

## Lloyds Bank Corporate Markets PLC

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# Lloyds Bank Corporate Markets PLC

## Credit Highlights

### Global Scale Ratings

#### Issuer Credit Rating

A/Stable/A-1

#### Resolution Counterparty Rating

A+/-/A-1

### Overview

Key strengths	Key risks
Highly strategic subsidiary of Lloyds Banking Group PLC.	Business activity is weighted toward corporate and institutional clients, which brings a certain degree of cyclical and complexity.
Solid capital ratios.	Barely profitable in 2020, though we expect earnings to improve.

### Outlook

S&P Global Ratings' stable outlook on Lloyds Bank Corporate Markets PLC (LBCM) mirrors that on ultimate parent Lloyds Banking Group PLC (Lloyds). The stable outlook on Lloyds reflects our belief that the group is sufficiently provisioned over our two-year outlook time horizon to navigate any tail risks from the COVID-19 pandemic.

#### Downside scenario

We could lower the ratings on LBCM if we lowered the ratings on its parent, or if our view of its group status weakened.

#### Upside scenario

Over time, we could consider equalizing the ratings on LBCM with the ratings on Lloyds' ring-fenced banks, if it became a much more material and integral part of the group.

## Rationale

The ratings on U.K.-incorporated LBCM reflect our view that it is a highly strategic subsidiary of Lloyds. This classification takes into account LBCM's materiality, important role in Lloyds' strategy, 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 higher business risk and less diversification than the group's ring-fenced activities. As a result of LBCM's highly strategic status, the 'A' long-term issuer credit rating stands one notch below the 'a+' group credit profile, which includes a two-notch ALAC uplift. Due to LBCM's close integration with the group, we do not assign a stand-alone

credit profile to it.

LBCM was established in response to U.K. ring fencing rules, which took effect in January 2019. The objective of U.K. ring-fencing legislation is to protect critical banking functions in the U.K., and thus the likelihood of group support to the non-ring fenced bank, at the margins, may be lower than for the ring-fenced bank. LBCM's balance sheet includes certain capital market activities that are not permitted within the ring-fenced subgroup headed by sister entity Lloyds Bank PLC (the ring-fenced bank; A+/Stable/A-1). LBCM also provides retail and commercial banking services in the U.K. crown dependencies and conducts certain international activities for the group. LBCM contributes to the financial results of Lloyds' Commercial Banking Division.

Although much smaller than the ring-fenced business, we see LBCM as a material entity and integral to the group's commercial banking strategy. In preparation for ring fencing, Lloyds transferred various assets, liabilities, and legal entities to LBCM in 2018. At year-end 2020, LBCM's consolidated balance sheet represented 8% of Lloyds' consolidated risk-weighted assets (RWAs) and 11% of the group's total assets. LBCM's common equity tier 1 ratio was 14.8% at year-end 2020, which appears satisfactory given the risk profile. Peers include the non-ring-fenced banks of other U.K. banking groups, principally NatWest Markets PLC, which we also consider to be highly strategic to its parent, and to a lesser extent the much larger non-ring fenced banks of Barclays and HSBC, which we deem to be core to their parents. We also rate the non-ring fenced bank of Santander UK as highly strategic, rather than core.

LBCM's balance sheet profile reflects its focus on commercial banking and capital markets. Its £92.4 billion consolidated assets at year-end 2020 included £18.5 billion of customer loans (mostly to commercial clients), £21.8 billion of derivatives, £20.9 billion of fair-valued financial assets (mostly trading assets), and £23.4 billion of central bank balances. It had minimal level 3 fair-valued assets, which indicates its trading inventory was reasonably liquid. A low 0.2% of its customer loans were classified as credit-impaired.

In 2020, LBCM's reported pretax profit fell to £45 million, from £368 million in 2019, as revenue fell by one-third and LBCM booked a £71 million impairment charge. Revenue fell due to lower lending activity and increased costs of funding, and a fair-value write-down of derivative positions of £88 million. We nevertheless anticipate that LBCM will be solidly profitable over the medium term, but, as demonstrated in 2020, it may exhibit higher earnings volatility and lower cost efficiency than Lloyds' commercial banking division due to its narrower scope of business. This division represented 25% of the group's £14.4 billion of revenue in 2020, which highlights the relatively modest role of LBCM.

We view LBCM's funding and liquidity profiles as satisfactory. It held £25.5 billion of customer deposits at year-end 2020, of which a material proportion derived from the Crown dependencies. Debt securities and sale-and-repurchase contracts are also material funding sources. LBCM holds material central bank balances and government securities to cover potential liquidity outflows. Our key funding and liquidity metrics--broad liquid assets to short-term wholesale funding, and our stable funding ratio--were a satisfactory 1.5x and 136%, respectively, on Dec. 31, 2020.

We include ALAC uplift in the ratings on LBCM because, through internal downstreaming, we believe its senior creditors benefit from Lloyds' substantial ALAC buffer. At year-end 2020, LBCM's regulatory capital included £1.3 billion of Additional Tier 1 and Tier 2 securities downstreamed by Lloyds, and its outstanding debt securities included £3.7 billion issued to other group entities.

## Related Criteria

- Group Rating Methodology, July 1, 2019
- Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- Risk-Adjusted Capital Framework Methodology, July 20, 2017
- Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Guarantee Criteria, Oct. 21, 2016
- Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Commercial Paper I: Banks, March 23, 2004

## Related Research

- Lloyds Banking Group PLC, June 28, 2021
- Various Rating Actions Taken On U.K. Banks On Recovering Economy, June 24, 2021
- Rearranged And Ready: U.K. Banks Are On Track For Ring-Fencing, Aug. 15, 2018

### Ratings Detail (As Of June 28, 2021)\*

#### 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

#### 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/Stable/A-1+
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## Ratings Detail (As Of June 28, 2021)\*(cont.)

**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-

**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-

**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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