S&P Global
Ratings

RatingsDirect®

Lloyds Banking Group PLC

Primary Credit Analyst:
William Edwards, London + 44 20 7176 3359; william.edwards@spglobal.com

Secondary Contact:
Richard Barnes, London + 44 20 7176 7227; richard.barnes@spglobal.com

Table Of Contents

Table Of Contents (cont.)

Lloyds Banking Group PLC

Rating Score Snapshot

Issuer Credit Rating
BBB+/Stable/A-2

SACP: a-

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

Support: +2

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

Additional factors: 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.	Difficult U.K. macroeconomic conditions will squeeze borrowers' credit quality.
Strong earnings outlook from rising interest rates and tight cost-control gives the group financial flexibility.	Narrow geographical focus on the U.K., which has been a low-growth market.
Supportive funding and liquidity profiles.	

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 strong market shares across credit cards, unsecured lending, and commercial banking. The absence of meaningful international diversification remains a constraining factor in our relative view of the group's business position.

Rising interest rates underpin a strong earnings outlook for Lloyds. The elevated interest rate environment in the U.K. will continue to support Lloyds' revenues in the next 18 months. This will be offset by strong mortgage market competition, concurrent with the re-pricing of profitable mortgage back books from the COVID-19-era onto these tighter margins, and the migration of the bank's deposit book onto higher interest rates.

Asset quality is robust, but we expect a containable deterioration. Lloyds' reported impairment sat at 25bps at Sept. 30, 2023, comfortably below the impairment rate of 32 basis points (bps) for full-year 2022. Even as the group continues to maintain its stock of provisions in anticipation of a sustained economic deterioration, its nonperforming assets remain low with our S&P Global Ratings-adjusted nonperforming asset (NPA) ratio sitting at 2.4%. Even so, we expect that credit quality in the bank's loan portfolio will deteriorate and approach more normalized levels as high inflation, elevated interest rates, and economic growth pressure affordability. All told, we expect the group's impairment charge in 2023 to be around 30 bps and then temper modestly thereafter.

Lloyds' balance sheet is supported by 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. Even though its loan-to-deposit ratio sits at the upper end of the universal banking peer set in the country, its deep deposit franchise, wholesale funding flexibility, and comfortable regulatory headroom support our view of its funding and liquidity profile.

Outlook

The stable outlook reflects our view that Lloyds' solid capitalization and strong competitive position in the U.K. market provide a good 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.

Downside scenario

We could lower the ratings if economic and geopolitical challenges triggered significantly higher credit losses than we assume and affected Lloyds' business performance and capital levels.

Upside scenario

We consider an upgrade during our outlook horizon a remote prospect. Over the long term, we could consider raising the ratings if Lloyds significantly improves its business diversification and demonstrates a sustained competitive advantage, including healthy earnings generation in line with higher-rated global peers, while maintaining strong capital discipline and solid asset-quality metrics.

Lloyds Bank PLC

In the event we raised the ratings on the nonoperating holding company, by raising the group stand-alone credit profile (SACP) to 'a' from 'a-', it is unlikely that we would raise ratings on the operating banks, led by Lloyds Bank PLC. This is because, at this elevated ratings level, we would apply a maximum one-notch uplift for additional loss-absorbing capacity (ALAC) compared with two notches currently.

If we revised down the group SACP, then we would lower the ratings on the operating banks.

Key Metrics

Lloyds Banking Group PLC Key Ratios And Forecasts					
	--Fiscal year ended Dec. 31 --				
(%)	**2021a**	**2022a**	**2023f**	**2024f**	**2025f**
Growth in operating revenue	6.6	13.0	4.0-4.8	0.1-0.1	0.4-0.4
Growth in customer loans	1.4	1.5	0.4-0.5	0.4-0.5	0.9-1.1
Net interest income/average earning assets (NIM)	1.6	2.4	2.4-2.6	2.3-2.6	2.3-2.5
Cost to income ratio	52.0	50.7	48.6-51.0	49.0-51.5	48.8-51.3
Return on average common equity	11.9	11.3	4.3-4.8	11.8-13.0	12.1-13.3
New loan loss provisions/average customer loans	-0.3	0.3	0.3-0.4	0.3-0.3	0.3-0.3
Gross nonperforming assets/customer loans	1.9	2.3	2.6-2.9	2.8-3.1	2.8-3.1
Risk-adjusted capital ratio	9.4	9.0	8.5-9.0	8.5-9.0	8.5-9.0

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

Anchor: 'bbb+', Reflecting Lloyds' Strong Domestic Focus

We use our Banking Industry Country Risk Assessment (BICRA) economic risk and industry risk scores to determine the anchor. The 'bbb+' anchor, therefore, reflects the geographic mix of Lloyds' total credit exposure.

The U.K. economy remains under pressure--characterized by slow to no growth, and sticky inflation. Our latest projection for 2023 is for slight growth in GDP of 0.3%, with inflation remaining elevated on the back of a gradual tempering in input costs and persistent wage inflation (see "Economic Outlook U.K. Q4 2023: High Rates Keep Growth Muted, Sep 25, 2023"). We forecast modest incremental policy rate increases by the Bank of England (BoE), which will give some slight uplift to bank earnings, but also further squeeze households, who will be hit by a broad-based fall in living standards. Low unemployment, a containable decline in house prices, and strong corporate asset quality should give banks some room to see out this turbulent period.

The industry risk trend is also stable. The BoE and government measures throughout the pandemic era speak to the U.K.'s well-developed regulatory framework. On top of this, U.K. banks' earnings have had good momentum through 2023. Ongoing policy rate moves by the BoE and widening swaps have supported earnings; expenses have been stable, even as investment continues at pace and inflation puts strain on operating costs; and impairments have gradually normalized. Profitability has been strong overall and we expect it to remain so, even against a backdrop of sustained economic turbulence (see "U.K. Banks Enjoy Another Strong Half Year As Margins Peak," published Aug. 24, 2023). Amid uneven and sensitive funding markets, U.K. banks' funding and liquidity positions are supportive features, underpinned by deep deposit franchises and proactive issuance throughout the year (see "As Their Funding Evolves, U.K. Banks Have Flexibility," Sept. 14, 2023).

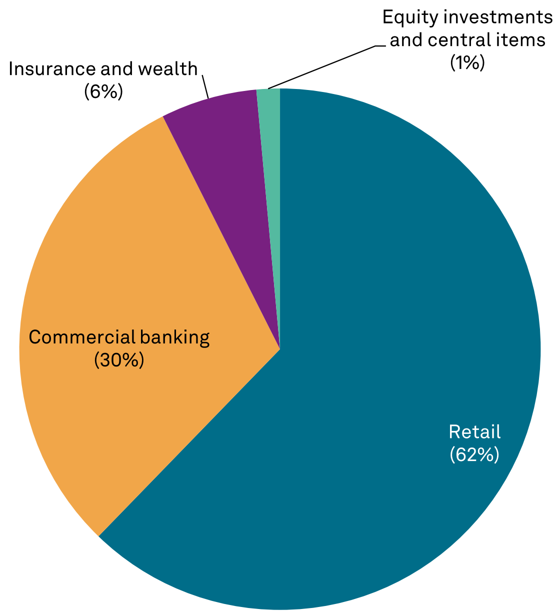
Business Position: Leading U.K. Financial Services Franchise

We assess Lloyds' business position as strong. Our favorable view of Lloyds' business position is based on the group's market-leading position in U.K. retail banking and complementary activities in domestic commercial banking and insurance (see chart 1).

Chart 1

Lloyds' revenue profile is retail-focused

Reported net income by division in first-half 2023



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

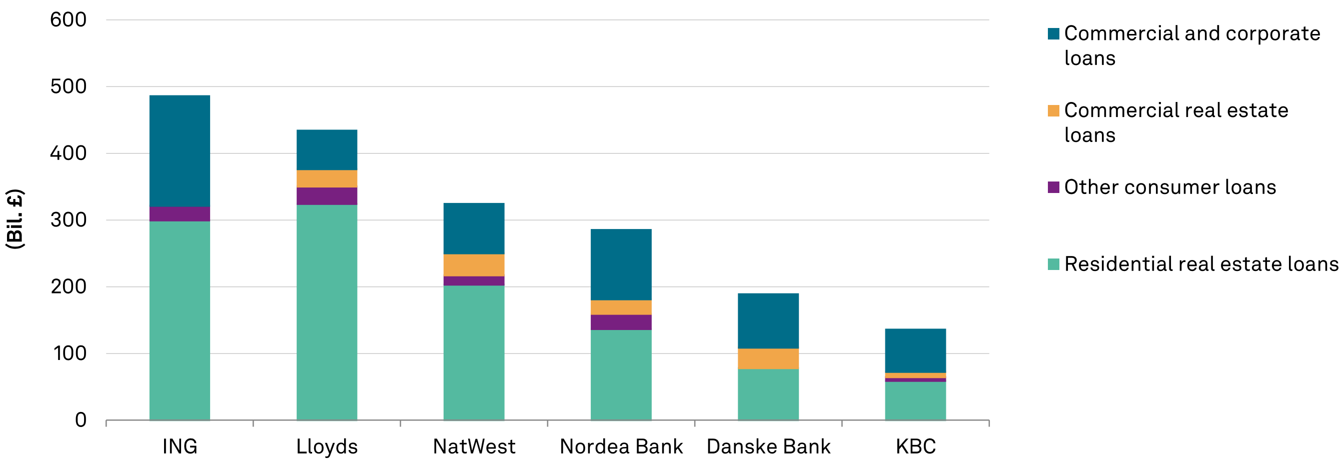
Sources: S&P Global Ratings and company disclosures.

The bank operates an integrated multichannel model that includes well-known brands and businesses such as Lloyds Bank PLC, Bank of Scotland PLC, Halifax, and MBNA in retail and commercial banking; Scottish Widows in insurance; and Lloyds Bank Corporate Markets PLC, a non-ring-fenced bank of the group.

The absence of meaningful international diversification remains a constraining factor in our relative view of the group's business position compared with that of globally diversified peers. That said, the group's diversified balance sheet stacks up well next to similar universal service, national champion banks in Europe like Credit Agricole, Rabobank, or Nordea--all of which are well diversified across retail and commercial lending but with strong domestic concentration (see chart 2).

Chart 2

Lloyds' large and diversified balance sheet stacks up well amongst its European peers
Customer loans by product type

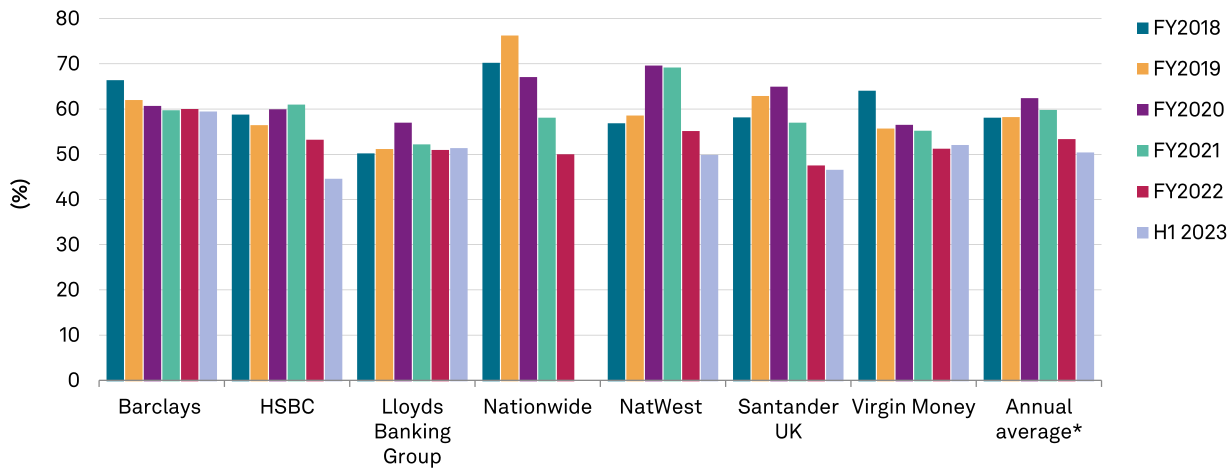


Data as of year-end 2022. Sources: S&P Global Ratings and company disclosures.

Lloyds' disciplined strategy has further entrenched its position and enabled it to tightly control its expense base. Lloyds continues to focus on digitalizing its operations to improve its efficiency. To this end, management has a track record of setting consistent priorities for the group and executing the strategy well, in our view. Among a peer set of U.K. incumbent banks that have invested heavily in technology, Lloyds has consistently operated with tight operating efficiency, maintaining a cost-to-income ratio around 50% across the rate cycle. Prior to rates lifting off through the past 18 months this level was comfortably ahead of the peer set--with peers' strong improvement in 2022 and the first half of 2023 partly a consequence of rapid earnings growth on the back of interest rate rises (see chart 3).

Chart 3

Lloyds' operating efficiency is higher than most U.K. peers
Cost to income ratio of major UK banks



N.A.--Not available *Nationwide Building Society and Virgin Money UK PLC do not report for the period to December 31 format so are excluded from the full year average. Data for Nationwide is as of October 2022, and Virgin Money is as of September 2022. Source: S&P Global Ratings database.

Lloyds' insurance business offers additional franchise differentiation compared with that of U.K. peers. The group's subsidiary Scottish Widows is a leading provider of life and pensions and investment business, and has one of the largest intermediary sales channels in the U.K. We see increasing strategic, financial, and operational links between the banking and insurance businesses. This should support the group's fee income diversification over the next 12-24 months, which is itself a central pillar of the group's medium-term strategy. Nevertheless, we believe the insurance business is less integral to the group than the core banking activities.

Lloyds' exceptional strategic diversification in the U.K. context and tight efficiency give it earnings stability through the cycle. We believe that the combination of Lloyds' focused lending and asset gathering franchise, tight efficiency, and diversified deposit base give it a stable earnings foundation through rate and credit cycles in the U.K. This resilience and stability are central to our rating position, which has been robust across a challenging U.K. macroeconomic backdrop.

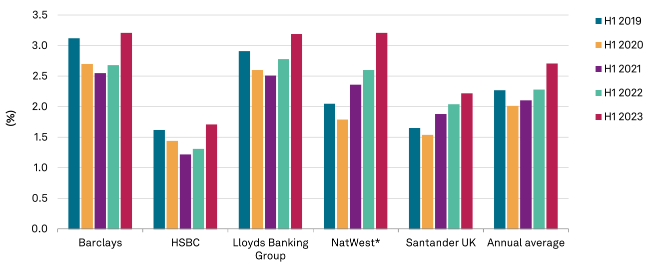
Capital And Earnings: Solid Returns, Growing Shareholder Distributions, And Comfortable Surplus Capital

We anticipate Lloyds' earnings will remain strong through to 2024, driven by elevated interest rates, stable cost efficiency, and contained asset quality. Even as it generates material capital off the back of the rate environment, we expect Lloyds will continue to pay out surplus regulatory capital to shareholders. Taken alongside limited asset growth in the group's mature loan book, and against a backdrop of the sluggish U.K. economy, we project that Lloyds' risk-adjusted capital (RAC) ratio will be around 9.0% through our forecast period. This is consistent with its planned common equity Tier 1 (CET1) trajectory, and with an "adequate" capital and earnings assessment.

Even as rates look to have hit their peak Lloyds' earnings outlook is supportive. We expect that margins have peaked for Lloyds in 2023, balancing the effects of deposit migration against the income benefits from the reinvestment of its structural hedge. To this end, earnings in the first nine months were tempered by the effect on net interest income of rising deposit costs, due to both deposit migration into term deposits and greater rate pass through to sight deposit accounts. This migration has come alongside the gradual maturing and replacement of higher margin pandemic-era mortgages with lower margin business across our base case---in fact, this tightening looks to have been accelerated in 2023 by the sharp contraction in non-remortgage lending throughout the year. Nonetheless, we expect the group's net interest margin to settle at a level around 3.0%-3.1% on Lloyds' presented basis through to 2025, or around 2.4% on an S&P Global Ratings-adjusted basis (see charts 4 and 5).

Chart 4

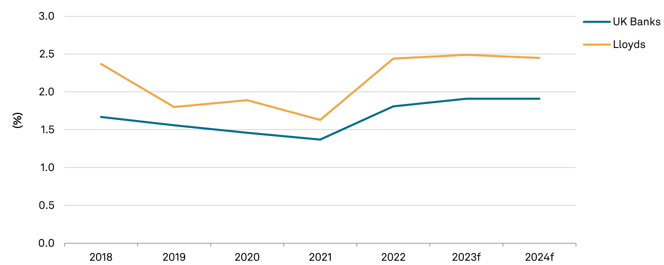
Net interest margins are at multi year highs for Lloyds and its peers...
Annualised net interest margin



*Figures from 2021 onwards excludes Ulster Bank RoI and liquidity buffer. H1--First half. Source: S&P Global Ratings database.

Chart 5

... And we expect margins to cool for the broader industry from here
Net interest income to average earning assets

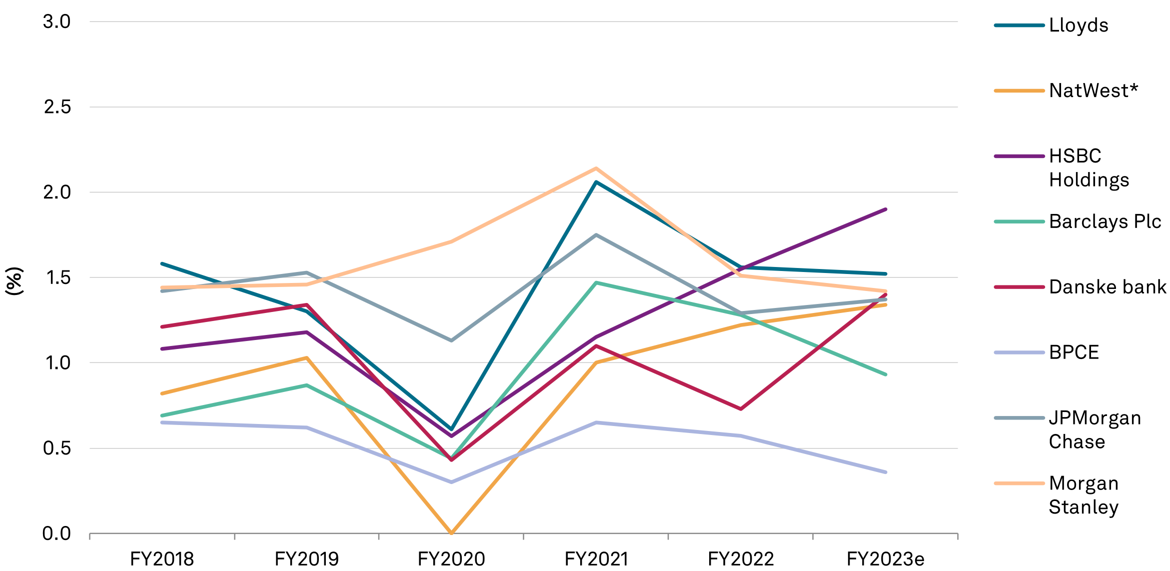


f--Forecast. Source: S&P Global Ratings.

Strong earnings support a comfortable capital position. The group's strong returns represent core capital generation of around 150 basis points (bps) of S&P Global Ratings-adjusted risk-weighted assets (RWAs) on a forward-looking basis. This level is comfortably above that of most European peers, and ahead of or in line with leading international universal service banks (see chart 6). We expect shareholder distributions and small bolt-on acquisitions to consume almost all excess capital that the group generates. Indeed, we see Lloyds' organic growth prospects as being fairly muted in its loan book, particularly in the mature prime mortgage book, and with uneven growth prospects in its card book after a concerted consumer deleveraging throughout the pandemic-era. This comes alongside our forecast of an impairment rate above the group's 30 basis point guidance.

Chart 6

Lloyds organic capital generation stacks up well versus international peers
Core earnings/ S&P RWA (before div.)



N.M.--Not menanigful. e--Estimate. *NatWest core earnings / S&P RWA before diversificaiton is not meaningful for 2020 as it reportred a loss during that period. Source: S&P Global Ratings database.

Lloyds' regulatory capital is in a comfortable position. Lloyds' pro forma common equity Tier 1 (CET1) capital ratio increased to 14.6% at Sept. 30, 2023, from 14.1% at Dec. 31, 2022. This is in line with our expectations, compares well with peers, and sits comfortably above the management's internal target of about 12.5% plus a 100 bps buffer. Furthermore, this capital buffer plus Lloyds' significant capital generation give it significant financial flexibility through a period of choppiness in the U.K. economy--further supporting the robust rating position.

Risk Position: Solid Profile, Anchored By Exposure To High-Quality Residential Mortgages

Lloyds' stable risk profile reflects the group's satisfactory asset quality track record and contained risk appetite. We also see the group as an inherently less complex organization than many peers, aided by its operational simplification and product rationalization, limited international presence, modest capital markets activity, and effective risk management.

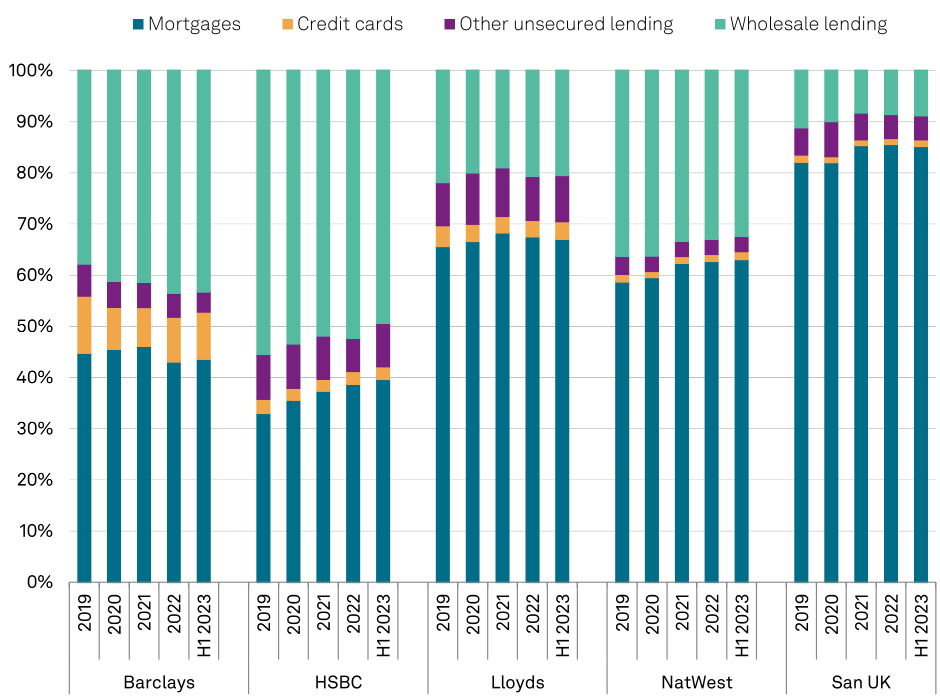
Asset quality is robust, but we expect a containable deterioration over 2023. Following Lloyds' release of pandemic-related impairment provisions in 2021, the group returned to a modest provision build in 2022, reporting an S&P Global Ratings-adjusted impairment rate of 33 basis points (bps) for the year. Even as the group built out its stock of provisions in anticipation of a sustained economic deterioration, its nonperforming assets remain low with the bank's nonperforming asset (NPA) ratio sitting at 2.3% at the end of the third quarter. The group's residential mortgage and commercial books carry somewhat higher nonperformance than U.K. peers, but the level remains well contained. Even so, we expect that credit quality in the bank's loan portfolio will deteriorate and approach more normalized levels as high inflation, elevated interest rates, and economic growth pressure affordability. We expect the group's impairment charge to increase in 2023 to be around 30 bps and then temper in 2024 as economic pressure eases in the U.K. Beyond 2024, the subdued economic outlook, characterized by low growth and elevated interest rates, is likely to further dampen credit quality.

Secured residential mortgages are the bedrock of the group's balance sheet and represent close to 70% of the total loan portfolio. At half-year 2023, prime, owner-occupied loans represented 82% of mortgages outstanding, with 16% in buy-to-let (in line with the industry average), the remainder being legacy specialist mortgage products that are gradually running off (see chart 7).

Chart 7

Lloyds has a U.K.-focused loan portfolio with strong mortgage weighting

Loan book split by percentage



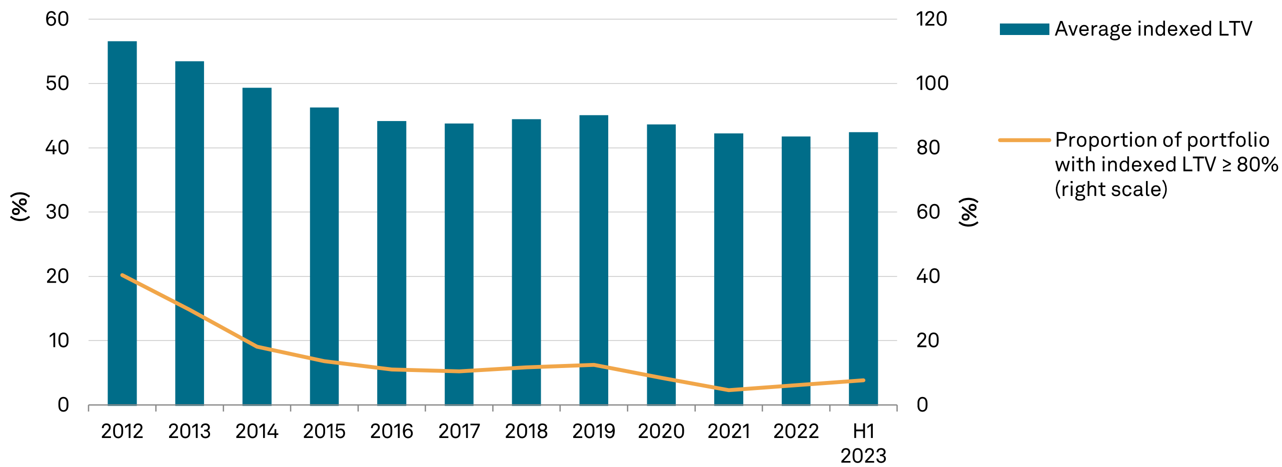
Sources: S&P Global Ratings and company disclosures.

The low loan-to-value (LTV) profile of Lloyds' mortgage book gives it a sizable cushion to absorb more challenging economic and housing market conditions (see chart 8). For example, the group states that the value of mortgages above 80% LTV fell to 7.7% of the loan book at June 30, 2023--down significantly from a pre-pandemic level of 12.5%

on 2019. Moreover, Lloyds states that the proportion of the mortgage book originated in 2006-2008--when underwriting standards were weaker--decreased to 10% of the total mortgage book at June 30, 2023, while the weighted-average LTV in this book now sits at 34%. This data was not updated for the third quarter.

Chart 8

The quality of Lloyds' mortgage portfolio continues to improve
Loan-to-value profile of the open mortgage book



LTV-Loan-to-value. 1H--First half. Source: Lloyds.

Even as nonperformance has been limited, Lloyds continues to position its balance sheet cautiously. We view Lloyds' nonperforming assets in line with those of rated U.K. banks. Stage 3 loans and advances to customers sat at £11.0 billion by our measure at third quarter 2023, broadly flat versus the start of the year, and representing 2.4% of total lending (again, flat versus the full-year 2022 position). Provisions on stage 3 assets covered a reported 23% of drawn stage 3 balances at the same period in 2023. This ratio is lower than some peers' due to the group's focus on collateralized lending and is also affected by the varying write-off policies across peers. At the same time, stage 2 loans and advances to customers now stand at £62.9 billion (above the £60.5 billion at Dec. 31, 2020, and representing a slight decline from full-year 2022), equivalent to 13.8% of gross customer loans. This cautious positioning reflects the bank's view that the probability of default is rising in the mortgage book, particularly as cost-of-living pressures continue and the economic outlook remains sluggish. At the same time, the proportion of stage 2 lending more than 30 days overdue remains minor, demonstrating that a period of sustained underperformance in the group's book has yet to materialize (see charts 9 and 10).

Chart 9

Lloyds' asset quality metrics are similar to U.K. peers'...

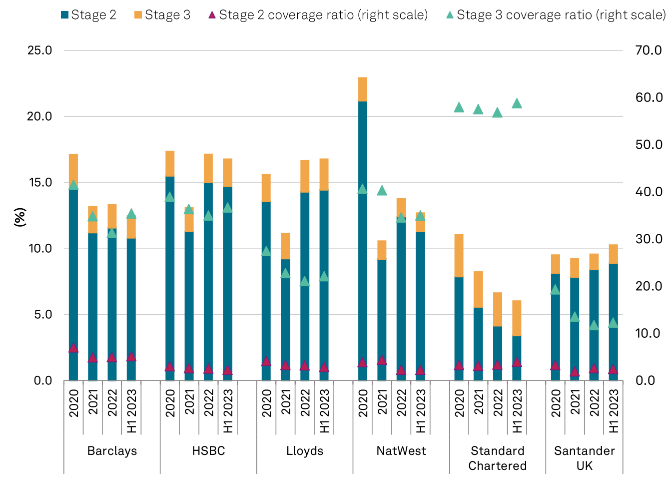
Big four banks' gross Stage 3 loans ratios by portfolio

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

Chart 10

...And the group has positioned itself for further deterioration

Stages 2 and 3 loans as percentages of total portfolio



Sources: S&P Global Ratings and company disclosures.

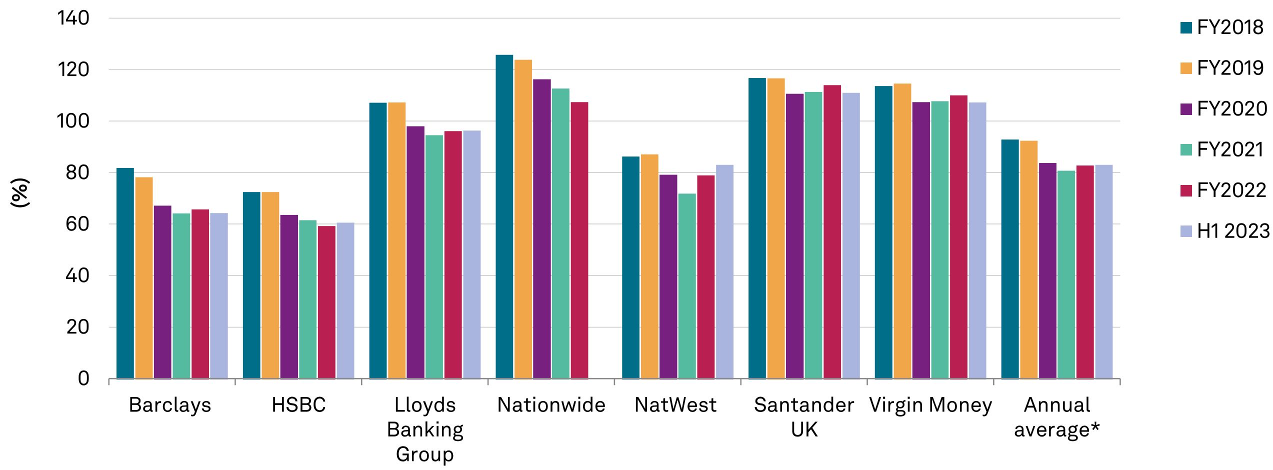
Funding And Liquidity: A Strong Deposit Franchise And Stable Funding Profile

Lloyds' balance sheet is supported by 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, even if its loan-to-deposit ratio sits at the upper end of the universal banking peer set in the country. For example, Lloyds reported a 96% loan-to-deposit ratio at third-quarter 2023, ahead of the peer group average of 85% (see chart 11).

Chart 11

Lloyds' loan to deposit ratio is higher than most major UK banks

Loan to deposit ratio of major UK banks



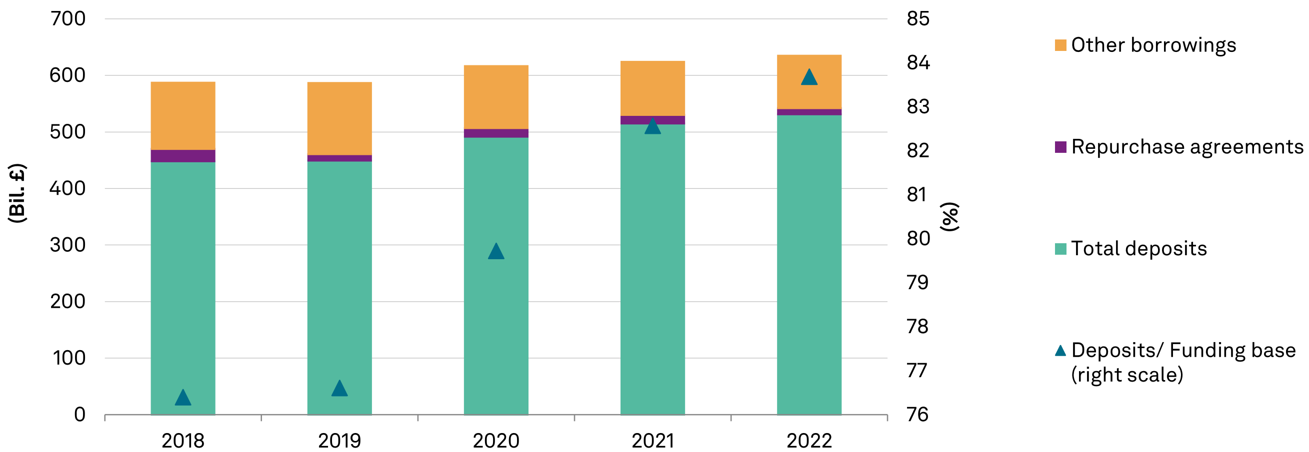
*Nationwide Building Society and Virgin Money UK PLC do not report for the period to December 31 format so are excluded from the full year average. Data for Nationwide is as of October 2022, and Virgin Money is as of September 2022.

Source: S&P Global Ratings database.

That said, Lloyds' deposit base has grown strongly in the past five years, with £73 billion of deposit inflow by our measures from 2018 to third-quarter 2023. As a result, the group's deposits now represent 82% of its funding base from 76% in 2018--a solid support to an already well-diversified and stable funding base (see chart 12).

Chart 12

Lloyds' diverse deposit franchise anchors its funding base
Decomposition of Lloyds' S&P adjusted fuding base

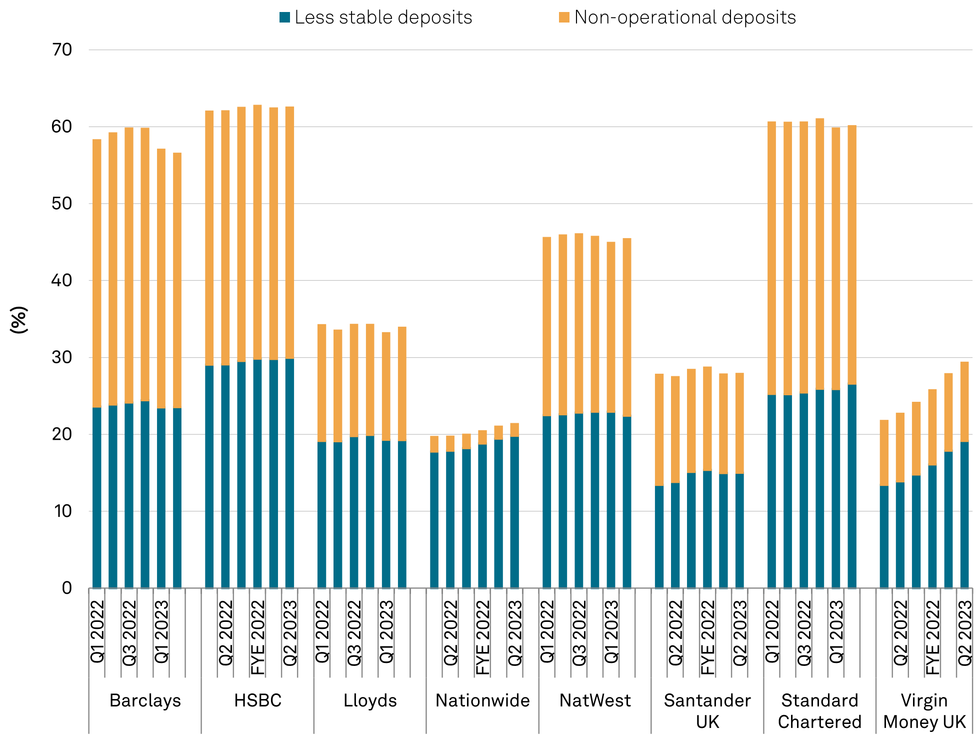


Source: S&P Global Ratings and company disclosures.

Stable, or fully insured, deposits formed the majority of Lloyds' deposit funding. This is as per its regulatory liquidity coverage ratio and represents a solid level among U.K. peers where stable deposits like these represent an average of 58% of short-term unsecured funding. Pure retail players like Virgin Money UK have stable deposit bases that represent as much as 76% of their short-term unsecured funding base at full-year 2022 (see chart 13). While Lloyds' leading market position confers pricing power in the deposit market and its liability base is well-diversified, the bank's funding metrics are insufficiently strong to merit a higher funding assessment relative to that of U.K. peers.

Chart 13

Stable retail deposits underpin Lloyds' funding



Sources: S&P Global Ratings and company disclosures.

Lloyds has healthy regulatory liquidity buffers. Its liquidity coverage ratio (LCR) is well ahead of regulatory requirements--it reported 142% as of third-quarter 2023 (compared with 144% as of end-2022). In a more strained environment, its mortgage loan book also offers substantial secured access to the BoE's discount window if needed.

Support: Large ALAC Buffer

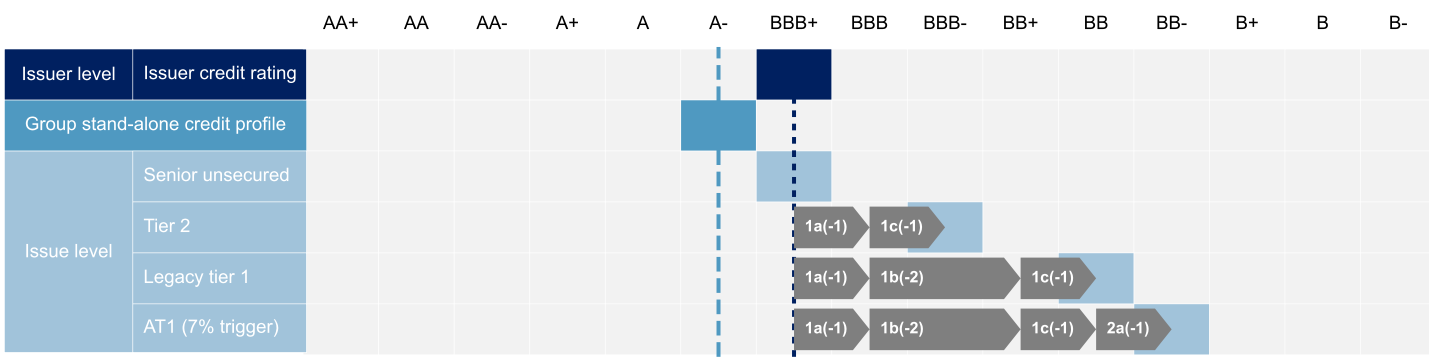
We apply the standard 6% threshold for two notches of ALAC uplift. By year-end 2022, Lloyds' significant issuance of bail-in instruments, mainly holding company senior unsecured debt, had taken its ALAC ratio to 9.1% and we expect it will decrease slightly but will remain at a comfortable level of above 8.5% over the next two years. As such, the group credit profile (GCP) includes a two-notch uplift in respect of ALAC support. Lloyds' regulatory bail-in cushion--the minimum requirement for own funds and eligible liabilities (MREL)--was 32.6% on Sept. 30, 2023.

Group Structure, Rated Subsidiaries, And Hybrids

Lloyds is the nonoperating holding company (NOHC) of the group that it heads, and the operating subsidiaries are organized in separate subgroups.

Like its major domestic peers, Lloyds has operated under the U.K. ring-fencing regime since 2019. We see the ring-fenced subgroup as core to Lloyds, and expect that regulators would intervene at the point of nonviability, bailing in junior liabilities and, if necessary, NOHC liabilities, to ensure that senior obligations are honored. Our ratings on these entities are therefore in line with the 'a+' ALAC-supported GCP. We consider it highly likely that the non-ring-fenced subgroup, Lloyds Bank Corporate Markets PLC, would also be supported through a bail-in led resolution. However, we view this subgroup as highly strategic rather than a core entity because the non-ring-fenced operations are somewhat less diversified and less integral than those of the core ring-fenced entities.

Lloyds Banking Group PLC: NOHC Notching



Key to notching

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

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.

We do not include notches for ALAC support in the ratings on U.K. NOHCs because we consider it unlikely that their senior obligations would continue to receive full and timely payment in a resolution scenario. Because of this, and our view that the claims of the creditors of NOHCs are structurally subordinated to those of operating company creditors, we rate both Lloyds and HBOS three notches below the GCP, leading to a long-term issuer credit rating (ICR) one notch below the 'a-' group SACP.

We rate hybrid debt instruments according to their respective features.

Resolution Counterparty Ratings (RCRs)

We set the RCRs on Lloyds Bank, Bank of Scotland, and Lloyds Bank Corporate Markets one notch above our long-term ICRs on these entities, reflecting the typical approach under our framework when the ICR ranges from

'BBB-' to 'A+'. The RCRs also reflect our jurisdiction assessment for the U.K.

An RCR is a forward-looking opinion of the relative default risk of certain senior liabilities that may be protected from default through an effective bail-in resolution process for the issuing financial institutions. RCRs apply to issuers in jurisdictions where we assess the resolution regime to be effective and we consider the issuer likely to be subject to a resolution that entails a bail-in if it reaches nonviability.

Environmental, Social, And Governance

Environmental, social, and governance factors are a neutral consideration in our credit analyst of Lloyds'. Avoiding new instances of conduct failure is a prominent and ongoing consideration for the group's management and strategy. The U.K. industrywide payment protection insurance (PPI) mis-selling episode illustrates the significant financial and reputational damage that can arise when banks fail to treat customers fairly. We see ongoing customer remediation charges as largely unavoidable in U.K. financial services, particularly for a large retail player such as Lloyds. However, we believe that U.K. banks, including Lloyds, have substantially strengthened their compliance and conduct frameworks.

Key Statistics

Table 1

Lloyds Banking Group PLC--Key figures

	--Year ended Dec. 31--				
(Mil. £)	**2023***	**2022**	**2021**	**2020**	**2019**
Adjusted assets	708,073	708,154	700,021	718,904	690,906
Customer loans (gross)	455,759	459,798	452,844	446,486	444,205
Adjusted common equity	22,633	26,547	27,458	24,876	25,016
Operating revenues	9,706	18,579	16,436	15,418	18,264
Noninterest expenses	4,968	9,424	8,544	8,756	9,304
Core earnings	2,761	5,682	7,475	2,215	4,778

*Data as of June 30.

Table 2

Lloyds Banking Group PLC--Business position

	--Year ended Dec. 31--				
(%)	**2023***	**2022**	**2021**	**2020**	**2019**
Total revenues from business line (mil. £)	9,706	18,579	16,523	15,418	18,634
Commercial banking/total revenues from business line	28.7	27.0	22.0	23.7	23.3
Retail banking/total revenues from business line	62.5	61.9	62.8	65.6	58.1
Commercial & retail banking/total revenues from business line	91.3	88.9	84.8	89.3	81.4
Other revenues/total revenues from business line	8.8	11.1	15.2	10.7	18.6
Return on average common equity	13.0	11.3	11.9	2.0	5.8

*Data as of June 30.

Table 3

Lloyds Banking Group PLC--Capital and earnings

	--Year ended Dec. 31--				
(%)	**2023***	**2022**	**2021**	**2020**	**2019**
Tier 1 capital ratio	16.9	17.1	20.0	19.1	16.5
S&P Global Ratings' RAC ratio before diversification	N/A	9.1	9.4	8.7	8.6
S&P Global Ratings' RAC ratio after diversification	N/A	9.7	10.1	9.3	9.2
Adjusted common equity/total adjusted capital	75.3	83.4	81.1	78.4	78.7
Net interest income/operating revenues	70.0	75.1	57.0	69.7	55.7
Fee income/operating revenues	9.1	8.1	8.7	7.5	7.7
Cost to income ratio	51.2	50.7	52.0	56.8	50.9
Preprovision operating income/average assets	1.1	1.0	0.9	0.8	1.1
Core earnings/average managed assets	0.6	0.6	0.9	0.3	0.6

*Data as of June 30. N/A--Not applicable. RAC--Risk adjusted capital.

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 & central banks	131,637.7	684.5	0.5	1,233.1	0.9
Of which regional governments and local authorities	0.0	0.0	0.0	0.0	0.0
Institutions and CCPs	17,444.0	2,355.3	13.5	5,020.4	28.8
Corporate	90,207.7	48,729.8	54.0	73,083.9	81.0
Retail	432,847.9	101,630.8	23.5	192,695.1	44.5
Of which mortgage	374,261.4	61,097.7	16.3	143,750.6	38.4
Securitization§	32,529.0	6,398.0	19.7	10,748.8	33.0
Other assets†	7,092.3	5,261.2	74.2	20,683.4	291.6
Total credit risk	711,758.6	165,059.4	23.2	303,464.7	42.6
Credit valuation adjustment					
Total credit valuation adjustment	--	621.0	--	0.0	--
Market Risk					
Equity in the banking book	3,839.0	5,850.5	152.4	27,747.7	722.8
Trading book market risk	--	3,215.0	--	3,797.3	--
Total market risk	--	9,065.5	--	31,545.0	--
Operational risk					
Total operational risk	--	24,241.0	--	28,947.2	--
	Exposure	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global Ratings RWA**	**% of S&P Global Ratings RWA**
Diversification adjustments					
RWA before diversification	--	210,874.4	--	363,957.0	100.0
Total diversification/ Concentration adjustments	--	--	--	(22,058.4)	(6.1)

Table 4

Lloyds Banking Group PLC--Risk-adjusted capital framework data (cont.)					
RWA after diversification	--	210,874.4	--	341,898.6	93.9

	Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global Ratings RAC ratio (%)
Capital ratio				
Capital ratio before adjustments	36,036.0	17.1	32,985.0	9.1
Capital ratio after adjustments‡	36,036.0	17.1	32,985.0	9.6

*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. CCPs--Central counterparty clearing house. Sources: Company data as of Dec. 31, 2022 and S&P Global Ratings.

Table 5

Lloyds Banking Group PLC--Risk position

	--Year ended Dec. 31--					
(%)	**2023***	**2022**	**2021**	**2020**	**2019**	**2018**
Growth in customer loans§	(1.8)	1.5	1.4	0.5	(0.9)	(0.5)
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	(6.1)	(7.2)	(6.4)	(6.2)	(6.8)
Total managed assets/adjusted common equity (x)	39.0	33.1	32.3	35.0	33.3	31.5
New loan loss provisions/average customer loans§	0.3	0.3	(0.3)	0.9	0.3	0.2
Net charge-offs/average customer loans§	0.2	0.2	0.2	0.3	0.3	0.2
Gross nonperforming assets/customer loans + other real estate owned	2.4	2.3	2.8	3.0	3.0	3.2
Loan loss reserves/gross nonperforming assets	47.0	45.6	34.0	47.6	29.5	29.7

*Data as of June 30. §2022 numbers are annualized based on first-half 2022 numbers. RWA--Risk weighted assets. N/A--Not applicable.

Table 6

Lloyds Banking Group PLC--Funding and liquidity

	--Year ended Dec. 31--				
(%)	**2023***	**2022**	**2021**	**2020**	**2019**
Core deposits/funding base	74.2	74.9	76.4	73.1	70.2
Customer loans (net)/customer deposits	95.9	95.7	94.2	97.7	106.9
Long-term funding ratio	89.0	90.4	93.0	90.1	89.9
Stable funding ratio	110.6	111.7	115.0	107.4	102.4
Short-term wholesale funding/funding base	11.7	10.2	7.5	10.6	10.8
Broad liquid assets/short-term wholesale funding (x)	2.1	2.2	3.0	2.2	1.9
Broad liquid assets/total assets	17.3	16.4	16.1	16.4	14.3
Broad liquid assets/customer deposits	32.6	30.4	29.9	31.7	28.9
Net broad liquid assets/short-term customer deposits	17.1	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	43.3	39.3	30.5	38.0	35.0
Narrow liquid assets/3-month wholesale funding (x)	3.9	4.1	4.5	3.1	2.8

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

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. *The rating refers to core operating companies in the banking group, like Bank of Scotland PLC or Lloyds Bank PLC.

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

- 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
- Economic Outlook U.K. Q2 2023: Growth Eludes This Year Even As Inflation Eases, March 27, 2023
- Interest Income Fuels Bumper U.K. Bank Profits As Rates Near Their Peak, March 10, 2023
- The 2023 Credit Outlook For U.K. Banks: Higher Rates Buttress Earnings As Loan Losses Rise, Jan. 5, 2023
- Banking Industry Country Risk Assessment: United Kingdom, Dec. 12, 2022
- U.K. Banks' Funding And Liquidity Are On A Solid Footing As They Navigate A Turn In The Cycle, Dec. 1, 2022

Ratings Detail (As Of November 7, 2023)*	
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
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+

Ratings Detail (As Of November 7, 2023)*(cont.)	
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.