

CREDIT OPINION

13 October 2021

Update

 Rate this Research

RATINGS

Lloyds Bank Corporate Markets plc

Domicile	London, United Kingdom
Long Term CRR	A1
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	A1
Type	Senior Unsecured - Fgn Curr
Outlook	Stable
Long Term Deposit	A1
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

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 Bank Corporate Markets plc

Update following semiannual results

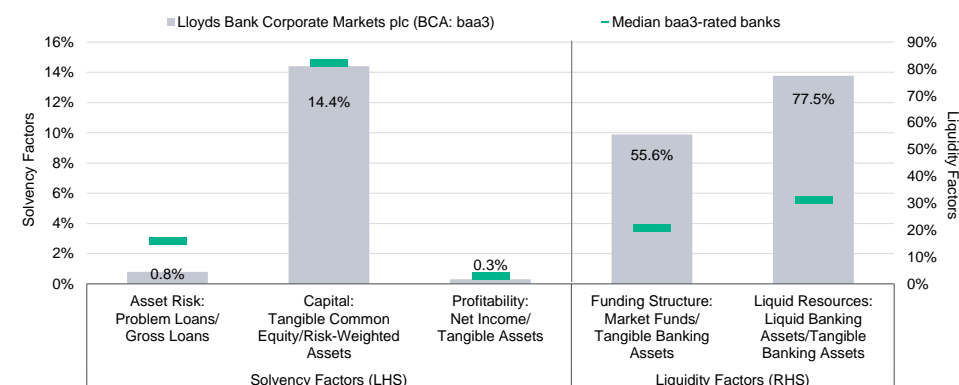
Summary

The A1 long-term deposit and issuer ratings of [Lloyds Bank Corporate Markets plc](#) (LBCM) reflect the bank's standalone creditworthiness, as indicated by a baseline credit assessment (BCA) of baa3; our assessment of a very high probability of affiliate support from [Lloyds Banking Group plc](#) (LBG, notional BCA a3), which results in a two-notch uplift to an adjusted BCA of baa1; and extremely low loss-given-failure, which results in a three-notch uplift. A low probability of government support does not result in additional uplift.

LBCM's BCA of baa3 reflects the bank's sound capitalisation, its ample liquidity and very strong interlinkages with the group, but also the high exposure to single-name and sector concentration risk relative to equity.

Exhibit 1

Rating Scorecard - Key financial ratios



Source: Moody's Investors Service

Credit strengths

- » Sound capitalisation
- » Ample liquidity
- » Very strong interlinkages with the group

Credit challenges

- » High exposure to single-name and sector concentration risk relative to equity

Rating outlook

The outlook on LBCM's long-term deposit and issuer ratings is stable, reflecting our view that the combined solvency and liquidity metrics will on a forward-looking basis remain in line with LBCM's current standalone assessment, as its asset quality and profitability stabilize, following the pandemic-induced deterioration in 2020.

Factors that could lead to an upgrade of the ratings

LBCM's long-term deposit and issuer ratings could be upgraded following an upgrade of the bank's BCA, or an upgrade of LBG's notional BCA. LBCM's BCA could be upgraded following a strong track record of stable earnings as an independent entity, or a more limited reliance on market funding.

Factors that could lead to a downgrade of the ratings

LBCM's deposit and issuer ratings could be downgraded following a material reduction of its stock of bail-in-able debt, a downgrade of LBG's notional BCA, or a downgrade of LBCM's BCA. LBCM's BCA could be downgraded following a material deterioration of the bank's profitability, a more aggressive risk appetite in its lending book or capital markets franchise, or a material reduction of capital or liquid assets.

Key Indicators

Exhibit 2

Lloyds Bank Corporate Markets plc (Consolidated Financials) [1]

	06-21 ²	12-20 ²	12-19 ²	12-18 ²	CAGR/Avg. ³
Total Assets (GBP Billion)	66.2	68.7	50.3	60.9	3.4 ⁴
Total Assets (USD Billion)	91.4	93.9	66.6	77.5	6.8 ⁴
Tangible Common Equity (GBP Billion)	2.7	2.8	4.2	4.0	(14.9) ⁴
Tangible Common Equity (USD Billion)	3.7	3.8	5.6	5.1	(12.1) ⁴
Problem Loans / Gross Loans (%)	0.2	0.3	1.4	1.5	0.8 ⁵
Tangible Common Equity / Risk Weighted Assets (%)	14.4	16.6	24.8	20.1	19.0 ⁶
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	1.2	1.4	6.8	7.4	4.2 ⁵
Net Interest Margin (%)	0.2	0.1	0.3	0.2	0.2 ⁵
PPI / Average RWA (%)	1.5	0.4	2.0	0.9	1.2 ⁶
Net Income / Tangible Assets (%)	0.4	0.0	0.6	0.3	0.3 ⁵
Cost / Income Ratio (%)	61.1	84.9	54.7	60.0	65.2 ⁵
Market Funds / Tangible Banking Assets (%)	50.6	55.6	57.7	60.4	56.1 ⁵
Liquid Banking Assets / Tangible Banking Assets (%)	62.7	77.5	77.8	56.9	68.7 ⁵
Gross Loans / Due to Customers (%)	65.8	47.8	67.5	64.5	61.4 ⁵

[1] Further to the publication of our revised methodology in July 2021, for issuers that have "high trigger" additional Tier 1 instruments outstanding, not all ratios included in this report reflect the change in treatment of these instruments. [2] All figures and ratios are adjusted using Moody's standard adjustments. [3] Basel III - fully loaded or transitional phase-in; IFRS.

[4] May include rounding differences because of the scale of reported amounts. [5] Compound annual growth rate (%) based on the periods for the latest accounting regime. [6] Simple average of periods for the latest accounting regime. [7] 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 ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Profile

LBCM is the non-ring-fenced bank of the Lloyds Banking Group, accounting for around 4% of the group's lending and 9% of the group's risk-weighted assets (RWA), following the 2018 transfer of the group's wholesale banking operations from Lloyds Bank plc (now the ring-fenced bank of the group).

LBCM's capital markets and financing activities are simple and largely client-oriented, leveraging the corporate and institutional client base of the group.

Detailed credit considerations

High single-name and sector concentration risk

Our assigned asset risk score is baa1, five notches below the aa2 Macro Adjusted score to reflect the bank's markets-focused business and structurally high single-name and sector concentrations.

LBCM's loans accounted for around 20% of the group's total assets at end-June 2021 and its asset quality is broadly in line with peers. Its Stage 3 loans were 0.2% of the loan book at end-June 2021 from 0.3% at end-2020, as a large customer loan was restructured. Stage 2 loans decreased to 1% from 2% during the same period.

LBCM's derivatives at fair value represented 24% of the bank's total assets at end- 2020. Even though LBCM's derivatives are driven by customer demand, or they are used to hedge the interest rate and foreign exchange risk of LBG, they expose LBCM to market, counterparty and operational risk and to greater income volatility.

Sound risk-weighted capitalisation

LBCM's capitalisation is sound, as reflected in our assigned score of a1. Our ratio "Tangible Common Equity (TCE) to RWA" decreased to 14.4% at the end of June 2021 from 16.6% at year end 2020. The ratio is equivalent to a Macro Adjusted Score of a1. The assigned score is one notch below the aa2 Macro Adjusted score, reflecting a relatively low leverage ratio.

LBCM reported a sound Common Equity Tier 1 (CET1) ratio of 13.8% at end-June 2021, 100 basis points lower than at year-end 2020, due to a temporary increase in risk weighted assets. Our leverage ratio was 4.0% at the same time.

LBCM's capital levels are decided as part of Lloyds Banking Group's wider capital strategy. Any excess of LBCM's capital above minimum requirements, including planned growth and an undisclosed management buffer, is upstreamed to LBG. Conversely LBCM receives capital from Lloyds Banking Group, as required.

Profitability challenged by weakening operating environment

The assigned ba2 Profitability score is in line with its Macro-Adjusted score, based on our expectation that profitability will recover, post- coronavirus economic shock.

In the first half of 2021, LBCM reported a £133 million net income (equivalent to a 0.4% return on tangible assets), up from £34 million yoy, largely due to higher revenues and the reversal of credit provisions taken in 2020. Net interest income was £70 million from £30 million in the same period the prior year, while net fee and commission income increased to £117 million from £96 million. Operating costs were stable at around £200 million. LBCM reported £47 million credit write-backs (£77 million credit provisions in H1 2020) reflecting the change in macroeconomic scenario assumptions.

Ample liquidity

LBCM's Combined Liquidity Score is baa3, reflecting a low Funding Structure score of b3 and a high Liquid Resources score of aa1.

The b3 score for Funding Structure is in line with the Macro Adjusted score to reflect LBCM's large stock of corporate and off-shore deposits (which are more price- and confidence-sensitive than retail deposits), but also the stability provided by funding coming from Lloyds Banking Group and by repurchase agreements with clients.

At end- 2020, LBCM's market funds represented 56% of tangible banking assets. We expect LBCM to remain highly reliant on wholesale funding, reflecting the bank's business model and role as a non-ring-fenced bank.

We view LBCM's liquid resources as a key mitigating factor to the bank's high reliance on market funding. Our assigned aa1 score for Liquid Resources, which is in line with the Macro Adjusted score, reflects the material portion of liquid assets for LBCM (78% of tangible banking assets at end-2020).

ESG Considerations

In line with our general view for the banking sector, LBCM has a low exposure to Environmental risks and moderate exposure to Social risks. See our [Environmental risks heatmap](#) and [Social risks heatmap](#) for further information.

Our assessment of moderate Social risk for LBCM takes into account the bank's exposure to the coronavirus-induced economic shock.

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

Support and structural considerations

Affiliate support

LBCM's adjusted BCA of baa1 benefits from two notches of affiliate support from LBG, reflecting our expectation of very high probability of support.

Our expectation balances on the one hand, the significant interconnection between LBCM and Lloyds Bank in terms of clients, and its small size in the context of the broader group; and on the other hand, regulatory constraints that limit support from ring-fenced entities in favour of non-ring fenced entities if support leads to a materially higher risks for depositors and bondholders of the ring-fenced entity.

LBCM's baa1 adjusted BCA is one notch below LBG's a3 notional BCA.

Loss Given Failure (LGF) analysis

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

Following the implementation of ring-fencing in the UK, we believe that LBCM would be resolved separately from its ring-fenced sister bank, Lloyds Bank. As such our LGF analysis for LBCM reflects the entity's own liability structure.

For this analysis, we assume residual tangible common equity of 3% and post-failure losses of 8% of tangible banking assets, and a 25% run-off in junior wholesale deposits. Finally, we assign a 25% probability to deposits being preferred to senior unsecured debt. We also assume the proportion of deposits considered junior at our standard assumption of 26%.

Our advanced LGF analysis indicates an extremely low loss-given-failure for junior depositors and senior unsecured bondholders of LBCM, resulting in a three-notch uplift to the relevant ratings from the bank's adjusted BCA of baa1.

Government support considerations

Given the limited interconnections between LBCM and other financial institutions, and the relatively small size of LBCM's operations, we believe there is a low probability of government support for LBCM's deposits and senior debt, resulting in no further uplift to the ratings.

Counterparty Risk (CR) Assessment and Counterparty Risk Ratings (CRRs)

LBCM's CR Assessments are A1(cr)/Prime-1(cr). The long-term CR Assessments, before government support, are three notches above the bank's standalone adjusted BCA of baa1. The uplift results from the buffer against default provided to the operating obligations by substantial bail-in-able debt and deposits. A low probability of government support results in no additional notch of uplift.

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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 3

Lloyds Bank Corporate Markets plc

Macro Factors							
Weighted Macro Profile		Strong +	100%				
Factor	Historic Ratio	Initial Score	Expected Trend	Assigned Score	Key driver #1	Key driver #2	
Solvency							
Asset Risk							
Problem Loans / Gross Loans	0.8%	aa2	↓↓	baa1	Sector concentration	Operational risk	
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	14.4%	a1	↑	a1	Nominal leverage		
Profitability							
Net Income / Tangible Assets	0.3%	ba2	↑	ba2	Expected trend		
Combined Solvency Score		a2		baa1			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	55.6%	b3	↔	b3	Market funding quality	Deposit quality	
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	77.5%	aa1	↔	aa1	Stock of liquid assets		
Combined Liquidity Score		baa3		baa3			
Financial Profile				baa2			
Qualitative Adjustments				Adjustment			
Business Diversification				0			
Opacity and Complexity				-1			
Corporate Behavior				0			
Total Qualitative Adjustments				-1			
Sovereign or Affiliate constraint				Aa3			
BCA Scorecard-indicated Outcome - Range				baa2 - ba1			
Assigned BCA				baa3			
Affiliate Support notching				2			
Adjusted BCA				baa1			
Balance Sheet		in-scope (GBP Million)	% in-scope	at-failure (GBP Million)	% at-failure		
Other liabilities		26,679	38.8%	29,729	43.3%		
Deposits		29,902	43.5%	26,852	39.1%		
Preferred deposits		22,127	32.2%	21,021	30.6%		
Junior deposits		7,775	11.3%	5,831	8.5%		
Senior unsecured bank debt		4,891	7.1%	4,891	7.1%		
Senior unsecured holding company debt		3,696	5.4%	3,696	5.4%		
Dated subordinated holding company debt		685	1.0%	685	1.0%		
Preference shares(holding company)		775	1.1%	775	1.1%		
Equity		2,061	3.0%	2,061	3.0%		
Total Tangible Banking Assets		68,689	100.0%	68,689	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				vs.			
							Adjusted			
							BCA			
Counterparty Risk Rating	26.1%	26.1%	26.1%	26.1%	3	3	3	3	0	a1
Counterparty Risk Assessment	26.1%	26.1%	26.1%	26.1%	3	3	3	3	0	a1 (cr)
Deposits	26.1%	10.5%	26.1%	17.6%	3	3	3	3	0	a1
Senior unsecured bank debt	26.1%	10.5%	17.6%	10.5%	3	3	3	3	0	a1

Instrument Class	Loss Given	Additional	Preliminary Rating	Government	Local Currency	Foreign
	Failure notching	notching	Assessment	Support notching	Rating	Currency Rating
Counterparty Risk Rating	3	0	a1	0	A1	A1
Counterparty Risk Assessment	3	0	a1 (cr)	0	A1(cr)	
Deposits	3	0	a1	0	A1	A1
Senior unsecured bank debt	3	0	a1	0	A1	A1

[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 4

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

Source: Moody's Investors Service

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