



## LLOYDS BANK

### Target Market and Distribution Strategy for Financial Instrument Products

#### 1. Background

This disclosure is relevant for clients purchasing a Financial Instrument (as defined in our Terms of Business) sold or offered through: Lloyds Bank plc, Bank of Scotland plc, and Lloyds Bank Corporate Markets plc (collectively “Lloyds Bank”, “we” or “us”).

Lloyds Bank manufactures and/or distributes a number of Financial Instruments to our clients and counterparties (“you”). We have varying responsibilities as Manufacturers and Distributors as set out below.

This document explains the target market elements of our obligations, including (i) the criteria we use to determine the target market of products we manufacture and (ii) the criteria we use to determine if you meet the intended target market when we sell or offer you a Financial Instrument.

This disclosure is not intended to cover:

- Other elements of the product approval process, such as how products are approved.
- (i) Primary market capital markets Financial Instruments and (ii) Financial Instruments where we are a co-manufacturer. For these Financial Instruments, the target market will be clearly communicated in the offering and/or transaction documentation.

The target market is subject to regular review to ensure this remains appropriate and in some instances, following our assessment, some products may no longer be available to you.

**The disclosure has been prepared solely for informational purposes and is not an offer to buy or sell or a solicitation of an offer to buy or sell the products listed in this disclosure.**

#### 2. Lloyds Bank as a Manufacturer

##### (i) *Our responsibilities*

For each Financial Instrument we manufacture (i.e. create, develop, and/or design of the Financial Instrument), we are required to:

- Implement, operate and maintain a product approval process that:
  - identifies the potential target market for each Financial Instrument,
  - assesses the risks relevant to the identified target market, and
  - defines the distribution strategy for the Financial Instrument and that this is consistent with the identified target market.
- Regularly review the Financial Instruments offered to take account of events that could materially affect potential risks associated with the product and may impact its target market, and consider whether the intended distribution strategy remains appropriate, and
- Provide distributors with the necessary product information, including the identified target market of the Financial Instrument.

### COMMERCIAL BANKING

(ii) *Target market criteria*

When we define the target market for Financial Instruments that we manufacture, we consider the Financial Instrument in context of the following criteria:

- Client Categorisation – Eligible Counterparties (ECPs), Professional and Retail clients.
- Knowledge and experience
- Financial situation and ability to bear loss
- Risk tolerance and compatibility with the risk/reward profile of the Financial Instrument
- Objectives and needs

We also define the distribution strategy for the Financial Instrument as well as the negative target market (where the needs, characteristics and objectives that are not compatible with the Financial Instrument).

Details of these categories are set out in Section 4.

As manufacturer, we draw your attention to the following:

- Our range of Financial Instruments may be transacted with, or distributed to, Eligible Counterparties (“**ECPs**”), Professional and Retail clients, as categorised under the rules of the FCA Handbook.
- Certain products, due to their complexity, may not be available to Retail clients or have substantially limited distribution to Retail clients.
- All our Financial Instruments are manufactured and intended to be distributed to Professional clients and ECPs, though certain limitations may apply to Elective Professional clients.
- We will define the target market for the Financial Instruments we manufacture and will assume that if you are a Per Se Professional or ECP client, you have the required knowledge and experience to understand the risks attached to the particular products or services you transact with us.
- In choosing to transact with us, you have:
  - chosen Financial Instruments manufactured and/or distributed by us from the range of Financial Instruments and/or related services available to you in the market generally;
  - carried out independent analysis of these Financial Instruments and the potential outcomes to the extent that you have considered necessary;
  - had the opportunity to request from us (and consider) the information you deem necessary or appropriate in connection with your decision to enter into a Financial Instruments transaction with us; and
  - understood the risks associated with the Financial Instruments, as well as the market factors which may cause the Financial Instruments to underperform (compared to other investments or strategies) or that may result in losses.
- An over-the-counter (“OTC”) derivative is a standalone bilateral contract and is not capable of onward distribution without the consent of all parties.
- Where you enter into an OTC derivative transaction with us, and subsequently enter into back-to-back transactions, replicate or repackage the economics of that transaction with another counterparty, we will be the manufacturer of the first OTC transaction (even in circumstances where we have been approached with the idea for the relevant transaction). You would be the manufacturer of the second transaction and must define your target market in relation to any transactions subsequently originated with your clients.

- We do not use third party distributors to distribute our Financial Instruments.

### **3. Lloyds Bank as a Distributor**

#### *(i) Our responsibilities*

We also distribute the Financial Instruments that we manufacture.

As Distributor (i.e. seller of the Financial Instrument), we must:

- Have a product approval process in place,
- Understand the Financial Instruments, including their target market, that we sell or offer,
- Assess the compatibility of the Financial Instruments with the needs of the clients, taking into account the manufacturer's identified target market of end clients, and
- Assess the compatibility of the Financial Instruments with the needs **and best interests** of the clients, taking into account the manufacturer's identified target market of end clients

#### *(ii) Assessment of target market*

As distributor, we are required to meet the obligations set out above in Section 3(i), including ensuring our Financial Instruments are distributed in line with the identified target market when we sell or offer a product to you.

To do this, we will consider whether you are in target market based on :

- Your categorisation – Eligible Counterparties (ECPs), Professional and Retail clients
- Your knowledge and experience of the Financial Instrument
- Your financial situation and ability to bear loss
- Your risk tolerance and compatibility with the risk/reward profile of the Financial Instrument
- Your objectives and needs
- Our distribution strategy

Details of this assessment are set out in Section 4.

### **4. Target Market for our Financial Instruments**

We have set out the target market criteria for Financial Instruments that we manufacture and distribute below in Table 1. There may also be instances where we transact or distribute Financial Instruments for the target market following an assessment of relevant facts and circumstances, or define a different target market.

As part of our controls and procedures, we will use the factors set out in Table 1 to determine the target market and whether you meet the target market defined for the Financial Instrument.

Client Type	Products	Target Market criteria
<p><b>Eligible counterparties and per se Professional clients</b></p>	<p>All Financial Instruments manufactured and/or distributed by us unless otherwise specified.</p>	<p>The Target Market definition and assessment takes consideration of the following factors:</p> <p><b>Knowledge and experience:</b></p> <ul style="list-style-type: none"> <li>You have knowledge and experience of the Financial Instrument(s) or sufficient knowledge of the product features and risks of the respective Financial Instrument.</li> </ul>
<p><b>Elective Professional clients</b></p>	<p>All Financial Instruments manufactured and/or distributed by us unless specified, <b>except</b> :</p> <ul style="list-style-type: none"> <li>Variable Conditional Notional (VCN) products - Any trade which contains a Variable or Conditional Notional. Structured FX Trades which fall under the VCN category will have at least one of the following features:                             <ul style="list-style-type: none"> <li><b>Ratio/Leverage</b> – Any Product where the Client could be obliged to convert a larger notional than the notional they have the right to buy under the terms of the Product</li> <li><b>Knock-Out/Zero Protection</b> - Any Product which could leave the Client un-hedged at any point during the trade lifecycle</li> <li><b>Extension</b> – Any Product which has future deliveries which only occur if a pre-agreed market condition is achieved</li> </ul> </li> </ul> <p><i>Where an exception applies, a target market assessment is carried out as part of the sales process.</i></p>	<p><b>Financial situation and the ability to bear loss:</b></p> <ul style="list-style-type: none"> <li>You have the capacity to tolerate losses up to or exceeding the capital invested and meet any additional payment obligations (for instance, margin calls).</li> </ul> <p><b>Risk tolerance and compatibility of the risk / reward profile:</b></p> <ul style="list-style-type: none"> <li>Your risk appetite is compatible with risk/reward profile of the Financial Instruments.</li> <li>Depending on the particular Financial Instrument, you are willing to accept the risk of losses up to, or greater than, the capital invested; also willing to accept fluctuations in price and returns.</li> </ul> <p><b>Clients' objectives and needs:</b></p> <ul style="list-style-type: none"> <li>You are pursuing an investment or hedging strategy that is compatible with the terms of the Financial Instrument, including the market risk, currency, liquidity, volatility and duration.</li> <li>You are seeking to balance their hedged vs. unhedged positions to better align to the desired risk profile of their business, or has underlying wholesale market funding or liquidity requirements.</li> </ul> <p><b>Negative target market:</b></p> <ul style="list-style-type: none"> <li>You do not have underlying needs and objectives, or do not meet client categorisation, knowledge &amp; experience or ability to bear loss or risk tolerance requirements as indicated above.</li> </ul> <p><b>Distribution strategy:</b></p> <ul style="list-style-type: none"> <li>All distribution channels on a non-advised basis.</li> </ul>
<p><b>Retail client</b></p>	<p>The target market assessment for our Financial Instruments will be carried out on a case-by-case basis.</p>	

Table 1: Target Market for Financial Instruments