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Lloyds Banking Group PLC

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Lloyds Banking Group PLC

Rating Score Snapshot

Issuer Credit Rating
BBB+/Stable/A-2

SACP: a- → **Support: +2** → **Additional factors: 0**

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

ALAC support	+2
GRE support	0
Group support	0
Sovereign support	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.	Rising inflation and slowing economic growth squeezing marginal borrowers' cash flows.
Cost-efficient business model.	Geographical focus on the U.K., which has been a low-growth market.
Supportive funding and liquidity profiles.	Strong price competition in the U.K. mortgage market.

Rising interest rates are a tailwind to earnings. Similar to U.K. peers, rising interest rates benefit Lloyds Banking Group PLC's revenue from its deposits and structural hedge, partly offset by strong mortgage market competition. Lloyds expects a return on tangible equity (RoTE) above 13% in 2022, achieving 13.2% in first-half 2022.

Asset quality remains robust despite rising cost-of-living pressures. Similar to peers, Lloyds released significant pandemic-related impairment provisions in 2021 as its portfolio performed well. S&P Global Ratings expects the bank's high-quality, well-collateralized loan portfolio will perform resiliently despite high inflation and slowing economic growth squeezing affordability. S&P Global Ratings expects the impairment charge to increase in 2022-2023 toward pre-pandemic levels of about 30 basis points (bps).

We consider that the appointment of Charlie Nunn as CEO in August 2021 marked a new era for the group but hasn't diverted its core focus and long-standing strategy. We think the management team led by Mr. Nunn is well positioned to navigate through the increasingly challenging economic environment and will continue broadening its retail and commercial banking franchises while developing its wealth and insurance operations.

Outlook

The stable outlook reflects our view that Lloyds' strong capitalization levels and competitive position in the U.K. market provide a good cushion for the rating amid rising inflation and slowing economic growth. We expect that strong revenue from gradually improving margins will continue supporting robust capital buffers while adequate provisioning policies will provide sufficient 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 lowered 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--				
(%)	**2020a**	**2021a**	**2022f**	**2023f**	**2024f**
Growth in operating revenue	(15.6)	6.6	8.0-9.0	8.5-9.5	7.0-8.0
Growth in customer loans	0.5	1.4	2.7-3.7	2.1-3.1	2.1-3.1
Net interest income/average earning assets (NIM)	1.9	1.6	2.0-2.5	2.0-2.5	2.0-2.5
Cost to income ratio	56.8	52.0	50.0-52.0	49.0-51.0	48.5-50.5
Return on average common equity	2.0	11.9	9.0-10.0	9.0-10.0	9.5-10.5
New loan loss provisions/average customer loans	0.9	(0.3)	0.15-0.20	0.30-0.35	0.35-0.40
Gross nonperforming assets/customer loans	3.0	2.8	2.6-2.9	2.7-3.0	2.9-3.2

Lloyds Banking Group PLC--Key Ratios And Forecasts (cont.)					
	--Fiscal year ended Dec. 31--				
(%)	**2020a**	**2021a**	**2022f**	**2023f**	**2024f**
Risk-adjusted capital ratio	8.7	9.4	8.8-9.3	9.0-9.5	9.0-9.5

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

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

The starting point for our ratings on Lloyds is the 'bbb+' anchor, which is based on our view of economic and industry risks in the group's home market. U.K.-based clients account for over 90% of Lloyds' lending.

Our economic risk trend for the U.K. Banking Industry Country Risk Assessment is stable. After a relatively strong economic rebound in 2021 following the COVID-19 pandemic, the UK economy looks set to enter a period of turbulence--characterized by slow-to-negative growth and sharp inflation. Our latest projection for 2022 is for 3.2% GDP growth, containing within it a technical recession in the second half of the year, and inflation rising sharply to 10.1% by the fourth quarter (see "Economic Outlook U.K. Q3 2022: The Great Inflation Squeeze," published June 27, 2022, on RatingsDirect). We forecast a continuation in policy rate increases by the Bank of England (BoE), which will give some uplift to bank earnings but also further squeeze households, who will be hit by a broad-based fall in living standards. Low unemployment, stable house prices, and strong corporate asset quality should give banks some wiggle room to see out this turbulent period--but these foundations will be tested under our current base case.

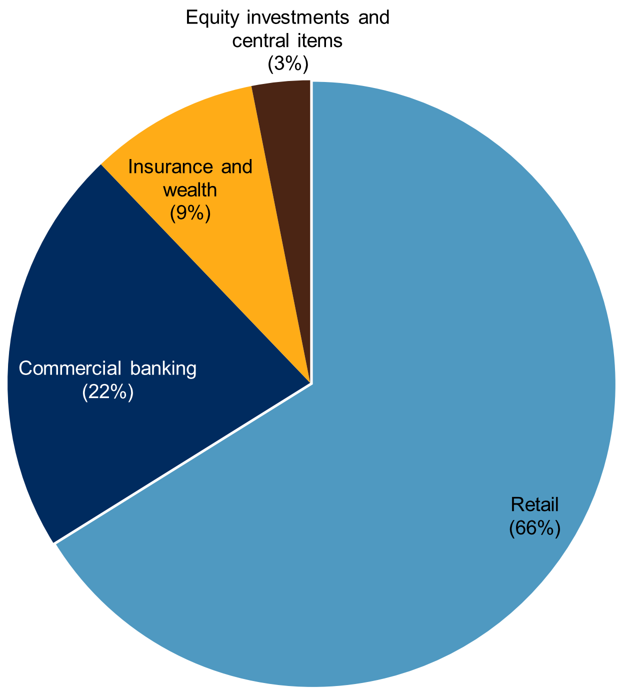
The industry risk trend is also stable. The firm actions of the BoE and government measures during the pandemic speak to the UK's well developed regulatory framework, which helped U.K. banks to navigate the crisis. After a period of pressure from low rates, volatile impairments, and restructuring, U.K. banks' earnings have good momentum in 2022. The policy rate moves by the BoE and widening swaps will support earnings; cost should be stable, even as investment continues at pace; and impairments look set to normalize, underpinned by record low nonperforming assets in the system (for more information, see "U.K. Banks Are Poised For Higher Revenues And Elevated Costs In 2022," published March 3, 2022). However, if the sector is unable to take advantage of these tailwinds, and we believe medium-term earning prospects could be structurally weak, we could eventually consider revising down our industry risk assessment.

Business Position: Leading U.K. Financial Services Franchise

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. Lloyds has a strong domestic focus, and the absence of meaningful international diversification remains a constraining factor in our relative view of the U.K. banking system and compared with that of global peers. We believe that Lloyds is pursuing a coherent strategy focused on leveraging digital technology to improve efficiency and client service. Management has a track record of setting consistent priorities for the group and executes the strategy well, in our view.

Chart 1

Lloyds' Revenue Profile Is Retail-Focused
Reported net income by division in first-half 2022



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

With over 26 million U.K. retail customers, of which over 19 million are digitally active where an average digital user logs on 26 times per month, Lloyds is a leading U.K. digital bank with retail financial services products. It operates an integrated multichannel model under a portfolio that includes such well-known businesses 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 nonring-fenced bank of the group. It reports market shares of 25% for consumer credit card balances, 22% for personal current account deposits, 19% for open book mortgages, 18%-19% for small and midmarket business relationships, and 16% for retail savings deposits.

Net interest income contributes more than half of revenue because Lloyds is primarily a lending and deposit-taking institution. It has a less complex profile than that of many peers and we view its limited reliance on market-sensitive income as supporting its business stability. It is not active in investment banking, but its commercial banking division offers debt capital markets, foreign exchange, and transaction banking services to corporate customers.

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. It also underwrites general insurance products through other subsidiaries. We see increasing financial and operational links between the banking and insurance businesses. For example, Lloyds' single-customer view initiative enables clients to manage banking and insurance products together on Lloyds' digital platform. Nevertheless, we believe the insurance business is less integral to the group than the core banking activities.

Lloyds is attempting to increase its presence in the U.K. wealth market, which is attractive but fragmented. The acquisition of investment and retirement platform Embark early in 2022 added £37 billion of assets under management and will help Lloyds enhance its digital investment offering, and complement and potentially enhance the group's offerings via Schroders Personal Wealth and Scottish Widows. A joint venture with Schroders PLC, Schroders Personal Wealth, is now well underway and has ambitions to become a top 3 U.K. wealth manager. However, converting retail bank referrals to actual relationships will likely be challenging and will take time, in our view.

A recently developed and relatively small-but-growing business, Citra Living, is another example of initiatives Lloyds develops to improve and complement its mortgage offering. This initiative is executed under the purpose of Helping Britain Prosper and forms part of Lloyds' approach to the decarbonization of housing, focusing on buying and renting energy efficient properties, helping reduce the environmental impact of the U.K.'s housing stock and contributing to the country's overall net zero goals.

Capital And Earnings: Robust Capitalization, Supported By Revenue Growth, Will Cushion Against Potential Asset-Quality Deterioration

We project that Lloyds' risk-adjusted capital (RAC) ratio will be in the 9.0%-9.5% range through our forecast period, and its robust capitalization will be supported by revenue growth. In 2022, we expect revenue to increase on recovery in customer activity and rising interest rates environment. Lloyds expects statutory RoTE to be about 13% in 2022.

Indicative of its solid financial performance, Lloyds reported a net interest margin of 2.77% in first-half 2022, up from 2.5% in first-half 2021, reflecting the increase in the base rate and deposit growth. We expect that the group's disciplined execution of its strategy will help achieve its full-year net interest margin target of greater than 2.80% in 2022.

A key feature of Lloyds' profile is its sound efficiency. Lloyds' cost-to-income ratio (including remediation cost) was 51.2% in first-half 2022, compared with 54.9% in first-half 2021 and in line with the general downward trend through that year, the result of efficient cost management and revenue growth. Overall, we continue to see the group's efficient business model as a competitive advantage relative to peers and an important contributor to its typically strong internal capital generation.

Lloyds' pro forma common equity Tier 1 (CET1) capital ratio decreased to 14.8% at June 30, 2022, from 16.3% at Dec. 31, 2021. 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.

The substantial gap between the CET1 and RAC ratios primarily reflects the higher capital charges that we apply to Lloyds' residential mortgages and insurance subsidiaries. The residential mortgage book has a 10% average regulatory risk-weight under the internal rating-based approach, whereas our standard risk-weight for prime U.K. mortgages is

37%. We also fully deduct Lloyds' investment in its insurance subsidiaries from total adjusted capital (TAC), the numerator of the RAC ratio. In contrast, in the regulatory capital metrics, part of the investment is deducted and the remainder risk-weighted at 250%. We deduct the insurance investment in full because these subsidiaries are separately regulated, and their capital is not freely available to support banking risks.

Key elements of our base-case RAC projection through year-end 2022 include the following factors:

- Assumed annual loan growth of 2%-4%, on an improved mortgage market and more attractive pricing opportunities for Lloyds compared with recent years.
- A loan loss rate to gradually increase toward pre-pandemic levels over the next two years but will likely remain near 30-35 bps in 2022, reflecting good quality of Lloyds' mortgage book and resilient performance of the overall loan portfolio.
- A modest rise in expense, reaching pre-pandemic levels by 2023. This reflects wage inflation and other cost pressures.
- Dividend payout ratio to remain broadly in line with 2021.
- S&P Global risk-weighted assets (RWA) to move in line with loan growth.

We project a comfortable earnings buffer (that is, normalized operating income divided by S&P Global Ratings' RWAs) of about 1.8% on average in 2022-2024. This indicates that the group should absorb an unexpected rise in the level of credit losses, or exceptional items, within earnings.

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

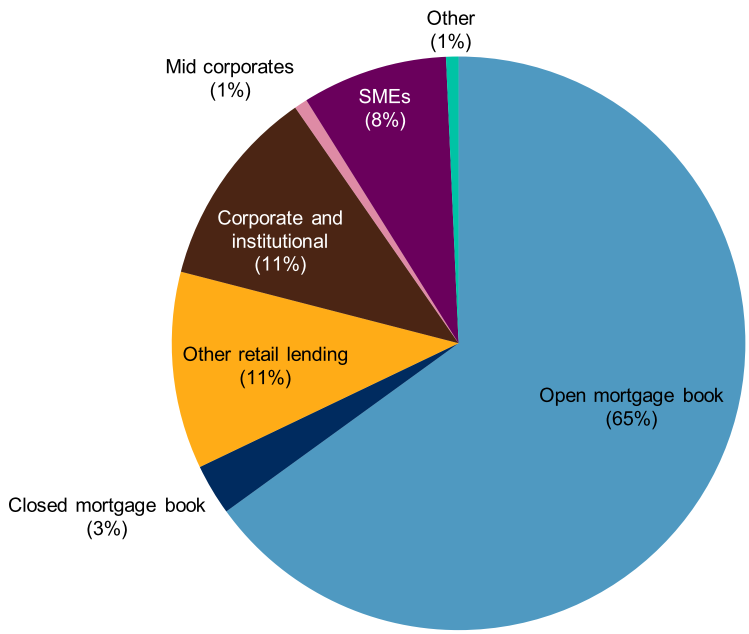
In our view, Lloyds' stable risk profile reflects the group's satisfactory asset quality track record and contained risk appetite. We also see the group as an inherently less complex organization than many peers, aided by its operational simplification and product rationalization, limited international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

Lloyds' customer loan portfolio has been broadly stable in size for an extended period as the historical runoff of certain portfolios offset moderate new business growth in target segments. In 2021, the loan book was stable and performed well, with notable recovery in consumer credit reported in the second half. We consider that the increased savings trend and falling consumer credit payments supported house purchases, which in turn was positive for new mortgage lending despite high competition in the mortgage market. We expect Lloyds' loan book to increase modestly with no change in risk appetite in 2022-2023, reflecting post-pandemic economic recovery.

Secured residential mortgages represent close to 70% of the total loan portfolio. On Dec. 31, 2021, prime, owner-occupied loans represented 80% of mortgages outstanding, with 17% in buy-to-let (in line with the industry average), the remainder being legacy specialist mortgage products that are gradually running off.

Chart 2

Lloyds Has A U.K.-Focused Loan Portfolio With Strong Mortgage Weighting
Net customer loans and advances on June 30, 2022

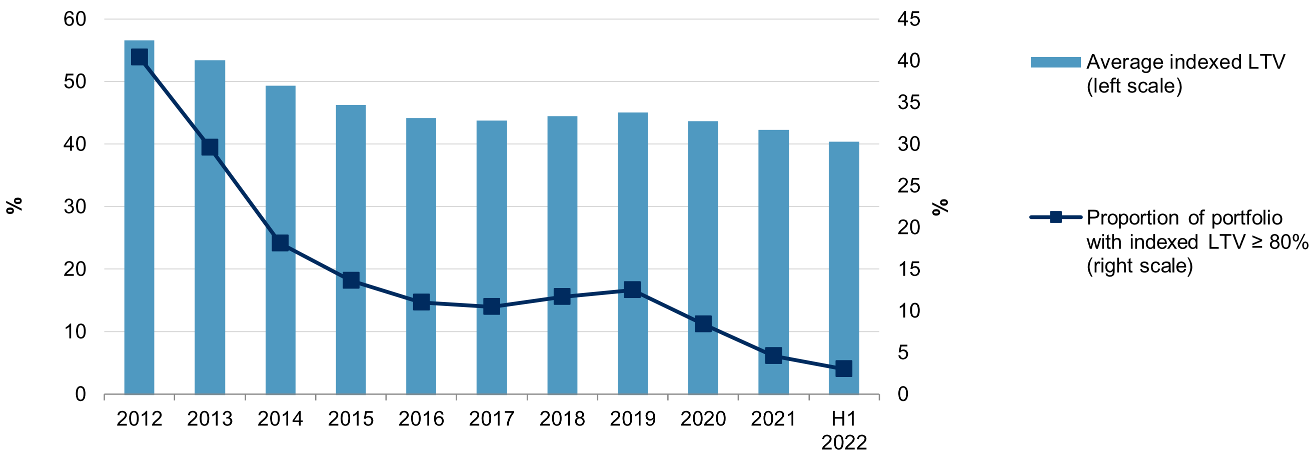


Excludes reverse repurchase agreements. SMEs--small and midsize enterprises. Source: Lloyds.

The loan-to-value (LTV) profile of Lloyds' mortgage book has improved over the past few years, with the higher-risk legacy exposure steadily decreasing. The most recent LTV indicators suggest a sizable cushion to absorb more challenging economic and housing market conditions; for example, the group states that the value of mortgages above 80% LTV fell to £9.3 billion as of June 30, 2022, from £14.3 billion as of Dec. 31, 2021. Moreover, Lloyds states that the proportion of the mortgage book originated in 2006-2008--when underwriting standards were weaker--decreased to 17% of the total mortgage book at end-2021, and 95% of this segment has an LTV of 80% or less, similar to the total book (92%).

Chart 3

The Quality Of Lloyds' Mortgage Portfolio Continues To Improve
Loan-to-value profile of the open mortgage book



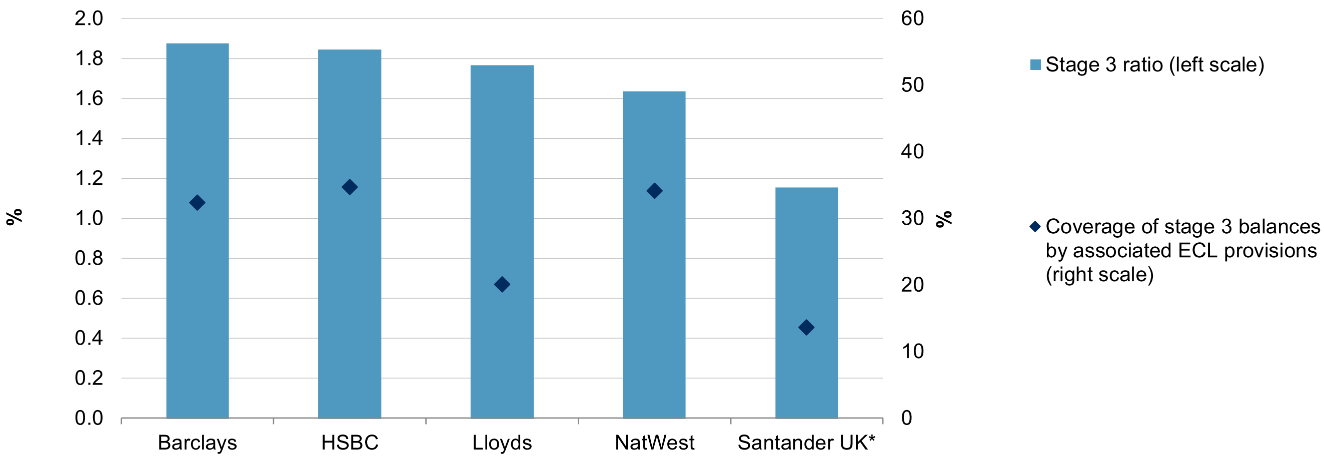
LTV-Loan-to-value. 1H--First half. Source: Lloyds.

We view Lloyds' nonperforming assets in line with those of rated U.K. banks. Stage 3 loans and advances to customers fell to £8.69 billion at Dec. 31, 2021, from £9.09 billion a year earlier, and 1.7% of total lending (from 1.8%). Provisions on stage 3 assets covered a reported 23% of drawn stage 3 balances on Dec. 31, 2021. This ratio is lower than some peers' due to the group's focus on collateralized lending and different write-off policies across peers.

Chart 4

Lloyds' Asset Quality Metrics Are Similar To U.K. Peers'

U.K. lenders' IFRS 9 stage 3 disclosures



Figures as at June 30, 2022; excludes reverse repos. *Data for Dec. 31, 2021. ECL--Expected credit loss.
Source: Institutions' disclosures.

Another sign of Lloyds' solid asset quality, stage 2 loans and advances to customers, decreased to £41.7 billion (from £60.5 billion at Dec. 31, 2020), equivalent to 9.2% of gross customer loans (13.5%), reflecting the improvements in the economic outlook. At the same time, the significant increase in 2020, similar to U.K. peers, reflected forward-looking reserve buildup, whereas the proportion more than 30 days overdue remained minor. Reversal of provisions in 2021 indicated that Lloyds' provisioning approach earlier in 2020 was cautious but actual portfolio performance turned out better than expected. We expect the trend in Lloyds' asset quality will move in line with that of the U.K. banking sector.

As the largest U.K. retail bank, Lloyds' remediation for mis-selling of payment protection insurance (PPI) was extraordinarily expensive, costing £21.9 billion in provisions from 2011-2021, with a minor further charge in 2022. We believe this issue is essentially addressed now. Lloyds has materially overhauled its product design and sales practices in recent years to mitigate the risk of conduct issues. This includes measures with regard to HBOS Reading. There remains close regulatory scrutiny of banks' business conduct in the U.K., and we assume some further general remediation charges in our earnings projections, as we do for other U.K. banking groups.

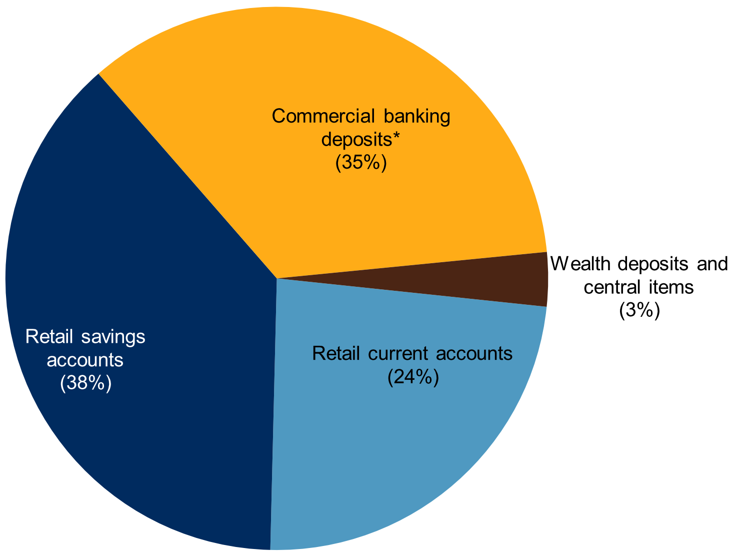
The 6% diversification benefit in our RAC ratio calculation reflects the spread of Lloyds' activities by business line and risk type. Although it has a high geographic concentration in its domestic market, the U.K. is a large economy and Lloyds' exposures are reasonably diversified regionally and sectorally.

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

We regard Lloyds' funding and liquidity profile as comparable with that of U.K. and global peers. The group's metrics are underpinned by its strong deposit franchise and diversified term funding base by market and currency.

Chart 5

Lloyds' Diverse Deposit Franchise Anchors Its Funding Base
Deposit sources at June 30, 2022



*Includes retail business banking. Source: Lloyds.

Lloyds reported a 95% loan-to-deposit ratio at June 30, 2022; in line with the median for the top 25 U.K. banks (94% at end-2021). Our stable funding ratio was 110% at end-June 2022 and we expect it will remain above 100%. The group's wholesale markets funding stood at £93.1 billion at end-2021 and the proportion of wholesale borrowing due within one year was 32%, and primarily funded the liquid asset portfolio.

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.

Lloyds has been keeping healthy liquidity buffers well ahead of regulatory requirements, with a liquidity coverage ratio of 141.8% reported as of first-half 2022 (compared with 135% as of end-2021). Its mortgage loan book also offers substantial secured access to the Bank of England's discount window if needed.

Support: Large ALAC Buffer

We apply the standard 6% threshold for two notches of ALAC uplift. By year-end 2021, Lloyds' significant issuance of bail-in instruments, mainly holding company senior unsecured debt, had taken its ALAC ratio to 10.1% and we expect it will decrease slightly but will remain at a comfortable level of above 9% 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 32.4% on a transitional basis on June 30, 2022. We expect Lloyds to refinance maturing MREL instruments with new issuance to meet the end-state regulatory requirement applicable from 2022, which the group states is likely to be 27.8% (including regulatory capital buffers).

Environmental, Social, And Governance

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary “ESG Credit Indicators: Definition And Applications,” published Oct. 13, 2021.

Environmental, social, and governance factors have a neutral effect on our credit analyst of Lloyd's. Avoiding new instances of conduct failure is a prominent and ongoing consideration for the group's management and strategy. The U.K. industrywide 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.

The group is also increasing its attention on environmental sustainability. This includes supporting customers in transitioning to low-carbon solutions and increasing resilience to climate change. It is also working to reduce its own carbon footprint and manage the effect of environmental risks on its asset quality. Lloyds is working toward the Bank of England's biennial exploratory scenario in relation to the physical and transition risks of climate change, which we assume will help banks better manage the potential for stranded assets.

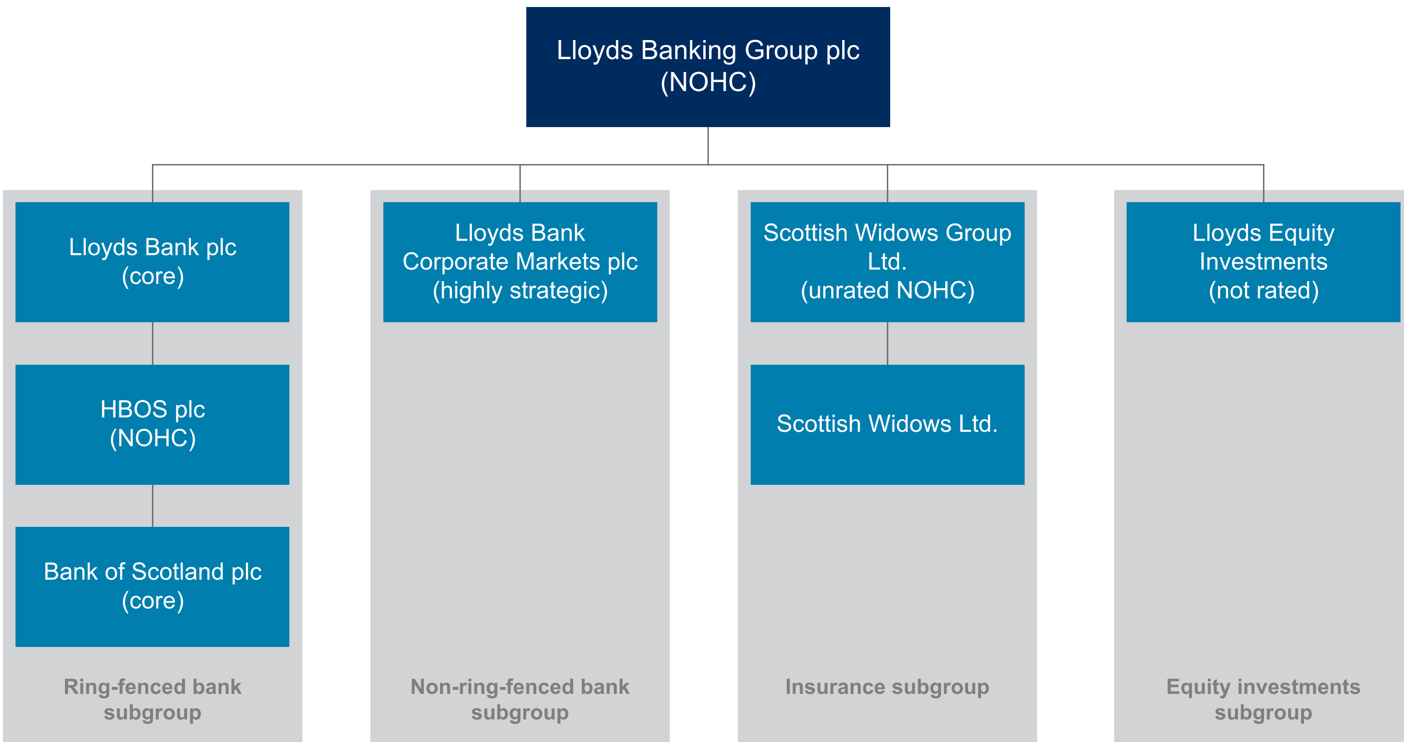
We see Lloyds' governance standards as consistent with domestic norms. The ring-fenced bank, nonring-fenced bank, and insurance subgroups each have stronger governance arrangements than typically found in subsidiaries, including independent board members.

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 nonring-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 nonring-fenced operations are somewhat less diversified and less integral than those of the core ring-fenced entities.

Highly Simplified Overview Of Lloyds' Legal Entity Structure

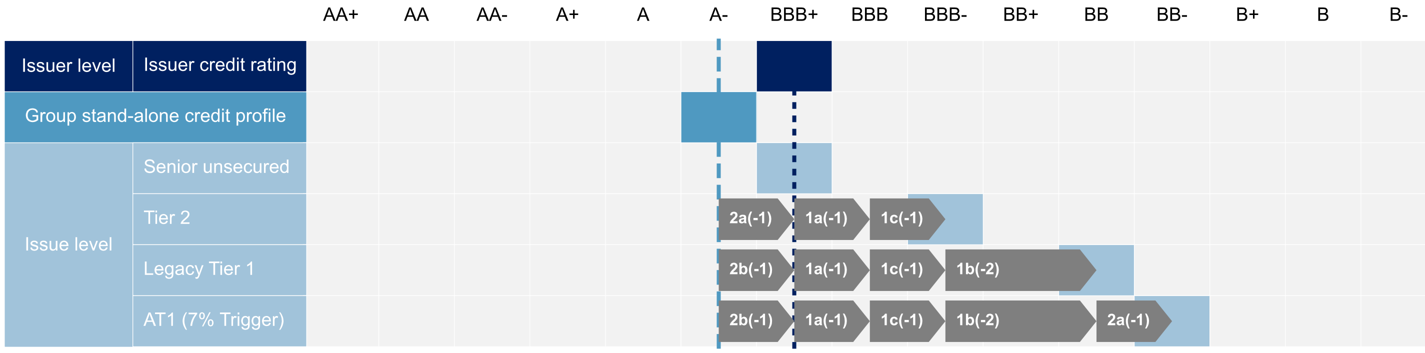


Source: Lloyds, S&P Global Ratings.
Information in parentheses shows our group status classification.

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.

Lloyds Banking Group PLC: NOHC Notching



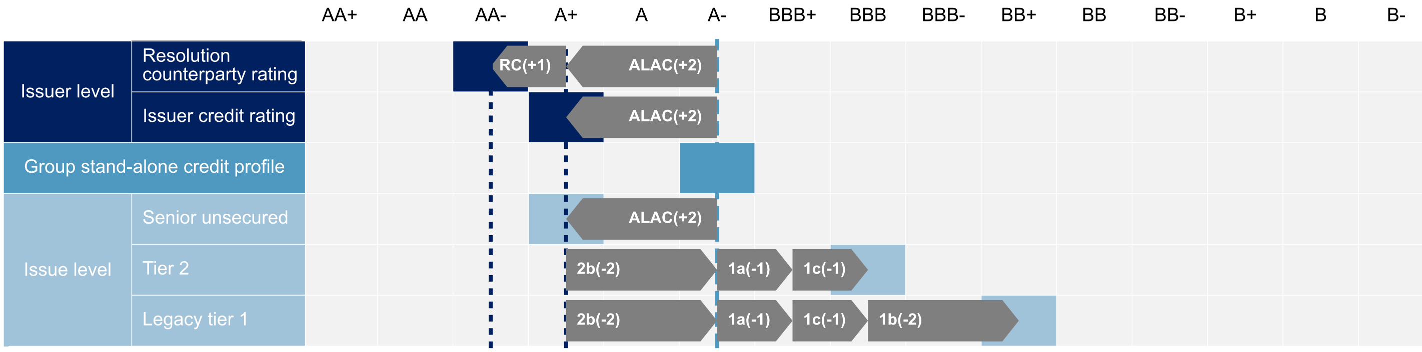
Key to notching

- - - - - 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)
2b	Other nonpayment or default risk not captured already

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 3 of our “Hybrid Capital: Methodology And Assumptions” criteria, published on March 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.

Lloyds Bank PLC: Notching



Key to notching

-----	Group stand-alone credit profile
------	Issuer credit rating
RC	Resolution counterpartyliabilities (senior secured debt)
ALAC	Additional loss-absorbing capacity buffer
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
2b	Other nonpayment or default risk not captured already

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.

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.

Key Statistics

Table 1

Lloyds Banking Group PLC--Key Figures

	--Year ended Dec. 31--						
(Mil. £)	**2022***	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**
Adjusted assets	723,550	700,021	718,904	690,906	675,038	681,041	684,608
Customer loans (gross)	459,948	452,844	446,486	444,205	448,402	450,813	445,121
Adjusted common equity	20,181	27,458	24,876	25,016	25,341	24,173	24,633

Table 1

Lloyds Banking Group PLC--Key Figures (cont.)

	--Year ended Dec. 31--						
(Mil. £)	**2022***	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**
Operating revenues	8,726	16,436	15,418	18,264	18,995	18,650	17,849
Noninterest expenses	4,555	8,544	8,756	9,304	9,500	9,552	9,291
Core earnings	2,712	7,475	2,215	4,778	5,885	5,243	4,769

*Data as of June 30.

Table 2

Lloyds Banking Group PLC--Business Position

	--Year ended Dec. 31--						
(%)	**2022***	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**
Total revenues from business line (mil. £)	8,795.0	16,523.0	15,418.0	18,634.0	18,945.0	18,929.0	18,288.0
Commercial banking/total revenues from business line	21.0	22.0	23.7	23.3	24.6	25.6	25.8
Retail banking/total revenues from business line	65.8	62.8	65.6	58.1	59.3	57.7	59.2
Commercial & retail banking/total revenues from business line	86.8	84.8	89.3	81.4	83.9	83.3	85.0
Insurance activities/total revenues from business line	8.7	9.1	8.4	11.4	10.5	10.5	8.8
Other revenues/total revenues from business line	4.5	6.1	2.3	7.2	5.6	6.2	6.2
Return on average common equity	11.2	11.9	2.0	5.8	8.9	7.0	5.7

*Data as of June 30.

Table 3

Lloyds Banking Group PLC--Capital And Earnings

	--Year ended Dec. 31--						
(%)	**Q2 2022**	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**
Tier 1 capital ratio	16.7	20.0	19.1	16.5	17.8	16.6	16.1
S&P Global Ratings' RAC ratio before diversification	N/A	9.4	8.7	8.6	8.8	8.0	8.2
S&P Global Ratings' RAC ratio after diversification	N/A	10.1	9.3	9.2	9.4	8.6	8.8
Adjusted common equity/total adjusted capital	77.2	81.1	78.4	78.7	77.7	79.7	79.9
Double leverage	N.M.	97.5	104.8	104.5	103.5	103.8	102.2
Net interest income/operating revenues	82.5	57.0	69.7	55.7	70.5	58.5	52.0
Fee income/operating revenues	8.5	8.7	7.5	7.7	7.7	8.5	9.5
Market-sensitive income/operating revenues	(221.2)	104.6	46.8	100.1	(20.4)	63.4	103.9
Cost to income ratio	52.2	52.0	56.8	50.9	50.0	51.2	52.1
Preprovision operating income/average assets	0.9	0.9	0.8	1.1	1.2	1.1	1.1
Core earnings/average managed assets	0.6	0.9	0.3	0.6	0.7	0.6	0.6

N.M.--Not meaningful. 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 and central banks	198,095	611	0	3,658	2
Of which regional governments and local authorities	0	0	0	0	0
Institutions and CCPs	20,814	2,329	11	4,888	23
Corporate	87,236	47,507	54	70,074	80
Retail	428,342	86,554	20	192,271	45
Of which mortgage	368,169	46,589	13	143,505	39
Securitization§	28,355	5,958	21	9,426	33
Other assets†	9,662	6,935	72	23,161	240
Total credit risk	772,504	149,893	19	303,478	39
Credit valuation adjustment					
Total credit valuation adjustment	--	675	--	0	--
Market risk					
Equity in the banking book	3,549	5,859	165	26,253	740
Trading book market risk	--	3,150	--	5,154	--
Total market risk	--	9,009	--	31,406	--
Operational risk					
Total operational risk	--	24,025	--	27,150	--
	Exposure*	**Basel III RWA**	**Average Basel III RW(%)**	**S&P Global Ratings RWA**	**% of S&P Global Ratings RWA**
Diversification adjustments					
RWA before diversification	--	195,965	--	362,035	100
Total diversification/ concentration adjustments	--	--	--	(25,963)	(7)
RWA after diversification	--	195,965	--	336,072	93
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		39,145	20.0	33,852	9.4
Capital ratio after adjustments‡		39,145	20.0	33,852	10.1

*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, 2021, S&P Global Ratings.

Table 5

Lloyds Banking Group PLC--Risk Position

	--Year ended Dec. 31--						
(%)	**2022***	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**
Growth in customer loans§	3.1	1.4	0.5	(0.9)	(0.5)	1.3	(1.6)
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	(7.2)	(6.4)	(6.2)	(6.8)	(7.3)	(6.2)
Total managed assets/adjusted common equity (x)	44.1	32.3	35.0	33.3	31.5	33.6	33.2
New loan loss provisions/average customer loans§	0.2	(0.3)	0.9	0.3	0.2	0.2	0.2
Net charge-offs/average customer loans§	0.2	0.2	0.3	0.3	0.2	0.2	0.3
Gross nonperforming assets/customer loans + other real estate owned	2.5	2.8	3.0	3.0	3.2	2.4	2.8
Loan loss reserves/gross nonperforming assets	33.7	34.0	47.6	29.5	29.7	20.4	19.4

*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--						
(%)	**2022***	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**
Core deposits/funding base	81.1	76.4	73.1	70.2	70.9	70.6	71.0
Customer loans (net)/customer deposits	95.4	94.2	97.7	106.9	106.7	108.0	107.2
Long-term funding ratio	91.8	93.0	90.1	89.9	91.1	86.9	85.6
Stable funding ratio	110.0	114.9	107.4	102.4	107.3	103.9	103.9
Short-term wholesale funding/funding base	8.8	7.5	10.6	10.8	9.6	14.1	15.5
Broad liquid assets/short-term wholesale funding (x)	3.3	3.0	2.2	1.9	2.2	1.6	1.5
Net broad liquid assets/short-term customer deposits	25.6	20.3	17.1	13.5	16.1	12.2	11.8
Short-term wholesale funding/total wholesale funding	44.2	30.6	38.0	35.0	31.7	46.4	51.6
Narrow liquid assets/3-month wholesale funding (x)	2.3	4.5	3.1	2.8	3.0	2.1	2.0

*Data as of June 30. Source: S&P Global Ratings.

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

Lloyds Banking Group PLC--Rating Component Scores (cont.)	
Issuer Credit Rating	**A+/Stable/A-1**
Sovereign support	0
Additional factors	0

ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.

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. Q3 2022: The Great Inflation Squeeze, June 27, 2022
- Bank of England Sees Systemic U.K. Banks As Substantially Resolvable, With Certain Gaps Still To Close, June 10, 2022
- When Rates Rise: Not All European Banks Are Equal, June 8, 2022

Ratings Detail (As Of September 12, 2022)*	
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

Ratings Detail (As Of September 12, 2022)*(cont.)	
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+
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.