S&P Global Ratings

Research

Update: Lloyds Banking Group PLC

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Update: Lloyds Banking Group PLC

Rating Score Snapshot

Issuer Credit Rating
BBB+/Stable/A-2

SACP: a- → **Support: +2** → **Additional factors: 0**

Anchor	bbb+	
Business position	Strong	+1
Capital and earnings	Adequate	0
Risk position	Adequate	0
Funding	Adequate	0
Liquidity	Adequate	
CRA adjustment		0

ALAC support	+2
GRE support	0
Group support	0
Sovereign support	0

Issuer credit rating
A+/Stable/A-1
Resolution counterparty rating
AA-/A-1+
Holding company ICR
BBB+/Stable/A-2

ALAC--Additional loss-absorbing capacity. CRA--Comparable ratings analysis. GRE--Government-related entity. ICR--Issuer credit rating. SACP--Stand-alone credit profile.

Credit Highlights

Overview

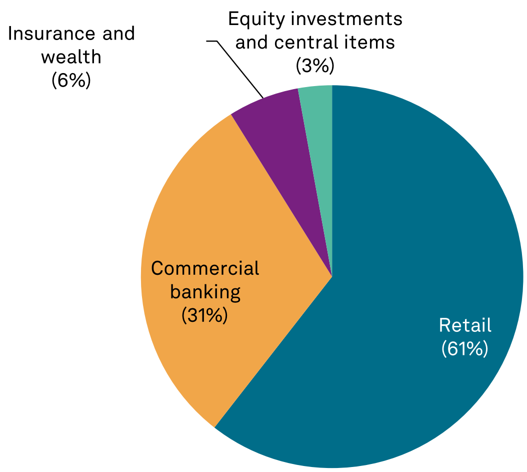
Key strengths	Key risks
Market-leading U.K. retail banking franchise underpinned by disciplined strategic execution.	High interest rates and sticky inflation in the U.K. will continue to squeeze borrowers' credit quality.
Financial flexibility thanks to strong earnings outlook.	Narrow geographical focus on the U.K., which remains a low-growth market.
Supportive funding and liquidity profiles.	

Lloyds Banking Group PLC's (Lloyds') deep and broad U.K. financial services franchise underpins the rating. Lloyds' solid strategic position stems from its market-leading franchise in U.K. banking. Lloyds has a dominant U.K. mortgage business and high market shares across credit cards, unsecured lending, and commercial banking. The absence of meaningful international diversification remains a constraining factor in our view of the group's competitive position, particularly versus higher-rated international peers (see charts 1 and 2).

Chart 1

Lloyds' large U.K. footprint is built on its retail franchise...

Reported net income by division in 2023



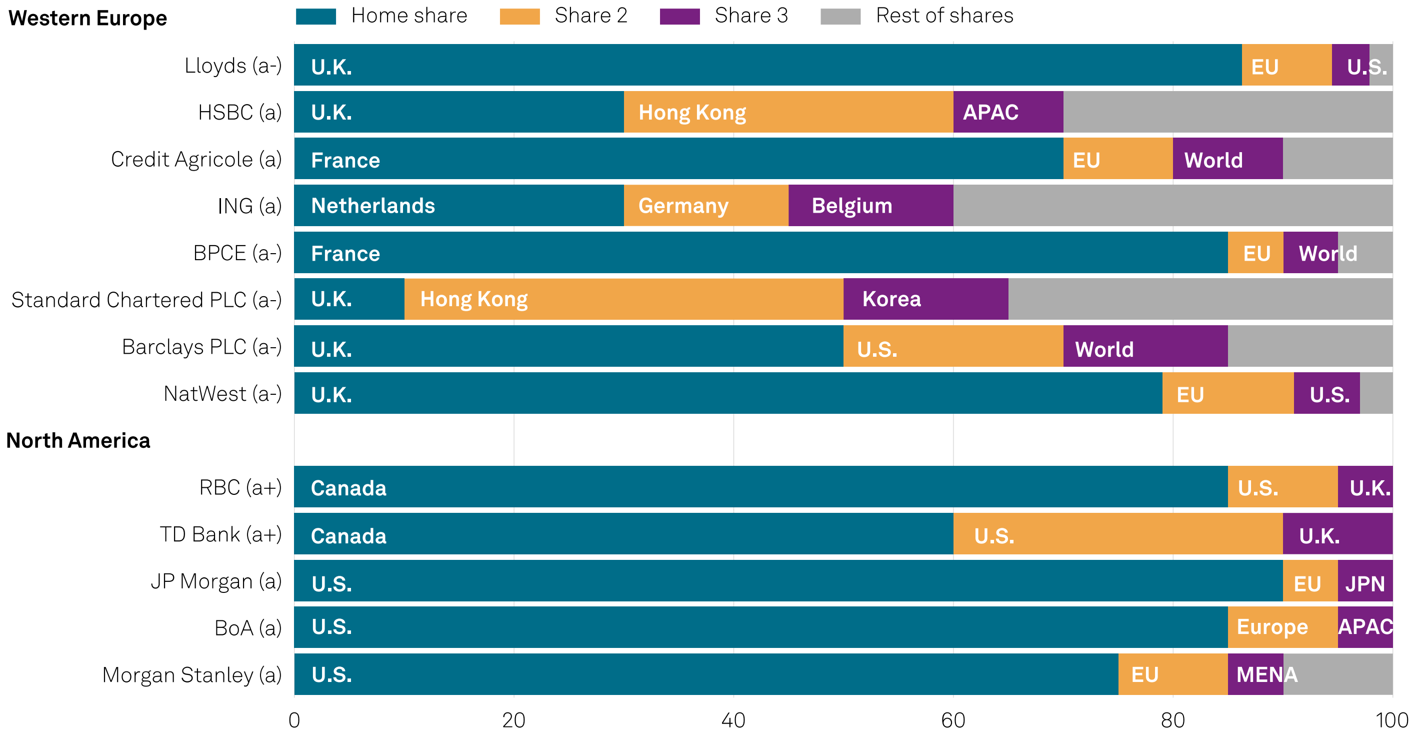
Reported net income comprises net interest income plus other income less operating lease depreciation.

Sources: S&P Global Ratings and company disclosures.

Chart 2

...but its business is less geographically diversified than that of higher-rated global peers

Economic risk exposure mix of global rated peers, WAER share (%)

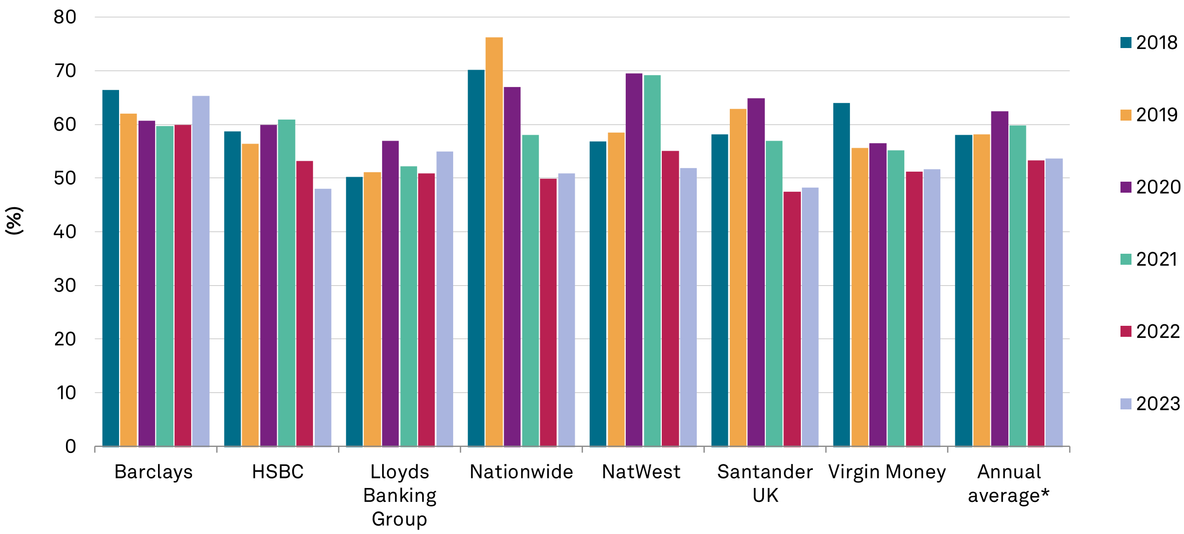


Group stand-alone credit profile is shown next to each bank's name. APAC--Asia-Pacific. MENA--Middle East and Northern Africa. WAER--Weighted average economic risk. Source: S&P Global Ratings.

A disciplined strategy has entrenched Lloyds' franchise and enabled it to become consistently more profitable than peers. Lloyds remains focused on digitalizing its operations and improving its efficiency, while realising solid organic growth across its divisions. Management has prioritized these objectives and executed the strategy well, in our view. For example, among a peer set of U.K. incumbent banks that have worked hard to reduce their cost bases, Lloyds has consistently delivered peer leading operating efficiency. That said, the group's cost-to-income ratio weakened relative to peers in 2023, which was partly a consequence of peers' rapid earnings growth on the back of interest rate rises (see chart 3).

Chart 3

Consistent operating efficiency is central to Lloyds' disciplined strategy
Major U.K. banks' cost-to-income ratio

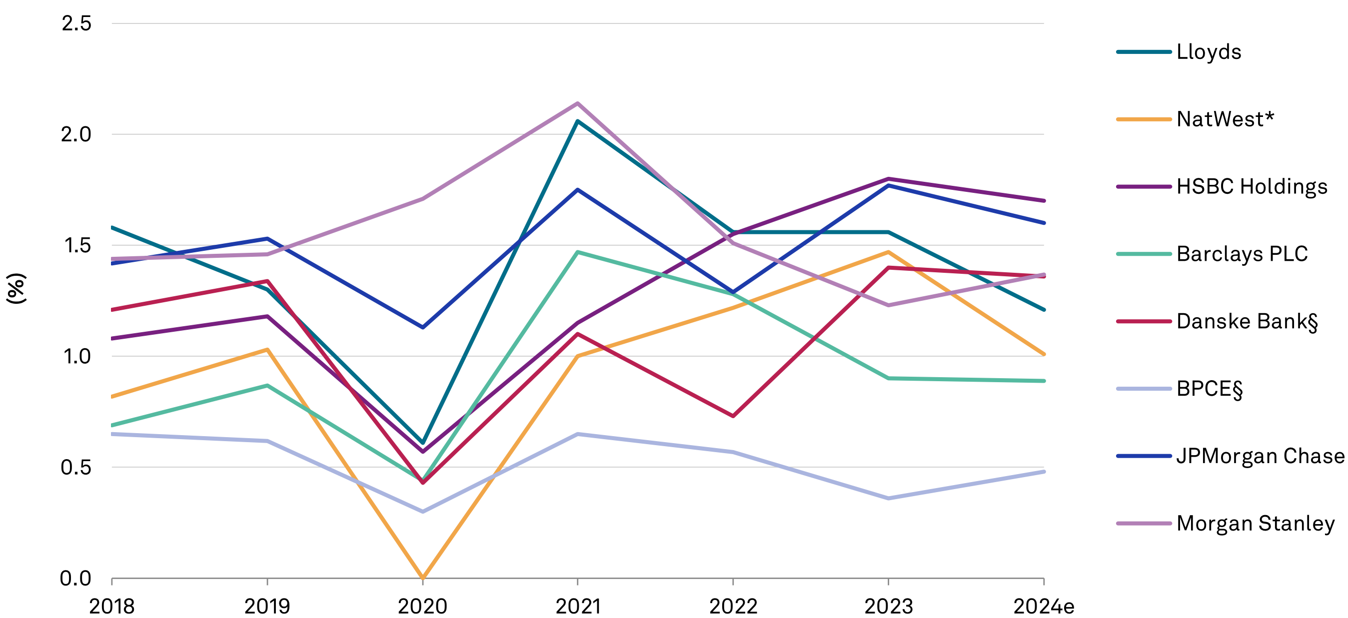


*Nationwide Building Society and Virgin Money UK PLC do not report for the period to Dec. 31, so are excluded from the full-year unweighted average. Data for Nationwide is as of April 2024 and for Virgin Money as of September 2023.
N.A.-- Not available. Source: S&P Global Ratings.

The group's disciplined cost control and solid organic growth have generated strong returns, representing core capital generation of about 140 basis points (bps) of S&P Global Ratings-adjusted risk-weighted assets between 2019 and 2023. This level comfortably exceeds that of most European peers and is ahead of, or in line with, leading international universal service banks (see chart 4).

Chart 4

Lloyds has a history of consistently good capital generation
Core earnings to S&P Global Ratings' risk-weighted assets (before dividends)



*Not meaningful for 2020 as NatWest reported a loss during that period. §Actual data for 2023 not available. e--Estimate.
Source: S&P Global Ratings.

Strong earnings support a comfortable capital position. Rising interest rates underpin a resilient earnings outlook for Lloyds. High interest rates in the U.K. will continue to support revenues over the next 18 months, notably as the group's structural hedge is reinvested at higher rates over 2024-2026. This will be offset by persistent competition on the mortgage market, the refinancing of profitable mortgage back books from the COVID-19 era onto tighter margins, and the migration of the bank's deposit book onto higher interest rates. This deposit migration has slowed through early 2024, though, meaning the related drag on net interest income is slowing. Overall, we expect a modest contraction in net interest margin this year, before a significant pick-up over 2025-2026.

We also expect the bank will deliver material non-interest income growth, which is in line with management's financial targets. Key engines of non-interest income growth--including the corporate and institutional bank, and the insurance, pensions, and investments divisions--expanded consistently in the past 18 months, and we expect this trend will continue through the end of 2026.

Even as Lloyds generates significant excess capital, we expect shareholder distributions and small bolt-on acquisitions will consume almost all of this as the group gradually moves toward a common equity tier 1 ratio of 13% by 2026.

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Overall, we expect the group will maintain an S&P Global Ratings risk-adjusted capital ratio of about 9.2%-9.5% over our forecast horizon.

Lloyds Banking Group PLC--Key ratios and forecasts

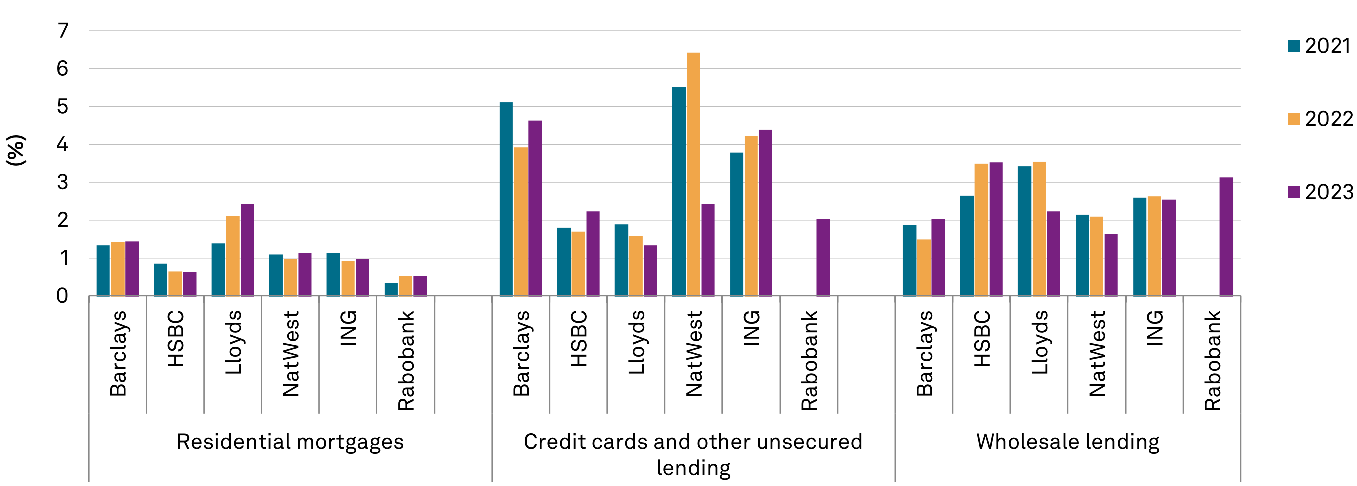
	--Fiscal year ends Dec. 31--				
(%)	**2022a**	**2023a**	**2024f**	**2025f**	**2026f**
Growth in operating revenue	13.0	3.7	(2.25)-(2.75)	3.5-4.0	2.0-3.0
Growth in customer loans	1.5	-1.3	0.9-1.1	0.9-1.1	0.9-1.1
Net interest income/average earning assets (NIM)	2.4	2.3	2.1-2.3	2.3-2.4	2.4-2.5
Cost to income ratio	50.7	54.8	56.0-58.0	54.0-56.0	54.0-56.0
Return on average common equity	11.3	12.0	9.5-10.5	10.5-11.5	11.5-12.5
New loan loss provisions/average customer loans	0.3	0.1	0.25-0.3	0.25-0.3	0.25-0.3
Gross nonperforming assets/customer loans	2.3	2.2	2.5-3.0	2.75-3.0	2.75-3.0
Risk-adjusted capital ratio	9.0	9.5	9.2-9.5	9.2-9.5	9.2-9.5

All figures are S&P Global Ratings-adjusted. a--Actual. f--Forecast. NIM--Net interest margin.

Asset nonperformance has been limited, but we expect nonperforming assets and impairments will tick up over the next 12 months. We consider Lloyds' nonperforming assets are in line with those of rated U.K. banks and comparable European peers. Stage 3 loans and advances to customers accounted for 2.0% of total lending at year-end 2023, down from 2.3% at year-end 2022 (see chart 5). Provisions on stage 3 assets covered a reported 15% of drawn stage 3 balances at year-end 2023. This ratio is lower than that of some peers due to the group's focus on collateralized lending and is also affected by peers' varying write-off policies.

Chart 5

Lloyds' asset quality is comparable with that of U.K. and European peers
Peer banks' gross stage 3 loans ratios by portfolio



ECL--Expected credit loss. Sources: Company disclosures and S&P Global Ratings.

Stage 2 loans and advances to customers now stand at £56.5 billion--compared with £65.7 billion in full-year 2022 and £38.4 billion on Dec. 31, 2019--which is equivalent to 12% of gross customer loans. The proportion of stage 2 loans that are more than 30 days overdue remains minor, demonstrating that a period of sustained underperformance in the group's book has yet to materialize (see chart 6).

Chart 6

Lloyds' provisioning levels reflect its largely secured balance sheet
Stage 2 and 3 loans as percentages of the total portfolio

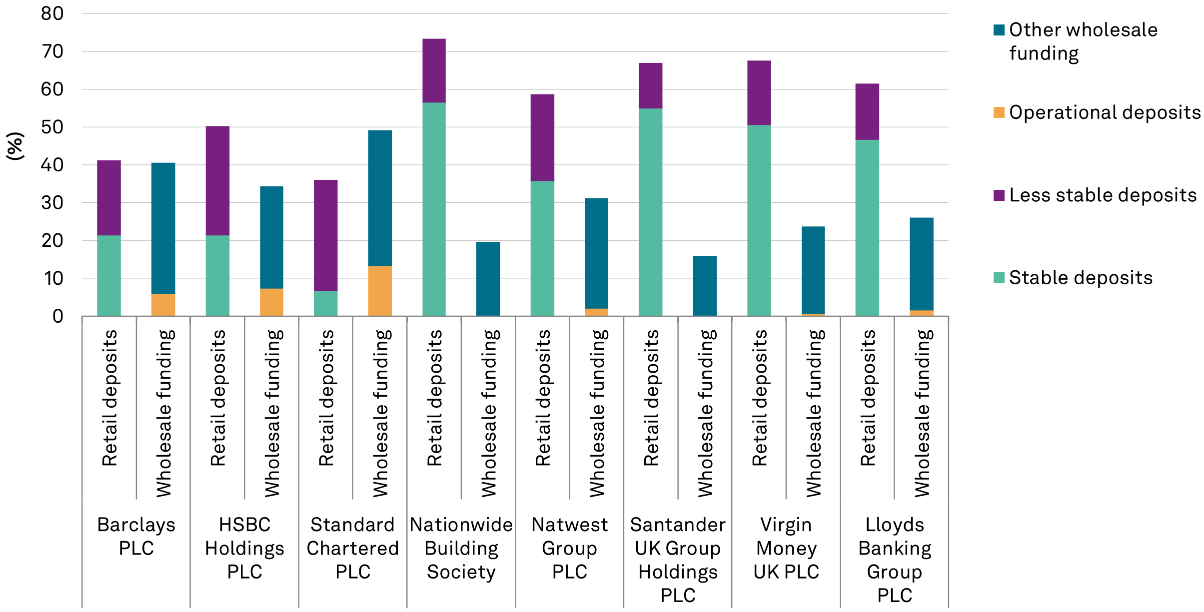
Sources: Company disclosures and S&P Global Ratings.

In the first quarter of 2024, the bank reported a very low impairment rate of 6 bps of average gross lending, materially below its through-the-cycle guidance of an impairment rate closer to 30 bps. However, adjusting for model-led releases in the commercial book of £50 million and economic-scenario-led releases of £192 million, the impairment rate was 28 bps. This is the level we expect the bank will converge toward through 2026, led by a steady rise in nonperforming assets.

Lloyds' balance sheet benefits from its strong deposit franchise and stable, diverse wholesale funding base. We regard Lloyds' funding and liquidity profile as broadly comparable with that of U.K. peers. At the same time, granular retail deposits form most of Lloyds' stable funding and represented 61% of its funding base in full-year 2023, as per the group's regulatory disclosures. This exceeds the peer average of about 55%, which is positively distorted by retail-centric U.K. bank and building societies in the cohort. For example, Nationwide's retail deposits represented 73% of its total stable funding in full-year 2023 (see chart 7).

Chart 7

Granular retail deposits are central to Lloyds' funding base
Retail and wholesale fundings as a percentage of total unweighted funding at Dec. 31, 2023



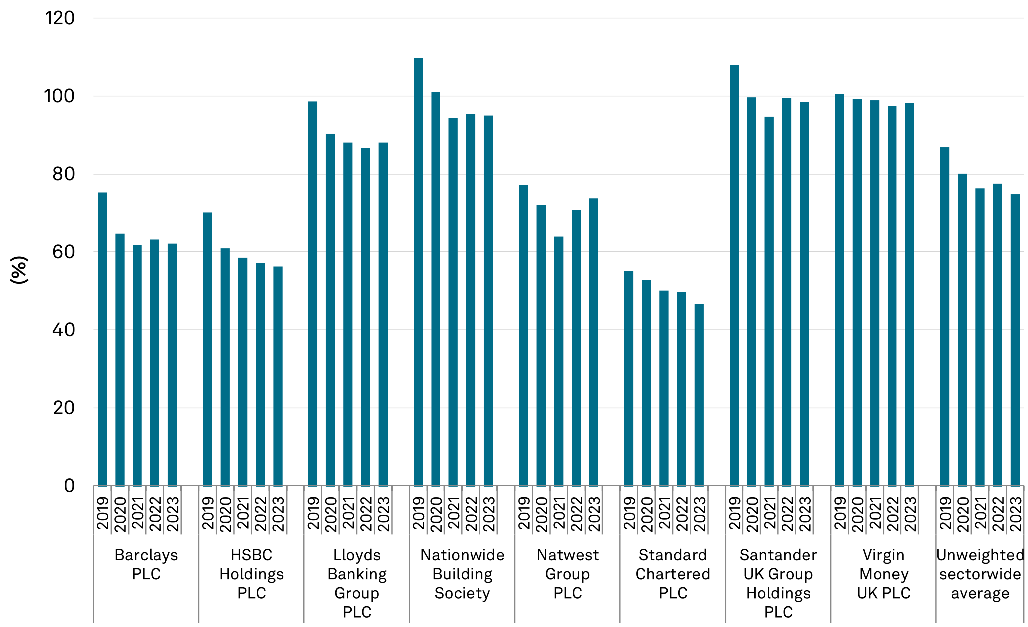
Source: S&P Global Ratings.

Even as retail deposits are the bedrock of its funding, Lloyds' loan-to-deposit ratio sits at the upper end of the universal banking peer set in the country. For example, our adjusted loan-to-deposit ratio of 88% in full-year 2023 is higher than the peer group average of 75% (see chart 8).

Chart 8

Lloyds' funding is relatively more reliant on wholesale sources than some U.K. peers'

Total loans (net) to total deposits



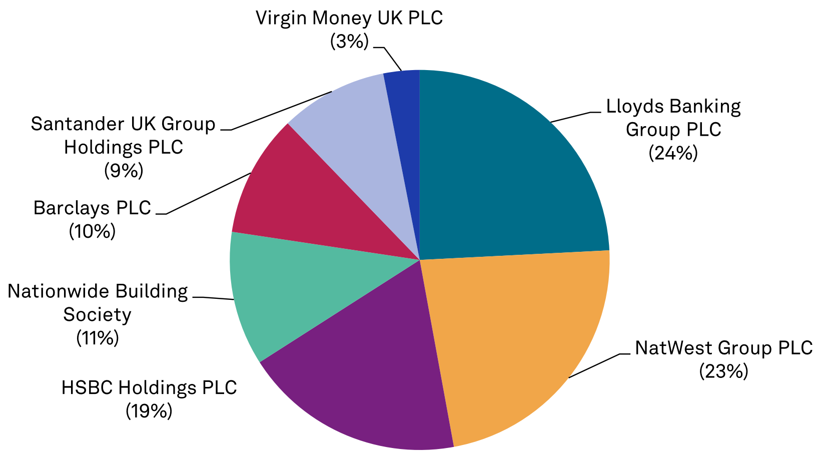
Source: S&P Global Ratings.

While Lloyds' leading market position confers pricing power and stability in the deposit market, and its liability base is well-diversified, the bank's funding metrics do not merit a higher funding assessment relative to U.K. peers.

This granular funding profile is complemented by a stable excess liquidity position versus regulatory requirements, with Lloyds' liquidity coverage ratio reported at 142% as of year-end 2023, compared with 144% as of year-end 2022. In a more strained environment, the bank's mortgage loan book also offers substantial secured access to the Bank of England's discount window if necessary (see chart 9).

Chart 9

Pre-pledged assets at the Bank of England are another liquidity support
Total pre-pledged assets at the Bank of England, excluding collateral associated with TFSME drawings (mil. £)



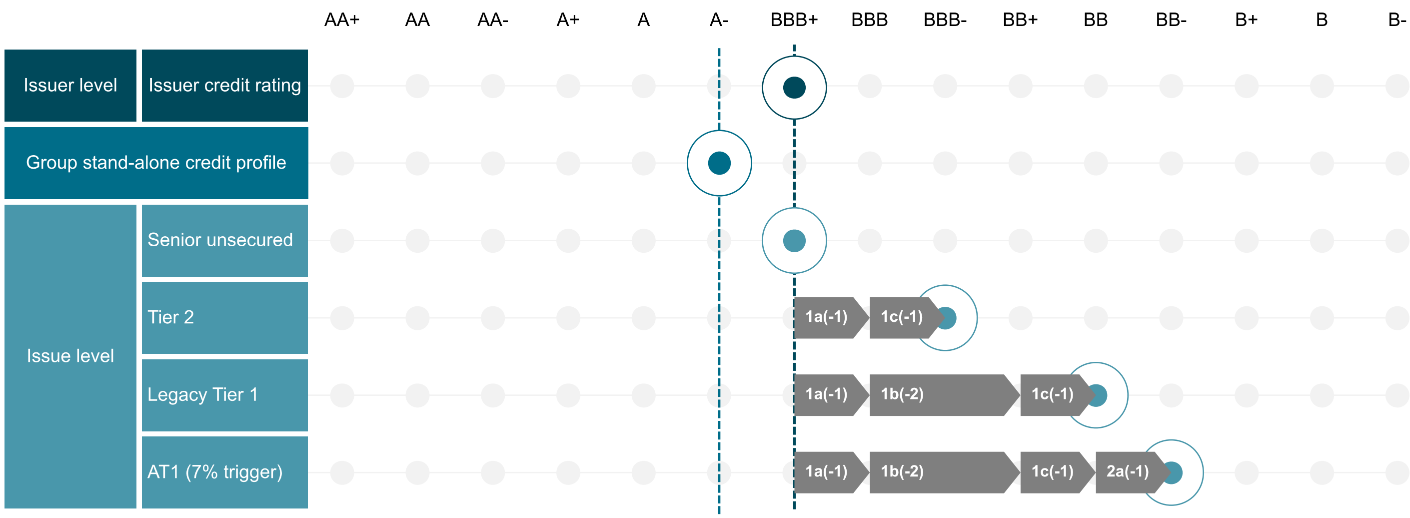
Data as of Dec. 31, 2023. TFSME--Term funding scheme with additional incentives for small and midsize enterprises. Source: S&P Global Ratings.

Lloyds is the nonoperating holding company (NOHC) of the group that it heads. Lloyds has operated under the U.K. ring-fencing regime since 2019. We see the ring-fenced subgroup as core to Lloyds and expect regulators would intervene at the point of nonviability. Our ratings on these entities are therefore in line with the 'a+' group credit profile, which is supported by Lloyds' additional loss-absorption capacity.

We consider it highly likely that the non-ring-fenced subgroup, Lloyds Bank Corporate Markets PLC (LBCM), would also be supported through a bail-in. However, we rate the LBCM subgroup lower than the ring-fenced entities because its operations are less diversified and, historically, less profitable and less integral to the group than those of the core ring-fenced entities.

Chart 10

Lloyds Banking Group PLC: NOHC notching



Key to notching

---- Issuer credit rating
----- Group stand-alone credit profile

1a	Contractual subordination
1b	Discretionary or mandatory nonpayment clause and whether the regulator classifies it as regulatory capital
1c	Mandatory contingent capital clause or equivalent
2a	Mandatory going-concern, regulatory capital-based trigger (either statutory or contractual)

Note: The number-letter labels in the table above are in reference to the notching steps we apply to hybrid capital instruments, as detailed in table 2 of our "Hybrid Capital: Methodology And Assumptions" criteria, published on March 2, 2022.
The nonoperating holding company (NOHC) issuer credit rating and senior unsecured debt ratings are notched from the group stand-alone credit profile (SACP) under our criteria. Since ALAC notching does not benefit NOHCs, for simplicity the diagram above is stylized to show the positioning of these ratings with reference to the group SACP.
AT1--Additional Tier 1.

Key Statistics

Table 1

Lloyds Banking Group PLC--Key figures

	--Year ended Dec. 31--				
(Mil. £)	**2023**	**2022**	**2021**	**2020**	**2019**
Adjusted assets	696,229	708,154	700,021	718,904	690,906
Customer loans (gross)	453,715	459,798	452,844	446,486	444,205
Adjusted common equity	27,121	27,688	27,458	24,876	25,016
Operating revenues	19,270	18,579	16,436	15,418	18,264
Noninterest expenses	10,563	9,424	8,544	8,756	9,304
Core earnings	5,654	5,682	7,475	2,215	4,778

Source: S&P Global Ratings.

Table 2

Lloyds Banking Group PLC--Business position

	--Year ended Dec. 31--				
(%)	**2023**	**2022**	**2021**	**2020**	**2019**
Total revenues from business line (mil. £)	19,305.0	18,579.0	16,523.0	15,418.0	18,634.0
Commercial banking/total revenues from business line	28.4	27.0	22.0	23.7	23.3
Retail banking/total revenues from business line	61.2	61.9	62.8	65.6	58.1
Commercial and retail banking/total revenues from business line	89.6	88.9	84.8	89.3	81.4
Insurance activities/total revenues from business line	5.6	7.9	9.1	8.4	11.4
Other revenues/total revenues from business line	4.8	3.2	6.1	2.3	7.2
Return on average common equity	12.0	11.3	11.9	2.0	5.8

Source: S&P Global Ratings.

Table 3

Lloyds Banking Group PLC--Capital and earnings

	--Year ended Dec. 31--				
(%)	**2023**	**2022**	**2021**	**2020**	**2019**
Tier 1 capital ratio	17.2	17.1	20.0	19.1	16.5
S&P Global Ratings' RAC ratio before diversification	9.4*	9.1	9.4	8.7	8.6
S&P Global Ratings' RAC ratio after diversification	10*	9.6	10.1	9.3	9.2
Adjusted common equity/total adjusted capital	79.6	83.9	81.1	78.4	78.7
Net interest income/operating revenues	69.0	75.1	57.0	69.7	55.7
Fee income/operating revenues	9.5	8.1	8.7	7.5	7.7
Market-sensitive income/operating revenues	7.2	-14.9	7.6	6.1	1.2
Cost-to-income ratio	54.8	50.7	52.0	56.8	50.9
Preprovision operating income/average assets	1.0	1.0	0.9	0.8	1.1
Core earnings/average managed assets	0.6	0.6	0.9	0.3	0.6

*Estimate for 2023. RAC--Risk-adjusted capital. Source: S&P Global Ratings.

Table 4

Lloyds Banking Group PLC--Risk-adjusted capital framework data

(Mil. £)	**Exposure***	**Basel III RWA**	**Average Basel III RW(%)**	**S&P Global Ratings' RWA**	**Average S&P Global Ratings' RW (%)**
Credit risk					
Government and central banks	125,240	468	0	1,432	1
Institutions	21,778	3,233	15	5,557	26
Corporate	87,804	43,796	50	65,876	75
Retail	422,459	108,303	26	188,260	45
Of which mortgage	366,839	65,764	18	138,491	38
Securitization (3)	40,688	8,959	22	13,975	34
Other assets	7,243	5,751	79	20,004	276
Total credit risk	705,213	170,511	24	295,104	42
Equity in the banking book (4)	3,980	6,260	157	28,852	725
Trading book market risk	--	4,242	--	5,686	--

Table 4

Lloyds Banking Group PLC--Risk-adjusted capital framework data (cont.)

Total market risk	--	10,502	--	34,539	--
Total insurance risk	--	688	--	0	--
Total operational risk	--	26,413	--	33,334	--
RWA before diversification	--	219,139	--	362,978	100
Single name(On corporate portfolio)	--	--	--	5,164	8
Sector(On corporate portfolio)	--	--	--	(3,104)	(4)
Geographic	--	--	--	18,605	6
Business and risk type	--	--	--	(42,042)	(11)
Total diversification/ Concentration adjustments	--	--	--	(21,377)	(6)
RWA after diversification	--	219,139	--	341,601	94
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings' RAC ratio (%)**
Capital ratio before adjustments		37,712	17.2	34,061	9.4
Capital ratio after adjustments (5)		37,712	17.2	34,061	9.7

*Exposure at default. §Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of Dec. 31, 2023, S&P Global Ratings.

Table 5

Lloyds Banking Group PLC--Risk position

	--Year ended Dec. 31--				
(%)	**2023**	**2022**	**2021**	**2020**	**2019**
Growth in customer loans	(1.3)	1.5	1.4	0.5	(0.9)
Total diversification adjustment/S&P Global Ratings' risk-weighted assets before diversification	N/A	(6.1)	(7.2)	(6.4)	(6.2)
Total managed assets/adjusted common equity (x)	32.5	31.7	32.3	35.0	33.3
New loan loss provisions/average customer loans	0.1	0.3	(0.3)	0.9	0.3
Net charge-offs/average customer loans§	0.2	0.2	0.2	0.3	0.3
Gross nonperforming assets/customer loans + other real estate owned	2.2	2.3	1.9	2.0	2.0
Loan loss reserves/gross nonperforming assets	39.3	45.6	49.2	70.1	45.3

N/A--Not applicable. Source: S&P Global Ratings.

Table 6

Lloyds Banking Group PLC--Funding and liquidity

	--Year ended Dec. 31--				
(%)	**2023**	**2022**	**2021**	**2020**	**2019**
Core deposits/funding base	75.1	74.9	76.4	73.1	70.2
Customer loans (net)/customer deposits	95.4	95.7	94.2	97.7	106.9
Long-term funding ratio	91.9	90.4	93.0	90.1	89.9
Stable funding ratio	114.7	111.7	115.0	107.4	102.4
Short-term wholesale funding/funding base	8.6	10.2	7.5	10.6	10.8
Regulatory net stable funding ratio	130.0	N/A	N/A	N/A	N/A

Table 6

Lloyds Banking Group PLC--Funding and liquidity (cont.)					
	--Year ended Dec. 31--				
(%)	**2023**	**2022**	**2021**	**2020**	**2019**
Broad liquid assets/short-term wholesale funding (x)	2.7	2.2	3.0	2.2	1.9
Broad liquid assets/total assets	16.7	16.4	16.1	16.4	14.3
Broad liquid assets/customer deposits	31.2	30.4	29.9	31.7	28.9
Net broad liquid assets/short-term customer deposits	20.2	17.0	20.3	17.1	13.5
Regulatory liquidity coverage ratio (LCR) (x)	142.0	144.0	N/A	N/A	N/A
Short-term wholesale funding/total wholesale funding	33.1	39.3	30.5	38.0	35.0
Narrow liquid assets/3-month wholesale funding (x)	4.3	4.1	4.5	3.1	2.8

N/A--Not applicable. Source: S&P Global Ratings.

Lloyds Banking Group plc--Rating component scores	
Issuer credit rating	**A+/Stable/A-1**
SACP	a-
Anchor	bbb+
Economic risk	4
Industry risk	3
Business position	Strong
Capital and earnings	Adequate
Risk position	Adequate
Funding	Adequate
Liquidity	Adequate
Comparable ratings analysis	0
Support	+2
ALAC support	+2
GRE support	0
Group support	0
Sovereign support	0
Additional factors	0

ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.

Related Criteria

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- U.K. Banks Squeeze Another Quarter Of Solid Earnings From Higher Rates, April 30, 2024
- Unsecured Consumer Lending Will Drive U.K. Banks' Credit Losses To £4.4 Billion, April 18, 2024
- Economic Outlook Q2 2024: The U.K. Is Slowly Turning A Corner, March 26, 2024
- Six Takeaways From U.K. Banks' Full-Year 2023 Results, March 6, 2024
- U.K. Banks Credit Outlook 2024: Earnings Stay Solid As Margins Ease, Jan. 4, 2024
- Banking Industry Country Risk Assessment: United Kingdom, Nov. 28, 2023
- As Their Funding Evolves, U.K. Banks Have Flexibility, Sept. 14, 2023
- U.K. Banks Enjoy Another Strong Half Year As Margins Peak, Aug. 24, 2023

Ratings Detail (As Of June 19, 2024)*	
Lloyds Banking Group PLC	
Issuer Credit Rating	BBB+/Stable/A-2
Junior Subordinated	BB-
Preference Stock	BB
Senior Unsecured	BBB+
Short-Term Debt	A-2
Subordinated	BBB-
Issuer Credit Ratings History	
24-Jun-2021	BBB+/Stable/A-2
23-Apr-2020	BBB+/Negative/A-2
15-Nov-2017	BBB+/Stable/A-2
Sovereign Rating	
United Kingdom	AA/Stable/A-1+
Related Entities	
Bank of Scotland Capital Funding L.P.	
Preferred Stock	BB+
Bank of Scotland PLC	
Issuer Credit Rating	A+/Stable/A-1
Resolution Counterparty Rating	AA-/--/A-1+
Junior Subordinated	BB+
Junior Subordinated	BBB-
Senior Secured	AAA/Stable

Ratings Detail (As Of June 19, 2024)*(cont.)	
HBOS PLC	
Issuer Credit Rating	BBB+/Stable/A-2
Junior Subordinated	BB+
Senior Unsecured	BBB+
Short-Term Debt	A-2
Subordinated	BBB
Subordinated	BBB-
LBG Capital No. 1 PLC	
Junior Subordinated	BB+
Subordinated	BBB-
LBG Capital No. 2 PLC	
Junior Subordinated	BB+
Subordinated	BB+
Lloyds Bank Corporate Markets PLC	
Issuer Credit Rating	A/Stable/A-1
Resolution Counterparty Rating	A+/--/A-1
Commercial Paper	A-1
Senior Unsecured	A
Short-Term Debt	A-1
Lloyds Bank Corporate Markets PLC (New York Branch)	
Commercial Paper	A-1
Lloyds Bank PLC	
Issuer Credit Rating	A+/Stable/A-1
Resolution Counterparty Rating	AA-/--/A-1+
Commercial Paper	A-1
Junior Subordinated	BB+
Junior Subordinated	BBB-
Senior Unsecured	A+
Short-Term Debt	A-1
Subordinated	BBB

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.