

Lloyds Bank Corporate Markets PLC

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Lloyds Bank Corporate Markets PLC

Major Rating Factors

Global Scale Ratings

Issuer Credit Rating

A/Negative/A-1

Resolution Counterparty Rating

A+/--/A-1

Strengths:	Weaknesses:
<ul style="list-style-type: none">Highly strategic subsidiary of Lloyds Banking Group plc.Solid capital ratios and additional loss-absorbing capacity.	<ul style="list-style-type: none">Business activity is weighted toward corporate and institutional clients, which brings a certain degree of cyclicity and complexity.

Outlook

S&P Global Ratings' negative outlook on Lloyds Bank Corporate Markets plc (LBCM) mirrors that on ultimate parent Lloyds Banking Group plc (Lloyds). The negative outlook on Lloyds reflects potential earnings pressures arising from the economic and market impact of 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 weakens.

Upside scenario

A revision of the outlook to stable would follow a similar action on Lloyds.

Over time we could consider equalizing the ratings on LBCM with the ring-fenced banks of Lloyds 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+/Negative/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 the Commercial Banking Division of LBG.

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 between May and December 2018. At year-end 2019, LBCM's consolidated balance sheet represented 8% of Lloyds' consolidated risk-weighted assets (RWAs) and 10% of the group's total assets. LBCM's common equity Tier 1 ratio was 14.0% at year-end 2019, which is broadly in line with Lloyds. Peers would 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.

LBCM's balance sheet profile reflects its focus on commercial banking and capital markets. Its £79.7 billion consolidated assets at year-end 2019 included £20.3 billion of customer loans (mostly to commercial clients), £18.8 billion of derivatives, £18.1 billion of fair-valued financial assets (mostly trading assets), and £16.3 billion of central bank balances. It had no level 3 fair-valued assets, which indicates its trading inventory was reasonably liquid, and 1.4% of its customer loans were classified as credit-impaired.

It reported a £368 million pretax profit for 2019 and a 56% cost-to-income ratio, with a small impairment credit. We anticipate that LBCM will be solidly profitable over the medium term, but it may exhibit higher earnings volatility and lower cost efficiency than Lloyds' commercial banking division due to its narrower scope of business. On a reported underlying basis, this division represented 24% of the group's £7.5 billion underlying profit before tax in 2019, which highlights the relatively modest role for LBCM. In 2020, owing to the impact of COVID-19, and reflecting the corporate bias of LBCM's loan book, we expect a sharp rise in credit impairments to strain its earnings.

We view LBCM's funding and liquidity profiles as satisfactory. It held £24.5 billion of customer deposits at year-end 2019, of which a material proportion derives 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 1.2x and 112%, respectively at Dec. 31, 2019.

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 2019, LBCM's regulatory capital included £1.4 billion of Additional Tier 1 and Tier 2 securities downstreamed by Lloyds, and its outstanding debt securities included £3.6 billion issued to other group entities.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria | Financial Institutions | Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria | Financial Institutions | Banks: Commercial Paper I: Banks, March 23, 2004

Related Research

- Lloyds Banking Group PLC, June 5, 2020
- COVID-19 Effects Might Quadruple U.K. Bank Credit Losses In 2020, May 4, 2020
- Lloyds Banking Group Outlook Revised To Negative On Economic Impact Of COVID-19; Ratings Affirmed, April 23, 2020
- Rearranged And Ready: U.K. Banks Are On Track For Ring-Fencing, Aug. 15, 2018

Ratings Detail (As Of June 5, 2020)*

Lloyds Bank Corporate Markets PLC

Issuer Credit Rating	A/Negative/A-1
Resolution Counterparty Rating	A+/-/A-1

Ratings Detail (As Of June 5, 2020)*(cont.)	
Commercial Paper	A-1
Senior Unsecured	A
Short-Term Debt	A-1
Issuer Credit Ratings History	
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+
Related Entities	
Bank of Scotland Capital Funding L.P.	
Preferred Stock	BB+
Bank of Scotland PLC	
Issuer Credit Rating	A+/Negative/A-1
Resolution Counterparty Rating	AA-/--/A-1+
Junior Subordinated	BB+
Junior Subordinated	BBB-
Senior Secured	AAA/Stable
Subordinated	BBB
HBOS PLC	
Issuer Credit Rating	BBB+/Negative/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+/Negative/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+/Negative/A-1

Ratings Detail (As Of June 5, 2020)*(cont.)

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
Scottish Widows Ltd.	
Financial Strength Rating	
<i>Local Currency</i>	A/Negative/--
Issuer Credit Rating	
<i>Local Currency</i>	A/Negative/A-1
Junior 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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