41. All entities transferred have remained under common control of the ultimate parent.

Consistent with predecessor accounting (refer note 3), the consideration paid was equal to book value and hence no goodwill or discount arose on acquisition. Total consideration was paid as cash.

The Group did not dispose of any operations of the acquiree as part of this business combination.

Predecessor accounting has been applied prospectively as described in note 3.

34 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 the Group has enforceable master netting agreements or collateral arrangements in place with counterparties.

| | Gross amounts of assets and liabilities ¹ | Amounts offset in the balance sheet ² | Net amounts presented in the balance sheet | Related amounts where set off in the balance sheet not permitted ³ | | Potential net amounts if offset of related amounts permitted |
|---|--|--|--|---|--------------------------------------|--|
| | | | | Cash collateral received/pledged | Non-cash collateral received/pledged | |
| | £m | £m | £m | £m | £m | £m |
| At 31 December 2018 | | | | | | |
| Financial assets | | | | | | |
| Financial assets at fair value through profit or loss: | | | | | | |
| Excluding reverse repos | 5,264 | - | 5,264 | - | (1,418) | 3,846 |
| Reverse repos | 16,259 | (4,352) | 11,907 | - | (11,907) | - |
| | 21,523 | (4,352) | 17,171 | - | (13,325) | 3,846 |
| Derivative financial instruments | 29,191 | (13,324) | 15,867 | (3,143) | (10,150) | 2,574 |
| Loans and advances to banks: | | | | | | |
| Excluding reverse repos | 2,583 | - | 2,583 | (1,179) | - | 1,404 |
| Reverse repos | - | - | - | - | - | - |
| | 2,583 | - | 2,583 | (1,179) | - | 1,404 |
| Loans and advances to customers: | | | | | | |
| Excluding reverse repos | 18,723 | (2,643) | 16,080 | (456) | - | 15,624 |
| Reverse repos | 4,604 | - | 4,604 | - | (4,604) | - |
| | 23,327 | (2,643) | 20,684 | (456) | (4,604) | 15,624 |
| Debt securities | 132 | - | 132 | - | - | 132 |
| Financial assets at fair value through other comprehensive income | 412 | - | 412 | - | - | 412 |

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34 Offsetting of financial assets and liabilities (continued)

| | Gross amounts of assets and liabilities ¹ £m | Amounts 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 2018 | | | | | | |
| Financial liabilities | | | | | | |
| Deposits from banks: | | | | | | |
| Excluding repos | 3,177 | - | 3,177 | (2,067) | - | 1,110 |
| Repos | - | - | - | - | - | - |
| | 3,177 | - | 3,177 | (2,067) | - | 1,110 |
| Customer deposits: | | | | | | |
| Excluding repos | 26,611 | (113) | 26,498 | (1,077) | - | 25,421 |
| Repos | 372 | - | 372 | - | - | 372 |
| | 26,983 | (113) | 26,870 | (1,077) | - | 25,793 |
| Financial liabilities at fair value through profit or loss: | | | | | | |
| Excluding repos | 1,506 | - | 1,506 | - | - | 1,506 |
| Repos | 16,855 | (4,353) | 12,502 | (3,837) | (8,665) | - |
| | 18,361 | (4,353) | 14,008 | (3,837) | (8,665) | 1,506 |
| Derivative financial instruments | 30,366 | (15,855) | 14,511 | (1,635) | (2,687) | 10,189 |

¹ After impairment allowance.

² The amounts set off in the balance sheet as shown above represent derivatives and repurchase agreements with central clearing houses which meet the criteria for offsetting under IAS 32.

³ The Group enters into derivatives and repurchase and reverse repurchase agreements with various counterparties which are governed by industry standard master netting agreements. The Group holds and provides cash and securities collateral in respective of derivative transactions covered by these agreements. The right to set off balances under these master netting agreements or to set off cash and securities collateral only arises in the event of non-payment or default and, as a result, these arrangements do not qualify for offsetting under IAS 32.

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

35 Financial risk management

Financial instruments are fundamental to the Group's activities and, as a consequence, the risks associated with financial instruments represent a significant component of the risks faced by the Group.

The primary risks affecting the Group through its use of financial instruments are: credit risk; market risk, which includes interest rate risk and currency risk; and liquidity risk. Information about the Group's management of these risks is given below.

(1) Credit risk

The Group's credit risk exposure arises in respect of the instruments below. 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 measure the credit risk of loans and advances to customers and banks 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 the Group derives the exposure at default; and (iii) the likely loss ratio on the defaulted obligations, the loss given default. The Group 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 derivative based transactions.

A. Maximum credit exposure

The maximum credit risk exposure of the Group 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.

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35 Financial risk management (continued)

| | Maximum exposure £m | Offset ² £m | Net exposure £m |
|---|---------------------------|---------------------------|-----------------------|
| 31 December 2018 | | | |
| Loans and advances to banks, net ¹ | 2,583 | - | 2,583 |
| Loans and advances to customers, net ¹ | 20,684 | (456) | 20,228 |
| Debt securities, net ¹ | 132 | - | 132 |
| | 23,399 | (456) | 22,943 |
| Financial assets at fair value through other comprehensive income | 412 | - | 412 |
| Financial assets at fair value through profit or loss: | | | |
| Loans and advances | 23,814 | - | 23,814 |
| Debt securities, treasury and other bills | 10,364 | - | 10,364 |
| | 34,178 | - | 34,178 |
| Derivative assets | 15,867 | (8,343) | 7,524 |
| Off-balance sheet items: | | | |
| Acceptances and endorsements | 163 | - | 163 |
| Other items serving as direct credit substitutes | 147 | - | 147 |
| Performance bonds and other transaction related contingencies | 155 | - | 155 |
| Irrevocable commitments and guarantees | 16,464 | - | 16,464 |
| | 16,929 | - | 16,929 |
| | 90,785 | (8,799) | 81,986 |

¹ Amounts shown net of related impairment allowances.

² 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 Carve Out Financial Statements.

B. Concentrations of exposure

The Group's management of concentration risk includes single name, industry sector and country limits as well as controls over the Group's overall exposure to certain products.

At 31 December 2018 the most significant concentrations of exposure were in Financial, business and other services (comprising 78 per cent of total loans and advances to customers) and to Manufacturing (comprising 8 per cent of the total).

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35 Financial risk management (continued)

Loans and advances to customers

| | £m |
|---|---------------|
| 31 December 2018 | |
| Agriculture, forestry and fishing | 7 |
| Energy and water supply | 160 |
| Manufacturing | 1,564 |
| Construction | 216 |
| Transport, distribution and hotels | 181 |
| Postal and telecommunications | 316 |
| Property companies | 1,172 |
| Financial, business and other services | 16,160 |
| Mortgages | 707 |
| Other: Personal | 83 |
| Lease financing | 136 |
| Hire purchase | 81 |
| Total loans and advances to customers before allowance for impairment losses | 20,783 |
| Allowance for impairment losses (note 16) | (101) |
| Total loans and advances to customers | 20,682 |

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 the Group 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.

| | Corporate | |
|--|------------------------------------|--|
| | Grade | IFRS 9 PD% |
| Good quality | 1-10 | 0.00-0.50 |
| Satisfactory quality | 11-14 | 0.51-3.00 |
| Lower quality | 15-18 | 3.01-20.00 |
| Below standard | 19 | 20.01-99.99 |
| Credit impaired | 20-23 | 100 |
| | Loans and advances to banks | Loans and advances to customers |
| | £m | £m |
| Gross carrying amount | | |
| At 31 December 2018 | | |
| Stage 1 | | |
| Good quality | 2,584 | 19,594 |
| Satisfactory quality | - | 712 |
| Lower quality | - | 153 |
| Below standard, but not credit-impaired | - | - |
| | 2,584 | 20,459 |
| Stage 2 | | |
| Good quality | - | - |
| Satisfactory quality | - | 1 |
| Lower quality | - | 22 |
| Below standard, but not credit-impaired | - | - |
| | - | 23 |
| Stage 3 | | |
| Credit-impaired | - | 303 |
| Purchased or originated credit-impaired | | |
| Credit-impaired | 1 | - |
| Total | 2,585 | 20,785 |

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35 Financial risk management (continued)

| | Loans and advances to customers £m |
|--|---|
| <hr/> | |
| Loan commitments and financial guarantees | |
| <hr/> | |
| At 31 December 2018 | |
| Stage 1 | |
| Good quality | 16,209 |
| Satisfactory quality | 281 |
| Lower quality | 56 |
| Below standard, but not credit-impaired | - |
| | 16,546 |
| Stage 2 | |
| Good quality | - |
| Satisfactory quality | - |
| Lower quality | - |
| Below standard, but not credit-impaired | - |
| | - |
| Stage 3 | |
| Credit-impaired | - |
| Purchased or originated credit-impaired | |
| Credit-impaired | - |
| | - |
| Total | 16,546 |

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35 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:

| | Investment grade ¹ £m | Other ² £m | Total £m |
|---|-------------------------------------|--------------------------|-------------|
| 31 December 2018 | | | |
| Asset-backed securities: | | | |
| Mortgage-backed securities | - | - | - |
| Other asset-backed securities | 132 | - | 132 |
| | 132 | - | 132 |
| Corporate and other debt securities | - | - | - |
| Gross exposure | 132 | - | 132 |
| Allowance for impairment losses | | | - |
| Total debt securities held at amortised cost | | | 132 |

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

² Other comprises sub-investment grade (2018: £nil million for the Group) and not rated (2018: £nil million for the Group).

Financial assets at fair value through other comprehensive income

An analysis of financial assets at fair value through other comprehensive income is included in note 17. The credit quality of financial assets at fair value through other comprehensive income (excluding equity shares) is set out below:

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35 Financial risk management (continued)

| | Investment grade ¹ £m | Other ² £m | Total £m |
|--|-------------------------------------|--------------------------|-------------|
| 31 December 2018 | | | |
| <i>Debt securities</i> | | | |
| Government securities | - | - | - |
| Bank and building society certificates of deposit | 118 | - | 118 |
| Asset-backed securities: | | | |
| Mortgage-backed securities | 121 | - | 121 |
| Other asset-backed securities | - | 73 | 73 |
| | 121 | 73 | 194 |
| Corporate and other debt securities | 18 | - | 18 |
| <hr/> | | | |
| Total debt securities | 257 | 73 | 330 |
| Treasury and other bills | 82 | - | 82 |
| <hr/> | | | |
| Total financial assets at fair value through other comprehensive income | 339 | 73 | 412 |

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

² Other comprises sub-investment grade (2018: £nil million) and not rated (2018: £73 million).

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 12. The credit quality of debt securities, treasury and other bills held at fair value through profit or loss is set out below.

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35 Financial risk management (continued)

| | Investment grade ¹ £m | Other ² £m | Total £m |
|---|-------------------------------------|--------------------------|--------------|
| 31 December 2018 | | | |
| <i>Trading assets</i> | | | |
| Government securities | 4,898 | - | 4,898 |
| Bank and building society certificates of deposit | - | - | - |
| Asset-backed securities: | | | |
| Mortgage-backed securities | 10 | - | 10 |
| Other asset-backed securities | 43 | - | 43 |
| | 53 | - | 53 |
| Corporate and other debt securities | 205 | 26 | 231 |
| Total held as trading assets | 5,156 | 26 | 5,182 |
| <i>Other assets mandatorily at fair value through profit or loss</i> | | | |
| Government securities | - | - | - |
| Bank and building society certificates of deposit | 59 | - | 59 |
| Corporate and other debt securities | - | - | - |
| Total debt securities mandatorily at fair value through profit or loss | 59 | - | 59 |
| Treasury and other bills | 20 | - | 20 |
| Total other assets mandatorily at fair value through profit or loss | 79 | - | 79 |
| | 5,235 | 26 | 5,261 |
| Due from fellow Lloyds Banking Group undertakings: | | | |
| Corporate and other debt securities | - | - | - |
| Total held at fair value through profit or loss | 5,235 | 26 | 5,261 |

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

² Other comprises sub-investment grade (2018: £nil million) and not rated (2018: £26 million).

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35 Financial risk management (continued)

Derivative assets

An analysis of derivative assets is given in note 13.

The Group reduces exposure to credit risk by using master netting agreements and by obtaining collateral in the form of cash or highly liquid securities. In respect of the net credit risk relating to derivative assets of £15,867 million for the Group, cash collateral of £3,143 million for the Group was held and a further £119 million for the Group was due from OECD banks.

| | Investment grade ¹ £m | Other ² £m | Total £m |
|--|-------------------------------------|--------------------------|---------------|
| 31 December 2018 | | | |
| Trading and other | 12,091 | 838 | 12,929 |
| Hedging | - | - | - |
| | 12,091 | 838 | 12,929 |
| Due from fellow Lloyds Banking Group undertakings: | | | 2,938 |
| Total derivative financial instruments | | | 15,867 |

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

² Other comprises sub-investment grade (2018: £638 million) and not rated (2018: £200 million).

Financial guarantees and irrevocable loan commitments

Financial guarantees represent undertakings that the Group 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. The Group 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 Group 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.

Loans and receivables

The Group holds collateral in respect of loans and advances to banks and customers as set out below. The Group 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 banks

There were reverse repurchase agreements which are accounted for as collateralised loans within loans and advances to banks with a carrying value of £2,583 million for the Group, against which the Group held collateral of £1,179 million.

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

Commercial lending

Reverse repurchase transactions

At 31 December 2018 there were reverse repurchase agreements which were accounted for as collateralised loans with a carrying value of £4,604 million for the Group against which the Group held collateral with a fair value of £3,143 million all of which the Group was able to repledge. No collateral in the form of cash was provided in respect of reverse repurchase agreements to the Group. These transactions were generally conducted under terms that are usual and customary for standard secured lending activities.

Lloyds Bank Corporate Markets plc
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35 Financial risk management (continued)

Stage 3 secured lending

The value of collateral is re-evaluated and its legal soundness re-assessed if there is observable evidence of distress of the borrower; this evaluation is used to determine potential loss allowances and management's strategy to try to either repair the business or recover the debt.

Stage 3 secured commercial lending and associated collateral relates to lending to property companies and to customers in the financial, business and other services; transport, distribution and hotels; and construction industries.

Stage 1 and Stage 2 secured lending

For Stage 1 and Stage 2 secured commercial lending, the Group reports assets gross of collateral and therefore discloses the maximum loss exposure. The Group believes that this approach is appropriate as collateral values at origination and during a period of good performance may not be representative of the value of collateral if the obligor enters a distressed state.

Stage 1 and Stage 2 secured commercial lending is predominantly managed on a cash flow basis. On occasion, it may include an assessment of underlying collateral, although, for Stage 3 lending, this will not always involve assessing it on a fair value basis. No aggregated collateral information for the entire unimpaired secured commercial lending portfolio is provided to key management personnel.

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 £11,669 million for the Group. Collateral is held with a fair value of £11,669 million for the Group, all of which the Group is able to repledge.

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

The Group reduces exposure to credit risk by using master netting agreements and by obtaining collateral in the form of cash or highly liquid securities. In respect of the net derivative assets after offsetting of amounts under master netting arrangements of £8,343 million for the Group, cash collateral of £3,663 million for the Group was held.

E. Collateral pledged as security

The Group 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

Deposits from banks

Included in deposits from banks are balances arising from repurchase transactions of £nil million for the Group; the fair value of the collateral provided under these agreements at 31 December 2018 was £nil million for the Group.

Customer deposits

Included in customer deposits are balances arising from repurchase transactions of £372 million for the Group; the fair value of the collateral provided under these agreements at 31 December 2018 was £372 million for the Group.

Trading and other 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 £nil million for the Group.

Securities lending transactions

The following on balance sheet financial assets have been lent to counterparties under securities lending transactions:

| | 2018 |
|---|--------------|
| | £m |
| Financial assets at fair value through profit or loss | 945 |
| Financial assets at fair value through other comprehensive income | 892 |
| Total | 1,837 |

Lloyds Bank Corporate Markets plc
Notes to the Carve Out Financial Statements

35 Financial risk management (continued)

(2) Market risk

Interest rate risk

Interest rate risk arises from the different repricing characteristics of the assets and liabilities. Liabilities are 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 the Group's discretion and that for competitive reasons generally reflect changes in the Bank of England's base rate. The rates on the remaining deposits are contractually fixed for their term to maturity.

Many banking assets are sensitive to interest rate movements; there is a large volume of managed rate assets such as variable rate mortgages which may be considered as a natural offset to the interest rate risk arising from the managed rate liabilities. However, a significant proportion of the Group's lending assets, for example many personal loans and mortgages, bear interest rates which are contractually fixed.

The Group's risk management policy is to optimise reward whilst 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 and is managed through the Group'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 the LBG Asset and Liability Committee.

The Group establish hedge accounting relationships for interest rate risk using cash flow hedges and fair value hedges. The Group are 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 suitable hedge items to be documented into accounting hedge relationships. The Group are 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. The Group apply 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 the Group 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 2018 the aggregate notional principle of interest rate swaps designated as fair value hedges was £5,366 million for the Group with a net fair value asset of £nil and a net fair value liability of £nil. There were gains recognised on the hedging instruments of £50 million for the Group. There were losses on the hedged items attributable to the hedged risk of £46 million for the Group. The gains and losses relating to the fair value hedges are recorded in net trading income.

In addition the Group has cash flow hedges which are primarily used to hedge the variability in the cost of funding within the commercial business. Note 13 shows when the hedged cash flows are expected to occur and when they will affect income for the designated cash flow hedges. The notional principle of the interest rate swaps designated as cash flow hedges at 31 December 2018 was £1,998 million for the Group with a fair value asset of £nil and a fair value liability of £nil. Ineffectiveness recognised in the income statement that arises from cash flow hedges was £nil for the Group.

Currency 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. The Group also manages foreign currency risk via cash flow hedge accounting, utilising currency swaps.

Risk arises from the Group's investments in its overseas operations. The Group'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.

The Group's main overseas operations are in the USA, Europe and Singapore. Details of the Group's structural foreign currency exposures, after net investment hedges, are as follows:

| | US Dollar £m | Other non-sterling £m |
|---|-----------------|--------------------------|
| 31 December 2018 | | |
| Group exposure | 69 | 1 |
| Net investment hedges | - | - |
| Total structural foreign currency exposures, after net investment hedges | 69 | 1 |

Lloyds Bank Corporate Markets plc
Notes to the Carve Out Financial Statements

35 Financial risk management (continued)

(3) Liquidity risk

Liquidity risk is defined as the risk that the Group 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. The Group carries out monthly stress testing of its liquidity position against a range of scenarios, including those prescribed by the PRA. The Group's liquidity risk appetite is also calibrated against a number of stressed liquidity metrics.

The tables below analyse financial instrument liabilities of the Group on an undiscounted future cash flow basis according to contractual maturity, into relevant maturity groupings based on the remaining period at the balance sheet date; balances with no fixed maturity are included in the over 5 years category. Certain balances, included in the table below on the basis of their residual maturity, are repayable on demand upon payment of a penalty.

| | Up to 1 month £m | 1-3 months £m | 3-12 months £m | 1-5 years £m | Over 5 years £m | Total £m |
|--|------------------------|------------------|-------------------|-----------------|-----------------------|-------------|
| 31 December 2018 | | | | | | |
| Deposits from banks | 1 | 304 | 143 | 588 | 2,141 | 3,177 |
| Customer deposits | 19,749 | 3,264 | 2,521 | 253 | 1,083 | 26,870 |
| Derivative financial instruments | 1,686 | 768 | 1,057 | 2,191 | 8,809 | 14,511 |
| Trading and other financial liabilities at fair value through profit or loss | 3,286 | 6,689 | 2,725 | 685 | 623 | 14,008 |
| Debt securities in issue | 1,182 | 1,698 | 2,746 | 5,556 | 1,760 | 12,942 |
| Subordinated liabilities | 725 | - | - | - | - | 725 |

The following tables set out the amounts and residual maturities of off balance sheet contingent liabilities and commitments.

| | 1-3 months £m | 3-12 months £m | 1-5 years £m | Over 5 years £m | Total £m |
|--|------------------|-------------------|-----------------|-----------------------|---------------|
| 31 December 2018 | | | | | |
| Acceptances and endorsements | 117 | 46 | - | - | 163 |
| Other contingent liabilities | 140 | 48 | 114 | - | 302 |
| Total contingent liabilities | 257 | 94 | 114 | - | 465 |
| Lending commitments and guarantees | 21 | - | - | - | 21 |
| Other commitments | 1,818 | 5,208 | 9,113 | 386 | 16,525 |
| Total commitments and guarantees | 1,839 | 5,208 | 9,113 | 386 | 16,546 |
| Total contingents and commitments | 2,096 | 5,302 | 9,227 | 386 | 17,011 |

Lloyds Bank Corporate Markets plc
Notes to the Carve Out Financial Statements

36 Capital disclosures

Capital management

Capital is actively managed on an ongoing basis, covering the Group, the Bank on an individual basis and its regulated subsidiaries. Regulatory capital ratios are a key factor in budgeting and planning processes with updates on forecast ratios reviewed regularly by the LBCM Asset and Liability Committee. Target capital levels take account of evolving regulatory requirements, capacity for growth and to cover uncertainties. Capital policies and procedures are subject to independent oversight.

The Group measures the amount of capital it holds in accordance with the regulatory framework defined by the Capital Requirements Directive and Regulation (CRD IV), as implemented in the UK by the Prudential Regulation Authority (PRA) and supplemented through additional regulation under the PRA Rulebook.

The minimum amount of total capital, under Pillar 1 of the regulatory framework, is set at 8 per cent of total risk-weighted assets calculated in respect of credit risk, counterparty credit risk, operational risk and market risk. At least 4.5 per cent of risk-weighted assets are required to be covered by common equity tier 1 (CET1) capital.

The minimum requirement for capital is supplemented by Pillar 2 of the regulatory framework. Under Pillar 2A, additional requirements are set through the issuance of a bank specific Individual Capital Requirement (ICR), which adjusts the Pillar 1 minimum requirement for those risks not covered or not fully covered under Pillar 1. A key input into the PRA's ICR process is a bank's own assessment of the amount of capital it needs, a process known as the Internal Capital Adequacy Assessment Process (ICAAP).

A range of additional bank specific regulatory capital buffers apply under CRD IV, which are required to be met with CET1 capital. These include a capital conservation buffer (1.875 per cent of risk-weighted assets during 2018, increasing to 2.5 per cent from 1 January 2019) and a time-varying countercyclical capital buffer (currently 0.5 per cent of risk-weighted assets).

The Group has applied IFRS 9 transitional arrangements for capital set out under the relevant CRD IV amendment. The arrangements allow for the initial net impact of IFRS 9 on CET1 capital, resulting from the increase in accounting impairment provisions, plus the capital impact of any subsequent increases in Stage 1 and Stage 2 expected credit losses (net of movements in regulatory expected losses), to be phased in over a five year transition period. For 2018 the phase in factor allowed 95 per cent of the resultant transitional adjustment to be added back to CET1 capital. The phase in factor will reduce to 85 per cent in 2019. As at 31 December 2018 no capital relief under the transitional arrangements has been recognised by the Group.

Regulatory capital development

The regulatory framework within which the Group operates continues to be developed at a global level through the Financial Stability Board (FSB) and Basel Committee on Banking Supervision (BCBS), at a European level mainly through the European Commission (EC) and the issuance of CRD IV technical standards and guidelines by the European Banking Authority (EBA) and within the UK by the PRA and through directions from the Financial Policy Committee (FPC). The Group continues to monitor these developments very closely, analysing potential capital impacts to ensure the Group and individual regulated entities continue to maintain a strong capital position that exceeds the minimum regulatory requirements and the Group's risk appetite and is consistent with market expectations.

Capital resources

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

- Common equity tier 1 (CET1) capital represents the strongest form of capital consisting of shareholders' equity after a number of regulatory adjustments and deductions are applied. These include the elimination of the cash flow hedging reserve and debit valuation adjustment.
- 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 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.

Lloyds Bank Corporate Markets plc
Notes to the Carve Out Financial Statements

36 Capital disclosures (continued)

The Group's CRD IV capital resources are summarised as follows:

| | 2018 £m |
|------------------------------|--------------|
| Common equity tier 1 capital | 2,723 |
| Additional tier 1 capital | 757 |
| Tier 2 capital | 672 |
| Total capital | 4,152 |

37 Notes to the Cash flow statement

a Change in operating assets

| | 2018 £m |
|---|----------------|
| Change in financial assets held at amortised cost | (6,275) |
| Changes in amounts due from fellow Lloyds Banking Group undertakings | 6,206 |
| Change in derivative financial instruments and financial assets at fair value | (9,852) |
| Change in financial assets during carve out period | 3,220 |
| Change in other operating assets | (913) |
| Change in operating assets | (7,614) |

b Change in operating liabilities

| | 2018 £m |
|--|---------------|
| Change in deposits from banks | 3,177 |
| Change in customer deposits | 13,964 |
| Changes in amounts due to fellow Lloyds Banking Group undertakings | (540) |
| Change in debt securities in issue | 12,942 |
| Change in derivative financial instruments and financial liabilities at fair value | 5,192 |
| Change in other operating liabilities | (100) |
| Change in operating liabilities | 34,635 |

c None cash and other items

| | 2018 £m |
|--|-------------|
| Depreciation and amortisation | 2 |
| Foreign exchange element on balance sheet ¹ | 2 |
| Other non-cash items | (63) |
| Change in carved out cash and other items | (59) |

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

| | 2018 £m |
|---|---------------|
| Cash and balances with central banks | 14,448 |
| Less: mandatory reserve deposits ¹ | (12) |
| | 14,436 |
| Loans and advances to banks | 2,583 |
| Less: amounts with a maturity of three months or more | (1,541) |
| | 1,042 |
| Total cash and cash equivalents | 15,478 |

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

Lloyds Bank Corporate Markets plc
Notes to the Carve Out Financial Statements

38 Events since the balance sheet date

There are no post balance sheet events requiring disclosure in these Carve Out Financial Statements.

39 Future accounting developments

The following pronouncements are not applicable for the year ending 31 December 2018 and have not been applied in preparing these Carve Out Financial Statements. Save as disclosed below, the impact of these accounting changes is still being assessed by the Group and reliable estimates cannot be made at this stage.

With the exception of certain minor amendments, as at the date of signing these Carve Out Financial Statements these pronouncements have been endorsed by the EU.

IFRS 16 Leases

IFRS 16 replaces IAS 17 'Leases' and is effective for annual periods beginning on or after 1 January 2019.

The Group's accounting as a lessor will remain aligned to the current approach under IAS 17; however for lessee accounting there will no longer be a distinction between finance and operating leases. The transition approach applied by the Group will result in the recognition of right of use assets and lease liabilities of approximately £73 million in respect of leased properties previously accounted for as operating leases. As permitted by the transition options under IFRS 16, comparative figures for the prior year will not be restated. Going forward, the Group will recognise a finance charge on the lease liability and a depreciation charge on the right-of-use asset, whereas previously the Group included lease rentals within operating expenses. The Group intends to take advantage of a number of exemptions within IFRS 16, including the election not to recognise a lease liability and a right-of-use asset for leases for which the underlying asset is of low value.

Minor amendments to other accounting standards

The IASB has issued a number of minor amendments to IFRSs effective 1 January 2019 and 1 January 2020 (including IAS 19 Employee Benefits, IAS 12 Income Taxes and IFRIC 23 Uncertainty over Income Tax Treatments). The Group will adopt the changes to IAS 12 Income Taxes with effect from 1 January 2019, resulting in the presentation of the tax benefit of distributions on other equity instruments in the Group's income statement; these impacts are currently recognised directly in equity. Comparative information will be restated. For the comparative year ended 31 December 2018, this will result in the reclassification of a tax credit of £7 million. These changes will have no impact on the Group's reported balance sheet or profit before tax. The amendments to other accounting standards are not expected to have a significant impact on the Group.

40 Ultimate parent undertaking and controlling party

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; the accounts of Lloyds Bank Corporate Markets plc also are downloadable via the same link.

Lloyds Bank Corporate Markets plc
Notes to the Carve Out Financial Statements

41 Subsidiaries and related undertakings

In compliance with Section 409 of the Companies Act 2006, the following comprises a list of all related undertakings of the Bank, as at 31 December 2018. The list includes each undertaking's registered office and the percentage of the class(es) of shares held by the Group. All shares held are ordinary shares unless indicated otherwise in the notes.

The Bank directly or indirectly holds 100% of the share class and a majority of voting rights in the following undertakings.

| Subsidiary undertakings | Bank interest | Registered Address |
|---|------------------------|---|
| Black Horse Offshore Limited | 100.00% | PO Box 311, 11-12 Esplanade, St Helier, Jersey JE4 8ZU |
| Lloyds America Securities Corporation | 100.00% ^a . | 1095 Avenue of the America's, 34th Floor, New York, NY 10036, United States |
| Lloyds Bank (International Services) Limited (formerly Lloyds Bank (Gibraltar) Limited) | 100.00% | 11-12 Esplanade, St Helier, Jersey JE2 3QA |
| Lloyds Bank Corporate Asset Finance (No.1) Limited | 100.00% | 25 Gresham Street, London EC2V 7HN |
| Lloyds Bank Corporate Markets Wertpapierhandelsbank GMBH | 100.00% | Thurn-Und, Frankfurt Am Main, 60313, Germany |
| Lloyds Bank International Limited | 100.00% | 11-12 Esplanade, St Helier, Jersey JE2 3QA |
| Lloyds Corporate Services (Jersey) Limited | 100.00% | 11-12 Esplanade, St Helier, Jersey JE2 3QA |
| Lloyds Holdings (Jersey) Limited | 100.00% | 11-12 Esplanade, St Helier, Jersey JE2 3QA |
| Lloyds Investment Fund Managers Limited | 100.00% | 11-12 Esplanade, St Helier, Jersey JE2 3QA |
| Lloyds Merchant Bank Asia Limited | 100.00% ^b . | 138 Market Street #21-01, Capitagreen, 048946, Singapore |
| Lloyds Nominees (Guernsey) Limited | 100.00% | PO Box 123, Sarnia House, Le Truchot, St. Peter Port, Guernsey, GY1 4EF |
| Lloyds Securities Inc. | 100.00% ^c . | 1095 Avenue of the America's, 34th Floor, New York, NY 10036, United States |
| Nominees (Jersey) Limited | 100.00% | 11-12 Esplanade, St Helier, Jersey JE2 3QA |

Notes

a. 10,000 US\$ No par value

b. 2,000,000 SGD 1.00 Preferred ordinary Sg\$1 □ 13,000,000 SGD 1.00 Ordinary Sg\$1

c. 10 US\$ 0.1% common

REGISTERED OFFICE OF THE ISSUER

25 Gresham Street
London EC2V 7HN
Tel: +44 20 7050 6060

TRUSTEE

The Law Debenture Trust Corporation p.l.c.

Fifth Floor
100 Wood Street
London EC2V 7EX

ISSUING AND PAYING AGENT, CALCULATION AGENT, REGISTRAR AND TRANSFER AGENT

Citibank, N.A., London Branch

Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB

ARRANGER AND DEALER

Lloyds Bank Corporate Markets plc

10 Gresham Street
London EC2V 7AE

AUDITORS

PricewaterhouseCoopers LLP

7 More London Riverside
London SE1 2RT

REPORTING ACCOUNTANTS

PricewaterhouseCoopers LLP

1 Embankment Place
London WC2N 6RH

LEGAL ADVISERS

*To the Issuer
as to English law*

Linklaters LLP
One Silk Street
London EC2Y 8HQ

*To the Dealers and the Trustee
as to English law*

Clifford Chance LLP
10 Upper Bank Street
Canary Wharf
London E14 5JJ