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CREDIT OPINION
7 June 2023

Update

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Lloyds Bank plc

Update following annual results

Summary

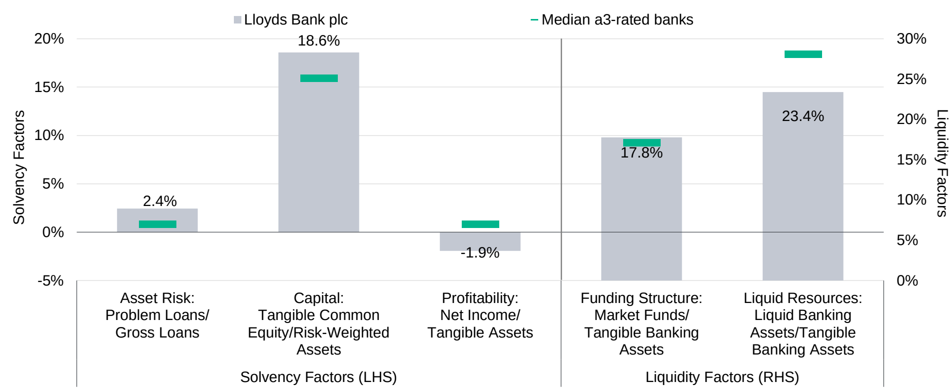
We assign a rating of A1 to the long-term deposit and senior unsecured debt of Lloyds Bank plc (LB), the ring-fenced bank of the Lloyds Banking Group plc (LBG, A3 stable, a3)[1].

LB's A1 long-term deposit and senior unsecured ratings reflects (1) the bank's standalone creditworthiness, expressed in an a3 Baseline Credit Assessment (BCA); (2) very low and low loss-given-failure, which provides two notches and one notch, respectively, of uplift under our Advanced Loss Given Failure (LGF) analysis; and (3) our assessment of a moderate probability of support from the Government of the United Kingdom (Aa3 negative), which provides one notch of uplift for the senior unsecured debt rating and zero notches for the deposit rating.

LB's a3 BCA reflects its strong capital, good asset quality, stable retail funding and ample liquidity, and its solid profitability as rates rises support net interest income growth and credit costs remain moderate.

We align the ratings of HBOS plc and Bank of Scotland plc subsidiaries to those of LB, to reflect their high integration with LB.

Exhibit 1
Rating Scorecard - Key financial ratios



Source: Moody's Investors Service

RATINGS

Lloyds Bank plc

Domicile	London, United Kingdom
Long Term CRR	Aa3
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	A1
Type	Senior Unsecured - Fgn Curr
Outlook	Negative
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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Americas	1-212-553-1653
Asia Pacific	852-3551-3077

Credit strengths

» Strong capital

» Low asset risk

» Stable retail funding and ample liquidity

» Solid profitability reflecting higher net interest income and moderate cost of risk

Credit challenges

» Deteriorating macroeconomic environment likely to weaken credit demand, particularly affecting SMEs

» Inflationary pressures and higher interest rates to negatively affect households' discretionary income and debt servicing capacity

Outlook

The outlook on LB's senior unsecured ratings is negative, reflecting the negative outlook on the UK sovereign debt rating and the proximity of its senior unsecured rating to the UK sovereign debt ratings. A downgrade of the UK sovereign debt rating, which is currently on a negative outlook, would reduce the likelihood of an uplift to LB's A1 senior unsecured ratings by one notch.

The outlook on LB's long-term deposit rating is stable reflecting our view that the combined solvency and liquidity metrics will, on a forward-looking basis, remain in line with our current assessment of moderate asset risk, solid profitability, high capitalisation, and ample liquidity, which moderates wholesale funding exposures.

Factors that could lead to an upgrade of the ratings

There is limited upward pressure on LB's senior unsecured ratings, as reflected by the negative outlook. The outlook could be stabilised in case the outlook on the UK's sovereign debt rating is changed to stable from negative, if there is a significant increase in the stock of more junior bail-in-able liabilities, or the standalone BCA is upgraded. LB's BCA could be upgraded if the bank's profitability, capital or asset quality improve.

Factors that could lead to a downgrade of the ratings

LB's senior unsecured ratings could be downgraded if the BCA is downgraded, if there is a significant decline in the stock of bail-in-able liabilities, or if the UK sovereign debt rating is downgraded.

LB's BCA could be downgraded following (1) a deterioration of the UK operating environment beyond our current expectations, or (2) a material decline in the group's capital metrics. A one notch downgrade of the bank's BCA would lead to a downgrade of all its ratings.

Key indicators

Exhibit 2
Lloyds Bank plc (Consolidated Financials) [1]

	12-22[2]	12-21[2]	12-20[2]	12-19[2]	12-18[2]	CAGR/Avg.[3]
Total Assets (GBP Billion)	616.9	602.8	590.5	567.8	578.8	1.6[4]
Total Assets (USD Billion)	742.1	813.6	807.2	752.2	737.2	0.2[4]
Tangible Common Equity (GBP Billion)	32.5	31.7	29.6	33.5	35.4	(2.1)[4]
Tangible Common Equity (USD Billion)	39.1	42.8	40.4	44.4	45.0	(3.4)[4]
Problem Loans / Gross Loans (%)	2.4	2.0	2.1	2.0	2.1	2.1[5]
Tangible Common Equity / Risk Weighted Assets (%)	18.6	19.6	17.3	19.5	20.3	19.1[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	29.0	24.4	25.6	22.9	23.1	25.0[5]
Net Interest Margin (%)	2.2	1.8	1.8	2.2	2.1	2.0[5]
PPI / Average RWA (%)	4.4	3.2	3.2	4.4	3.4	3.7[6]
Net Income / Tangible Assets (%)	-1.9	0.7	1.0	0.9	0.5	0.2[5]
Cost / Income Ratio (%)	54.8	63.0	62.3	53.5	60.2	58.8[5]
Market Funds / Tangible Banking Assets (%)	17.8	14.6	16.2	17.2	19.5	17.1[5]
Liquid Banking Assets / Tangible Banking Assets (%)	23.4	22.8	23.5	21.4	21.6	22.5[5]
Gross Loans / Due to Customers (%)	98.3	96.7	100.6	106.0	108.4	102.0[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

Profile

LB is the ring-fenced bank of Lloyds Banking Group plc (LBG), a leading UK-based financial services group providing a wide range of banking and financial services, focused on retail and commercial customers. LB operates also through other brands, mainly Halifax and Bank of Scotland. The bank retains most of the group's banking businesses, including more than 95% of loans and most of the retail, small and medium-sized enterprise, and corporate deposits.

As part of its strategy, LB aims to drive revenue growth and diversification both in its Consumer and Commercial businesses: in the Consumer business, it targets to deepen and innovate in consumer banking and create a new mass affluent offering; in the Commercial business, it targets to digitise and diversify its SME business and to strengthen its Corporate & Institutional offering. These initiatives should help the firm to grow revenue, with an expected overall impact expected to benefit profits from 2024 as revenue benefits outweigh net costs.

Besides LB, LBG's other main subsidiaries are the insurer Scottish Widows Limited (Scottish Widows, IFRS A2 stable), and the non-ring-fenced bank Lloyds Bank Corporate Markets plc (LBCM, A1 stable/A1 stable, baa3[2]), holding capital markets activities, business outside of the European Economic Area and lending to financial institutions.

Detailed credit considerations

The financial data in the following sections are sourced from LB's consolidated financial statements, unless otherwise stated.

Low asset risk

We assign an a3 Asset Risk score, one notch below the Macro-Adjusted score, reflecting our expectation that Stage 3 loans will moderately increase and then stabilize at just above 2% of loans during the next 12-18 moths. Stage 3 loans were 1.7% of gross loans at end-2022 (end-2021: 1.5%) and Stage 2 loans were 13.7% (end-2021: 8%).

LB's lending book includes high exposure to lower-risk retail mortgages (71%), followed by unsecured and auto lending (9%), and commercial lending (17%) at end-2022. LB classifies 3% of its loan book as "Other".

Underwriting standards in the mortgage book are higher than the market's average. The bank remains focused on the prime UK residential mortgage business, a segment with low risks. Riskier mortgages with high loan-to-values of above 90% accounted for 1.4%

of gross lending at end-2022, lower than the 5.1% market average. Within UK residential mortgages, 16% are buy-to-let loans, which represents a higher proportion than for some of its peers.

Strong capital

We assign an aa3 Capital score, reflecting our expectation of a slight decrease in capital levels in coming quarters.

LB reported a high Common Equity Tier 1 (CET1) capital ratio of 14.8% at end-2022 (16.7% at end-2021), with a significant headroom over c.11% regulatory requirement. The UK leverage ratio was 5.3% at end-2022 from 5.2% at end-2021. Our tangible common equity (TCE) ratio was 18.6% at end-2022.

High profitability benefiting from high net interest income growth and moderate cost of risk

We assign a baa2 Profitability score, reflecting our expectation that LB's net income will stabilize around £4.5 billion in 2023 and 2024, reflecting improved revenue supported by a high net interest margin, and a moderate increase in the cost of risk from a low base. However, persisting inflationary pressures will likely constrain household incomes and debt servicing capacity and impact business and consumer confidence, weakening credit demand.

In 2022, LB reported profit after tax of £4.8 billion (down from £5.2 billion in the prior period). The decrease largely reflects an impairment charge of £1.5 billion, most of which related to revisions around the economic outlook including additional risks from a higher inflation and interest rate environment, versus a £1.3 billion impairment reversal in the prior period. Revenue increased by 14% yoy reflecting higher net interest income and operating costs decreased by 10% yoy.

Stable retail funding and ample liquidity

We assign an a3 Combined Liquidity score, reflecting an a3 Funding Structure score and a baa1 Liquid Resources score. LB's Combined Liquidity score is one notch above LBG's, reflecting lower market funding.

LB benefits from its stable and granular retail deposit base: its market share in the UK for personal current accounts was 23% at end-2022, the highest in the country. LB's reliance on wholesale funding is moderate, representing 18% of tangible banking assets at end-2022.

LBG's total outstanding drawings from the Term Funding Scheme with additional incentives for SMEs (TFSME) was stable at £30.0 billion at end-2022 (end-2021: £30.0 billion), with maturities in 2025 and 2027.

ESG considerations

Lloyds Bank 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's ESG Credit Impact Score is neutral-to-low (CIS-2), reflecting limited credit impact from environmental and social factors on the rating to date. Lloyds Bank's governance risk is low, and takes into consideration the group's strong track record of successful streamlining and simplifying the business, stable and credible management along with sound capital, liquidity and risk management.

Exhibit 4
ESG Issuer Profile Scores

ENVIRONMENTAL	SOCIAL	GOVERNANCE
E-3	S-4	G-2
Moderately Negative	Highly Negative	Neutral-to-Low

Source: Moody's Investors Service

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

Social
Lloyds Bank faces high industrywide social risks from customer relations: regulatory risk, litigation exposure and high compliance standards, as well as cyber risk and the financial and reputational implications of data breaches. The group also faces industrywide moderate social risks related to potential competition from technological firms and other disruptors.

Governance
Lloyds Bank's governance risk is low. The bank has sound board structure, risk management, and capital and liquidity management. Management has a strong track record of simplification and efficiency. Because Lloyds Bank 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 (Lloyds Bank contains the ring-fenced business of the group and represents more than 90% of group assets and revenue), 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
We expect a very high probability of support from LBG, based on the size and importance of LB within the group. Our assumptions do not lead to any uplift, because LBG and LB have the same BCA.

Loss Given Failure analysis
We apply our advanced LGF analysis to LB 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 LB would be resolved separately from its non ring-fenced sister bank, LBCM. As such our LGF analysis for LB reflects the entity's own liability structure.

Our LGF analysis assumes residual TCE of 3%, post-failure losses of 8% of tangible banking assets, a 25% runoff in junior wholesale deposits and a 5% runoff in preferred deposits, and it assigns a 25% probability to deposits being preferred to senior unsecured debt. These assumptions are in line with our standard assumptions. We also assume that the junior proportion of LB's deposits is 26%. These are in line with our standard assumptions.

Our LGF analysis indicates that LB's deposits and senior unsecured debt are likely to face a very low and low loss-given-failure respectively because of the loss absorption provided by subordinated debt (including the debt down-streamed from LBG), and the volume of deposits and senior debt themselves. This results in a two-notch uplift for the long-term deposit and a one-notch uplift to the senior unsecured debt ratings from the BCA.

Government support considerations

Given LB's systemic importance to the UK economy, reflecting its large national market share of residential mortgages and deposits, we incorporate a moderate probability of government support for deposits and senior unsecured debt, which leads to no uplift for the long-term deposit and a one-notch uplift for the senior unsecured debt ratings.

We believe that potential government support is low for LB's subordinated liabilities, which does not result in any uplift.

Counterparty Risk (CR) Assessments and Counterparty Risk Ratings (CRRs)

LB's CR Assessments are Aa3(cr)/Prime-1(cr). The long-term CR Assessments, before government support, are three notches above the bank's standalone BCAs of a3. The uplift results from the buffer against default provided to the operating obligations by substantial bail-in-able debt and deposits. A moderate probability of government support results in no additional notch of uplift.

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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 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	2.4%	a2	↔	a3	Sector concentration	
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - fully loaded)	18.6%	aa2	↓	aa3	Expected trend	
Profitability						
Net Income / Tangible Assets	-1.9%	caa3	↑↑	baa2	Expected trend	
Combined Solvency Score		baa1		a2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	17.8%	a3	↔	a3		
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	23.4%	baa1	↔	baa1		
Combined Liquidity Score		a3		a3		
Financial Profile				a2		
Qualitative Adjustments				Adjustment		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint				Aa3		
BCA Scorecard-indicated Outcome - Range				a1 - a3		
Assigned BCA				a3		
Affiliate Support notching				0		
Adjusted BCA				a3		

Balance Sheet	**in-scope (GBP Million)**	**% in-scope**	**at-failure (GBP Million)**	**% at-failure**
Other liabilities	111,894	18.3%	157,567	25.8%
Deposits	447,779	73.2%	402,106	65.7%
Preferred deposits	331,356	54.2%	314,789	51.5%
Junior deposits	116,423	19.0%	87,317	14.3%
Senior unsecured bank debt	3,729	0.6%	3,729	0.6%
Junior senior unsecured bank debt	17,420	2.8%	17,420	2.8%
Dated subordinated bank debt	8,051	1.3%	8,051	1.3%
Junior subordinated bank debt	201	0.0%	201	0.0%
Preference shares (bank)	4,376	0.7%	4,376	0.7%
Equity	18,354	3.0%	18,354	3.0%
Total Tangible Banking Assets	611,804	100.0%	611,804	100.0%

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional Notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	22.8%	22.8%	22.8%	22.8%	3	3	3	3	0	aa3
Counterparty Risk Assessment	22.8%	22.8%	22.8%	22.8%	3	3	3	3	0	aa3 (cr)
Deposits	22.8%	7.9%	22.8%	8.5%	2	3	2	2	0	a1
Senior unsecured bank debt	22.8%	7.9%	8.5%	7.9%	2	0	1	1	0	a2
Dated subordinated bank debt	5.1%	3.7%	5.1%	3.7%	-1	-1	-1	-1	0	baa1
Junior subordinated bank debt	3.7%	3.7%	3.7%	3.7%	-1	-1	-1	-1	-1	baa2

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	aa3	0	Aa3	Aa3
Counterparty Risk Assessment	3	0	aa3 (cr)	0	Aa3(cr)	
Deposits	2	0	a1	0	A1	A1
Senior unsecured bank debt	1	0	a2	1	A1	A1
Dated subordinated bank debt	-1	0	baa1	0	Baa1	(P)Baa1
Junior subordinated bank debt	-1	-1	baa2	0	Baa2 (hyb)	

[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 PLC	
Outlook	Stable(m)
Counterparty Risk Rating	Aa3/P-1
Bank Deposits	A1/P-1
Baseline Credit Assessment	a3
Adjusted Baseline Credit Assessment	a3
Counterparty Risk Assessment	Aa3(cr)/P-1(cr)
Senior Unsecured	A1
Subordinate -Dom Curr	Baa1
Jr Subordinate -Dom Curr	Baa2 (hyb)
Commercial Paper	P-1
Other Short Term -Dom Curr	(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
BANK OF SCOTLAND PLC	
Outlook	Stable(m)
Counterparty Risk Rating	Aa3/P-1
Bank Deposits	A1/P-1
Baseline Credit Assessment	a3
Adjusted Baseline Credit Assessment	a3
Counterparty Risk Assessment	Aa3(cr)/P-1(cr)
Issuer Rating	A1
Bkd Senior Unsecured	A1
Pref. Stock Non-cumulative -Dom Curr	Baa3 (hyb)
HBOS PLC	
Outlook	Negative
Counterparty Risk Rating	Aa3/P-1
Counterparty Risk Assessment	Aa3(cr)/P-1(cr)
Issuer Rating	A1
Subordinate	Baa1
Jr Subordinate -Dom Curr	Baa2 (hyb)
ST Issuer Rating	P-1

Source: Moody's Investors Service

Endnotes

1 Senior unsecured rating and BCA

2 Deposit rating, senior unsecured/issuer rating, BCA

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Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454