CREDIT OPINION
13 June 2024

Update

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RATINGS

Lloyds Bank plc

Domicile	London, United Kingdom
Long Term CRR	Aa3
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	A1
Type	Senior Unsecured - Fgn Curr
Outlook	Stable
Long Term Deposit	A1
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Lloyds Bank plc

Update following affirmation of all ratings

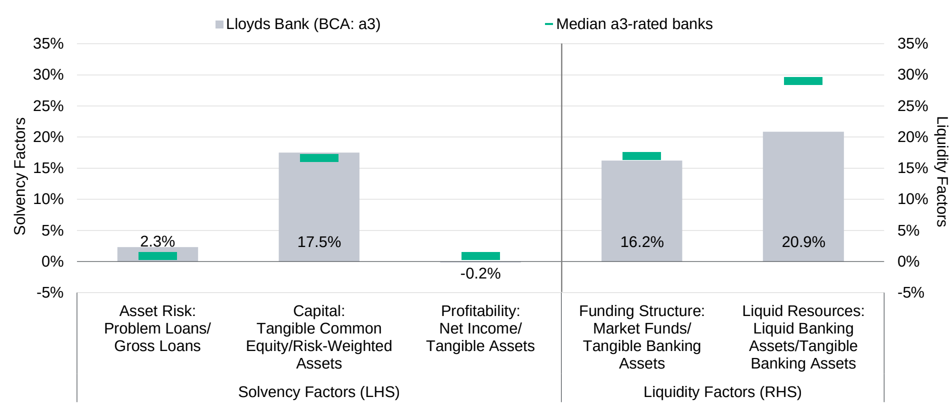
Summary

We assign a rating of A1 to the long-term deposit and senior unsecured debt of Lloyds Bank plc (LB), the ring-fenced bank of the Lloyds Banking Group plc (LBG, A3 stable, a3)[1]. These ratings reflect (1) the bank's standalone creditworthiness, expressed in an a3 Baseline Credit Assessment (BCA); (2) very high affiliate support assumptions from LBG which provides no uplift to the a3 Adjusted BCA, (3) very low and low loss-given-failure, which provides two notches and one notch, respectively, of uplift under our Advanced Loss Given Failure (LGF) analysis; and (4) our assessment of a moderate probability of support from the Government of the United Kingdom (Aa3 stable), which provides one notch of uplift for the senior unsecured debt rating and zero notches for the deposit rating.

LB's a3 BCA reflects the bank's strong capital position, solid profitability, low asset risk and a stable and diversified funding profile.

We align the ratings of HBOS plc and Bank of Scotland plc subsidiaries to those of LB, to reflect their high integration with LB.

Exhibit 1
Rating Scorecard - Key financial ratios



Source: Moody's Ratings

Credit strengths

» Strong capital

» Low asset risk

» Stable retail funding and ample liquidity

» Solid profitability, albeit below the 2023 peak

Credit challenges

» High interest rates negatively affecting credit demand and households' debt servicing capacity

Outlook

The stable outlook on LB's ratings reflects our view that the combined solvency and liquidity metrics will on a forward looking basis remain in line with our current assessment of moderate asset risk, solid profitability, high capitalisation, and ample liquidity, which moderates wholesale funding exposures.

Factors that could lead to an upgrade of the ratings

LB's BCA could be upgraded if the bank's profitability and liquidity buffers remain elevated and wholesale funding structurally decreases. An upgrade of the BCA could lead to an upgrade of all long-term ratings of LB, with the exclusion of its senior unsecured debt, as government support would decrease to zero notches from one notch. LB's junior debt rating could also be upgraded following a significant increase in the stock of subordinated debt issued by LBG or externally by LB.

Factors that could lead to a downgrade of the ratings

LB's BCA could be downgraded following (1) a deterioration of the UK operating environment beyond our current expectations, or (2) a material decline in the group's capital metrics. A one notch downgrade of the bank's BCA would lead to a downgrade of all its ratings.

Key indicators

Exhibit 2

Lloyds Bank plc (Consolidated Financials) [1]

	12-23[2]	12-22[2]	12-21[2]	12-20[2]	12-19[2]	CAGR/Avg.[3]
Total Assets (GBP Billion)	605.3	616.9	602.8	590.5	567.8	1.6[4]
Total Assets (USD Billion)	771.7	742.1	813.6	807.2	752.2	0.6[4]
Tangible Common Equity (GBP Billion)	31.9	32.5	31.7	29.6	33.5	(1.2)[4]
Tangible Common Equity (USD Billion)	40.7	39.1	42.8	40.4	44.4	(2.1)[4]
Problem Loans / Gross Loans (%)	2.3	2.4	2.0	2.1	2.0	2.2[5]
Tangible Common Equity / Risk Weighted Assets (%)	17.5	18.6	19.6	17.3	19.5	18.5[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	28.3	29.0	24.4	25.6	22.9	26.0[5]
Net Interest Margin (%)	2.3	2.2	1.8	1.8	2.2	2.0[5]
PPI / Average RWA (%)	3.8	4.4	3.2	3.2	4.4	3.8[6]
Net Income / Tangible Assets (%)	0.8	-1.9	0.7	1.0	0.9	0.3[5]
Cost / Income Ratio (%)	62.4	54.8	63.0	62.3	53.5	59.2[5]
Market Funds / Tangible Banking Assets (%)	16.2	17.7	14.6	16.2	17.2	16.4[5]
Liquid Banking Assets / Tangible Banking Assets (%)	20.9	23.0	22.8	23.5	21.4	22.3[5]
Gross Loans / Due to Customers (%)	98.2	98.3	96.7	100.6	106.0	99.9[5]

[-] Further to the publication of our revised methodology in July 2021, only ratios from annual 2020 onwards included in this report reflect the change in analytical treatment of the "high-trigger" Additional Tier 1 instruments. [1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.
Sources: Moody's Ratings and company filings

Profile

LB is the ring-fenced bank of Lloyds Banking Group plc (LBG), a leading UK-based financial services group providing a wide range of banking and financial services, focused on retail and commercial customers. LB operates also through other brands, mainly Halifax and Bank of Scotland. The bank retains most of the group's banking businesses, including more than 95% of loans and most of the retail, small and medium-sized enterprise, and corporate deposits.

As part of its strategy, LB aims to drive revenue growth and diversification both in its Consumer and Commercial businesses: in the Consumer business, it targets to deepen and innovate in consumer banking and create a new mass affluent offering; in the Commercial business, it targets to digitise and diversify its SME business and to strengthen its Corporate & Institutional offering. These initiatives should help the firm to grow revenue, with an expected overall impact expected to benefit profits over the medium term.

Besides LB, LBG's other main subsidiaries are the insurer Scottish Widows Limited (Scottish Widows, IFRS[2] A2 stable), and the non-ring-fenced bank Lloyds Bank Corporate Markets plc (LBCM, A1 stable/A1 stable, baa3[3]), holding capital markets activities, business outside of the European Economic Area and lending to financial institutions.

Detailed credit considerations

The financial data in the following sections are sourced from LB's consolidated financial statements, unless otherwise stated.

Low asset risk

We assign an a3 Asset Risk score, one notch below the initial score, reflecting our expectation that Stage 3 loans will stabilize at just above 2% of loans during the next 12-18 moths. Stage 3 loans were 1.6% of gross loans at end-2023 (2022: 1.7%) and Stage 2 loans were 12.1% (2022: 13.7%).

LB's lending book includes high exposure to lower-risk retail mortgages (70%), followed by commercial lending (17%), unsecured and auto lending (9%) and "other" (4%) at end-2023.

Underwriting standards in the mortgage book are higher than the market's average. The bank remains focused on the prime UK residential mortgage business, a segment with low risks. Riskier mortgages with high loan-to-values of above 90% accounted for 2.8% of gross lending at end-2023, lower than the 5.5% market average[4]. Within UK residential mortgages, 15% are buy-to-let loans, which represents a higher proportion than for some of its peers.

LB's commercial loans decreased 4% to £73.2 billion at end-2023 as the bank reduced exposure to cyclical sectors. Stage 2 loans decreased to 10.6% of balances (2022: 13.7%) due to improved macroeconomic assumptions and Stage 3 loans reduced to 2.8% of balances (2022: 4.4%) due to a full repayment of a debt from a single name client.

Strong capital

We assign an a1 Capital score, two notches below the initial score, reflecting our expectation of a moderate decrease in capital levels in coming quarters in line with the Group's capital target of a Common Equity Tier 1 (CET1) ratio of 13.5% by end-2024.

LB reported a high CET1 capital ratio of 14.2% at end-March 2024 (14.4% at end-2023), a significant headroom over c.12.6% regulatory requirement. The UK leverage ratio was 5.5% at end of March 2024 from 5.6% at end-2023. Our tangible common equity (TCE) ratio was 17.5% at end-2023. At the same time, Moody's leverage ratio (TCE / Tangible Banking Assets) was 5.3%, in line with end-2022.

Profitability to decline below 2023 peak, but will remain solid

We assign a baa2 Profitability score, reflecting our expectation that LB's net income will stabilize around £4.5 billion in 2024 and 2025, as revenues decline from 2023 highs, driven by a reduction in net interest margins, and a moderate increase in the cost of risk from a low base. Targeted management actions to boost retail and commercial banking revenues, as well as the structural hedge will provide support to profitability. Easing inflationary pressures will likely result in a reduction in rates through the second half of 2024. However, any rate reduction cycle will be gradual and household incomes and debt servicing capacity will continue to be strained, impacting business and consumer confidence and credit demand.

In 2023, LB reported a net income of £5.2 billion (up from £4.8 billion in 2022). Revenue increased 10% reflecting higher net interest income (NII, 5% increase). Operating costs increased by 19% as a result of higher planned strategic investment, new business costs and inflationary effects. Impairment charges decreased to £343 million (£1.5 billion in 2022), most of which related to revisions around the improved economic outlook and a significant write-back following the repayment of debt from a single name client.

In Q1 2024, LB reported a £1.2 billion net income, a 23% decline versus the same period in 2022. Revenues decreased 5% due to a reduction in net interest income driven by headwinds from deposit flows into higher rate savings accounts and mortgage book's margin compression, partially offset by higher earnings on the structural hedge. Operating costs increased 18% due to an expected increase in severance charges and a £0.1 billion Bank of England's levy. Credit impairment charges of £70 million were significantly lower than £246 million charges during the same period in the prior year and reflected the improved economic outlook.

Stable retail funding and ample liquidity

We assign an a3 Combined Liquidity score, reflecting an a3 Funding Structure score and a baa1 Liquid Resources score, both in line with the respective initial scores. As a result, LB's Combined Liquidity score is in line with LBG's.

LB benefits from its stable and granular retail deposit base: its market share in the UK for personal current accounts was 23% at end-2022, the highest in the country. Retail deposits were down £2 billion (0.7% decrease) in 2023 which was less of a decrease than that of the wider high-street bank market (2.4% decrease). LB's reliance on wholesale funding is moderate, representing 16.2% of tangible banking assets at end-2023.

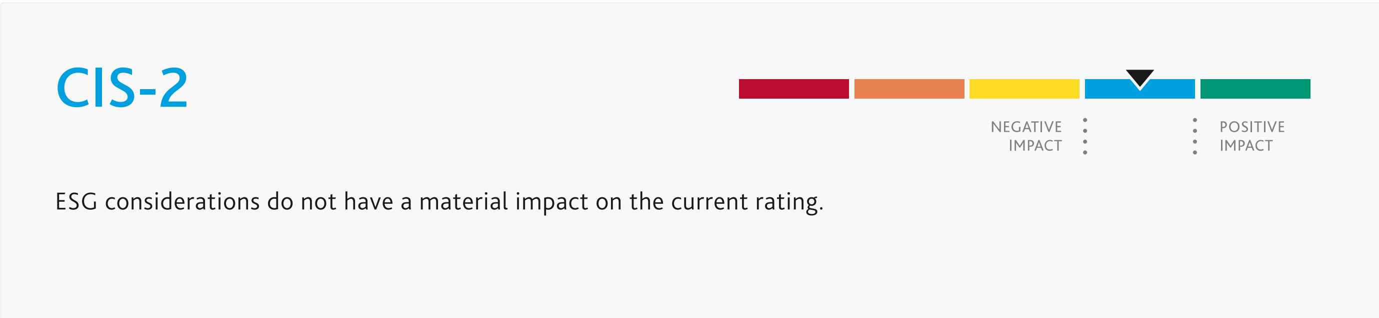
LBG's total outstanding drawings from the Term Funding Scheme with additional incentives for SMEs (TFSME) was £30 billion end-2023 (unchanged from the previous year) with £21 billion contractual maturities in 2025 and £9 billion 2027. We expect LBG to repay TFSME maturities in coming years via a combination of wholesale debt, securitisations and additional deposits.

LB's liquidity mitigates its moderate reliance on wholesale funding; cash and balances at central banks of £57.9 billion at end-2023 and material amounts of pre-positioned contingent liquidity with the Bank of England, further mitigating short term funding risk. The bank's liquidity coverage ratio (LCR) was 133% at end-2023 (136% at end of 2022). We expect its liquid assets to remain broadly stable.

ESG considerations

Lloyds Bank plc's ESG credit impact score is CIS-2

Exhibit 3
ESG credit impact score



Source: Moody's Ratings

Lloyds Bank's **CIS-2** indicates limited credit impact from ESG factors on the rating to date; in particular, governance risks are low, and take into consideration the stable and credible management along with sound capital, liquidity and risk management.

Exhibit 4
ESG issuer profile scores

Source: Moody's Ratings

Environmental
Lloyds Bank faces moderate environmental risks mainly because of its portfolio exposure to carbon transition risk as a diversified, universal banking group. In line with peers, the bank is facing mounting business risks and stakeholder pressure to meet broader carbon transition goals. In response, Lloyds is actively engaging in optimizing its loan portfolio longer-term toward less carbon intensive assets.

Social
Lloyds Bank faces high social risks from customer relations because of considerable focus on consumer protection in the UK, exposing banks to potential fines from regulators and litigation from customers, as well as cyber risk and the financial and reputational implications of data breaches. The bank's developed policies and procedures help manage associated credit risks. The bank also faces moderate social risks related to potential competition from technology firms and other disruptors.

Governance
Lloyds Bank's governance risk is low. The bank has sound board structure, risk management, and capital and liquidity management. Management has a strong track record of simplification and efficiency. Because Lloyds Bank is fully controlled by Lloyds Banking Group, we have aligned the subsidiary's board structure, policies and procedures score with that of its parent, given the bank's strategic importance and public affiliation with the group (Lloyds Bank contains the ring-fenced business of the group and represents more than 90% of group assets and revenue), the parent's oversight of its subsidiary board and the regulated nature of both entities.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Affiliate support

We expect a very high probability of support from LBG, based on the size and importance of the UK ring-fenced bank within the group. Howevr, our assumptions do not lead to any uplift, because the notional BCA of LBG is the same as for LB.

Loss Given Failure analysis

We apply our Advanced LGF analysis to LB because the bank is incorporated in the UK, which we consider to be an operational resolution regime.

Following the implementation of ring-fencing in the UK, we believe that LB would be resolved separately from its non ring-fenced sister bank, LBCM. As such, our LGF analysis for LB reflects the entity's own liability structure.

Our LGF analysis assumes residual tangible common equity (TCE) of 3%, post-failure losses of 8% of tangible banking assets, a 25% runoff in junior wholesale deposits and a 5% runoff in preferred deposits, and it assigns a 25% probability to deposits being preferred to senior unsecured debt. We also assume that the junior proportion of LB's deposits is 26%. These assumptions are in line with our standard assumptions.

Our LGF analysis indicates that LB's deposits and senior unsecured debt are likely to face a very low and low loss-given-failure respectively because of the loss absorption provided by subordinated debt (including the debt down-streamed from LBG), and the volume of deposits and senior debt themselves. This results in a two-notch uplift for the long-term deposit and a one-notch uplift to the senior unsecured debt ratings from the BCA.

Government support considerations

Given LB's systemic importance to the UK economy, reflecting its large national market share of residential mortgages and deposits, we incorporate a moderate probability of government support for deposits and senior unsecured debt, which leads to no uplift for the long-term deposit and a one-notch uplift for the senior unsecured debt ratings.

We believe that potential government support is low for LB's subordinated liabilities, which does not result in any uplift.

About Moody's Bank scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 5

Lloyds Bank plc

Macro Factors						
Weighted Macro Profile	**Strong +**	**100%**				

Factor	Historic Ratio	Initial Score	Expected Trend	Assigned Score	Key driver #1	Key driver #2
Solvency						
Asset Risk						
Problem Loans / Gross Loans	2.3%	a2	↔	a3	Sector concentration	
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - fully loaded)	17.5%	aa2	↓	a1	Expected trend	
Profitability						
Net Income / Tangible Assets	-0.2%	caa1	↑↑	baa2	Expected trend	
Combined Solvency Score		a3		a3		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	16.2%	a3	↔	a3		
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	20.9%	baa1	↔	baa1		
Combined Liquidity Score		a3		a3		
Financial Profile				a3		
Qualitative Adjustments				Adjustment		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint				Aa3		
BCA Scorecard-indicated Outcome - Range				a2 - baa1		
Assigned BCA				a3		
Affiliate Support notching				0		
Adjusted BCA				a3		

Balance Sheet	in-scope (GBP Million)	% in-scope	at-failure (GBP Million)	% at-failure
Other liabilities	100,864	16.8%	146,259	24.4%
Deposits	445,049	74.2%	399,654	66.7%
Preferred deposits	329,336	54.9%	312,869	52.2%
Junior deposits	115,713	19.3%	86,785	14.5%
Senior unsecured bank debt	4,511	0.8%	4,511	0.8%
Junior senior unsecured bank debt	17,835	3.0%	17,835	3.0%
Dated subordinated bank debt	8,163	1.4%	8,163	1.4%
Junior subordinated bank debt	138	0.0%	138	0.0%
Preference shares (bank)	5,021	0.8%	5,021	0.8%
Equity	17,987	3.0%	17,987	3.0%
Total Tangible Banking Assets	599,568	100.0%	599,568	100.0%

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional Notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	23.4%	23.4%	23.4%	23.4%	3	3	3	3	0	aa3
Counterparty Risk Assessment	23.4%	23.4%	23.4%	23.4%	3	3	3	3	0	aa3 (cr)
Deposits	23.4%	8.2%	23.4%	8.9%	3	3	3	2	0	a1
Senior unsecured bank debt	23.4%	8.2%	8.9%	8.2%	3	1	2	1	0	a2
Dated subordinated bank debt	5.2%	3.9%	5.2%	3.9%	-1	-1	-1	-1	0	baa1

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	3	0	aa3	0	Aa3	Aa3
Counterparty Risk Assessment	3	0	aa3 (cr)	0	Aa3(cr)	
Deposits	2	0	a1	0	A1	A1
Senior unsecured bank debt	1	0	a2	1	A1	A1
Dated subordinated bank debt	-1	0	baa1	0	Baa1	(P)Baa1

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Ratings

Ratings

Exhibit 6

Category	Moody's Rating
LLOYDS BANK PLC	
Outlook	Stable
Counterparty Risk Rating	Aa3/P-1
Bank Deposits	A1/P-1
Baseline Credit Assessment	a3
Adjusted Baseline Credit Assessment	a3
Counterparty Risk Assessment	Aa3(cr)/P-1(cr)
Senior Unsecured	A1
Subordinate -Dom Curr	Baa1
Commercial Paper	P-1
Other Short Term -Dom Curr	(P)P-1
PARENT: LLOYDS BANKING GROUP PLC	
Outlook	Stable
Baseline Credit Assessment	a3
Adjusted Baseline Credit Assessment	a3
Senior Unsecured	A3
Subordinate	Baa1
Bkd Jr Subordinate -Dom Curr	Baa2 (hyb)
Pref. Stock Non-cumulative	Baa3 (hyb)
Pref. Shelf Non-cumulative	(P)Baa3
Other Short Term -Dom Curr	(P)P-2
BANK OF SCOTLAND PLC	
Outlook	Stable
Counterparty Risk Rating	Aa3/P-1
Bank Deposits	A1/P-1
Baseline Credit Assessment	a3
Adjusted Baseline Credit Assessment	a3
Counterparty Risk Assessment	Aa3(cr)/P-1(cr)
Issuer Rating	A1
Bkd Senior Unsecured	A1
Pref. Stock Non-cumulative -Dom Curr	Baa3 (hyb)
HBOS PLC	
Outlook	Stable
Counterparty Risk Rating	Aa3/P-1
Counterparty Risk Assessment	Aa3(cr)/P-1(cr)
Issuer Rating	A1
Subordinate	Baa1
Jr Subordinate -Dom Curr	Baa2 (hyb)
ST Issuer Rating	P-1

Source: Moody's Ratings

Endnotes

1 Senior unsecured rating and BCA

2 Insurance Financial Strength Rating

3 Deposit rating, senior unsecured/issuer rating, BCA

4 As per Bank of England Mortgage Lenders and Administrators Statistics - Q4 2023

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CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454