MOODY'S
INVESTORS SERVICE

CREDIT OPINION
13 October 2021

Update

Rate this Research

**RATINGS**

**Lloyds Banking Group plc**

| | |
|---|---|
| Domicile | London, United Kingdom |
| Long Term CRR | Not Assigned |
| Long Term Debt | A2 |
| Type | Senior Unsecured - Fgn Curr |
| Outlook | Stable |
| Long Term Deposit | Not Assigned |

*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 Banking Group plc

## Update post semiannual results

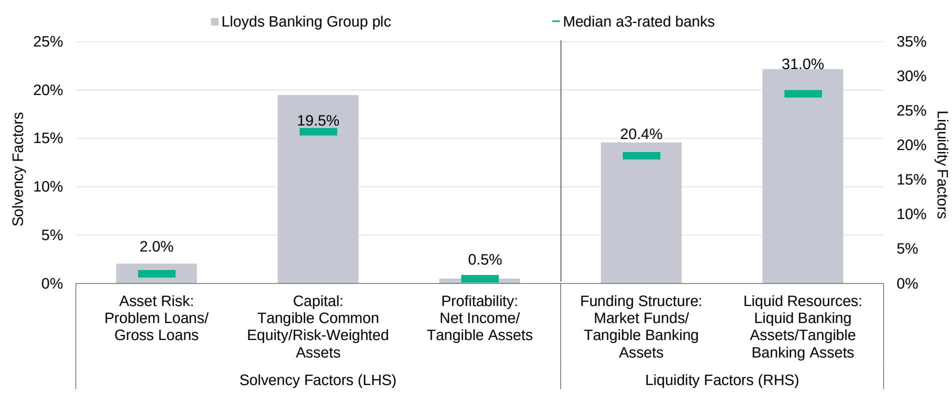

## Summary

The A2 senior unsecured debt rating of Lloyds Banking Group plc (LBG) reflects (1) the group's standalone creditworthiness, expressed in an a3 Baseline Credit Assessment (BCA); (2) low loss-given-failure, which results in one notch uplift under our Advanced Loss Given Failure (LGF) analysis; and (3) our assessment of a low probability of support from the Government of United Kingdom (Aa3 stable), which results in no uplift.

LBG's a3 BCA takes into account: 1) strong levels of capital; 2) stable retail funding and ample liquidity; 3) our expectation that lower credit provisions will mitigate pressures on lending margins due to low interest rates and weaker contribution from the insurance business; and 4) low asset risk, likely to moderately deteriorate.

LBG's insurance and wealth division, which includes the subsidiary Scottish Widows Limited (Scottish Widows, IFRS A2 stable) provides earnings diversification to the group's banking activities carried out by the ring-fenced bank Lloyds Bank plc (Lloyds Bank, A1/A1 stable, a3/a3[1]), and non-ring-fenced bank Lloyds Bank Corporate Markets plc (LBCM, A1/A1 stable, baa3/baa1).


Exhibit 1
**Rating Scorecard - Key financial ratios**




*Source: Moody's Investors Service*

## Credit strengths

» Low asset risk

» Strong capital

» Stable retail funding and ample liquidity

## Credit challenges

» Profitability to remain modest due to pressure on revenue driven by compressed lending margins and subdued corporate and unsecured lending volumes, despite low credit provisions

## Outlook

The outlook on LBG's senior unsecured debt rating is stable. The outlook reflects our view that the combined solvency and liquidity metrics will on a forward-looking basis remain in line with our current assessment, as its asset quality and profitability stabilizes, following the pandemic-induced deterioration in 2020.

## Factors that could lead to an upgrade of the ratings

LBG's long-term ratings could be upgraded following an upgrade of the notional BCA of LBG supported by higher capital levels, increased profitability, or lower problem loans. LBG's senior unsecured debt rating could also be upgraded following a significant increase in the stock of subordinated debt issued by LBG or externally by Lloyds Bank.

## Factors that could lead to a downgrade of the ratings

LBG's ratings could be downgraded following a downgrade of the notional BCA driven by higher problem loans, or a material deterioration in the group's capital and asset risk metrics. The ratings of LBG could also be downgraded following a reduction in its stock of externally issued unsecured debt.

## Key indicators

Exhibit 2

**Lloyds Banking Group plc (Consolidated Financials) [1]**

| | 06-21[2] | 12-20[2] | 12-19[2] | 12-18[2] | 12-17[2] | CAGR/Avg.[3] |
|---|---|---|---|---|---|---|
| Total Assets (GBP Billion) | 859.6 | 837.2 | 790.2 | 754.6 | 771.5 | 3.1[4] |
| Total Assets (USD Billion) | 1,187.5 | 1,144.4 | 1,046.8 | 961.1 | 1,043.6 | 3.8[4] |
| Tangible Common Equity (GBP Billion) | 39.1 | 35.1 | 39.8 | 42.5 | 41.7 | (1.8)[4] |
| Tangible Common Equity (USD Billion) | 54.1 | 48.0 | 52.7 | 54.2 | 56.4 | (1.2)[4] |
| Problem Loans / Gross Loans (%) | 1.9 | 2.0 | 2.0 | 2.1 | 1.7 | 1.9[5] |
| Tangible Common Equity / Risk Weighted Assets (%) | 19.5 | 17.3 | 19.6 | 20.6 | 19.8 | 19.4[6] |
| Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%) | 19.7 | 22.2 | 20.3 | 20.2 | 17.9 | 20.0[5] |
| Net Interest Margin (%) | 1.0 | 1.3 | 1.3 | 1.7 | 1.4 | 1.4[5] |
| PPI / Average RWA (%) | 3.0 | 2.4 | 2.7 | 3.5 | 2.8 | 2.9[6] |
| Net Income / Tangible Assets (%) | 0.5 | 0.7 | 0.8 | 0.5 | 0.6 | 0.6[5] |
| Cost / Income Ratio (%) | 62.0 | 66.1 | 69.7 | 61.0 | 67.7 | 65.3[5] |
| Market Funds / Tangible Banking Assets (%) | 17.8 | 20.4 | 22.1 | 20.7 | 21.6 | 20.5[5] |
| Liquid Banking Assets / Tangible Banking Assets (%) | 27.8 | 31.0 | 26.4 | 26.2 | 26.0 | 27.5[5] |
| Gross Loans / Due to Customers (%) | 94.5 | 97.2 | 105.0 | 104.1 | 107.6 | 101.7[5] |

[-] Further to the publication of our revised methodology in July 2021, for issuers that have "high trigger" additional Tier 1 instruments outstanding, not all ratios included in this report reflect the change in treatment of these 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 Investors Service and company filings*

## Profile

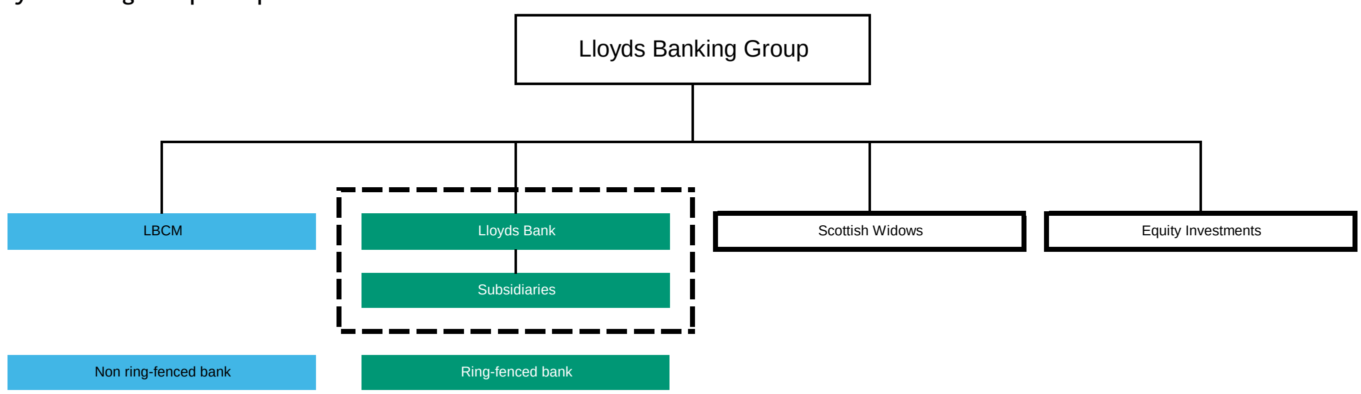
LBG is the holding company of a leading UK-based financial services group providing a wide range of banking and financial services, focused on personal and commercial customers. The group's main business activities are retail and commercial banking, as well as general insurance and life, pensions and investment provision carried out by Scottish Widows and its subsidiaries. The group operates the largest retail banking network of the UK via different brands (mainly Lloyds Bank, Halifax, Bank of Scotland), and has a large and diversified customer base.

Following the implementation of the UK's structural reform (so-called ring-fencing) most of LBG's banking activities, including more than 95% of the loan portfolio and most of the retail, small and medium-sized enterprise business, and corporate deposits, remained in the ring-fenced Lloyds Bank. In 2018, capital markets activities, business outside of the European Economic Area and lending to financial institutions were transferred to a non-ring-fenced entity, Lloyds Bank Corporate Markets plc (LBCM), which accounted for around 4% of the group's loans and about 9% of risk-weighted assets (RWAs) at end-June 2021.

Under the current structure, LBG owns directly Lloyds Bank, Scottish Widows and LBCM and has a strategic partnership with Schroders plc, which includes a joint-venture for affluent clients, and a 19.9% stake in Cazenove Capital.

Exhibit 3

**Lloyds Banking Group's simplified structure**




*Sources: Moody's Investors Service, LBG*

## Detailed credit considerations

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

### Low asset risk, likely to moderately deteriorate due to coronavirus shock

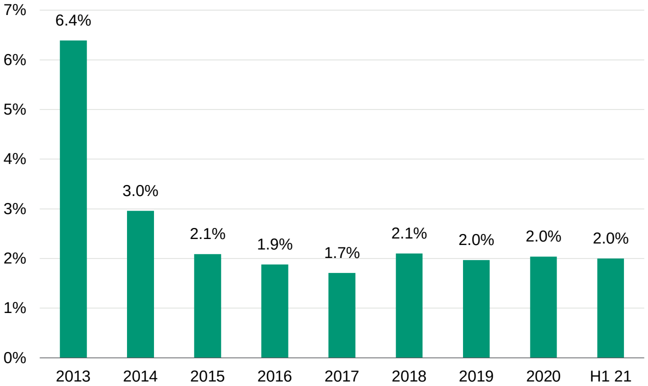
We assign an a3 Asset Risk score, one notch below the Macro-Adjusted score, taking into account LBG's good credit quality and higher than some peers exposure to buy-to-let mortgages and unsecured consumer credit products.

We calculate IFRS9 Stage 3 loans of 2.0% of total loans at end-June 2021, in line with year end 2020. Stage 2 loans decreased to 11% from 14% during the same period.[2]

Exhibit 4

**LBG has a low level of problem loans**

**Problem loans as a percentage of gross loans**

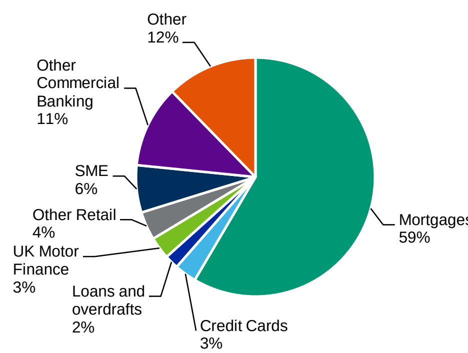



Problem loan data from 2018 are classified under IFRS9; previous figures were reported under IAS39. Amongst problem loans we also include the purchased or originated credit-impaired that LBG classifies under Stage 3.
*Source: LBG's financial reports*

Exhibit 5

**LBG's loan book has a high level of retail secured loans**

**Loan book composition, end of December 2020**




Other includes Central Items and Insurance and Wealth
*Source: LBG's financial reports*

The group's lending book is focused on prime UK residential mortgages, a low-risk segment. Within UK residential mortgages, 17% are buy-to-let loans, which represents a higher proportion than for some of LBG's peers[3]. LBG has increased its presence in unsecured consumer finance, following the acquisition of credit card provider MBNA Ltd in 2017.

In line with its business model, LBG's market risk is limited, with market risk representing just 2% of total RWA at end-June 2021. Value at risk (VaR) is low: the average one-day VaR with a 95% confidence level was £0.9 million in 2020.

The insurance division has elevated investment risk. Risk assets according to our definition, which includes real estate, equities and non-investment grade debt, are high, accounting for 2.5-3x of adjusted equity. This level is however in line with Scottish Widows' peers and partially mitigated by the insurer's liability profile: the with-profit design enables the company to share part of the decline in asset values with policyholders (subject to minimum guarantees and smoothing costs), and the hedge programme protects against the impact of declines in equities in the non-profit and the with-profit fund.

We expect LBG's problem loan ratio to increase in the next 12-18 months as a result of the economic shock arising from the pandemic and the tapering of government and forbearance measures in the UK. We believe that LBG's loan book has been adequately provisioned, and that the increase in problem loans will not lead to a further material spike in loan loss charges.

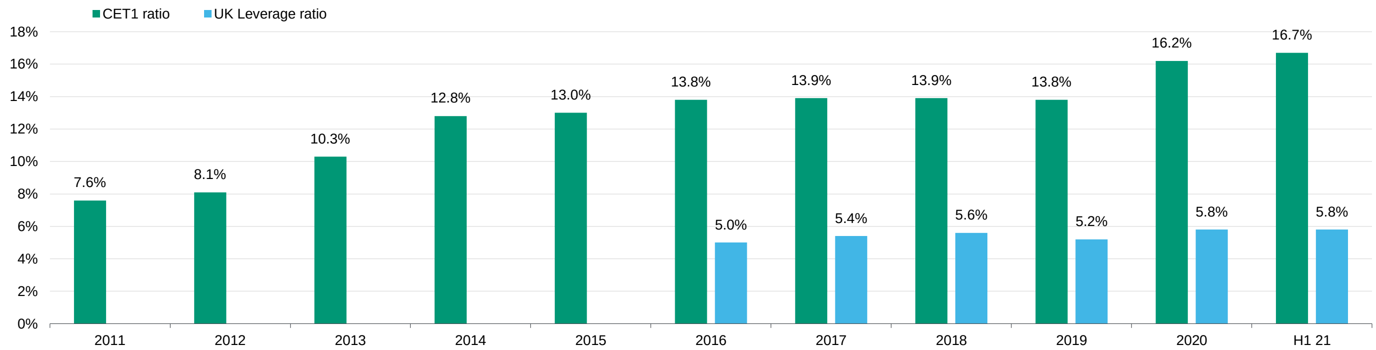
## Strong capital

LBG's capitalisation is a key strength. Our assigned Capital score is aa3, one notch lower than the group's Macro-Adjusted score, reflecting our expectation of a decrease in capital ratios during the outlook period.

LBG reported a Common Equity Tier 1 (CET1) capital ratio of 16.7% at end-June 2021, 50 basis points (bps) higher than at end-2020: the increase was driven by capital build (115 bps) and RWA reduction (16 bps), partly offset mainly by pension and other movements and dividend accruals. The CET1 ratio was 800 basis points over the Maximum Distributable Amount (MDA) threshold[4]. We expect regulatory capital to decrease in 2021, due to RWA inflation and changes in regulatory treatments.

LBG's pro forma leverage ratio, as calculated under the current UK framework was 5.8% at end-June 2021 (5.8% at end-2020).

Exhibit 6
**LBG's CET1 capital ratio has increased, following dividend suspension**




*Source: LBG's financial reports*

Capital of the insurance subsidiaries is managed as part of the overall LBG strategy. In recent years Scottish Widows upstreamed a material amount of dividends, but it maintained a buffer over solvency capital requirements that is consistent with having a reasonable buffer over solvency capital requirements after a one-in-ten-year stress scenario as calculated by the group. At the end of 2020 the insurance division reported a pre-dividend Solvency II ratio of 151%. While this is at the lower end of the range for UK peers, we believe that this is at least partly offset by a well-defined risk appetite and a risk management framework adequate to the business written.

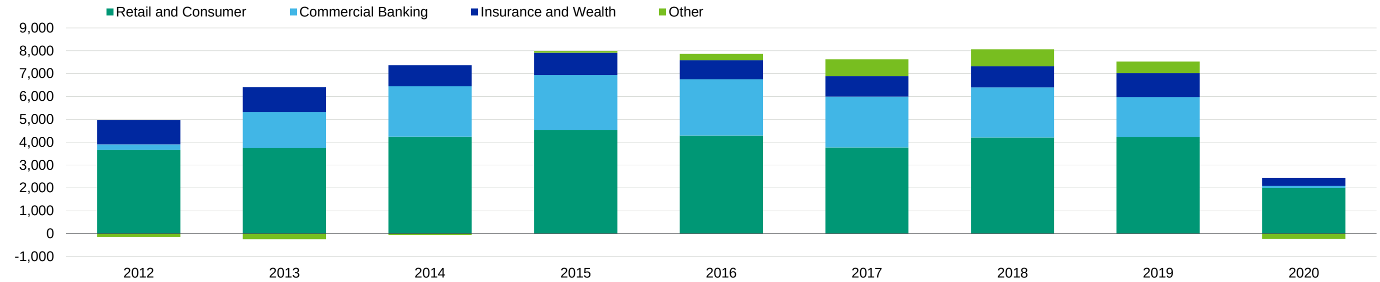
Our tangible common equity (TCE)/RWA ratio of 19.5% at end-June 2021 excludes high trigger Additional Tier 1 notes and incorporates the entire equity of Scottish Widows. There are however limitations to capital fungibility within the group. In particular, the dividend policy of Scottish Widows is subject to its own independent board, and it requires supervisory approval. Nevertheless, we believe that in times of stress within the banking business, LBG will be able to upstream a significant amount of dividends from Scottish Widows; in the event of extreme stress, LBG may also dispose of its insurance subsidiary, providing capital benefit.

## Historically solid core earnings under pressure due to low interest rates

We assign a ba1 Profitability score, two notches below the Macro-Adjusted score to remove the one-off benefit from our pension adjustment in 2020 and to reflect our expectation that profitability will recover over the outlook period.

Business diversification is a key strength for LBG: The group benefits from the revenue diversification provided by its commercial lending book and its life and non-life insurance subsidiaries. In 2020, the growth in insurance revenue (15% of LBG's underlying profits) offset the contraction in retail and commercial banking revenue.

Exhibit 7
**Growth in insurance and wealth partly offset contraction in retail and commercial banking**
**Lloyds underlying profits by division**




2012 and 2013 figures include earnings from former banking subsidiary TSB. Prior to 2017, the Insurance and Wealth division only included insurance. 2019 figures are as restated by Lloyds in its 2020 accounts.
*Source: LBG's financial reports*

LBG reported a profit after tax of £3.9 billion for the first half 2021 (£19 million in H1 2020), equal to an annualised return on equity of 19.2%. Revenues increased 2% year-on-year, driven by an increase in average interest-earning assets, higher net interest margin in the second quarter of 2021, stable other income and a reduction in operating lease depreciation. Net interest margin in Q2 2021 was 2.51%; management expect a full-year NIM of c.250bps in 2021. Operating costs were broadly stable. LBG reported a reversal of credit provisions of £656 million versus a credit impairment charge of £3.8 billion in first half 2020.

## Stable retail funding

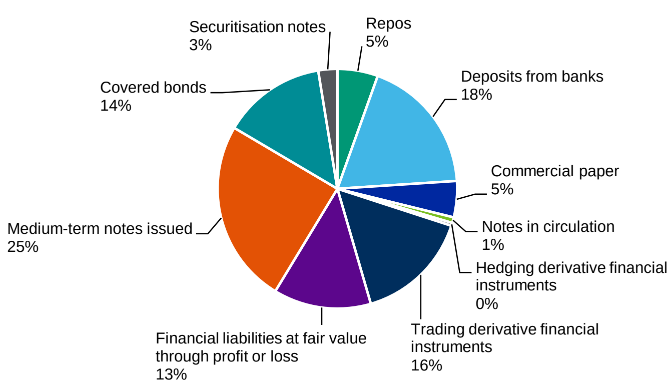
We assign a baa1 Combined Liquidity score, reflecting a baa1 Funding Structure score and an a3 Liquid Resources score.

LBG benefits from its stable and granular retail deposit base. In the UK, its market share for personal current accounts is the highest in the country. LBG's loan-to-deposit ratio, which includes certificates of deposits and interbank deposits, stood at 94% at end-June 2021, down 6% year on year.

LBG's reliance on wholesale funding is significant, representing 20% of tangible banking assets at end-2020, lower than that of its main UK peers. LBG's market funding composition is well-diversified; however, market funding maturing within one year is 45% of total market funds. LBG's pro forma MREL ratio was 36.3% (transitional) at end-June 2021.

In 2020, LBG replaced all Term Funding Scheme (TFS) balances and Funding for Lending Scheme (FLS) drawings with £13.7 billion borrowings under the Term Funding Scheme with additional incentives for SMEs (TFSME), which allows banks to borrow at an interest close to the Bank Rate for a period of four years. The increased stock of cash reserves allowed LBG to repay £5 billion of TFS during the first half of 2021, leading to an outstanding balance of £8.7 billion.

Exhibit 8
**Market funds composition**




Values are as reported by LBG at end-June 2020
*Source: Moody's Investors Service*

LBG's liquidity mitigates its high reliance on wholesale funding: the group's eligible assets to be included in the 131% liquidity coverage ratio (LCR) at the end of June 2021 were more than three times wholesale maturities in the next 12 months. We expect its liquid assets to remain broadly stable.

### ESG Considerations

In line with our general view for the banking sector, LBG has a low exposure to Environmental risks and moderate exposure to Social risks. See our Environmental risks heatmap and Social risks heatmap for further information.

Our assessment of moderate Social risk for LBG also takes into account the bank's exposure to the coronavirus-induced economic shock. LBG incurred substantial provisions related to the Payment Protection Insurance mis-selling: we expect any further PPI charges to be marginal, as the deadline for UK consumers to claim compensation elapsed in August 2019.

Governance is highly relevant for LBG, as it is to all banks. Corporate governance weaknesses can lead to a deterioration in a company's credit quality, while governance strengths can benefit its credit profile. Governance risks are largely internal rather than externally driven, and for LBG we do not have any particular governance concern. Nonetheless, corporate governance remains a key credit consideration and requires ongoing monitoring.

## Support and structural considerations

### Loss Given Failure (LGF) analysis

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

Our analysis assumes residual tangible common equity of 3% and post-failure losses of 8% of tangible banking assets, in line with our standard assumptions. Our advanced LGF analysis indicates that LBG's senior unsecured debt is likely to face low loss-given-failure because of the loss absorption provided by the inclusion of Additional Tier 1 (AT1) instruments, the subordinated debt issued by LBG and by its subsidiaries, and the volume of LBG's senior debt itself. This results in one notch uplift from the BCA.

### Government support considerations

We incorporate a low probability of support for the debt issued by LBG's holding company, 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 9

**Lloyds Banking Group 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 | 2.0% | a1 | ↔ | a3 | Sector concentration | |
| Capital | | | | | | |
| Tangible Common Equity / Risk Weighted Assets (Basel III - fully loaded) | 19.5% | aa2 | ↔ | aa3 | Expected trend | |
| Profitability | | | | | | |
| Net Income / Tangible Assets | 0.5% | baa2 | ↔ | ba1 | Expected trend | |
| Combined Solvency Score | | a1 | | a3 | | |
| Liquidity | | | | | | |
| Funding Structure | | | | | | |
| Market Funds / Tangible Banking Assets | 20.4% | baa1 | ↔ | baa1 | Extent of market funding reliance | |
| Liquid Resources | | | | | | |
| Liquid Banking Assets / Tangible Banking Assets | 31.0% | a2 | ↔ | a3 | Expected trend | Stock of liquid assets |
| Combined Liquidity Score | | a3 | | baa1 | | |
| 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 | 114,263 | 17.3% | 161,045 | 24.4% |
| Deposits | 458,649 | 69.4% | 411,867 | 62.4% |
| Preferred deposits | 339,400 | 51.4% | 322,430 | 48.8% |
| Junior deposits | 119,249 | 18.1% | 89,437 | 13.5% |
| Senior unsecured bank debt | 20,269 | 3.1% | 20,269 | 3.1% |
| Dated subordinated bank debt | 2,128 | 0.3% | 2,128 | 0.3% |
| Junior subordinated bank debt | 499 | 0.1% | 499 | 0.1% |
| Preference shares (bank) | 1,982 | 0.3% | 1,982 | 0.3% |
| Senior unsecured holding company debt | 29,180 | 4.4% | 29,180 | 4.4% |
| Dated subordinated holding company debt | 7,027 | 1.1% | 7,027 | 1.1% |
| Junior subordinated holding company debt | 10 | 0.0% | 10 | 0.0% |
| Preference shares(holding company) | 6,629 | 1.0% | 6,629 | 1.0% |
| Equity | 19,813 | 3.0% | 19,813 | 3.0% |
| Total Tangible Banking Assets | 660,449 | 100.0% | 660,449 | 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 | | | | |
| Senior unsecured holding company debt | 10.2% | 5.8% | 10.2% | 5.8% | 1 | 1 | 1 | 1 | 0 | a2 |
| Dated subordinated holding company debt | 5.8% | 4.4% | 5.8% | 4.4% | 0 | 0 | 0 | 0 | 0 | a3 |
| Holding company cumulative preference shares | 4.3% | 3.0% | 4.3% | 3.0% | -1 | -1 | -1 | -1 | -2 | baa3 |
| Holding company non-cumulative preference shares | 4.3% | 3.0% | 4.3% | 3.0% | -1 | -1 | -1 | -1 | -2 | baa3 |

| Instrument Class | Loss Given Failure notching | Additional notching | Preliminary Rating Assessment | Government Support notching | Local Currency Rating | Foreign Currency Rating |
|---|---|---|---|---|---|---|
| Senior unsecured holding company debt | 1 | 0 | a2 | 0 | A2 | A2 |
| Dated subordinated holding company debt | 0 | 0 | a3 | 0 | A3 | A3 |
| Holding company cumulative preference shares | -1 | -2 | baa3 | 0 | | (P)Baa3 |
| Holding company non-cumulative preference shares | -1 | -2 | baa3 | 0 | Baa3 (hyb) | Baa3 (hyb) |

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

## Ratings

Exhibit 10

| Category | Moody's Rating |
|---|---|
| **LLOYDS BANKING GROUP PLC** | |
| Outlook | Stable |
| Baseline Credit Assessment | a3 |
| Adjusted Baseline Credit Assessment | a3 |
| Senior Unsecured | A2 |
| Subordinate | A3 |
| Bkd Jr Subordinate -Dom Curr | Baa1 (hyb) |
| Pref. Stock Non-cumulative | Baa3 (hyb) |
| Preference Shelf | (P)Baa3 |
| Other Short Term -Dom Curr | (P)P-1 |
| **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 | A3 |
| Jr Subordinate | Baa1 (hyb) |
| Pref. Stock | Baa3 (hyb) |
| Commercial Paper | P-1 |
| Other Short Term -Dom Curr | (P)P-1 |
| **LLOYDS BANK CORPORATE MARKETS PLC** | |
| Outlook | Stable |
| Counterparty Risk Rating | A1/P-1 |
| Bank Deposits | A1/P-1 |
| Baseline Credit Assessment | baa3 |
| Adjusted Baseline Credit Assessment | baa1 |

| | |
|---|---|
| Counterparty Risk Assessment | A1(cr)/P-1(cr) |
| Issuer Rating | A1 |
| Senior Unsecured | A1 |
| Commercial Paper | P-1 |
| Other Short Term | (P)P-1 |
| **LLOYDS BANK CORPORATE MARKETS PLC, NY BRANCH** | |
| Counterparty Risk Rating | A1/P-1 |
| Counterparty Risk Assessment | A1(cr)/P-1(cr) |
| Commercial Paper | P-1 |
| **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 |
| Jr Subordinate | Baa1 (hyb) |
| Pref. Stock Non-cumulative -Dom Curr | Baa3 (hyb) |
| **SCOTTISH WIDOWS LIMITED** | |
| Outlook | Stable |
| Insurance Financial Strength | A2 |
| Subordinate -Dom Curr | Baa1 (hyb) |
| **HBOS PLC** | |
| Outlook | Stable |
| Counterparty Risk Rating | Aa3/P-1 |
| Counterparty Risk Assessment | Aa3(cr)/P-1(cr) |
| Issuer Rating | A1 |
| Subordinate | A3 |
| Jr Subordinate -Dom Curr | Baa1 (hyb) |
| ST Issuer Rating | P-1 |
| **HBOS CAPITAL FUNDING NO. 1 LP** | |
| BACKED Pref. Stock Non-cumulative | Baa3 (hyb) |
| **HBOS STERLING FINANCE (JERSEY) LP** | |
| BACKED Pref. Stock Non-cumulative -Dom Curr | Baa3 (hyb) |
| **BANK OF SCOTLAND CAPITAL FUNDING L.P.** | |
| BACKED Pref. Stock Non-cumulative -Dom Curr | Baa3 (hyb) |
| **HALIFAX LTD** | |
| Bkd Jr Subordinate -Dom Curr | Baa3 (hyb) |

*Source: Moody's Investors Service*

## Endnotes

1 The bank's ratings shown in this report are the deposit rating, senior unsecured debt/issuer rating, and the BCA and Adjusted BCA, respectively.

2 Our calculation for Stage 3 loans includes those classified by LBG as Stage 3 among the group's portfolio of purchased or originated credit-impaired assets. Similarly, our calculation for Stage 2 loans includes the POCIs that LBG classifies as Stage 2.

3 For the six largest UK lenders, buy-to-let mortgages represented the following percentages of total residential mortgages as of the end of their latest fiscal years: Barclays 14%, Lloyds 17%, Nationwide 19%, RBS 9%, Santander UK 7%; data not available for HSBC.

4 Lloyds' MDA does not include the 1.7% Systemic Risk Buffer

REPORT NUMBER 1302482

## CLIENT SERVICES


| | |
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| Japan | 81-3-5408-4100 |
| EMEA | 44-20-7772-5454 |


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