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CREDIT OPINION

1 November 2023

Update



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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 H1 2023 results

Summary

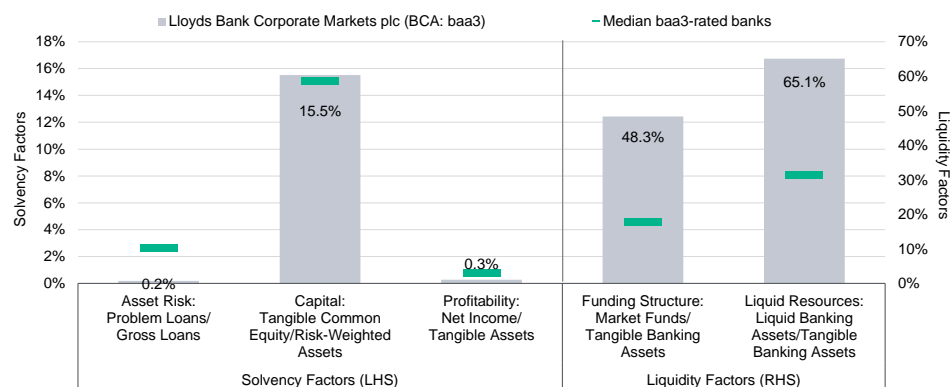
We rate A1 the long-term deposit and issuer ratings of [Lloyds Bank Corporate Markets plc](#) (LBCM), the non ring-fenced bank of [Lloyds Banking Group plc](#) (LBG, A3 stable, a3)¹.

LBCM's A1 long-term deposit and issuer ratings 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 LBG, 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
- » Capital markets and financing activities depend on market conditions which will be less favourable than in recent years

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 remain broadly stable.

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 long-term deposit and issuer ratings could be downgraded following a downgrade of its BCA or adjusted BCA, or a material reduction of its stock of bail-in-able debt. 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]

	06-23 ²	12-22 ²	12-21 ²	12-20 ²	12-19 ²	CAGR/Avg. ³
Total Assets (GBP Billion)	71.1	63.7	70.6	68.7	50.3	10.4 ⁴
Total Assets (USD Billion)	90.4	76.6	95.3	93.9	66.6	9.1 ⁴
Tangible Common Equity (GBP Billion)	3.3	3.1	2.8	2.8	4.2	(7.2) ⁴
Tangible Common Equity (USD Billion)	4.1	3.8	3.7	3.8	5.6	(8.2) ⁴
Problem Loans / Gross Loans (%)	0.1	0.1	0.2	0.3	1.4	0.4 ⁵
Tangible Common Equity / Risk Weighted Assets (%)	15.5	15.5	15.0	16.6	24.8	17.5 ⁶
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	0.7	0.7	1.0	1.4	6.8	2.1 ⁵
Net Interest Margin (%)	0.2	0.3	0.2	0.1	0.3	0.2 ⁵
PPI / Average RWA (%)	1.6	2.4	1.1	0.4	2.0	1.5 ⁶
Net Income / Tangible Assets (%)	0.4	0.5	0.3	0.0	0.6	0.4 ⁵
Cost / Income Ratio (%)	59.8	48.1	68.7	84.9	54.7	63.2 ⁵
Market Funds / Tangible Banking Assets (%)	51.7	48.3	54.6	55.6	57.7	53.6 ⁵
Liquid Banking Assets / Tangible Banking Assets (%)	66.3	65.1	72.8	77.5	77.8	71.9 ⁵
Gross Loans / Due to Customers (%)	53.9	55.1	56.0	47.8	67.5	56.1 ⁵

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

Sources: Moody's Investors Service and company filings

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

Profile

LBCM is the non-ring-fenced bank of the LBG, accounting for around 4% of the group's lending and 10% of the group's risk-weighted assets (RWA), following the 2018 transfer of the group's wholesale banking operations from [Lloyds Bank plc](#) (LB, A1 stable/A1 stable, a3)² which is 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. As part of its strategy, LBCM aims to drive revenue growth and diversification by increasing its Corporate & Institutional offering.

Detailed credit considerations

High single-name and sector concentration risk

Our assigned asset risk score is baa1, six notches below the aa1 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 4% of the group's loans at end-June 2023 and its credit quality is broadly in line with small capital markets firm peers. Its Stage 3 loans were 0.1% of the loan book at end-June 2023 and Stage 2 loans were 1.5% (from 5.5% at end-2022 largely due to the impact of transferring £550 million of loans out of stage 2 and into stage 1 reflecting the modestly improved GDP outlook).

LBCM's derivatives at fair value represented 26% of the bank's total assets at end-June 2023. 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.

We reflect the confidence sensitivity nature of its capital markets activities in a negative one notch adjustment for "opacity and complexity".

Sound capitalisation

Our capital score of a3 reflects our expectation of a Common Equity Tier (CET) 1 ratio of around 12% and a Tangible Common Equity ratio of around 13.5% in the medium-term and one notch negative adjustment for capital leverage. LBCM reported a Common Equity Tier 1 (CET1) ratio of 14.5% at end-June 2023, 10 basis points lower than at end-2022. Moody's leverage ratio was 4.6% at the same time (below our 5% threshold, hence we negatively adjust the capital score).

LBCM's capital levels are decided as part of LBG'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 LBG, as required.

Profitability likely to stabilise

The assigned ba1 Profitability score is based on our expectation of profitability over the outlook period.

In H1 2023, LBCM reported a £167 million net income, down from £207 million in H1 2022, due to lower revenues from trading income, reduced lending and lower margins. Net interest income decreased to £96 million from £131 million; net fee and commission income increased to £137 million from £107 million; net trading income decreased to £200 million from £234 million in H1 2022. Operating costs were £238 million. LBCM reported £18 million of credit write-back (£11 million credit charge in H1 2022) reflecting the improved forward looking macroeconomic environment as of the half-year end.

Ample liquidity

LBCM's Combined Liquidity Score is baa3, reflecting a low Funding Structure score of b3 and a high Liquid Resources score of aa2.

The b3 score for Funding Structure reflects 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 LBG and by repurchase agreements with clients.

At end-June 2023, LBCM's market funds represented 52% 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 aa2 score for Liquid Resources, which is in line with the Macro Adjusted score, reflects the material portion of liquid assets for LBCM (66% of tangible banking assets at end-June 2023).

ESG considerations

Lloyds Bank Corporate Markets plc's ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 3

ESG Credit Impact Score

CIS-2

Neutral-to-Low

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



Source: Moody's Investors Service

Lloyds Bank Corporate Markets (LBCM)'s ESG Credit Impact Score is neutral-to-low (**CIS-2**), reflecting the mitigating rating impact of affiliate support from Lloyds Banking Group over LBCM's ESG risk profile. The bank's governance assessment captures our industry view of the opacity, complexity and tail risks inherent to capital market activities, although LBCM's track record in managing these risks and its strong financial fundamentals are important mitigants to the risk exposure. Environmental and social factors have a limited credit impact on the rating to date.

Exhibit 4

ESG Issuer Profile Scores

ENVIRONMENTAL

E-3

Moderately Negative



SOCIAL

S-3

Moderately Negative



GOVERNANCE

G-3

Moderately Negative



Source: Moody's Investors Service

Environmental

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

Social

LBCM faces moderate social risks related to customer relations risk because of its focus on commercial customers, typically sophisticated corporate entities, as well as cyber risk and the financial and reputational implications of data breaches. The bank's developed policies and procedures help manage associated credit risks. The bank also faces moderate social risks related to digitalization and potential competition from technology firms and other disruptors.

Governance

LBCM's governance risks are moderate. The bank has sound board structure, risk management, and capital and liquidity management, in line with the group. However, the opacity and complexity of capital market activities exposes the firm to moderate tail risks; as a

mitigant, its capital markets and financing activities are simple and largely client-oriented, leveraging the corporate and institutional client base of the group. Because LBCM is fully controlled by Lloyds banking Group, we have aligned the subsidiary's board structure, policies and procedures score with that of its parent, given the bank's strategic importance and public affiliation with the group, the parent's oversight of its subsidiary board and the regulated nature of both entities.

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

Support and structural considerations

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 risk 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.

LBCM's CRRs are A1/Prime-1. The long-term CRRs, before government support, are three notches above the bank's adjusted BCA of baa1. The uplift derives 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.

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 5

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	0.2%	aa1	↔	baa1	Sector concentration	Operational risk	
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	15.5%	aa3	↓↓	a3	Nominal leverage		
Profitability							
Net Income / Tangible Assets	0.3%	ba2	↑	ba1	Expected trend		
Combined Solvency Score		a1		baa1			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	48.3%	b1	↓	b3	Market funding quality	Deposit quality	
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	65.1%	aa2	↔	aa2	Stock of liquid assets		
Combined Liquidity Score		baa2		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		18,564		29.2%		22,111	
Deposits		34,770		54.6%		31,223	
Preferred deposits		25,730		40.4%		24,443	
Junior deposits		9,040		14.2%		6,780	
Senior unsecured bank debt		3,403		5.3%		3,403	
Junior senior unsecured bank debt		3,410		5.4%		3,410	
Dated subordinated bank debt		756		1.2%		756	
Preference shares (bank)		845		1.3%		845	
Equity		1,910		3.0%		1,910	
Total Tangible Banking Assets		63,658		100.0%		63,658	

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF	Assigned	Additional	Preliminary
	Instrument	Sub-	Instrument	Sub-	De Jure	De Facto	Notching	LGF		
	volume +	ordination	volume +	ordination			Guidance	notching	Notching	Rating
	subordination		subordination				vs.			Assessment
							Adjusted			
							BCA			
Counterparty Risk Rating	26.9%	26.9%	26.9%	26.9%	3	3	3	3	0	a1
Counterparty Risk Assessment	26.9%	26.9%	26.9%	26.9%	3	3	3	3	0	a1 (cr)
Deposits	26.9%	10.9%	26.9%	16.2%	3	3	3	3	0	a1
Senior unsecured bank debt	26.9%	10.9%	16.2%	10.9%	3	3	3	3	0	a1

Instrument Class	Loss Given		Additional	Preliminary Rating	Government		Local Currency	Foreign
	Failure	notching			Support	notching	Rating	Currency
				Assessment				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 6

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	A3
Subordinate	Baa1
Bkd Jr Subordinate -Dom Curr	Baa2 (hyb)
Pref. Stock Non-cumulative	Baa3 (hyb)
Pref. Shelf Non-cumulative	(P)Baa3
Other Short Term -Dom Curr	(P)P-2
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

Endnotes

[1](#) Senior unsecured rating, BCA

[2](#) Deposit rating, senior unsecured rating, BCA

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