

## Lloyds Bank PLC

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# Lloyds Bank PLC

## Credit Highlights

<b>Global Scale Ratings</b>
<b>Issuer Credit Rating</b> A+/Stable/A-1
<b>Resolution Counterparty Rating</b> AA-/--/A-1+

### Overview

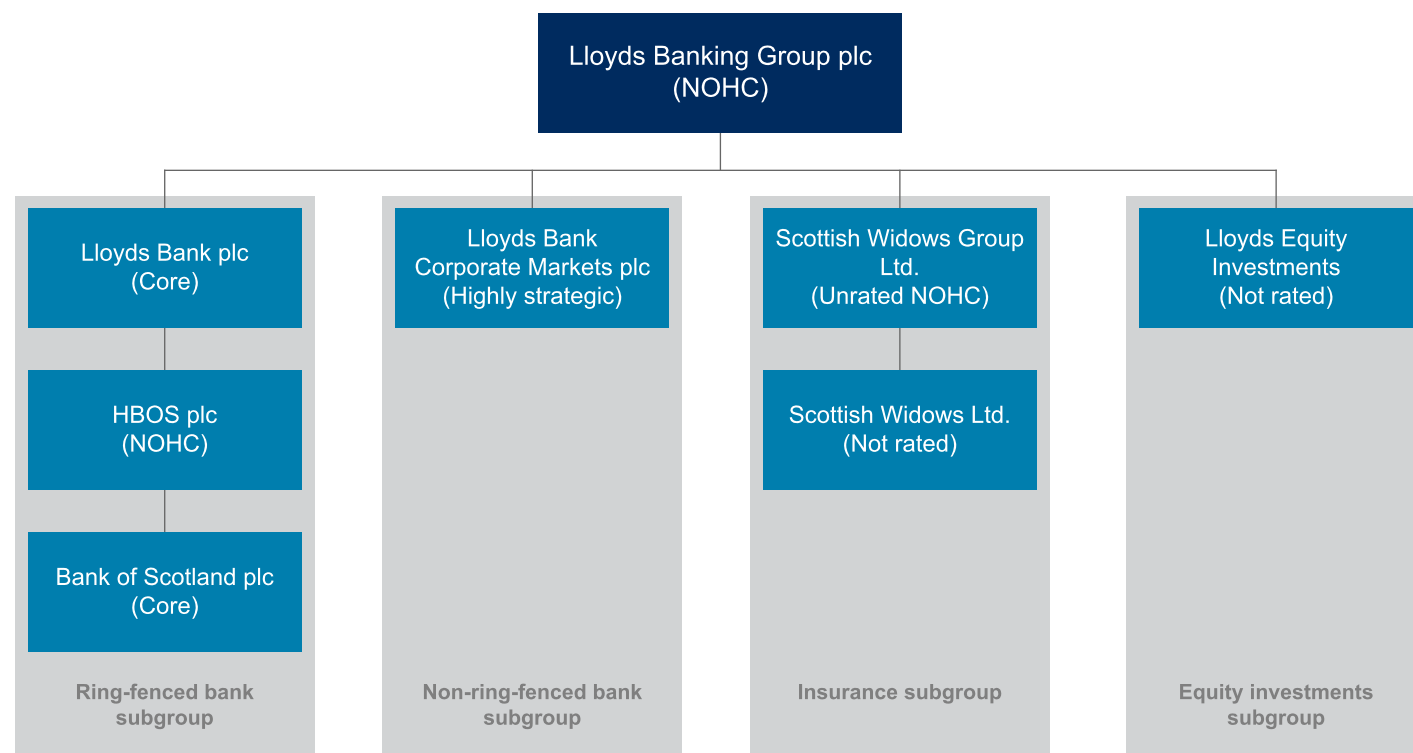
Key strengths	Key risks
Core, ring-fenced subsidiary of ultimate parent Lloyds Banking Group PLC.	Normalizing asset quality after a benign 24 months.
Strong market position across U.K. retail and commercial banking.	Geographic concentration in the U.K.
Supportive capital, funding, and liquidity profiles.	

*S&P Global Ratings views Lloyds Bank PLC (LB) as a core subsidiary of Lloyds Banking Group PLC (LBG).* LB has an integral role in its parent's strategy, and a dominant share of the group's consolidated earnings and capital. Its brand and reputation are intertwined with the group's. We align our long-term issuer credit rating on LB, which includes a two-notch uplift for additional loss-absorbing capacity (ALAC), with LBG's 'a+' group credit profile. We do not assess LB's stand-alone credit profile.

*LB is LBG's largest subsidiary.* It is the main entity in the ring-fenced bank subgroup, and its consolidated regulatory risk-weighted assets (RWAs) represented 83% of LBG's RWAs at Sept. 30, 2024. It is the market leader in U.K. retail banking and one of the main competitors in U.K. commercial banking alongside ring-fenced bank peers Barclays Bank UK PLC, HSBC UK Bank PLC, and National Westminster Bank PLC. LB's main subsidiary is Bank of Scotland PLC (A+/Stable/A-1), which operates primarily in Scotland.

## Chart 1

## Highly simplified overview of Lloyds' legal entity structure



Sources: Lloyds and S&P Global Ratings.

Information in parentheses shows our group status classification.

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**Earnings are strong owing to elevated interest rates.** LB's consolidated pretax earnings fell 27% to £3.9 billion in the first nine months of 2024 (which represented 76% of LBG's result) compared with the same period in 2023, due to lower net interest income from deposit churn and asset margin compression. Higher structural hedge earnings partially offset these factors as maturing hedge balances reinvest onto higher rates. Despite this, LB's net interest income still decreased 10% from the first nine months of 2023 to £9.4 billion.

We think LB's net interest margin will rise steadily from here, as both deposit migration and the rate of higher-margin mortgages refinancing slow, and the gross yield rises on the bank's structural hedge. This will raise net interest income in the next 12-24 months.

Operating expense was 13% higher due to ongoing strategic investments, new business costs, a higher operating lease depreciation charge, and inflationary pressure.

LB booked a low impairment charge of £294 million (0.07% of average customer loans) for the period, combining benign asset quality with the group's improved economic outlook. This somewhat reduces the effects of lower NII and higher operating expense on the group's pretax earnings.

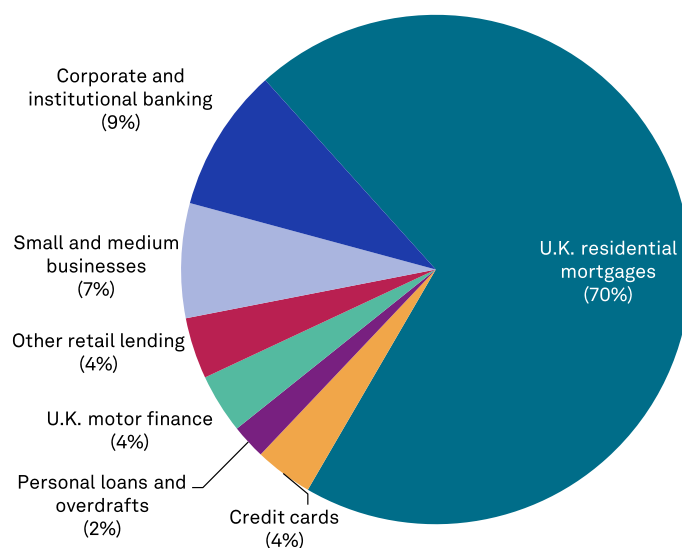
LB's net interest margin for first-half 2024 was 2.37%, having tapered off from a multiyear high in 2023.

**Well-collateralized mortgages dominate customer loans.** LB's large customer loan portfolio is dominated by residential mortgages but also includes riskier elements such as credit cards. LB's stage 2 and 3 loans were 9.2% and 1.6% of its loan portfolio, respectively, in the first nine months of 2024, and the vast majority of stage 2 balances were fully up-to-date. We expect a steady flow of assets into arrears and default as asset quality normalizes in the U.K. Even so, sound underwriting, low loan-to-values in the mortgage book, and resilient consumer balance sheets should underpin LB's overall asset quality.

## Chart 2

### Well-collateralized mortgages dominate customer lending

Gross customer loans at Sept. 30, 2024



Source: Lloyds Bank PLC.

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**LB could require further material provisions for motor finance remediation.** The U.K. Financial Conduct Authority (FCA) is assessing whether motor finance lenders should remediate customers for some commissions paid to brokers. In an October 2024 judgment on three test cases, the appeal court ruled that vehicle dealers must clearly disclose to customers the commissions they receive from lenders, and that lenders are liable for failing to disclose. The FCA is considering its next steps in light of the judgment, which will be appealed to the supreme court. LB booked a £450 million provision on potential motor finance remediation in 2023 and may require further material provisions depending on the outcome of the regulatory and legal processes (see "Bulletin: Court's Motor Finance Judgment Gives Some U.K. Banks Pause In A Strong Third Quarter," published Oct. 29, 2024, on RatingsDirect).

**LB's capitalization is in line with the group's.** LB's 13.6% common equity Tier 1 ratio at Sept. 30, 2024, is slightly below LBG's and comfortably exceeds its 10.6% minimum regulatory requirement (excluding its O-SII buffer of 2%). Its leverage ratio, which excluded central bank claims, was 5.3%.

**We view LB's funding and liquidity profiles as solid.** Its powerful deposit franchise resulted in a 99% loan-to-deposit ratio at Sept. 30, 2024. LB continues to attract strong deposit inflows, expanding on the enlarged deposit base built during the COVID-19 pandemic. This has limited LB's wholesale funding activity, and we expect issuance needs to stay limited given the bank's consistently strong deposit flows. Nevertheless, we expect wholesale funding to play a role in LB's refinancing of its £30 billion of borrowings from the Bank of England's Term Funding Scheme with Additional Incentives for SMEs--although the bank will manage repaying this funding. LB held £108 billion of high-quality liquid assets at Sept. 30, 2024, and reported a comfortable 135% average liquidity coverage ratio.

**LBG has downstreamed material loss-absorbing debt to LB.** We think this buffer benefits LB's senior creditors and therefore we reflect ALAC uplift in the issuer credit rating.

## Outlook

The stable outlook mirrors that on ultimate parent LBG. The stable outlook on LBG reflects our view that its strong capitalization and competitive position provide a cushion for the rating amid inflation and slow economic growth. We expect that elevated revenue from gradually improving margins will continue supporting robust capital buffers while its stock of provisions will provide a cushion against potential asset quality deterioration.

Our ratings on LB will move in tandem with those on LBG as long as we continue to view LB as a core subsidiary of the group.

### Upside scenario

An upgrade is a remote prospect. Even if we raised the ratings on LBG by revising the group stand-alone credit profile upward to 'a' from 'a-', it is unlikely that we would raise the ratings on LB. This is because, at this higher rating level, we would apply a maximum one-notch uplift for ALAC, compared with two notches currently.

### Downside scenario

We could lower the ratings on LBG and LB if economic and geopolitical challenges triggered significantly higher credit losses than we assume and adversely affected the group's earnings and capitalization.

We could lower the ratings on LB regardless of a rating action on LBG if we saw LB becoming less integral to the group's strategy, which is not a likely scenario given its position at the heart of the retail and commercial banking franchise.

## Key Statistics

**Table 1**

Lloyds Bank PLC--Key figures						
--Year ended Dec. 31--						
(Mil. £)	2024*	2023	2022	2021	2020	2019
Adjusted assets	602,492	599,568	611,804	598,235	595,357	577,113
Customer loans (gross)	438,624	436,817	440,102	434,633	431,395	426,009
Adjusted common equity	29,972	31,282	31,984	29,406	29,821	29,914
Operating revenue	8,376	18,177	16,745	14,673	14,605	16,616
Noninterest expense	5,436	10,523	9,360	10,367	8,617	8,844
Core earnings	2,007	5,395	4,633	5,057	2,065	4,120

\*Data as of June 30.

**Table 2**

Lloyds Bank PLC--Business position						
--Year ended Dec. 31--						
(%)	2024*	2023	2022	2021	2020	2019
Total revenue from business line (mil. £)	8,376.0	18,461.0	16,942.0	14,922.0	14,605.0	16,616.0
Commercial banking/total revenue from business line	25.8	25.6	24.6	20.1	20.4	21.5
Retail banking/total revenue from business line	62.9	64.0	67.5	69.3	68.9	64.8
Commercial and retail banking/total revenue from business line	88.6	89.6	92.1	89.3	89.2	86.3
Other revenue/total revenue from business line	11.4	10.4	7.9	10.7	10.8	13.7
Return on average common equity	10.0	13.1	12.0	12.7	3.6	5.5

\*Data as of June 30.

**Table 3**

Lloyds Bank PLC--Capital and earnings						
--Year ended Dec. 31--						
(%)	2024*	2023	2022	2021	2020	2019
Tier 1 capital ratio	16.3	17.1	17.3	19.7	19.8	18.3
Adjusted common equity/total adjusted capital	85.7	86.2	88.2	85.6	80.3	81.2
Net interest income/operating revenue	74.3	75.4	78.3	75.2	73.7	73.5
Fee income/operating revenue	3.6	7.4	7.5	8.5	6.9	8.0
Market-sensitive income/operating revenue	4.0	1.4	0.6	1.8	5.8	4.6
Cost-to-income ratio	64.9	57.9	55.9	70.7	59.0	53.2
Preprovision operating income/average assets	1.0	1.3	1.2	0.7	1.0	1.3
Core earnings/average managed assets	0.7	0.9	0.8	0.8	0.3	0.7

\*Data as of June 30.

**Table 4**

<b>Lloyds Bank PLC--Risk position</b>						
	<b>--Year ended Dec. 31--</b>					
<b>(%)</b>	<b>2024*</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
Growth in customer loans	0.8	(0.8)	1.3	0.8	1.3	(1.2)
Total managed assets/adjusted common equity (x)	20.3	19.4	19.3	20.5	20.1	19.4
New loan loss provisions/average customer loans	0.1	0.1	0.3	(0.3)	0.9	0.3
Net charge-offs/average customer loans	0.3	0.3	0.2	0.2	0.3	0.3
Gross nonperforming assets/customer loans + other real estate owned	3.3	3.4	3.9	4.0	4.4	4.5
Loan loss reserves/gross nonperforming assets	22.8	24.6	26.0	21.9	30.1	16.3

\*Data as of June 30.

**Table 5**

<b>Lloyds Bank PLC--Funding and liquidity</b>						
	<b>--Year ended Dec. 31--</b>					
<b>(%)</b>	<b>2024*</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
Core deposits/funding base	81.5	80.7	79.7	82.5	79.3	74.9
Customer loans (net)/customer deposits	97.6	98.0	97.6	95.9	100.1	109.2
Long-term funding ratio	88.5	88.3	86.9	90.1	91.5	90.2
Stable funding ratio	103.5	106.2	106.4	114.6	107.9	103.6
Short-term wholesale funding/funding base	12.3	12.6	14.0	10.7	9.2	10.7
Broad liquid assets/short-term wholesale funding (x)	1.6	1.7	1.6	2.4	2.1	1.6
Broad liquid assets/total assets	17.2	19.0	20.5	23.0	17.0	15.3
Broad liquid assets/customer deposits	23.5	26.0	28.3	30.9	23.9	22.9
Net broad liquid assets/short-term customer deposits	8.6	10.6	10.8	18.1	12.3	8.6
Regulatory liquidity coverage ratio (LCR) (x)	134.0	133.0	136.0	126.0	N/A	N/A
Short-term wholesale funding/total wholesale funding	63.2	62.4	66.5	58.0	41.6	40.3

\*Data as of June 30. N/A--Not applicable.

## Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- 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

- Bulletin: Court's Motor Finance Judgment Gives Some U.K. Banks Pause In A Strong Third Quarter, Oct. 29, 2024
- Update: Lloyds Banking Group PLC, June 19, 2024
- U.K. Banks Are Well Positioned For Sustained Strong Performance After First-Half Results, Aug. 8, 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

### Ratings Detail (As Of November 14, 2024)\*

#### 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

#### Issuer Credit Ratings History

24-Jun-2021	<i>Foreign Currency</i>	A+/Stable/A-1
23-Apr-2020		A+/Negative/A-1
08-May-2018		A+/Stable/A-1
24-Jun-2021	<i>Local Currency</i>	A+/Stable/A-1
23-Apr-2020		A+/Negative/A-1
08-May-2018		A+/Stable/A-1

#### Sovereign Rating

United Kingdom	AA/Stable/A-1+
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#### Related Entities

##### Bank of Scotland Capital Funding L.P.

Preferred Stock	BB+
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##### 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

##### HBOS PLC

Issuer Credit Rating	BBB+/Stable/A-2
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<b>Ratings Detail (As Of November 14, 2024)*(cont.)</b>	
Junior Subordinated	BB+
Senior Unsecured	BBB+
Short-Term Debt	A-2
Subordinated	BBB
Subordinated	BBB-
<b>LBG Capital No. 1 PLC</b>	
Junior Subordinated	BB+
Subordinated	BBB-
<b>LBG Capital No. 2 PLC</b>	
Junior Subordinated	BB+
Subordinated	BB+
<b>Lloyds Bank Corporate Markets PLC</b>	
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
<b>Lloyds Bank Corporate Markets PLC (New York Branch)</b>	
Commercial Paper	A-1
<b>Lloyds Banking Group PLC</b>	
Issuer Credit Rating	BBB+/Stable/A-2
Junior Subordinated	BB-
Preference Stock	BB
Senior Unsecured	BBB+
Short-Term Debt	A-2
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.

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