

**Lloyd Bank Corporate Markets**

**Wertpapierhandelsbank GmbH (LBCMW)**

**IFR Disclosures 2021**

## **LBCMW's Annual Disclosures, 2021**

As set out in Part Six of Regulation (EU) 2019/2033 on the prudential requirements of investment firms (IFR), LBCMW is required to publicly disclose the information specified in IFR Articles 47-53 on the same date as it publishes its annual financial statement.

### *Article 47*

#### **Risk management objectives and policies**

*Investment firms shall disclose their risk management objectives and policies for each separate category of risk set out in Parts Three, Four and Five in accordance with Article 46, including a summary of the strategies and processes to manage those risks and a concise risk statement approved by the investment firm's management body succinctly describing the investment firm's overall risk profile associated with the business strategy.*

LBCMW's purpose is to serve EEA and Swiss clients in the bond origination, underwriting, distribution and secondary trading market. Our aim is to ensure that LBCMW manages risk effectively, thereby protecting LBCMW and the Group from adverse impacts. Our business model is based on a conservative risk profile and robust risk management. LBCMW's risk strategy aims to meet the following requirements:

- LBCMW complies with all regulatory requirements
- LBCMW maintains sufficient capital resources to comply with regulatory requirements and maintain market confidence.
- LBCMW sets Risk Appetite Metrics for material risks, within the applicable Group and LBCM risk appetite levels.
- LBCMW aims to operate within its Risk Appetite levels at all times. If Risk Appetite limits are breached, the Risk Committee agrees actions and timescales to remediate the position.
- LBCMW maintains minimal market risk on its balance sheet. LBCMW achieves this by ensuring that all buy/sell trades that it undertakes with EEA or Swiss clients are matched with offsetting sell/buy trades with its parent, LBCM plc.
- LBCMW targets a credit rating equal to, or only one notch below, the rating of its parent, LBCM.
- LBCMW maintains sufficient liquidity and funding to meet its commitments as they fall due.

LBCMW's risk management objective is to ensure that its risks remain within its agreed Board Risk Appetite Limits. LBCMW defines 'Risk Appetite' as the amount and type of risk that the organisation is prepared to seek, accept or tolerate. LBCMW's Risk Strategy and its Risk Appetite are developed in the context of, and are mutually consistent with, LBCMW's Business Strategy. LBCMW's Risk Strategy and its Risk Appetite are approved by the Management Board annually. During 2021 and in the period since then, LBCMW's overall risk profile was within the firm's Risk Appetite.

*Operational Arrangements:*

- A Risk Appetite metric takes the form of a short statement which clearly defines the risk being monitored and managed, the measure being observed and the limits above/below which a breach would occur.
- Risk Appetite limits are set to ensure that the amount and type of LBCMW risk exposure aligns to its Business Strategy and to its Risk Strategy; are covered by available financial resources; and meet regulatory requirements/expectations.
- LBCMW's stress testing processes consider a range of possible losses and scenarios to assess and help determine the level of risk appetite.
- Board risk appetite metrics are set using stress scenarios, historical experience and expert judgement.

LBCMW seeks to avoid any breaches of its Risk Appetite limits. No decision can be taken to breach LBCMW Risk Appetite without explicit prior approval from the Management Board. Any breaches of Risk Appetite are identified and escalated to the Management Board in a prompt manner.

LBCMW's risk management objective for its own funds position is to ensure that it maintains an amount of own funds that always exceeds its Board risk appetite limit which, in turn, is set as an amount that exceeds its regulatory Pillar 1, Pillar 2R and Pillar 2G requirements. In formulating its own funds requirements, LBCMW applies the procedures set out in the EBA's regulatory technical standard for the determination of Pillar 2 capital add-ons for investment firms and the EBA's guidelines for the supervisory review process (SREP) for investment firms. LBCMW's current own funds position is judged to provide sufficient Risk Coverage Potential for LBCMW.

LBCMW's risk management objective for concentration risk is determined by its applicable Board risk appetite metrics. Consistent with the requirements set out in IFR Article 37, LBCMW has set a Board risk appetite limit of 22.5% of its own funds for exposures to individual non-financial corporate clients and a Board risk appetite limit of 90% of its own funds for exposures to individual credit institutions or investment firms. During 2021, LBCMW had no credit risk exposures to non-financial

corporations and all of its credit risk exposures to financial institutions were well below the risk appetite limit.

LBCMw's risk management objective for liquidity risk is also defined by its Board risk appetite limit. IFR Article 43 requires an investment firm to hold an amount of liquid assets equivalent to at least one third of its fixed overhead requirement. LBCMw's Board risk appetite limit is for the firm to hold an amount of liquid assets equivalent to at least one third of its fixed overhead requirement plus an amount sufficient to cover at least the next three months of LBCMw's direct and indirect cost expenditures. During 2021, LBCMw held sufficient liquid assets to exceed this risk appetite limit at all times.

## *Article 48*

### **Governance**

*Investment firms shall disclose the following information regarding internal governance arrangements, in accordance with Article 46:*

- a) the number of directorships held by members of the management body;*
- b) the policy on diversity with regard to the selection of members of the management body, its objectives and any relevant targets set out in that policy, and the extent to which those objectives and targets have been achieved;*
- c) whether or not the investment firm has set up a separate risk committee and the number of times the risk committee has met annually.*

- (a) The Directors of LBCMw's Management Board did not hold any other directorships during the period.
- (b) LBCMw's Management Board Diversity policy states that *"the notion of diversity is to be taken into account when recruiting members of the management body."* And *"In order to achieve a diverse composition aspects such as educational and professional background, age, gender and geographical provenance will be taken into account."* Given the small size of LBCMw's Management Board (only two positions), there are no explicit diversity targets. In 2021, the composition of LBCMw's Management Board was in line with LBCMw's procedure regarding diversity.

- (c) LBCMw has established a separate risk committee, which meets monthly. Since starting business, the risk committee met nine times in 2019; 12 times in 2020 and 2021 respectively; and it has met monthly throughout 2022 to date.

### *Article 49*

### **Own funds**

*Investment firms shall disclose the following information regarding their own funds, in accordance with Article 46:*

- a) a full reconciliation of Common Equity Tier 1 items, Additional Tier 1 items, Tier 2 items and applicable filters and deductions applied to own funds of the investment firm and the balance sheet in the audited financial statements of the investment firm;*

To date LBCMw has not issued either Additional Tier 1 or Tier 2 capital instruments, the total capital position is solely comprised of Common Equity Tier 1 (Equity and Retained Earnings), the composition of which is presented in table CC1.01 below in conjunction with relevant deductions.

- b) a description of the main features of the Common Equity Tier 1 and Additional Tier 1 instruments and Tier 2 instruments issued by the investment firm;*

As noted above capital is solely comprised of Common Equity Tier 1.

- c) a description of all restrictions applied to the calculation of own funds in accordance with this Regulation and the instruments and deductions to which those restrictions apply.*

There were no restrictions applied to the calculation of own funds.

## EU IF CC1.01: Composition of regulatory own funds (investment firms other than small and non-interconnected)

		(a)	(b)
		Amounts	Source based on reference numbers/letters of the balance sheet in the audited financial statements
Common Equity Tier 1 (CET1) capital: instruments and reserves			
1	OWN FUNDS	31,114,825	
2	TIER 1 CAPITAL	31,114,825	
3	COMMON EQUITY TIER 1 CAPITAL	31,114,825	
4	Fully paid up capital instruments	730,000	Balance Sheet: Liabilities: Line Item 13 a)
5	Share premium		
6	Retained earnings	(336,499)	Statement of equity: Prior Year Retained Earnings: Line Item 27
7	Accumulated other comprehensive income		
8	Other reserves	32,270,000	Balance Sheet: Liabilities: Line Item 13 b)
9	Minority interest given recognition in CET1 capital		
10	Adjustments to CET1 due to prudential filters		
11	Other funds		
12	(-) TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1	(1,548,676)	
13	(-) Own CET1 instruments		
14	(-) Direct holdings of CET1 instruments		
15	(-) Indirect holdings of CET1 instruments		
16	(-) Synthetic holdings of CET1 instruments		
17	(-) Losses for the current financial year	(419,190)	Statement of equity: Current Year Gains/Losses: Line Item 26
18	(-) Goodwill		
19	(-) Other intangible assets		
20	(-) Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	(1,129,486)	Balance Sheet: Assets: Line Item 16
21	(-) Qualifying holding outside the financial sector which exceeds 15% of own funds		
22	(-) Total qualifying holdings in undertaking other than financial sector entities which exceeds 60% of its own funds		
23	(-) CET1 instruments of financial sector entities where the institution does not have a significant investment		
24	(-) CET1 instruments of financial sector entities where the institution has a significant investment		
25	(-) Defined benefit pension fund assets		
26	(-) Other deductions		
27	CET1: Other capital elements, deductions and adjustments		
28	ADDITIONAL TIER 1 CAPITAL		
29	Fully paid up, directly issued capital instruments		
30	Share premium		
31	(-) TOTAL DEDUCTIONS FROM ADDITIONAL TIER 1		
32	(-) Own AT1 instruments		
33	(-) Direct holdings of AT1 instruments		
34	(-) Indirect holdings of AT1 instruments		
35	(-) Synthetic holdings of AT1 instruments		
36	(-) AT1 instruments of financial sector entities where the institution does not have a significant investment		
37	(-) AT1 instruments of financial sector entities where the institution has a significant investment		
38	(-) Other deductions		
39	Additional Tier 1: Other capital elements, deductions and adjustments		
40	TIER 2 CAPITAL		
41	Fully paid up, directly issued capital instruments		
42	Share premium		
43	(-) TOTAL DEDUCTIONS FROM TIER 2		
44	(-) Own T2 instruments		
45	(-) Direct holdings of T2 instruments		
46	(-) Indirect holdings of T2 instruments		
47	(-) Synthetic holdings of T2 instruments		
48	(-) T2 instruments of financial sector entities where the institution does not have a significant investment		
49	(-) T2 instruments of financial sector entities where the institution has a significant investment		
50	Tier 2: Other capital elements, deductions and adjustments		

Blank cells in the table are not applicable for LBCMw.

## EU IF CC2: Own funds: reconciliation of regulatory own funds to balance sheet in audited financial statements

		a	b	c
		Balance sheet as in published/audited financial statements	Under regulatory scope of consolidation	Cross reference to EU IF CC1
		As at period end	As at period end	
Assets - Breakdown by asset classes according to the balance sheet in the published/audited financial statements				
1	Exposures to Banks	32,407,919	32,407,919	
2	Other Assets	1,090,512	1,090,512	
3	Deferred Tax Assets	1,129,486	0	20
xxx	Total Assets	34,627,917	33,498,431	
Liabilities - Breakdown by liability classes according to the balance sheet in the published/audited financial statements				
1	Other Liabilities	460,055	460,055	
2	Provisions	1,923,551	1,923,551	
xxx	Total Liabilities	2,383,606	2,383,606	
Shareholders' Equity				
1	Subscribed Capital	730,000	730,000	4
2	Other Reserves	32,270,000	32,270,000	8
3	Gains/Losses	(755,689)	(755,689)	6, 17
4	Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	0	(1,129,486)	20
xxx	Total Shareholders' equity	32,244,311	31,114,825	

## EU IF CCA: Own funds: main features of own instruments issued by the firm

LBCMW is a wholly owned subsidiary of LBCM Plc, where all share capital is issued to the parent company. This table is not applicable.

### *Article 50*

#### **Own funds requirements**

*Investment firms shall disclose the following information regarding their compliance with the requirements laid down in Article 11(1) of this Regulation and in Article 24 of Directive (EU) 2019/2034, in accordance with Article 46 of this Regulation:*

- a) a summary of the investment firm's approach to assessing the adequacy of its internal capital to support current and future activities;*
- b) upon a request from the competent authority, the result of the investment firm's internal capital adequacy assessment process, including the composition of the additional own funds based on the supervisory review process as referred to in point (a) of Article 39(2) of Directive (EU) 2019/2034;*
- c) the K-factor requirements calculated, in accordance with Article 15 of this Regulation, in aggregate form for RtM, RtF, and RtC, based on the sum of the applicable K-factors; and*
- d) the fixed overheads requirement determined in accordance with Article 13 of this Regulation.*

LBCMW's approach to assessing the adequacy of its internal capital to support its current and future activities applies the guidance set out in the EBA's Guidelines (EBA/CP/2021/35) on common procedures and methodologies for the supervisory review and evaluation process (SREP) under IFD. LBCMW considers the risks to its capital position arising from:

- (i) the costs of a wind-down of the investment firm;
- (ii) Risks-to-Clients (RtC);
- (iii) Risks-to-Market (RtM);
- (iv) Risks-to-Firm (RtF); and
- (v) other risks

Given the simplicity of LBCMW's business model and the small size of its balance sheet, an orderly wind-down of LBCMW could be achieved using normal insolvency proceedings. The estimated cost of an orderly wind-down of LBCMW is derived from judgements about costs relating to operational and legal tasks during the wind-down process.

LBCMW's Pillar 1 own funds requirement relating to Risks-to-Clients (RtC) is zero. The reason for this is that, LBCMW does not hold any client assets under management.

LBCMw's Pillar 1 own funds requirement for Risks-to-Markets (RtM) is circa €160,000. LBCMw targets zero debt securities on its trading book overnight. The only market risk position that LBCMw has on its balance sheet overnight relates to its foreign currency denominated nostro exposures held with other financial institutions.

LBCMw's own funds requirement for Risk-to-Firm (RtF) is circa €40,000. This amount relates to Daily Trading Flow Risk.

For LBCMw, the binding Pillar 1 own funds requirement is the fixed overheads requirement (IFR Art 13), rather than the K-factor requirement. As at end-2021, LBCMw's fixed overheads requirement was €2,274,177.

In determining its Pillar 2R requirements, LBCMw also considers whether there are any material risks or elements of risks not captured or not fully captured by the IFR K-Factor requirements. An assessment is made separately for each risk category (RtC, RtM and RtF). The main area where LBCMw has applied a Pillar 2R capital add-on is the risk arising from income volatility.

LBCMw's P2R assessment also considers the following 'other risks': Operational Risks, IT security risks, interest rate risks arising from non-trading book activities, and credit risks arising from non-trading book activities. To derive a prudent Pillar 2 capital add-on for Operational Risks and IT security risks, LBCMw assesses different risk scenarios for cyber security risk, service provision risk, people risk, operational resilience risk and change risk. LBCMw's P2R allows for a combined Operational Risk loss of up to €5.1 million. In addition, LBCMw also applies a capital add-on for its interest rate risks arising from non-trading book activities and its credit risks arising from non-trading book activities – LBCMw's risks in both cases arise from its nostro balances held with other financial institutions.

LBCMw determines its Pillar 2G capital requirement by considering the amount of capital that is adequate to allow for cyclical economic fluctuations while protecting against any potential breach of LBCMw's Pillar 1 and Pillar 2R own funds requirements and against any threat of LBCMw's ability to undertake an orderly wind-down. LBCMw derives its stress loss estimates using scenario analysis and expert judgement.



## *Article 51*

### **Remuneration policy and practices**

*Investment firms shall disclose the following information regarding their remuneration policy and practices, including aspects related to gender neutrality and the gender pay gap, for those categories of staff whose professional activities have a material impact on investment firm's risk profile, in accordance with Article 46;*

- a) the most important design characteristics of the remuneration system, including the level of variable remuneration and criteria for awarding variable remuneration, payout in instruments policy, deferral policy and vesting criteria;*

As a medium-sized investment firm, LBCMw follows the requirements of Wertpapierinstitutsgesetz ("WpIG"). Whilst the remuneration systems of medium-sized investment firms are foreseen to be governed by Wertpapiervergütungsverordnung ("WpI-VergV"), this regulation has not been finalised or adopted yet. Thus, LBCMw continues to follow Institutsvergütungsverordnung ("InstitutsVergV"), which applied prior to the introduction of WpIG, but in future will only apply to large securities institutions. Further, LBCMw is following the requirements of section BT8 of Mindestanforderungen an die Compliance-Funktion und weiteren Verhaltens-, Organisations- und Transparenzpflichten („MaComp“).

#### **Our Governance**

Remuneration decisions for LBCMw colleagues are made by the Managing Directors of LBCMw. The LBCMw Managing Directors provide LBCM with an annual remuneration report.

LBCMw is not required to establish a remuneration committee.

Remuneration decisions for the Managing Directors of LBCMw are made by LBCM as the shareholder.

#### **Our Remuneration Policy**

As WpI-VergV is not finalised, LBCMw concluded that it was not required to determine its "identified staff" population for the 2021 performance year, as this is not a requirement for a non-significant institution as defined in Art. 25n Kreditwesengesetz (KWG) as per InstitutsVergV. Instead, the remuneration system and relevant policies have applied to all colleagues equally. Therefore, the relevant qualitative and quantitative disclosures are made for all LBCMw employees, rather than for an identified staff sub-set.

The LBCMw remuneration strategy and remuneration systems are determined by the Management Board together with its shareholder Lloyds Bank Corporate Markets plc ("LBCM") and in the context

of the remuneration strategy of Lloyds Banking Group (“LBG” or “Group”). Control units are suitably involved in the decision-making processes. Remuneration for all colleagues is governed by relevant policies and procedures. The remuneration system is designed to achieve the objectives established in LBCMw’s business and risk strategies, and contains measures to avoid conflicts of interest, to encourage responsible business conduct, and to promote risk awareness and prudent risk taking.

The balance between fixed and any variable component of remuneration is considered to be appropriate and allows the variable component to be adequately adjusted to reflect the performance of the business and the individual. This includes the possibility of paying no variable remuneration.

*b) the ratios between fixed and variable remuneration set in accordance with Article 30(2) of Directive (EU) 2019/2034;*

As described above, LBCMw had not determined any “identified staff” during 2021. Therefore, quantitative information is included for all colleagues employed by LBCMw, including two Management Board members (15 colleagues as at year end 2021).

For the financial year 2021 fixed remuneration accounted for 79% of total remuneration awarded in the entity. LBCMw’s Remuneration Policy requires that variable remuneration will not exceed 100% of the fixed remuneration component for each individual employee or management board member unless shareholder approval is obtained to award a higher variable remuneration component. Post shareholder approval, variable remuneration will not exceed 200% of the fixed remuneration component for each individual employee or management board member.

As per LBG policy, there is no appetite for unfair or inconsistent treatment of colleagues or their remuneration based on personal characteristics such as someone’s age, gender, sexual orientation, gender reassignment, race, ethnicity, disability, marriage/civil partnership, pregnancy, maternity, religion, belief or working patterns.

*c) aggregated quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the investment firm, indicating the following:*

*(i) the amounts of remuneration awarded\* in the financial year, split into fixed remuneration, including a description of the fixed components, and variable remuneration, and the number of beneficiaries;*

Remuneration consists of fixed remuneration and discretionary variable remuneration. In 2021, total remuneration was €3.5 million; fixed remuneration was €2.8 million and discretionary variable remuneration was €0.7 million.

Fixed remuneration is comprised of salary, car allowance and employer pension contributions. Variable remuneration only comprises of an annual bonus called a Group Performance Share ("GPS"). Wage tax contributions by the employer are not included in this analysis.

In determining variable remuneration, qualitative and quantitative parameters are considered, including the financial result of the Group and the business, as well as performance against individual broad objectives. The assessment of individual contribution takes into consideration relevant risks for LBCMw.

Variable remuneration is governed by the terms of LBG's GPS awards, including deferral requirements.

The Group applies deferral arrangements to GPS and variable pay awards made to colleagues.

Given the value of LBCMw's on and off-balance sheet assets are below the stipulated threshold, LBCMw benefits from the derogation laid down in point (a) of Art. 32(4) of Directive (EU) 2019/2034. Therefore, any GPS awards for identified Staff are not subject to deferral or holding periods nor does at least 50% of the award need to be satisfied in shares.

However, irrespective of the above, LBCMw operates a deferral approach for all staff. For GPS awards between Euro-equivalents of £40,000 and £50,000, the amount exceeding the Euro-equivalent of £40,000 is deferred for two years, with two-thirds vesting after one year, and the remaining one-third vesting after two years. For GPS awards exceeding the Euro-equivalent of £50,000, 20% of the entire award is deferred, with two-thirds vesting after one year, and the remaining one-third vesting after two years.

All variable remuneration is awarded in cash.

Any deferred variable remuneration is subject to performance adjustment (malus) in accordance with the Group's Deferral and Performance Adjustment Policy.

*(ii) the amounts and forms of awarded variable remuneration, split into cash, shares, share-linked instruments and other types separately for the part paid upfront and for the deferred part;*

In 2021, LBCMw awarded total cash variable remuneration of €0.7 million, of which €0.1 million was deferred.

*(iii) the amounts of deferred remuneration awarded for previous performance periods, split into the amount due to vest in the financial year and the amount due to vest in subsequent years;*

Deferred award payments that vested in 2021 totalled €36k and outstanding deferred award payments due to vest in future years totalled €41k.

*(iv) the amount of deferred remuneration due to vest in the financial year that is paid out during the financial year, and that is reduced through performance adjustments;*

There were no payments of this nature during the financial year. No adjustments have been made in 2021 to vested award or deferred unvested awards.

*(v) the guaranteed variable remuneration awards during the financial year and the number of beneficiaries of those awards;*

There were no payments of this nature during the financial year.

*(vi) the severance payments awarded in previous periods, that have been paid out during the financial year;*

There were no payments of this nature during the financial year.

Guarantees, such as sign-on awards, may only be offered in exceptional circumstances to new hires for the first year of service and in accordance with regulatory requirements. Any awards made to new hires to compensate them for unvested variable remuneration they forfeit on leaving their previous employment will be subject to appropriate retention, deferral, performance and clawback arrangements in accordance with applicable regulatory requirements. No such payments have been made during the financial year. Neither have any severance payment been made or awarded during the past year.

## *Article 52*

### **Investment policy**

*Member States shall ensure that investment firms which do not meet the criteria referred to in point (a) of Article 32 (4) of Directive (EU) 2019/2034 disclose the following in accordance with Article 46 of this Regulation:*

- a) the proportion of voting rights attached to the shares held directly or indirectly by the investment firm, broken down by Member State and sector;*
- b) a complete description of voting behaviour in the general meetings of companies the shares of which are held in accordance with paragraph 2, an explanation of the votes, and the ratio of proposals put forward by the administrative or management body of the company which the investment firm has approved; and*

- c) an explanation of the use of proxy advisor firms;*
- d) the voting guidelines regarding the companies the shares of which are held in accordance with paragraph 2.*

During 2021, and also in the period since then, LBCMw did not hold shares in any other company. As such, it did not have any voting rights in other companies and has no information to disclose consistent with the requirements of IFR Article 52.

### *Article 53*

#### **Environmental, social and governance risks**

*From 26 December 2022, investment firms which do not meet the criteria referred to in Article 32(4) of Directive (EU) 2019/2034 shall disclose information on environmental, social and governance risks, including physical risks and transition risks, as defined in the report referred to in Article 35 of Directive (EU) 2019/2034.*

*The information referred to in the first paragraph shall be disclosed once in the first year and biannually thereafter.*

This requirement will come into effect from 26 December 2022.