

# MOODY'S

## INVESTORS SERVICE

### CREDIT OPINION

26 July 2022

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 annual results

### Summary

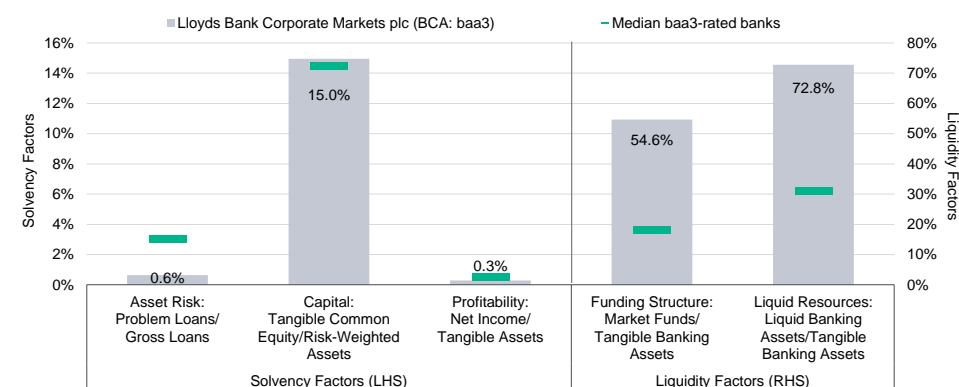
We rate A1 the long-term deposit and issuer ratings of [Lloyds Bank Corporate Markets plc](#) (LBCM), the non ring-fenced bank of [Lloyds Banking Group plc](#) (LBG, A3, a3).

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, on a forward-looking basis, remain in line with LBCM's current standalone assessment, as its asset risk profile remains stable and its profitability normalises.

## 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]

	12-21 <sup>2</sup>	12-20 <sup>2</sup>	12-19 <sup>2</sup>	12-18 <sup>2</sup>	CAGR/Avg. <sup>3</sup>
Total Assets (GBP Billion)	70.6	68.7	50.3	60.9	5.1 <sup>4</sup>
Total Assets (USD Billion)	95.3	93.9	66.6	77.5	7.1 <sup>4</sup>
Tangible Common Equity (GBP Billion)	2.8	2.8	4.2	4.0	(11.6) <sup>4</sup>
Tangible Common Equity (USD Billion)	3.7	3.8	5.6	5.1	(9.9) <sup>4</sup>
Problem Loans / Gross Loans (%)	0.2	0.3	1.4	1.5	0.8 <sup>5</sup>
Tangible Common Equity / Risk Weighted Assets (%)	15.0	16.6	24.8	20.1	19.1 <sup>6</sup>
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	1.0	1.4	6.8	7.4	4.2 <sup>5</sup>
Net Interest Margin (%)	0.2	0.1	0.3	0.2	0.2 <sup>5</sup>
PPI / Average RWA (%)	1.1	0.4	2.0	0.9	1.1 <sup>6</sup>
Net Income / Tangible Assets (%)	0.3	0.0	0.6	0.3	0.3 <sup>5</sup>
Cost / Income Ratio (%)	68.7	84.9	54.7	60.0	67.1 <sup>5</sup>
Market Funds / Tangible Banking Assets (%)	54.6	55.6	57.7	60.4	57.1 <sup>5</sup>
Liquid Banking Assets / Tangible Banking Assets (%)	72.8	77.5	77.8	56.9	71.3 <sup>5</sup>
Gross Loans / Due to Customers (%)	56.0	47.8	67.5	64.5	59.0 <sup>5</sup>

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

Sources: Moody's Investors Service and company filings

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody'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 4% of the group's loans at end-2021 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-2021. Stage 2 loans decreased to 0.2% from 2% during the same period.

LBCM's derivatives at fair value represented 20% of the bank's total assets at end-2021. 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

Our capital score of a2 reflects our expectation of a Common Equity Tier (CET) 1 ratio of around 12% and a Tangible Common Equity ratio of around 14% in the medium-term and one notch negative adjustment for capital leverage.

LBCM reported a Common Equity Tier 1 (CET1) ratio of 13.1% at end-2021, 170 basis points lower than at year-end 2020, due to an increase in risk weighted assets. Moody's leverage ratio was 3.9% at the same time (below our 5% threshold).

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 likely to stabilise

The assigned ba2 Profitability score is based on our expectation that net income will stabilise in the £250-£300 million range.

In 2021, LBCM reported a £238 million net income, up from £44 million in 2020, largely due to higher revenues and the reversal of credit provisions taken in the previous year. Net interest income increased to £187 million from £74 million in 2020, while net fee and commission income increased to £221 million from £191 million. Operating costs decreased to around £170 million. LBCM reported £62 million of credit write-backs (£71 million credit provisions in 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 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 Lloyds Banking Group and by repurchase agreements with clients.

At end-2021, LBCM's market funds represented 55% 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 (73% of tangible banking assets at end-2021).

## 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 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 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	0.6%	aa2	↔	baa1	Sector concentration	Operational risk
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	15.0%	a1	↔	a2	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	54.6%	b3	↔	b3	Market funding quality	Deposit quality
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	72.8%	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		28,568	40.5%	31,744	45.0%	
Deposits		31,131	44.1%	27,956	39.6%	
Preferred deposits		23,037	32.6%	21,885	31.0%	
Junior deposits		8,094	11.5%	6,071	8.6%	
Senior unsecured bank debt		4,181	5.9%	4,181	5.9%	
Junior senior unsecured bank debt		3,170	4.5%	3,170	4.5%	
Dated subordinated bank debt		683	1.0%	683	1.0%	
Preference shares (bank)		767	1.1%	767	1.1%	
Equity		2,119	3.0%	2,119	3.0%	
Total Tangible Banking Assets		70,619	100.0%	70,619	100.0%	

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF	Assigned	Additional	Preliminary
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto	Notching Guidance vs. Adjusted BCA	LGF notching		
Counterparty Risk Rating	24.1%	24.1%	24.1%	24.1%	3	3	3	3	0	a1
Counterparty Risk Assessment	24.1%	24.1%	24.1%	24.1%	3	3	3	3	0	a1 (cr)
Deposits	24.1%	9.5%	24.1%	15.5%	3	3	3	3	0	a1
Senior unsecured bank debt	24.1%	9.5%	15.5%	9.5%	3	2	3	3	0	a1

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign 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
<b>LLOYDS BANK CORPORATE MARKETS PLC</b>	
Outlook	Stable
Counterparty Risk Rating	A1/P-1
Bank Deposits	A1/P-1
Baseline Credit Assessment	baa3
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	A1(cr)/P-1(cr)
Issuer Rating	A1
Senior Unsecured	A1
Commercial Paper	P-1
Other Short Term	(P)P-1
<b>PARENT: LLOYDS BANKING GROUP PLC</b>	
Outlook	Stable
Baseline Credit Assessment	a3
Adjusted Baseline Credit Assessment	a3
Senior Unsecured	A3
Subordinate	Baa1
Bkd Jr Subordinate -Dom Curr	Baa2 (hyb)
Pref. Stock Non-cumulative	Baa3 (hyb)
Other Short Term -Dom Curr	(P)P-2
<b>LLOYDS BANK CORPORATE MARKETS PLC, NY BRANCH</b>	
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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