

## CREDIT OPINION

18 November 2022

### Update



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### RATINGS

#### Lloyds Banking Group plc

|                   |                             |
|-------------------|-----------------------------|
| Domicile          | London, United Kingdom      |
| Long Term CRR     | Not Assigned                |
| Long Term Debt    | A3                          |
| 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 to credit analysis

#### Summary

We assign ratings of A3/P-2 to the senior unsecured debt of [Lloyds Banking Group plc](#) (LBG).

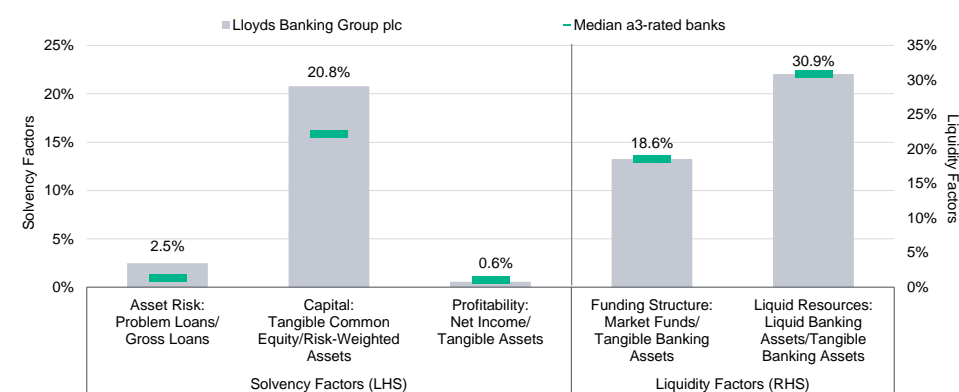
The A3 long term senior unsecured debt rating of (LBG) reflects (1) the group's standalone creditworthiness, expressed in an a3 Baseline Credit Assessment (BCA); (2) moderate loss-given-failure, which results in no uplift under our Advanced Loss Given Failure (LGF) analysis; and (3) our assessment of a low probability of support from the [Government of United Kingdom](#) (Aa3 negative), 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) improving profitability supported by low cost of credit and higher lending margins.

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

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 improving due to higher lending margins and still moderate cost of risk; however, the macroeconomic environment is deteriorating

## Outlook

The outlook on LBG's senior ratings is stable. The outlook reflects our view that the solvency and liquidity metrics will on a forward-looking basis remain in line with our current assessment, as asset quality remains contained and profitability stabilizes, following the pandemic-induced deterioration in 2020, and taking into account tail winds from rising interest rates and headwinds from current macroeconomic pressures.

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

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

## 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 significant reduction in its stock of externally issued unsecured debt.

## Key indicators

Exhibit 2

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

|  | 06-22 <sup>2</sup> | 12-21 <sup>2</sup> | 12-20 <sup>2</sup> | 12-19 <sup>2</sup> | 12-18 <sup>2</sup> | CAGR/Avg. <sup>3</sup> |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|------------------------|
| Total Assets (GBP Billion)                                       | 857.3              | 863.3              | 837.2              | 790.2              | 754.6              | 3.7 <sup>4</sup>       |
| Total Assets (USD Billion)                                       | 1,041.1            | 1,165.1            | 1,144.4            | 1,046.8            | 961.1              | 2.3 <sup>4</sup>       |
| Tangible Common Equity (GBP Billion)                             | 37.3               | 40.7               | 35.1               | 39.8               | 42.5               | (3.7) <sup>4</sup>     |
| Tangible Common Equity (USD Billion)                             | 45.3               | 55.0               | 48.0               | 52.7               | 54.2               | (5.0) <sup>4</sup>     |
| Problem Loans / Gross Loans (%)                                  | 2.5                | 1.9                | 2.0                | 2.0                | 2.1                | 2.1 <sup>5</sup>       |
| Tangible Common Equity / Risk Weighted Assets (%)                | 17.8               | 20.8               | 17.3               | 19.6               | 20.6               | 19.2 <sup>6</sup>      |
| Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%) | 27.8               | 19.5               | 22.2               | 20.3               | 20.2               | 22.0 <sup>5</sup>      |
| Net Interest Margin (%)  | 1.7                | 1.1                | 1.3                | 1.3                | 1.7                | 1.4 <sup>5</sup>       |
| PPI / Average RWA (%)  | 3.7                | 2.6                | 2.4                | 2.7                | 3.5                | 3.0 <sup>6</sup>       |
| Net Income / Tangible Assets (%)                                 | 0.5                | 0.6                | 0.7                | 0.8                | 0.5                | 0.6 <sup>5</sup>       |
| Cost / Income Ratio (%)  | 55.5               | 67.8               | 66.0               | 69.7               | 61.0               | 64.0 <sup>5</sup>      |
| Market Funds / Tangible Banking Assets (%)                       | 20.1               | 18.6               | 20.4               | 22.1               | 20.7               | 20.4 <sup>5</sup>      |
| Liquid Banking Assets / Tangible Banking Assets (%)              | 27.8               | 30.9               | 31.0               | 26.4               | 26.2               | 28.4 <sup>5</sup>      |
| Gross Loans / Due to Customers (%)                               | 94.9               | 94.1               | 97.2               | 105.0              | 104.1              | 99.1 <sup>5</sup>      |

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

Sources: Moody's Investors Service and company filings

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody.com> for the most updated credit rating action information and rating history.

## 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.

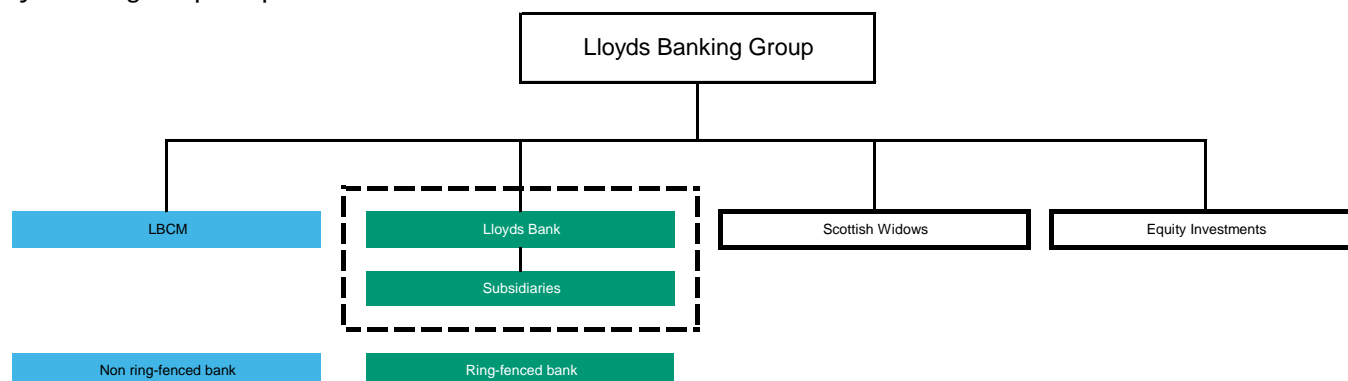
LBG is organised along four business divisions: Retail, Commercial Banking, Insurance and Wealth, and Equity Investments and Central Items. On 1 July 2022, LBG migrated Business Banking and Commercial Cards to Commercial Banking from Retail and Wealth to Retail from Insurance, Pensions and Investments (previously Insurance and Wealth).

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 5% of the group's loans and about 10% of risk-weighted assets (RWAs) at end-June 2022.

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

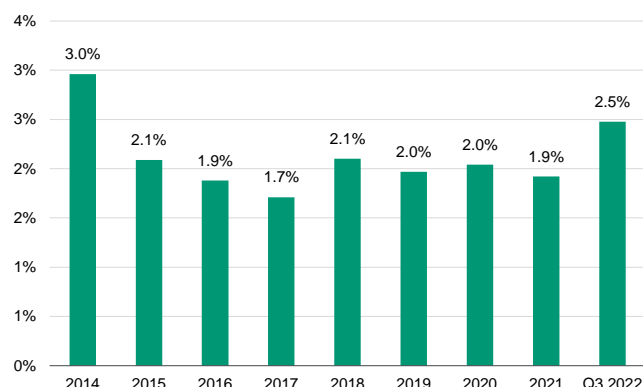
We assign an a3 Asset Risk score, one notch below the Macro-Adjusted score, taking into account LBG's good credit quality and higher than some peers exposure to buy-to-let mortgages and unsecured consumer credit products.

IFRS9 Stage 3 loans were 2.5% of total loans at end-September 2022, from 1.9% end-2021. Stage 2 loans increased to 13.9% of loans from 9.2% at year-end 2021.

Exhibit 4

### LBG has a low level of problem loans

Problem loans as a percentage of gross loans

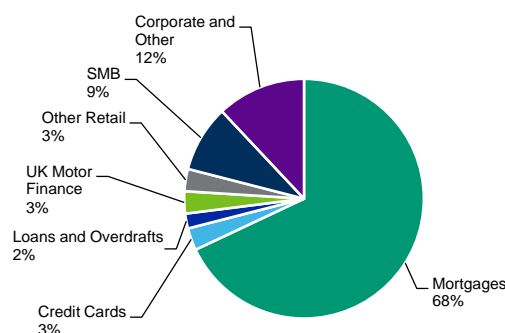


Problem loan data from 2018 are classified under IFRS9; previous figures were reported under IAS39. Amongst problem loans we also include the purchased or originated credit-impaired that LBG classifies under Stage 3.  
Source: LBG's financial reports

Exhibit 5

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

Loan book composition, end-September 2022



SMB (previously SME)  
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. LBG has increased its presence in unsecured consumer finance, following the acquisition of credit card provider MBNA Ltd in 2017.

We expect LBG's problem loan ratio to normalise in the next 12-18 months as a result of low levels of unemployment, and high households' savings.

In line with its business model, LBG's market risk is limited, with market risk representing just 1.3% of total RWA at end-September 2022. Value at risk (VaR) is low: the average one-day VaR with a 95% confidence level was £1 million in 2021.

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 3.5-4x 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.

### Strong capital

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

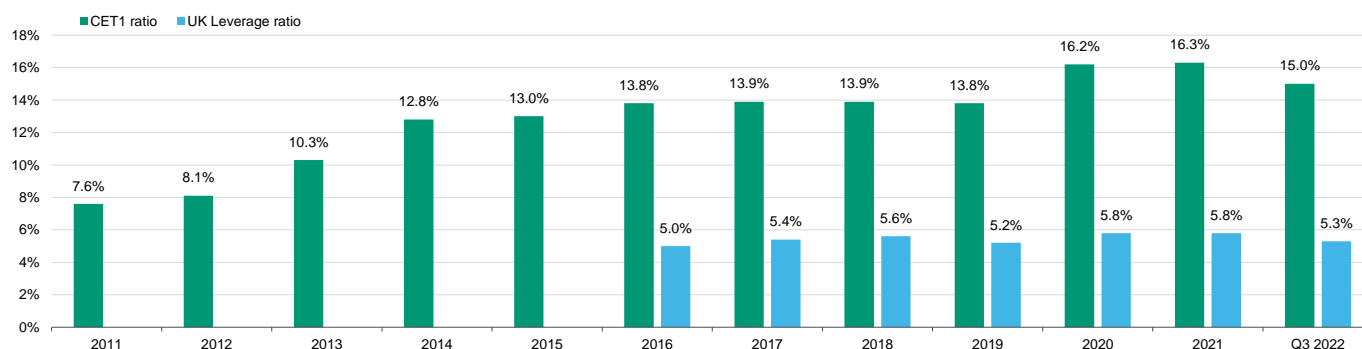
LBG reported a Common Equity Tier 1 (CET1) capital ratio of 15.0% at end-September 2022 from 16.3% at end-2021, reflecting 191 basis points of capital build year-to-date, offset by 230 basis points regulatory-driven reduction (including an increase in risk-weighted assets and other related modeled impacts, the reinstatement of the full deduction for intangible software assets and phased reductions in IFRS 9 transitional relief).

LBG's pro forma leverage ratio, as calculated under the current UK framework was 5.3% at end-September 2022 (5.8% at end-2021).

Exhibit 6

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

LBG's CET1 and UK leverage ratios



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 end-June 2022 the insurance division reported a pre-dividend Solvency II ratio of 172% (161% after the proposed mid-year dividend). 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 17.8% at end-June 2022 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.

**Profitability will significantly improve in 2022; however, long-term trends are uncertain**

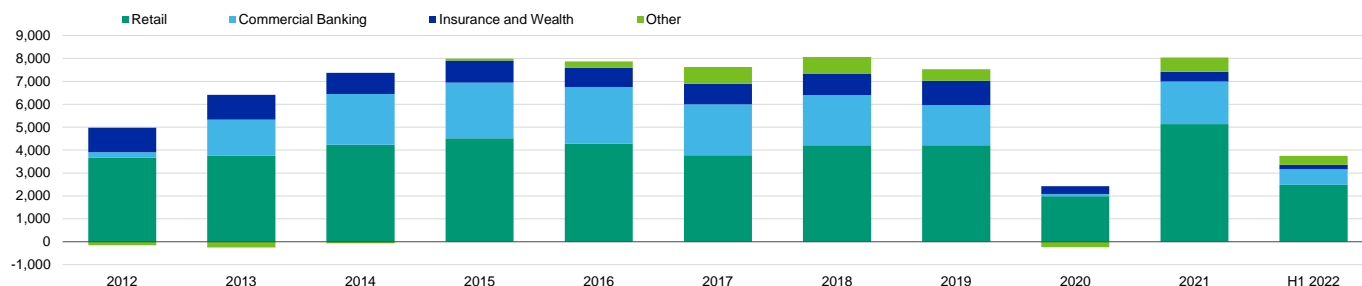
We assign a baa3 Profitability score to reflect our expectation that the group's net income will stabilize around £4.5 billion in the medium-term, reflecting improved revenue supported by a higher net interest margin, and a moderate increase in the cost of risk in 2023 from a low base. However, inflationary pressures, if they persist in 2023, will constrain household incomes and debt servicing.

LBG reported a net income of £4.0 billion for the first nine months of 2022 (£5.4 billion in the prior period), equal to a return on tangible equity of 12.9%. Revenues increased 12% year-on-year, driven by an increase in average interest-earning assets, higher net interest margin of 2.84%, stronger other income and a reduction in operating lease depreciation. Operating costs increased 6% due to higher planned strategic investments and new businesses. LBG reported a credit provision of £668 million for Q3 (£1.0 billion YTD), which reflects their assessment of elevated risks from higher inflation and interest rates-versus an impairment write-back of £853 million for the first nine months of 2021.

Management enhanced its 2022 guidance of a banking net interest margin above 290 basis points and maintained their return on tangible equity (RoTE) guidance of c.13%. Operating cost guidance for 2022 also remained unchanged at c.£8.8 billion.

Exhibit 7

### Growth in Retail and in Insurance and Wealth partly offset contraction in Commercial Banking 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

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 H1 2022, retail revenue accounted for 65% of underlying group net income, commercial banking for 21%, and insurance revenue accounted for 9%. At the same time, net interest income represented 71% of underlying group net income and other income 29%.

### Stable retail funding

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

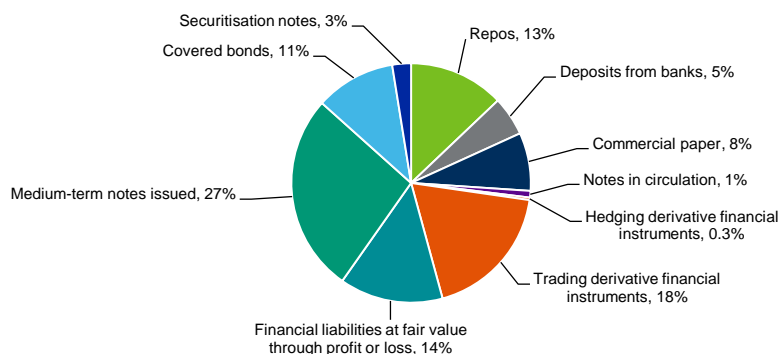
LBG benefits from its stable and granular retail deposit base. In the UK, its market share for personal current accounts is the highest in the country. LBG's loan-to-deposit ratio, which includes certificates of deposits and interbank deposits, stood at 95% at end-June 2022.

LBG's reliance on wholesale funding is moderate, representing 20% of tangible banking assets at end-June 2022, but lower than its main UK peers. LBG's market funding composition is well-diversified; however, market funding maturing within one year is 39% of total market funds. LBG's pro forma MREL ratio was 32.4% (transitional) at end-June 2022.

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. In 2021, LBG made net drawings of £16.3 billion from TFSME, taking the total outstanding amount to £30 billion as of end-2021 and this total has remained stable through to end-September 2022.

Exhibit 8

### Market funds composition



Values are as reported by LBG at end-June 2022

Source: LBG's financial reports

LBG's liquidity mitigates its high reliance on wholesale funding; material amounts of pre-positioned contingent liquidity with the Bank of England, further mitigating short term funding risk: the group's eligible assets to be included in the 142% liquidity coverage ratio (LCR) at the end-June 2022 were more than three times wholesale maturities in the next 12 months. We expect its liquid assets to remain broadly stable.

## ESG considerations

### Lloyds Banking Group plc's ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 9

#### ESG Credit Impact Score

# CIS-2

## Neutral-to-Low

For an issuer scored CIS-2 (Neutral-to-Low), its ESG attributes are overall considered as having a neutral-to-low impact on the current rating; i.e., the overall influence of these attributes on the rating is non-material.



Source: Moody's Investors Service

Lloyds' ESG Credit Impact Score is neutral-to-low (**CIS-2**), reflecting limited credit impact from environmental and social factors on the rating to date. Lloyds's governance risk is low, and takes into consideration the group's strong track record of successful streamlining and simplifying the business, stable and credible management along with sound capital, liquidity and risk management.

Exhibit 10

#### ESG Issuer Profile Scores

ENVIRONMENTAL

## E-3

Moderately Negative



SOCIAL

## S-4

Highly Negative



GOVERNANCE

## G-2

Neutral-to-Low



Source: Moody's Investors Service

### Environmental

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

### Social

Lloyds faces high industrywide social risks from customer relations: regulatory risk, litigation exposure and high compliance standards, as well as cyber risk and the financial and reputational implications of data breaches. The group also faces industrywide moderate social risks related to potential competition from technological firms and other disruptors.

### Governance

Lloyds' governance risk is low. The bank has sound board structure, risk management, and capital and liquidity management. Management has a strong track record of simplification and efficiency. The group's business model is simple, with Lloyds Bank

containing the ring-fenced business and representing more than 90% of assets and revenue. The board structure is in line with industry best practice.

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

## Support and structural considerations

### 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 moderate 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 no 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 11

Lloyds Banking Group plc

|  |                       |                               |                       |                                 |                                   |                        |  |
|--|-----------------------|-------------------------------|-----------------------|---------------------------------|-----------------------------------|------------------------|--|
| <b>Macro Factors</b>   |                       |                               |                       |                                 |                                   |                        |  |
| <b>Weighted Macro Profile</b>  |                       | <b>Strong +</b>               | <b>100%</b>           |                                 |                                   |                        |  |
| <b>Factor</b>  | <b>Historic Ratio</b> | <b>Initial Score</b>          | <b>Expected Trend</b> | <b>Assigned Score</b>           | <b>Key driver #1</b>              | <b>Key driver #2</b>   |  |
| Solvency   |                       |                               |                       |                                 |                                   |                        |  |
| Asset Risk   |                       |                               |                       |                                 |                                   |                        |  |
| Problem Loans / Gross Loans  | 2.5%                  | a2                            | ↔                     | a3                              | Sector concentration              |                        |  |
| Capital  |                       |                               |                       |                                 |                                   |                        |  |
| Tangible Common Equity / Risk Weighted Assets (Basel III - fully loaded) | 20.8%                 | aa1                           | ↔                     | aa3                             | Expected trend                    |                        |  |
| Profitability  |                       |                               |                       |                                 |                                   |                        |  |
| Net Income / Tangible Assets   | 0.5%                  | baa2                          | ↔                     | baa3                            | Expected trend                    |                        |  |
| Combined Solvency Score  |                       | a1                            |                       | a3                              |                                   |                        |  |
| Liquidity  |                       |                               |                       |                                 |                                   |                        |  |
| Funding Structure  |                       |                               |                       |                                 |                                   |                        |  |
| Market Funds / Tangible Banking Assets                                   | 18.6%                 | a3                            | ↔                     | baa1                            | Extent of market funding reliance |                        |  |
| Liquid Resources   |                       |                               |                       |                                 |                                   |                        |  |
| Liquid Banking Assets / Tangible Banking Assets                          | 30.9%                 | 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                              |                                   |                        |  |
| <b>Balance Sheet</b>   |                       | <b>in-scope (GBP Million)</b> | <b>% in-scope</b>     | <b>at-failure (GBP Million)</b> | <b>% at-failure</b>               |                        |  |
| Other liabilities  |                       | 590,779                       | 90.2%                 | 590,779                         | 90.2%                             |                        |  |
| Deposits   |                       | 0                             | 0.0%                  | 0                               | 0.0%                              |                        |  |
| Preferred deposits   |                       | 0                             | 0.0%                  | 0                               | 0.0%                              |                        |  |
| Junior deposits  |                       | 0                             | 0.0%                  | 0                               | 0.0%                              |                        |  |
| Dated subordinated bank debt   |                       | 1,582                         | 0.2%                  | 1,582                           | 0.2%                              |                        |  |
| Junior subordinated bank debt  |                       | 169                           | 0.0%                  | 169                             | 0.0%                              |                        |  |
| Preference shares (bank)   |                       | 1,543                         | 0.2%                  | 1,543                           | 0.2%                              |                        |  |
| Senior unsecured holding company debt                                    |                       | 26,727                        | 4.1%                  | 26,727                          | 4.1%                              |                        |  |
| Dated subordinated holding company debt                                  |                       | 8,155                         | 1.2%                  | 8,155                           | 1.2%                              |                        |  |
| Junior subordinated holding company debt                                 |                       | 10                            | 0.0%                  | 10                              | 0.0%                              |                        |  |
| Preference shares(holding company)                                       |                       | 6,509                         | 1.0%                  | 6,509                           | 1.0%                              |                        |  |
| Equity   |                       | 19,654                        | 3.0%                  | 19,654                          | 3.0%                              |                        |  |
| Total Tangible Banking Assets  |                       | 655,127                       | 100.0%                | 655,127                         | 100.0%                            |                        |  |

| Debt Class                                       | De Jure waterfall |               | De Facto waterfall |               | Notching |          | LGF      | Assigned | Additional | Preliminary |
|--|-------------------|---------------|--------------------|---------------|----------|----------|----------|----------|------------|-------------|
|  | Instrument        | Sub-          | Instrument         | Sub-          | De Jure  | De Facto | Notching | LGF      | Notching   | Rating      |
|  | volume +          | ordination    | volume +           | ordination    |          |          | Guidance | notching |            | Assessment  |
|  | subordination     | subordination | subordination      | subordination |          |          | vs.      |          |            |             |
|  |                   |               |                    |               |          |          | Adjusted |          |            |             |
|  |                   |               |                    |               |          |          | BCA      |          |            |             |
| Senior unsecured holding company debt            | 9.8%              | 5.7%          | 9.8%               | 5.7%          | 0        | 0        | 0        | 0        | 0          | a3          |
| Dated subordinated holding company debt          | 5.7%              | 4.3%          | 5.7%               | 4.3%          | 0        | 0        | 0        | -1       | 0          | baa1        |
| Holding company non-cumulative preference shares | 4.2%              | 3.0%          | 4.2%               | 3.0%          | -1       | -1       | -1       | -1       | -2         | baa3        |

| Instrument Class                                 | Loss Given       | Additional | Preliminary Rating | Government       | Local Currency | Foreign         |
|--|------------------|------------|--------------------|------------------|----------------|-----------------|
|  | Failure notching | notching   | Assessment         | Support notching | Rating         | Currency Rating |
| Senior unsecured holding company debt            | 0                | 0          | a3                 | 0                | A3             | A3              |
| Dated subordinated holding company debt          | -1               | 0          | baa1               | 0                | Baa1           | Baa1            |
| 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 12

| Category                                 | Moody's Rating  |
|--|-----------------|
| <b>LLOYDS BANKING GROUP PLC</b>          |                 |
| Outlook                                  | Stable          |
| Baseline Credit Assessment               | a3              |
| Adjusted Baseline Credit Assessment      | a3              |
| Senior Unsecured                         | A3              |
| Subordinate                              | Baa1            |
| Bkd Jr Subordinate -Dom Curr             | Baa2 (hyb)      |
| Pref. Stock Non-cumulative               | Baa3 (hyb)      |
| Pref. Shelf Non-cumulative               | (P)Baa3         |
| Other Short Term -Dom Curr               | (P)P-2          |
| <b>LLOYDS BANK PLC</b>                   |                 |
| Outlook                                  | Stable(m)       |
| Counterparty Risk Rating                 | Aa3/P-1         |
| Bank Deposits                            | A1/P-1          |
| Baseline Credit Assessment               | a3              |
| Adjusted Baseline Credit Assessment      | a3              |
| Counterparty Risk Assessment             | Aa3(cr)/P-1(cr) |
| Senior Unsecured                         | A1              |
| Subordinate -Dom Curr                    | Baa1            |
| Jr Subordinate -Dom Curr                 | Baa2 (hyb)      |
| Commercial Paper                         | P-1             |
| Other Short Term -Dom Curr               | (P)P-1          |
| <b>LLOYDS BANK CORPORATE MARKETS PLC</b> |                 |
| 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            |

**SCOTTISH WIDOWS LIMITED**

|                              |            |
|------------------------------|------------|
| Outlook                      | Stable     |
| Insurance Financial Strength | A2         |
| Subordinate -Dom Curr        | Baa1 (hyb) |

**BANK OF SCOTLAND PLC**

|                                      |                 |
|--------------------------------------|-----------------|
| Outlook                              | Stable(m)       |
| 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 -Dom Curr             | Baa2 (hyb)      |
| Pref. Stock Non-cumulative -Dom Curr | Baa3 (hyb)      |

**HBOS PLC**

|                              |                 |
|------------------------------|-----------------|
| Outlook                      | Negative        |
| Counterparty Risk Rating     | Aa3/P-1         |
| Counterparty Risk Assessment | Aa3(cr)/P-1(cr) |
| Issuer Rating                | A1              |
| Subordinate                  | Baa1            |
| Jr Subordinate -Dom Curr     | Baa2 (hyb)      |
| ST Issuer Rating             | P-1             |

Source: Moody's Investors Service

## Endnotes

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

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