

Lloyds Bank Corporate Markets PLC

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Credit Highlights

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Issuer Credit Rating

A/Stable/A-1

Resolution Counterparty Rating

A+/-/A-1

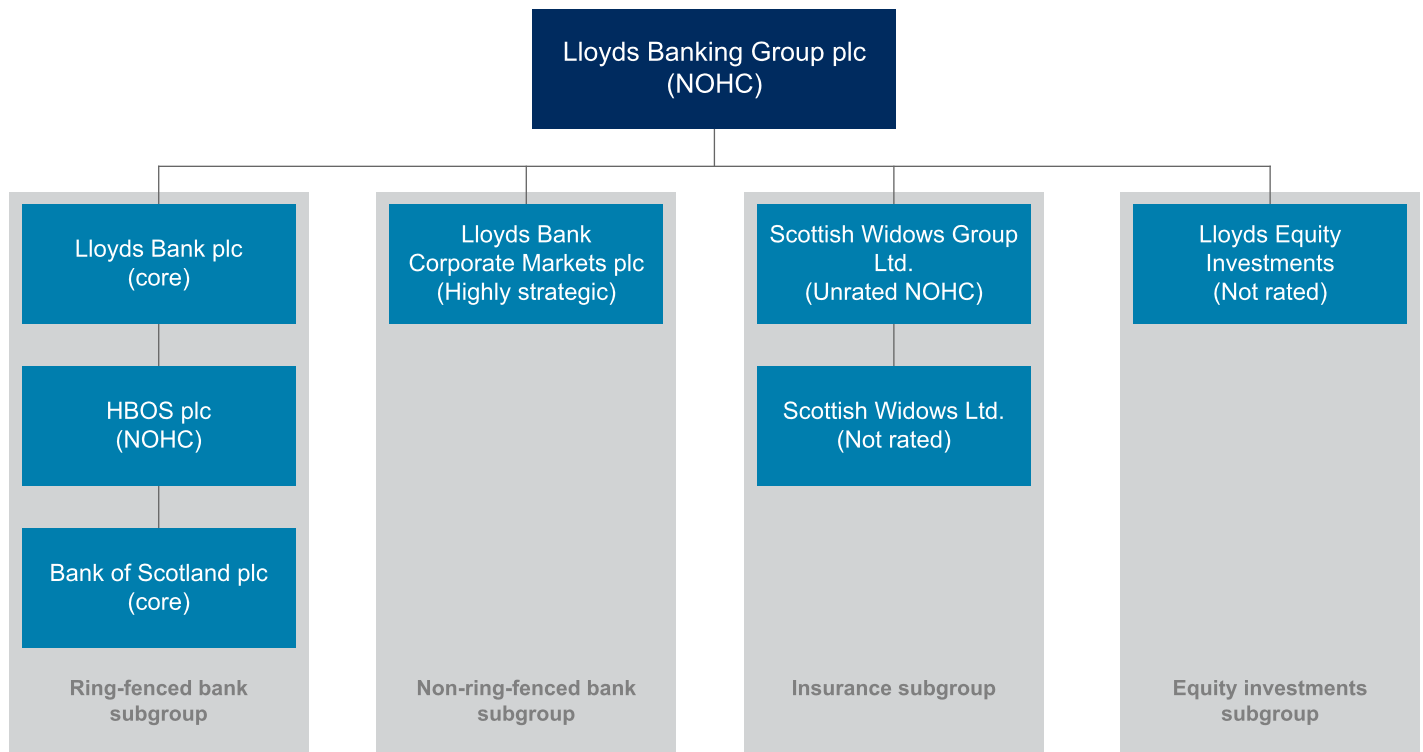
Key strengths	Key risks
Highly strategic subsidiary of ultimate parent Lloyds Banking Group PLC (LBG).	Weakening U.K. economy.
Important role in the parent's commercial banking franchise.	Business activity weighted toward corporate and institutional clients, which brings some cyclicality and complexity.
Satisfactory capitalization and robust liquidity.	Lower profitability than the sister ring-fenced bank subgroup.

S&P Global Ratings views Lloyds Bank Corporate Markets PLC (LBCM) as a highly strategic subsidiary of LBG. This classification accounts for LBCM's materiality, important role in LBG's commercial banking franchise, and close link to the group's brand and reputation. We see LBCM as highly strategic rather than core (which is a stronger assessment) because we consider it has a higher risk profile and weaker earnings than the overall group. Because of LBCM's highly strategic status, we position the long-term issuer credit rating one notch below the 'a+' group credit profile, which includes a two-notch uplift for additional loss-absorbing capacity (ALAC). We do not assess LBCM's stand-alone credit profile. Peers include other U.K. banking groups' nonring-fenced entities, principally NatWest Markets PLC and Santander Financial Services PLC, which we also view as highly strategic subsidiaries and to a lesser extent the larger nonring-fenced banks of Barclays and HSBC, which we assess as core.

LBCM is LBG's primary nonring-fenced bank subsidiary. It was established in response to U.K. ring-fencing rules that took effect in 2019. The objective of ring-fencing is to protect critical banking functions, and the likelihood of parental support to nonring-fenced entities could be marginally lower than for ring-fenced equivalents. LBCM is part of LBG's commercial banking franchise and provides capital markets services that permitted within the ring-fenced subgroup headed by sister entity Lloyds Bank PLC (A+/Stable/A-1). LBCM focuses on Sterling markets but also has selective international activities, primarily in support of U.K. corporate and institutional clients. It also offers retail and commercial banking services in the U.K. crown dependencies.

Chart 1

Highly Simplified Overview Of Lloyds' Legal Entity Structure

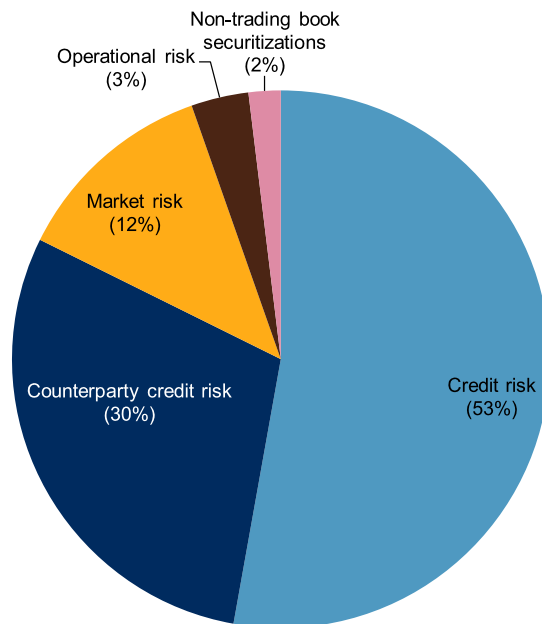


Source: Lloyds, S&P Global Ratings.
 Information in parentheses shows our group status classification.
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LBCM's balance sheet reflects its capital markets focus. Its £22.1 billion consolidated regulatory risk-weighted assets (RWAs) at Sept. 30, 2022, were 10.5% of LBG's RWAs. Their composition reflected LBCM's focus on commercial lending and capital markets activities. Its gross stage 2 and 3 customer loans were only 0.7% and 0.1%, respectively, of its portfolio at June 30, 2022. We expect these to increase as the U.K. economy weakens, but sound underwriting standards should underpin LBCM's overall asset quality. Its level 3 fair valued assets were 23% of our total adjusted capital metric at June 30, 2022, which indicates a manageable exposure to less liquid securities.

Chart 2**Sizable Exposures To Counterparty And Market Risks**

Breakdown of regulatory risk-weighted assets at Sept. 30, 2022



Source: Lloyds Bank Corporate Markets PLC.

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Rising interest rates are boosting earnings. LBCM's £249 million consolidated pretax earnings in first-half 2022 were 7% of LBG's result. Rising interest rates meant revenue increased 36% year-on-year, through managed product margins and income from the structural hedge. Following a net release in 2021, LBCM booked a £11 million impairment charge as the weakening economic outlook triggered modest reserve building.

The capital position is satisfactory. LBCM's 12.6% common equity Tier 1 ratio at June 30, 2022, was notably lower than LBG's 14.7% ratio at the same date but comfortably exceeded its 9.3% minimum regulatory requirement (which increased to 9.6% from October 2022). Its leverage ratio, which excluded central bank claims, was 4.5%.

We view LBCM's funding and liquidity profiles as robust. It held £27.3 billion of customer deposits at June 30, 2022, of which a material proportion came from the crown dependencies. LBCM is also an active borrower in wholesale medium-term note, certificate of deposit, and commercial paper markets. It held £24.3 billion of high quality liquid assets at Sept. 30, 2022, and reported a healthy 169% average liquidity coverage ratio.

LBG has downstreamed material loss-absorbing debt to LBCM. We think this buffer benefits LBCM's senior creditors and therefore reflect ALAC uplift in the issuer credit rating. Its debt securities outstanding at June 30, 2022, included £3.4 billion issued to other group entities

Outlook

The stable outlook mirrors that on ultimate parent LBG. The stable outlook on LBG reflects our view that the company's strong capitalization and competitive position provide a cushion for the rating amid rising inflation and slowing economic growth.

Our ratings on LBCM will move in tandem with those on LBG as long as we continue to view LBCM as a highly strategic subsidiary of the group.

Upside scenario

We could consider equalizing the ratings on LBCM with those on the sister ring-fenced banks if we saw it as a more integral part of the group with a risk profile and earnings metrics closer to LBG's consolidated position.

Otherwise, an upgrade is a remote prospect. In the event we raised the ratings on LBG by improving the group stand-alone credit profile (SACP) to 'a' from 'a-', it is unlikely that we would raise ratings on LBCM. This is because, at this elevated rating level, we would apply a maximum one-notch uplift for ALAC compared with two notches currently.

Downside scenario

We could lower the ratings on LBG and LBCM if economic and geopolitical challenges triggered significantly higher credit losses than we assume and adversely affected the group's earnings and capitalization.

We could lower the ratings on LBCM independently of a rating action on LBG if we saw LBCM becoming less important to the group's strategy and franchise, which is not a likely scenario.

Key Statistics

Table 1

Lloyds Bank Corporate Markets PLC--Key Figures					
--Year ended Dec. 31--					
(Mil. £)	2022*	2021	2020	2019	2018
Adjusted assets	90,077	88,699	92,429	79,661	78,471
Customer loans (gross)	20,824	17,442	14,304	17,374	16,181
Adjusted common equity	2,702	2,521	2,527	3,420	3,212
Operating revenue	476	641	544	819	455
Noninterest expense	216	414	428	462	273
Core earnings	207	238	44	283	153

*Data as of June 30.

Table 2

Lloyds Bank Corporate Markets PLC--Business Position					
	--Year ended Dec. 31--				
(%)	2022*	2021	2020	2019	2018
Return on average common equity	16.1	8.6	1.4	8.4	N/A

*Data as of June 30. N/A--Not applicable.

Table 3

Lloyds Bank Corporate Markets PLC--Capital And Earnings					
	--Year ended Dec. 31--				
(%)	2022*	2021	2020	2019	2018
Tier 1 capital ratio	16.3	17.2	19.4	18.6	17.5
Adjusted common equity/total adjusted capital	77.6	76.3	76.4	81.4	80.4
Net interest income/operating revenue	27.5	29.2	13.6	20.8	22.6
Fee income/operating revenue	22.5	34.5	35.1	23.0	26.6
Market-sensitive income/operating revenue	49.2	38.1	51.3	56.3	50.8
Cost to income ratio	45.4	64.6	78.7	56.4	60.0
Preprovision operating income/average assets	0.6	0.3	0.1	0.5	N/A
Core earnings/average managed assets	0.5	0.3	0.1	0.4	N/A

*Data as of June 30. N/A--Not applicable.

Table 4

Lloyds Bank Corporate Markets PLC--Risk Position					
	--Year ended Dec. 31--				
(%)	2022*	2021	2020	2019	2018
Growth in customer loans	38.8	21.9	(17.7)	7.4	N.M.
Total managed assets/adjusted common equity (x)	33.3	35.2	36.6	23.3	24.4
New loan loss provisions/average customer loans	0.1	(0.4)	0.4	(0.1)	N/A
Net charge-offs/average customer loans	N.M.	0.0	0.4	(0.0)	N/A
Gross nonperforming assets/customer loans + other real estate owned	0.1	0.2	0.3	1.7	1.9
Loan loss reserves/gross nonperforming assets	53.6	34.5	123.1	29.4	33.3

*Data as of June 30. N/A--Not applicable. N.M.--Not meaningful.

Table 5

Lloyds Bank Corporate Markets PLC--Funding And Liquidity				
	--Year ended Dec. 31--			
(%)	2021	2020	2019	2018
Core deposits/funding base	38.96	38.31	42.90	44.52
Customer loans (net)/customer deposits	64.64	55.91	70.62	60.68
Long-term funding ratio	60.33	63.22	59.82	66.65
Stable funding ratio	119.49	136.18	112.07	130.81
Short-term wholesale funding/funding base	41.67	38.79	43.20	35.59
Broad liquid assets/short-term wholesale funding (x)	1.21	1.50	1.17	1.47
Broad liquid assets/total assets	39.21	42.01	36.33	39.63

Table 5

Lloyds Bank Corporate Markets PLC--Funding And Liquidity (cont.)				
	--Year ended Dec. 31--			
(%)	2021	2020	2019	2018
Broad liquid assets/customer deposits	128.97	152.28	118.22	117.35
Net broad liquid assets/short-term customer deposits	23.13	58.96	18.66	38.83
Short-term wholesale funding/total wholesale funding	67.02	61.70	73.87	62.66

*Data as of June 30. 1H--First-half.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, 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
- Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Lloyds Bank PLC, Dec. 1, 2022
- Bulletin: Robust Earnings And Balance Sheets Keep The U.K. Banking Industry In BICRA Group 3 Despite Deepening Economic Woes, Oct. 25, 2022
- United Kingdom, Oct. 24, 2022
- Bulletin: U.K. Bank Ratings Are Not Directly Affected By The Sovereign Outlook Revision, But Macroeconomic Risks Are Rising, Sept. 30, 2022
- U.K. Banks Face The Weakening Macroeconomy From A Resilient Balance Sheet Position, Sept. 21, 2022
- Lloyds Banking Group PLC, Sept. 12, 2022
- Higher Rates Spur U.K. Banks' Strong First-Half Earnings Amid A Weakening Economic Outlook, Aug. 10, 2022

Ratings Detail (As Of December 1, 2022)*

Lloyds Bank Corporate Markets PLC

Issuer Credit Rating

A/Stable/A-1

Ratings Detail (As Of December 1, 2022)*(cont.)	
Resolution Counterparty Rating	A+/--/A-1
Commercial Paper	A-1
Senior Unsecured	A
Short-Term Debt	A-1
Issuer Credit Ratings History	
24-Jun-2021	A/Stable/A-1
23-Apr-2020	A/Negative/A-1
08-May-2018	A/Stable/A-1
24-Apr-2018	A-/Positive/A-2
Sovereign Rating	
United Kingdom	AA/Negative/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/Negative
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 (New York Branch)	
Commercial Paper	A-1
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-

Ratings Detail (As Of December 1, 2022)*(cont.)

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.

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