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Lloyds Bank PLC

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Lloyds Bank PLC

Credit Highlights

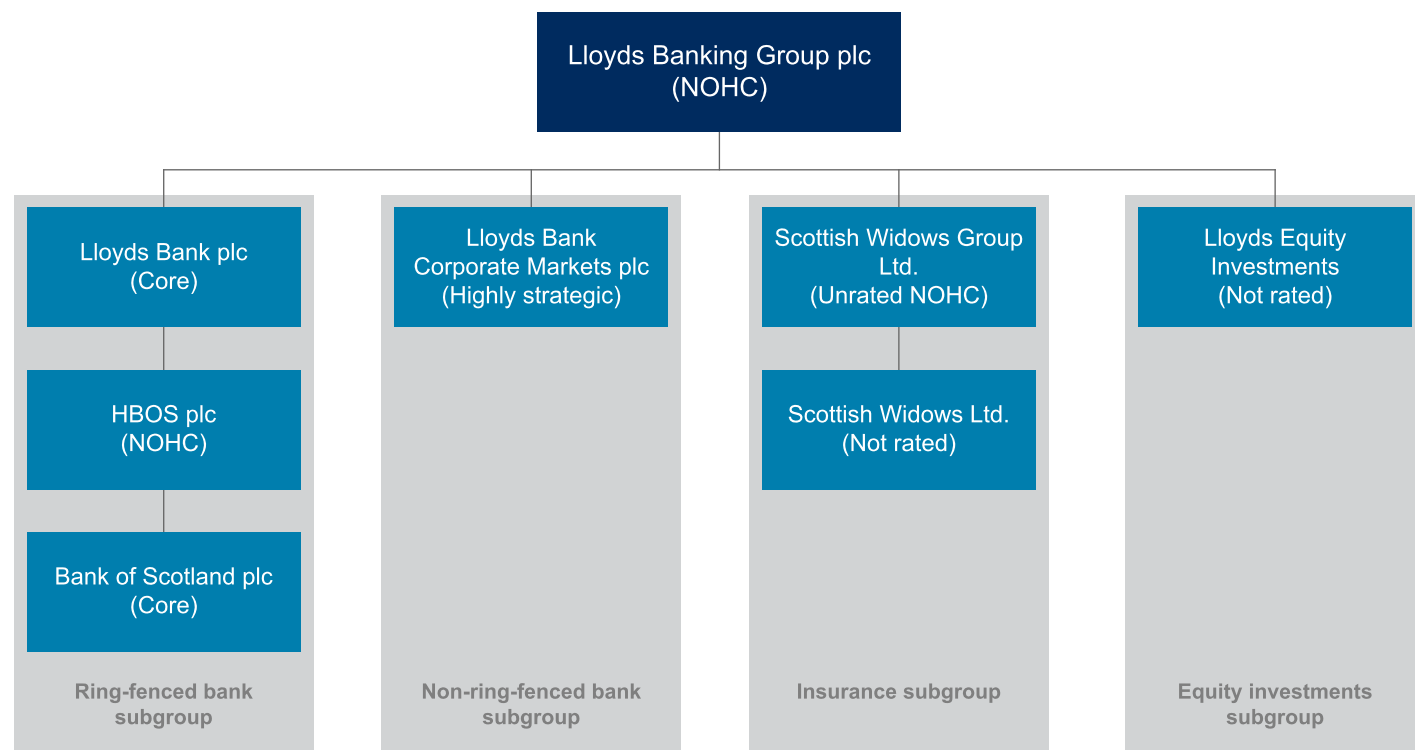
Global Scale Ratings
Issuer Credit Rating A+/Stable/A-1
Resolution Counterparty Rating AA-/--/A-1+

Key strengths	Key risks
Core, ring-fenced subsidiary of ultimate parent Lloyds Banking Group PLC.	Uneven U.K. economic environment.
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 with LBG's 'a+' group credit profile, which includes a two-notch uplift for additional loss-absorbing capacity (ALAC). 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, 2023. 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.

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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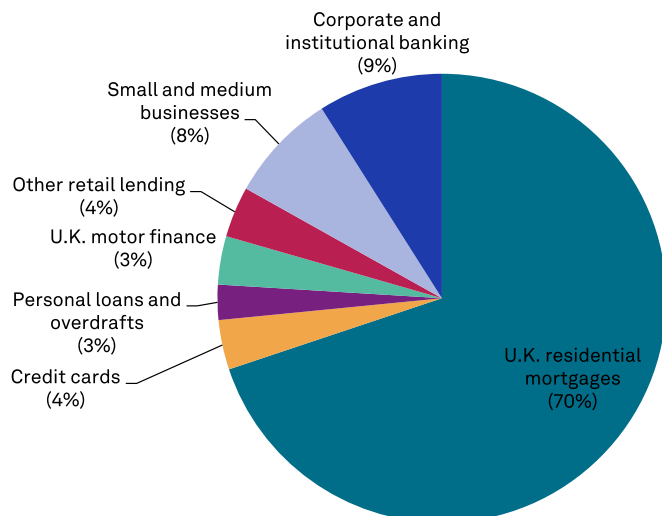
High interest rates are keeping earnings elevated. LB's £5.4 billion consolidated pretax earnings in the first nine months of 2023 represented 94% of LBG's result. Rising interest rates continued to benefit LB's revenue, which increased 13% year-on-year through managed product margins and income from the structural hedge. Operating expenses were 12% higher due to ongoing strategic investments, new business costs, a higher operating lease depreciation charge, and inflationary pressures.

Following a net release in 2021, LB booked a £881 million impairment charge (0.2% of average customer loans) for the period as the economic outlook continues to underpin reserve building.

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. LBG disclosed that the average loan-to-value ratio of its mortgage book (almost all of which is held by LB) was 43% at Sept. 30, 2023, which significantly mitigates falling house prices. LB's stage 2 and 3 loans were 13.5% and 1.8%, respectively, of its loan portfolio in the first nine months of 2023, and the vast majority of stage 2 balances were fully up-to-date in terms of repayments. We expect arrears and delinquencies to increase as sticky inflation and weak growth pressure the U.K.'s consumers and corporates, but sound underwriting and relatively low unemployment should underpin LB's overall asset quality.

Chart 2**Well-collateralized mortgages dominate customer lending**

Gross customer loans at Sept. 30, 2023



Source: Lloyds Bank PLC.

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LB's capitalization is in line with the group's. LB's 14.3% common equity Tier 1 ratio at Sept. 30, 2023, 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 5.5%.

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, 2023. Strong deposit growth during the COVID-19 pandemic curbed LB's wholesale funding activity, but issuance increased in 2023 and is likely to continue in 2024 as it begins to refinance its £30 billion of borrowings from the Bank of England's Term Funding Scheme with Additional Incentives for SMEs. It held £110 billion of high-quality liquid assets at Sept. 30, 2023, and reported a comfortable 133% 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. If we raised the ratings on LBG by revising the group stand-alone credit profile up to 'a' from 'a-', it is unlikely that we would raise the ratings on LB. This is because, at this higher ratings 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. £)	2023*	2022	2021	2020	2019
Adjusted assets	608,612.0	611,804.0	598,235.0	595,357.0	577,113.0
Customer loans (gross)	436,348.0	440,102.0	434,633.0	431,395.0	426,009.0
Adjusted common equity	31,418.0	31,984.0	29,406.0	29,821.0	29,914.0
Operating revenue	9,040.0	16,745.0	14,673.0	14,605.0	16,616.0
Noninterest expense	4,829.0	9,360.0	10,367.0	8,617.0	8,844.0
Core earnings	2,590.0	4,633.0	5,057.0	2,065.0	4,120.0

*Data as of June 30.

Table 2

Lloyds Bank PLC--Business position					
	--Year ended Dec. 31--				
(%)	2023*	2022	2021	2020	2019
Total revenue from business line (mil. £)	9,040.0	16,942.0	14,922.0	14,605.0	16,616.0
Commercial banking/total revenue from business line	26.5	24.6	20.1	20.4	21.5
Retail banking/total revenue from business line	67.1	67.5	69.3	68.9	64.8
Commercial and retail banking/total revenue from business line	93.6	92.1	89.3	89.2	86.3
Other revenue/total revenue from business line	6.4	7.9	10.7	10.8	13.7
Return on average common equity	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--				
(%)	2023*	2022	2021	2020	2019
Tier 1 capital ratio	17.6	17.3	19.7	19.8	18.3
Adjusted common equity/total adjusted capital	86.2	88.2	85.6	80.3	81.2
Net interest income/operating revenue	77.5	78.3	75.2	73.7	73.5
Fee income/operating revenue	7.2	7.5	8.5	6.9	8.0
Market-sensitive income/operating revenue	1.2	0.6	1.8	5.8	4.6
Cost to income ratio	53.4	55.9	70.7	59.0	53.2
Preprovision operating income/average assets	1.4	1.2	0.7	1.0	1.3
Core earnings/average managed assets	0.8	0.8	0.8	0.3	0.7

*Data as of June 30.

Table 4

Lloyds Bank PLC--Risk position					
	--Year ended Dec. 31--				
(%)	2023*	2022	2021	2020	2019
Growth in customer loans	(0.8)	1.3	0.8	1.3	(1.2)
Total managed assets/adjusted common equity (x)	19.6	19.3	20.5	20.1	19.4
New loan loss provisions/average customer loans	0.3	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	3.7	3.9	4.0	4.4	4.5
Loan loss reserves/gross nonperforming assets	29.0	26.0	21.9	30.1	16.3

*Data as of June 30.

Table 5

Lloyds Bank PLC--Funding and liquidity					
	--Year ended Dec. 31--				
(%)	2023*	2022	2021	2020	2019
Core deposits/funding base	79.7	79.7	82.5	79.3	74.9
Customer loans (net)/customer deposits	98.1	97.6	95.9	100.1	109.2

Table 5

Lloyds Bank PLC--Funding and liquidity (cont.)					
	--Year ended Dec. 31--				
(%)	2023*	2022	2021	2020	2019
Long-term funding ratio	87.3	86.9	90.1	91.5	90.2
Stable funding ratio	106.2	106.4	114.6	107.9	103.6
Short-term wholesale funding/funding base	13.6	14.0	10.7	9.2	10.7
Broad liquid assets/short-term wholesale funding (x)	1.7	1.6	2.4	2.1	1.6
Broad liquid assets/total assets	20.4	20.5	23.0	17.0	15.3
Broad liquid assets/customer deposits	28.5	28.3	30.9	23.9	22.9
Net broad liquid assets/short-term customer deposits	11.6	10.8	18.1	12.3	8.6
Regulatory liquidity coverage ratio (LCR) (x)	133.0	136.0	126.0	N/A	N/A
Short-term wholesale funding/total wholesale funding	64.0	66.5	58.0	41.6	40.3

N/A--Not applicable.

Related Criteria

- 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
- 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

- Lloyds Banking Group PLC, Nov. 7, 2023
- U.K. Bank Earnings Lose Their Fizz In The Third Quarter, Oct. 30, 2023
- Economic Outlook U.K. Q4 2023: High Rates Keep Growth Muted, Sept. 25, 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
- U.K. Banks Compete Strongly As Rates Climb, June 16, 2023
- U.K. Bank Credit Losses Will Rise Modestly To £5.2 Billion In 2023 As Marginal Borrowers Feel The Strain, April

26, 2023

- Lloyds Banking Group PLC, April 20, 2023

Ratings Detail (As Of November 24, 2023)*

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
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+

Ratings Detail (As Of November 24, 2023)*(cont.)**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
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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-

*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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