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Lloyds Banking Group PLC

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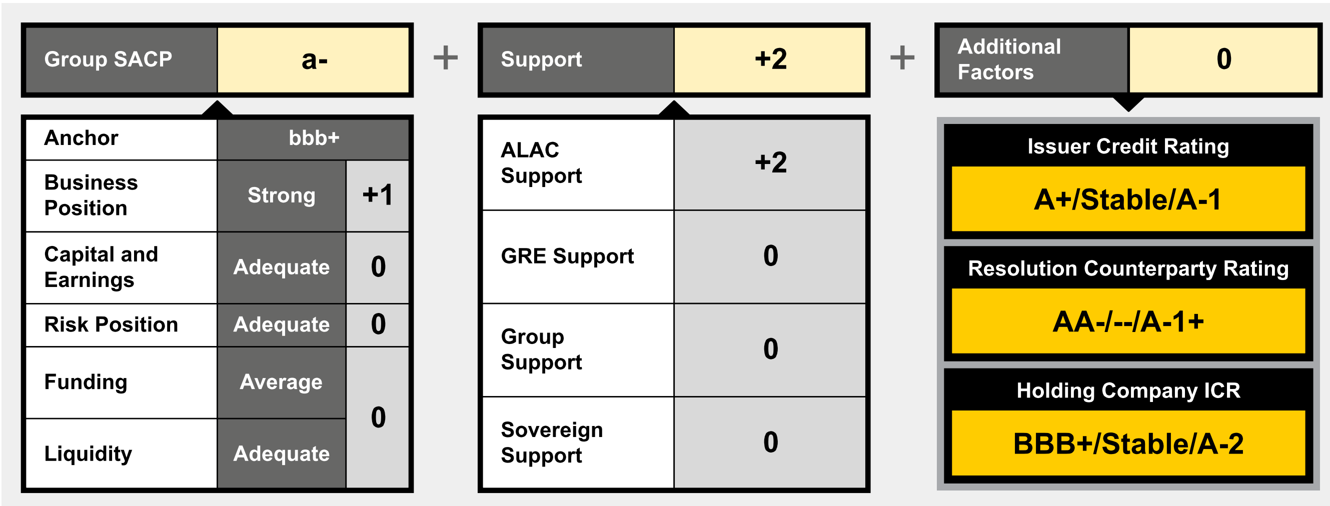
Lloyds Banking Group PLC



Group SACP—The stand-alone credit profile of the Lloyds group. The holding company issuer credit rating (ICR) shown applies to Lloyds Banking Group PLC, and is one notch below the group SACP. The ICR and the resolution counterparty rating apply to Lloyds Banking Group PLC's two core bank operating subsidiaries: Lloyds Bank PLC and Bank of Scotland PLC.

Credit Highlights

Issuer Credit Rating
BBB+/Stable/A-2

Overview

Key strengths	Key risks
Market leading U.K. retail banking franchise.	Our risk-adjusted capital (RAC) ratio for Lloyds is lower than that for U.K. peers.
Cost-efficient business model.	Geographically focused on the U.K., which has been a low growth market.
Supportive funding and liquidity profiles.	

Lloyds pre-provision earnings performance is subdued. In 2021, we believe it is increasingly likely that Lloyds will report a solid statutory return on tangible equity (RoTE) as it releases some of the large impairment provisions it booked in 2020 in relation to COVID-19. Still, the low-rate environment and reduced weighting in its loan book for higher margin consumer credit will keep Lloyds' pre-provision earnings at subdued levels relative to its potential; we currently assume only a modest improvement in 2022.

Capital unlikely to become a credit strength. With a reported regulatory common equity Tier 1 ratio (CET1) of 16.7% at March 31, 2021, Lloyds appears well placed to withstand any unexpected shocks from the latter period of the COVID-19 pandemic. S&P Global Ratings risk-adjusted capital (RAC) ratio of just under 9% is lower than U.K. peers, which partly reflects the deduction of Lloyds' material investment in its insurance business. Looking forward, our capital analysis incorporates our assumption of a sizable increase in shareholder distributions from 2022, which likely negates the potential for capital to become a credit strength.

New era for Lloyds with change in CEO. With the recent departure of its long-standing CEO, Lloyds is embarking on a new era; the external hire replacement starts work in August. While we anticipate no material change in strategy or financial policy, we will be interested to see the degree to which Lloyds broadens its retail and commercial banking franchises, as well as the potential for growth in its wealth and insurance operations.

Outlook

The stable outlook on Lloyds Banking Group reflects our belief that the bank is sufficiently provisioned over our two-year outlook horizon to navigate any tail risks from the pandemic.

Upside scenario

We could consider raising the ratings if:

- Lloyds makes stronger-than-expected earnings progress, for example reflected in a double digit statutory RoTE in both 2021 and 2022, while maintaining capital discipline.
- We expect Lloyds will maintain this level of performance, including a cost-income ratio consistently below 50%; and
- Asset quality metrics and risk appetite compare well domestically, in the context of a predictable U.K. economic outlook.

Downside scenario

We could lower the ratings if we observe setbacks in Lloyds' business performance and prospects which would cause us to doubt its relatively higher ratings versus domestic peers. A much more aggressive capital policy than we currently assume, or unexpected nonfinancial risks, could also lead us to consider a downgrade.

Lloyds Bank PLC

In the event we raised the ratings on the nonoperating holding company, by raising the group 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--				
	2018a	**2019a**	**2020a**	**2021f**	**2022f**
Growth in operating revenue (%)	1.8	(3.8)	(15.6)	0.5-1.5	1.5-2.5
Growth in customer loans (%)	(0.5)	(0.9)	0.5	c. 2.0	c. 2.0

Lloyds Banking Group plc--Key Ratios And Forecasts* (cont.)					
	--Fiscal year ended Dec. 31--				
	2018a	2019a	2020a	2021f	2022f
Cost to income ratio (%)	50.0	50.9	56.8	55-56	54-55
Return on average common equity (%)	8.9	5.8	2.0	10.0-11.0	8.0-9.0
New loan loss provisions/average customer loans (%)	0.2	0.3	0.9	0.15-0.20	0.25-0.30
Gross nonperforming assets§/customer loans (%)	3.2	3.0	3.0	3.1-3.3	3.2-3.4
Risk-adjusted capital ratio (%)	8.8	8.6	8.7	c. 9.0	8.5-9.0

*All figures adjusted by S&P Global Ratings. §Includes performing forborne loans. a--Actual. f--Forecast.

Anchor: Reflects 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.

We view the economic risk trend for the U.K., as it affects its domestic banking sector, as stable. We expect the strong economic rebound to continue through 2022, which in turn should provide a significant tailwind to U.K. banks' asset quality. We are mindful of residual pandemic-related risks and potential imbalances that could arise if the current robust levels of house price inflation and mortgage credit growth continue unabated. However, on balance, we think these concerns are sufficiently mitigated. We could improve our economic risk assessment if we gain confidence in the sustainability of U.K. economic performance and that the relatively high private sector leverage will not lead to new asset quality concerns.

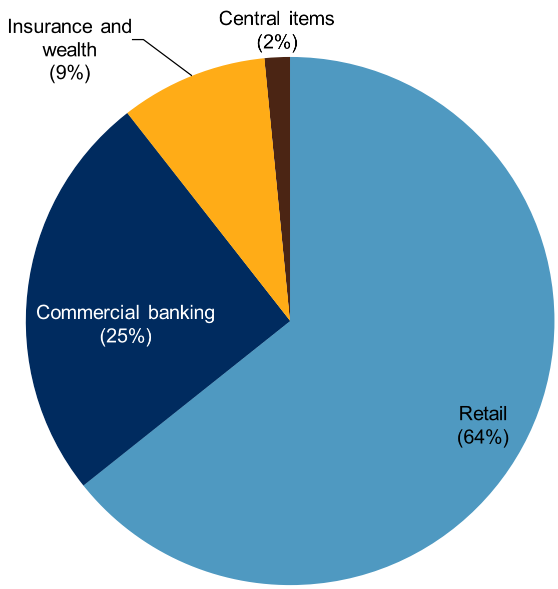
The industry risk trend is stable as we incorporate the strong institutional framework and robust funding profile. However, pre-provision earnings appear set to remain constrained by the ongoing low-rate environment, despite some yield curve steepening. If we believe that medium-term earnings prospects are structurally impaired, including regulatory pressures that constrain noninterest income growth, then we could consider lowering our industry risk assessment.

Business Position: Leading U.K. Financial Services Franchise

Our favorable view of Lloyds' business position is based on its market-leading position in U.K. retail banking and complementary activities in domestic commercial banking and insurance (chart 1). Lloyds has a strong domestic focus and the absence of meaningful international diversification is a constraining factor in our assessment in the context of our relative view of the U.K. banking system. 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 them well, in our view.

Chart 1

Lloyds' Revenue Profile Is Retail-Focused
Reported 'net income' by division in 2020



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

Lloyds serves over 25 million U.K. retail customers, of which over 17 million are digitally active. It operates an integrated multi-channel model under a brand portfolio that includes Lloyds, Halifax, and Bank of Scotland in retail and commercial banking and Scottish Widows in insurance. 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 mid-market business relationships, and 16% for retail savings deposits.

Net interest income contributes the majority of revenue since Lloyds is primarily a lending and deposit-taking institution. It has a less complex profile than many peers and we view its limited reliance on market-sensitive income as supportive of 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 a degree of franchise differentiation from U.K. peers. Lloyds' 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 growing financial and operational linkages 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 Lloyds than the banking activities.

Lloyds is attempting to increase its presence in the U.K. wealth market, an attractive but fragmented market. A joint venture with Schroders PLC, Schroders Personal Wealth, is now well underway and has stated ambitions to become a top three U.K. wealth manager. However, indicative of the challenge of converting retail bank referrals to actual relationships, this target has been pushed back to end-2025, from 2023.

Capital And Earnings: Our View Of Lloyds' Capitalization Incorporates A Sizable Increase In Shareholder Distributions From 2022

We project that Lloyds' RAC ratio will operate in the 8.5%-9.0% range through year-end 2022. We have recently improved this range by about 50 basis points (bps) since we now believe that credit losses will be lower than we assumed last year, and even lower than we assumed in March 2021 (see "U.K. Bank Credit Losses Could Fall 40% In 2021," published March 29, 2021, on RatingsDirect). This RAC range positions the bank below the other major U.K. banks and the average for the top 50 European banks.

In 2021, we expect revenue stability, further cost reductions, and a low loan loss rate. Lloyds states that it expects statutory RoTE to be between 8% and 10%. This excludes a benefit of about 2.5% from a one-off expected tax change.

Indicative of its revenue pressures, Lloyds reported a net interest margin of 2.49% in the first-quarter of 2021, down from 2.79% in the same period of 2020, given the impact of Bank of England base cuts in March 2020. We expect the net interest margin to be more resilient, noting Lloyds' disciplined management across its brands and channels. Indeed, Lloyds states that it now expects its full-year margin to exceed 2.45% in 2021.

A key feature of Lloyds' profile is its relatively sound efficiency. Prior to COVID-19, we considered that Lloyds was progressing toward its previous target cost-to-income ratio in the low 40s at the end of 2020. In the event, Lloyds reported a 2020 ratio of 55.3%, since revenue decline (down 16% year-on-year) more than offset a decline in expenses (down 4% year-on-year). Nevertheless, we still see its efficient business model as a competitive advantage relative to peers and an important contributor to its typically strong internal capital generation.

Lloyds reported a 16.7% CET1 ratio on March 31, 2020, or 15.8% pre IFRS9 transitional relief. This compares well with peers and sits comfortably above the management's internal target of about 12.5% plus a 100 bp 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 about 2%, on the back of an improved mortgage market and more attractive pricing opportunities for Lloyds compared with recent years.

- A loan loss rate of less than 20 bps in 2021, as we assume the benefits of some post model adjustment releases in the second half of the year, before rising slightly in 2022.
- A modest estimate of further potential litigation and customer redress charges, as we do for other U.K. banking groups, plus some restructuring charges.
- A limited role for dividends in 2021 relative to historic norms, in line with our assumption for most other U.K. banking groups, gradually increasing thereafter. We factor our assumption of share buybacks in 2022 into our RAC projection.
- 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 1.2% on average in 2021-2023. This indicates that Lloyds should be able to absorb an unexpected rise in the level of credit losses, or exceptional items, within earnings.

Risk Position: Solid Profile Anchored By Overweight Position In Residential Mortgages

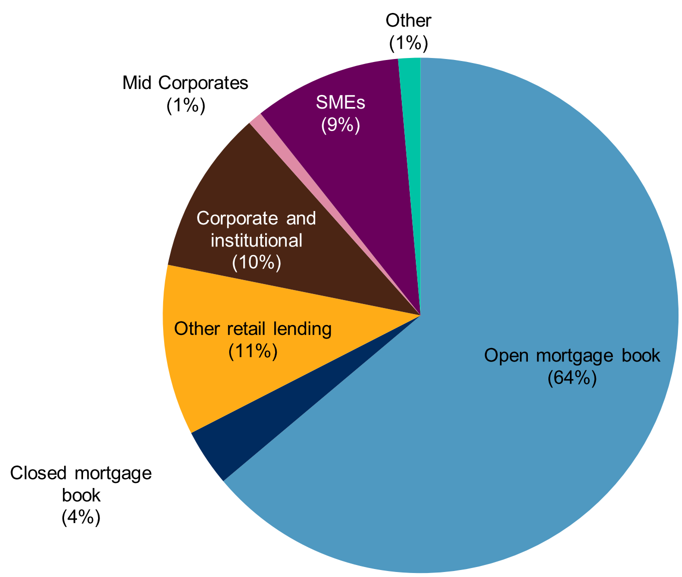
Our risk position assessment considers risks that, on a relative basis, may not be well captured by the standard assumptions in our capital and earnings analysis. We view Lloyds' risk position to be adequate, reflecting the group's satisfactory asset quality track record and its contained risk appetite. We also see Lloyds 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 historic runoff of certain portfolios offset moderate new business growth in target segments. In 2020, the loan book was once again unchanged in size, but this hid sharp declines in consumer credit portfolios, and a rise in the small and midsize enterprises book as a result of COVID-19-related government-guaranteed loans. Henceforth we expect the loan book to demonstrate modest growth but no change in risk appetite.

The loan portfolio is skewed toward secured residential mortgages (chart 2). On Dec. 31, 2020, prime, owner-occupied loans represented 79% of outstanding mortgages, with 17% in buy-to-let (in line with the industry average) and the remainder in legacy specialist mortgage products that are closed to new business and steadily running off.

Chart 2

Lloyds Has A U.K.-Focused Loan Portfolio With Strong Mortgage Weighting
Net customer loans and advances on March 31, 2021

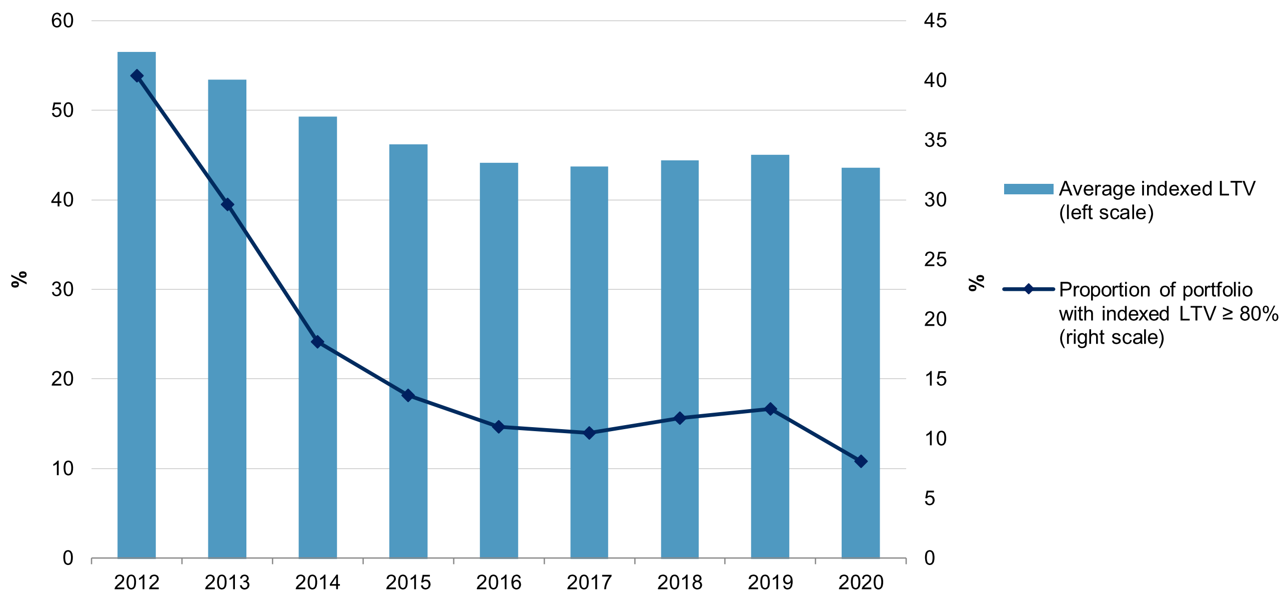


Excludes reverse repurchase agreements. SMEs--small and midsize enterprises. Source: Lloyds.

Residential mortgages are underwritten based on the borrowers' repayment capacity, but the loan-to-value (LTV) distribution indicates collateral cover in the event of foreclosure. The LTV profile of Lloyds' mortgage book has improved steadily as U.K. house prices improved and it managed down higher risk legacy exposures (chart 3). The most recent LTV data indicate a sizable cushion to absorb more challenging economic and housing market conditions; for example, Lloyds states that the value of mortgages above 80% LTV has fallen to £24.5 billion as of March 31, 2021, from £36.2 billion at end-2019. Moreover, Lloyds states that the proportion of the mortgage book originated in the 2006-2008 period--when underwriting standards were weaker than subsequently--has reduced to 17% of the total mortgage book at end-2020 and that 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

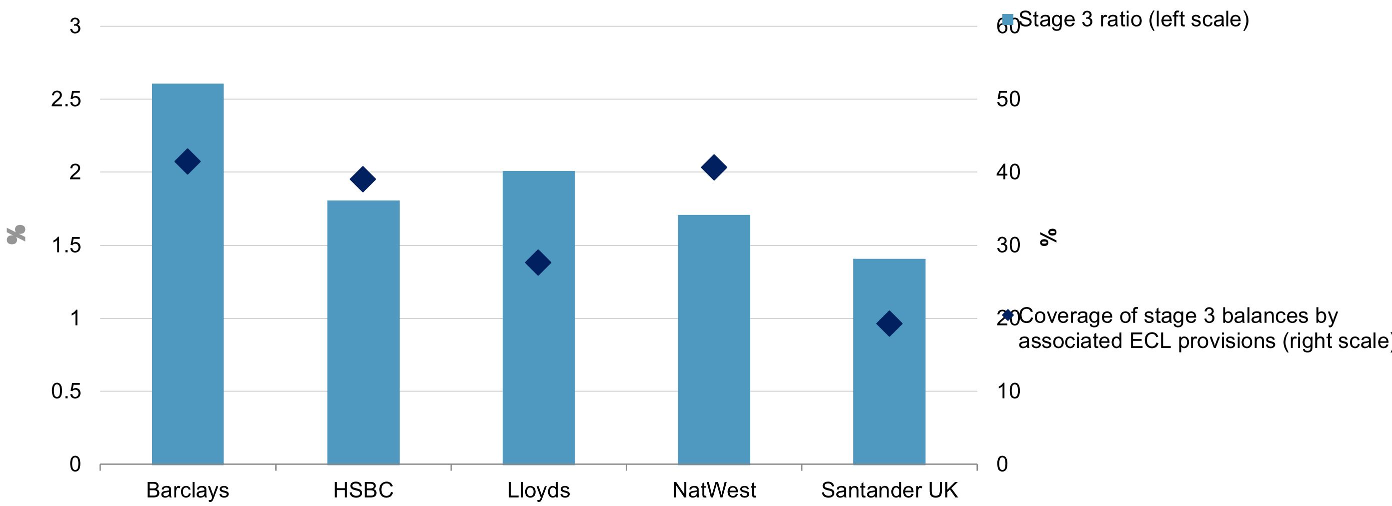


LTV-Loan to value. Source: Lloyds.

We view Lloyds' current nonperforming assets as typical among rated U.K. banks (chart 4). On March 31, 2021, reported Stage 3 loans remained unchanged from year-end 2019, at a modest 1.8% of loans. Provisions on stage 3 assets covered a reported 27% of drawn stage 3 balances on March 31, 2021. This ratio is lower than certain peers' due to Lloyds' focus on collateralized lending and differing 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 Dec. 31, 2020; excludes reverse repos. ECL--Expected credit loss. Source: Institutions' disclosures.

In the current environment, Stage 2 loans can provide a better insight into asset quality. On March 31, 2021, a reported 10.7% of Lloyds' loans were classified as Stage 2, up from 7.7% at year-end 2019. However, the significant increase in 2020, like U.K. peers, reflected forward-looking reserve buildup, whereas the proportion more than 30 days overdue remained minor. We currently expect the trend in Lloyds' asset quality to mirror that for the U.K. system more broadly.

As the largest U.K. retail bank, Lloyds' remediation for misselling of payment protection insurance (PPI) was extraordinarily expensive, costing £21.9 billion in aggregate provisions between 2011 and 2019, with a minor further charge in 2020. Lloyds has materially overhauled its product design and sales practices in recent years to mitigate the risk of future conduct issues. 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.

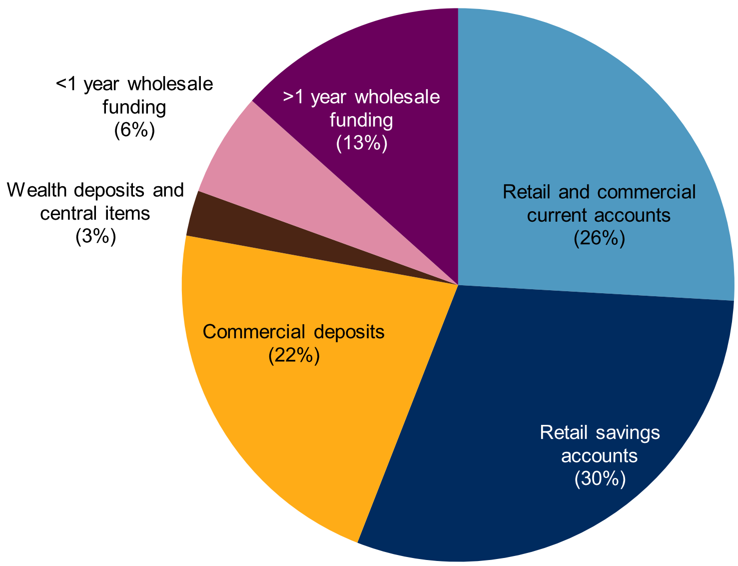
The 6% diversification benefit in our RAC ratio calculation reflects the spread of Lloyds' activities by business line and risk type. Although it has a high geographic concentration in its domestic market, the U.K. is a large economy and Lloyds' exposures are reasonably diversified regionally and sectorally.

Funding And Liquidity: A Strong Deposit Franchise And Improved Ratios

We regard Lloyds' funding as average compared with U.K. peers, and its liquidity position as adequate in a global comparison. Its metrics are underpinned by its strong deposit franchise and diversified term funding base by market and currency (chart 5).

Chart 5

Lloyds' Diverse Deposit Franchise Anchors Its Funding Base
Funding sources on Dec. 31, 2020



Excludes equity and repurchase agreements. BoE-Bank of England. Source: Lloyds.

Lloyds reported a 96% loan-to-deposit ratio on March 31, 2021; the median for the top 25 U.K. banks by revenue is about 110%. Lloyds' metric has improved from 107% at end-2019, owing to deposit growth of £50 billion. Our stable funding ratio was 107% at end-2020 and we expect it will remain above 100%. Lloyds' wholesale markets funding stood at £109 billion at end-2020 and the proportion of wholesale borrowing due within one year was 31%, and primarily funded the liquid asset portfolio.

While Lloyds' leading market position confers potential 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 U.K. peers.

Lloyds' ratio of broad liquid assets to short-term wholesale funding has been consistently healthy at over 1.5x for many years, and we expect this metric to remain robust; it was 2.2x at end-2020. We note that Lloyds' mortgage loan book in particular also offers substantial secured access to the Bank of England discount window in case of need.

Environmental, Social, And Governance

Avoiding new instances of conduct failure is a prominent and ongoing consideration for Lloyds' management and strategy. The U.K. industrywide PPI misselling 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.

Lloyds 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, non-ring-fenced bank, and insurance subgroups each have stronger governance arrangements than typically found in subsidiaries, including independent board members.

Support: Large ALAC Buffer

We apply the standard 8% threshold for two notches of ALAC uplift. By year-end 2020, Lloyds' significant issuance of bail-in instruments, mainly holding company senior unsecured debt, had taken its ALAC ratio to 11.7% and we expect this level to broadly persist. 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 36.1% on a transitional basis on March 31, 2021. It plans about £5 billion of MREL issuance per year on average to meet the end-state regulatory requirement applicable from 2022, which Lloyds states is likely to be 27.8% (including regulatory capital buffers).

Additional rating factors: None

No other factors affect the ratings.

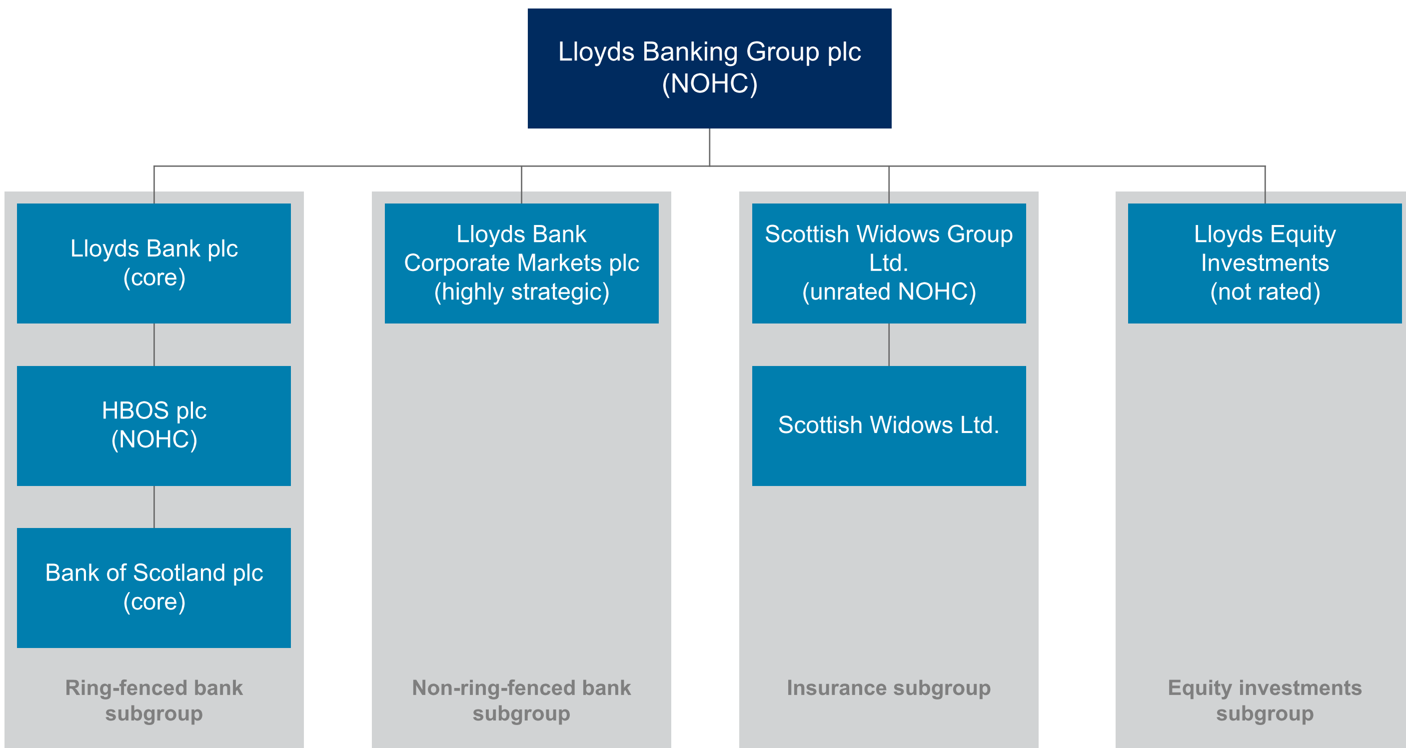
Group Structure, Rated Subsidiaries, And Hybrid Issue Ratings

Lloyds Banking Group PLC is the nonoperating holding company (NOHC) of the group that it heads, and the operating subsidiaries are organized in separate subgroups (chart 6).

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

Chart 6

Highly Simplified Overview Of Lloyds' Legal Entity Structure



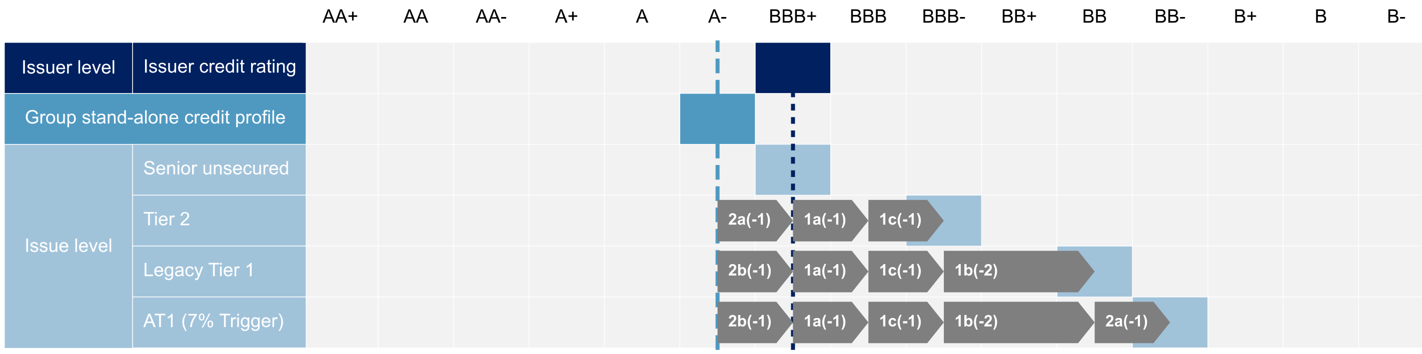
Source: Lloyds, S&P Global Ratings.
Information in parentheses shows our group status classification.

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. As a result 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 (charts 7 and 8).

Chart 7

Lloyds Banking Group PLC: NOHC Notching



Key to notching

- - - - - Group stand-alone credit profile

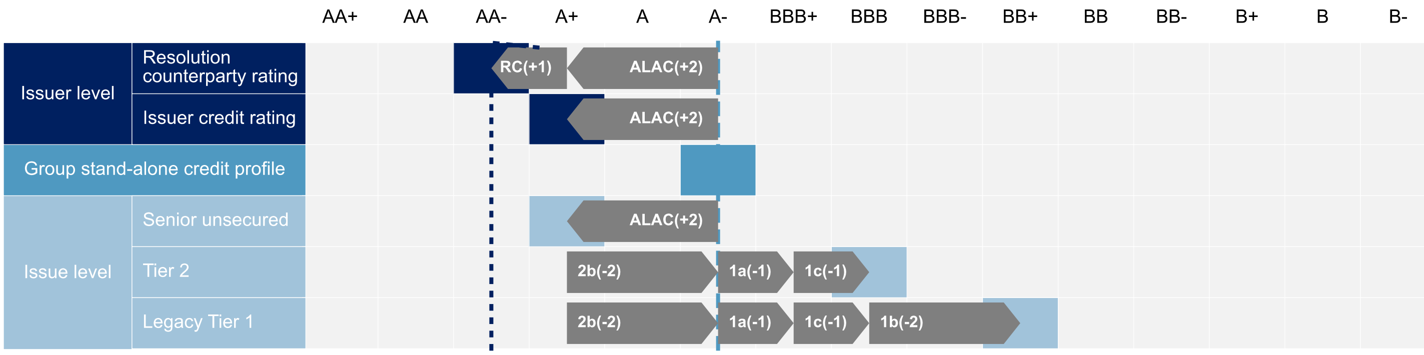
- - - - - Issuer credit rating

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 July 1, 2019.
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.

Chart 8

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 3 of our “Hybrid Capital: Methodology And Assumptions” criteria, published on July 1, 2019.

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. £)	**2020**	**2019**	**2018**	**2017**	**2016**
Adjusted assets	718,904	690,906	675,038	681,041	684,608
Customer loans (gross)	446,486	444,205	448,402	450,813	445,121
Adjusted common equity	24,876	25,016	25,341	24,173	24,633

Table 1

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

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

Table 2

Lloyds Banking Group PLC--Business Position

	--Year ended Dec. 31--				
(%)	**2020**	**2019**	**2018**	**2017**	**2016**
Total revenues from business line (mil. £)	15,418	18,634	18,945	18,929	18,288
Commercial banking/total revenues from business line	23.7	23.3	24.6	25.6	25.8
Retail banking/total revenues from business line	65.6	58.1	59.3	57.7	59.2
Commercial & retail banking/total revenues from business line	89.3	81.4	83.9	83.3	85.0
Insurance activities/total revenues from business line	8.4	11.4	10.5	10.5	8.8
Other revenues/total revenues from business line	2.3	7.2	5.6	6.2	6.2
Return on average common equity	2.0	5.8	8.9	7.0	5.7

Table 4

Lloyds Banking Group PLC--Risk-Adjusted Capital Framework Data

(Mil. £)	**Exposure***	**Basel III RWA**	**Average Basel III RW(%)**	**S&P Global Ratings RWA**	**Average S&P Global Ratings RW (%)**
Credit risk					
Government & central banks	174,102.7	625.8	0.4	3,225.4	1.9
Of which regional governments and local authorities	0.0	0.0	0.0	0.0	0.0
Institutions and CCPs	20,568.0	2,577.8	12.5	4,361.4	21.2
Corporate	95,299.3	52,929.9	55.5	77,166.7	81.0
Retail	418,889.1	87,470.1	20.9	190,538.4	45.5
Of which mortgage	356,473.6	46,100.3	12.9	140,865.1	39.5
Securitization§	27,583.0	5,837.0	21.2	9,001.6	32.6
Other assets†	10,617.1	7,982.8	75.2	15,382.0	144.9
Total credit risk	747,059.2	157,423.5	21.1	299,675.5	40.1
Credit valuation adjustment					
Total credit valuation adjustment	--	675.0	--	3,671.0	--
Market Risk					
Equity in the banking book	3,354.2	5,657.0	168.7	24,877.4	741.7
Trading book market risk	--	2,200.0	--	3,389.0	--
Total market risk	--	7,857.0	--	28,266.4	--
Operational risk					
Total operational risk	--	24,865.3	--	32,297.1	--

Table 4

Lloyds Banking Group PLC--Risk-Adjusted Capital Framework Data (cont.)

	Exposure	Basel III RWA	Average Basel II RW (%)	S&P Global Ratings RWA	% of S&P Global Ratings RWA
Diversification adjustments					
RWA before diversification	--	202,745.7	--	363,910.0	100.0
Total diversification/ concentration adjustments	--	--	--	(23,397.7)	(6.4)
RWA after diversification	--	202,745.7	--	340,512.3	93.6

	Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global Ratings RAC ratio (%)
Capital ratio				
Capital ratio before adjustments	38,666.0	19.1	31,744.0	8.7
Capital ratio after adjustments‡	38,666.0	19.1	31,744.0	9.3

*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. Sources: Company data as of Dec. 31 2020, S&P Global Ratings.

Table 3

Lloyds Banking Group PLC--Capital And Earnings

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

RAC--Risk adjusted capital.

Table 5

Lloyds Banking Group PLC--Risk Position

	--Year ended Dec. 31--				
(%)	**2020**	**2019**	**2018**	**2017**	**2016**
Growth in customer loans	0.5	(0.9)	(0.5)	1.3	(1.6)
Total diversification adjustment/S&P Global Ratings' RWA before diversification	(6.4)	(6.2)	(6.8)	(7.3)	(6.2)
Total managed assets/adjusted common equity (x)	35.0	33.3	31.5	33.6	33.2
New loan loss provisions/average customer loans	0.9	0.3	0.2	0.2	0.2
Net charge-offs/average customer loans	0.3	0.3	0.2	0.2	0.3

Table 5

Lloyds Banking Group PLC--Risk Position (cont.)

	--Year ended Dec. 31--				
(%)	**2020**	**2019**	**2018**	**2017**	**2016**
Gross nonperforming assets/customer loans + other real estate owned	3.0	3.0	3.2	2.4	2.8
Loan loss reserves/gross nonperforming assets	47.6	29.5	29.7	20.4	19.4

RWA--Risk weighted assets.

Table 6

Lloyds Banking Group PLC--Funding And Liquidity

	--Year ended Dec. 31--				
(%)	**2020**	**2019**	**2018**	**2017**	**2016**
Core deposits/funding base	73.1	70.2	70.9	70.6	71.0
Customer loans (net)/customer deposits	97.7	106.9	106.7	108.0	107.2
Long-term funding ratio	90.1	89.9	91.1	86.9	85.6
Stable funding ratio	107.4	102.4	107.3	103.9	103.9
Short-term wholesale funding/funding base	10.6	10.8	9.6	14.1	15.5
Broad liquid assets/short-term wholesale funding (x)	2.2	1.9	2.2	1.6	1.5
Net broad liquid assets/short-term customer deposits	17.1	13.5	16.1	12.2	11.8
Short-term wholesale funding/total wholesale funding	38.0	35.0	31.7	46.4	51.6
Narrow liquid assets/3-month wholesale funding (x)	3.1	2.8	3.0	2.1	2.0

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Financial Institutions | General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- 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
- Criteria | Financial Institutions | Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

- Criteria | Financial Institutions | Banks: Commercial Paper I: Banks, March 23, 2004

Related Research

- Lloyds Bank Corporate Markets PLC, June 28, 2021
- Various Rating Actions Taken On U.K. Banks On Recovering Economy, June 24, 2021
- Global Credit Conditions Are Largely Favorable, With Risks Of An Uneven Recovery, March 31, 2021
- United Kingdom 'AA/A-1+' Ratings Affirmed; Outlook Stable, April, 23, 2021
- Banking Industry Country Risk Assessment: United Kingdom, Nov. 17, 2020

Ratings Detail (As Of June 28, 2021)*	
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
07-Jul-2016	BBB+/Negative/A-2
Sovereign Rating	
United Kingdom	AA/Stable/A-1+
Related Entities	
Bank of Scotland Capital Funding L.P.	
Preferred Stock	BB+
Bank of Scotland PLC	
Issuer Credit Rating	A+/Stable/A-1
Resolution Counterparty Rating	AA-/--/A-1+
Junior Subordinated	BB+
Junior Subordinated	BBB-
Senior Secured	AAA/Stable
HBOS PLC	
Issuer Credit Rating	BBB+/Stable/A-2
Junior Subordinated	BB+
Senior Unsecured	BBB+
Short-Term Debt	A-2
Subordinated	BBB
Subordinated	BBB-

Ratings Detail (As Of June 28, 2021)*(cont.)	
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.