

Lloyds Bank PLC

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Credit Highlights

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Issuer Credit Rating

A+/Stable/A-1

Resolution Counterparty Rating

AA-/--/A-1+

Key strengths

Core, ring-fenced subsidiary of ultimate parent Lloyds Banking Group PLC.

Strong market position across U.K. retail and commercial banking, where earnings benefit from rising interest rates.

Supportive capital, funding, and liquidity profiles.

Key risks

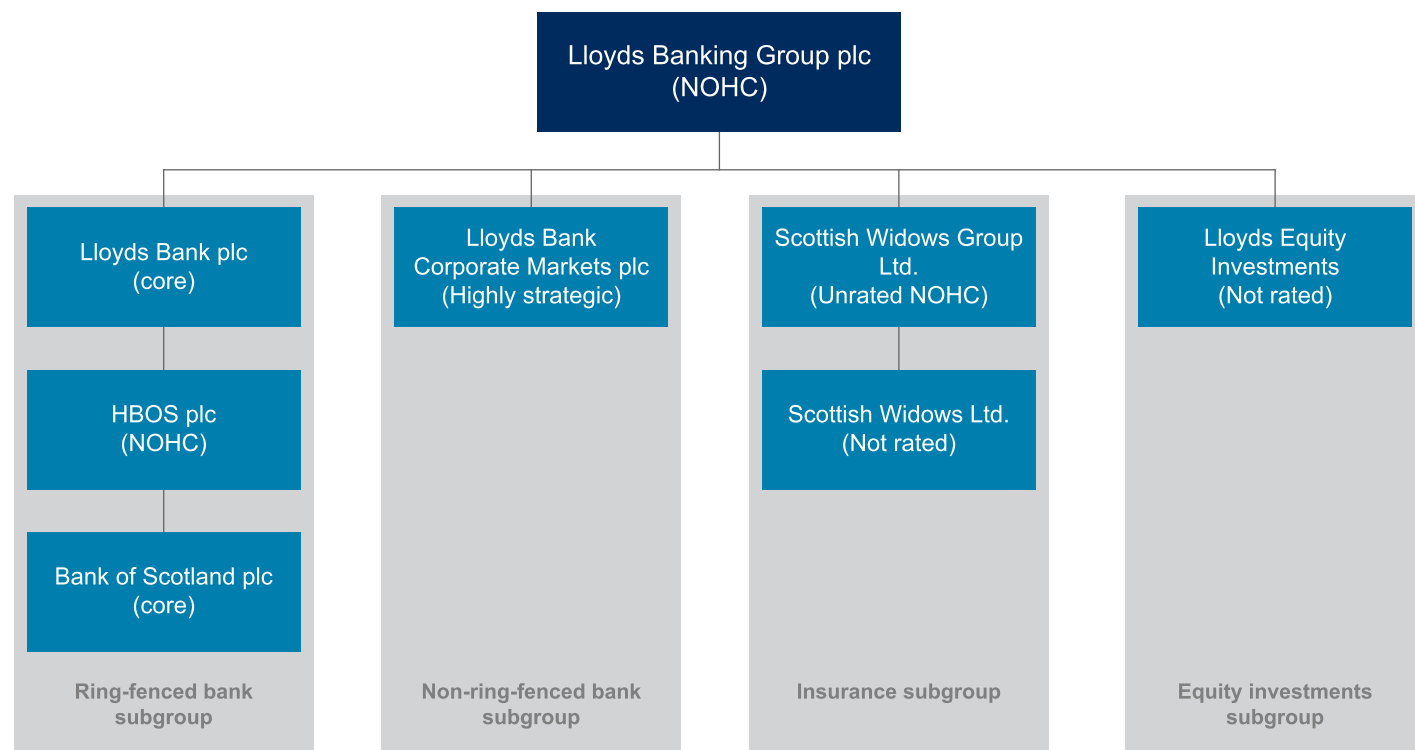
Weakening U.K. economy.

Geographic concentration in the U.K.

S&P Global Ratings views Lloyds Bank PLC (LB) as a core subsidiary of Lloyds Banking Group PLC (LBG). LB has an integral role in its parent's strategy, and a dominant share of the group's consolidated earnings and capital. Its brand and reputation are intertwined with the group's. We align our long-term issuer credit rating on LB with the 'a+' group credit profile on LBG, which includes a two-notch uplift for additional loss-absorbing capacity (ALAC). We do not assess LB's stand-alone credit profile.

LB is LBG's largest subsidiary. It is the main entity in the ring-fenced bank subgroup, and its consolidated regulatory risk-weighted assets (RWAs) represented 82% of LBG's RWAs at Sept. 30, 2022. It is the market leader in U.K. retail banking and one of the main competitors in U.K. commercial banking alongside ring-fenced bank peers Barclays Bank UK PLC, HSBC UK Bank PLC, and National Westminster Bank PLC. LB's main subsidiary is Bank of Scotland PLC (A+/Stable/A-1), which operates primarily in Scotland.

Highly Simplified Overview Of Lloyds' Legal Entity Structure



Source: Lloyds, S&P Global Ratings.

Information in parentheses shows our group status classification.

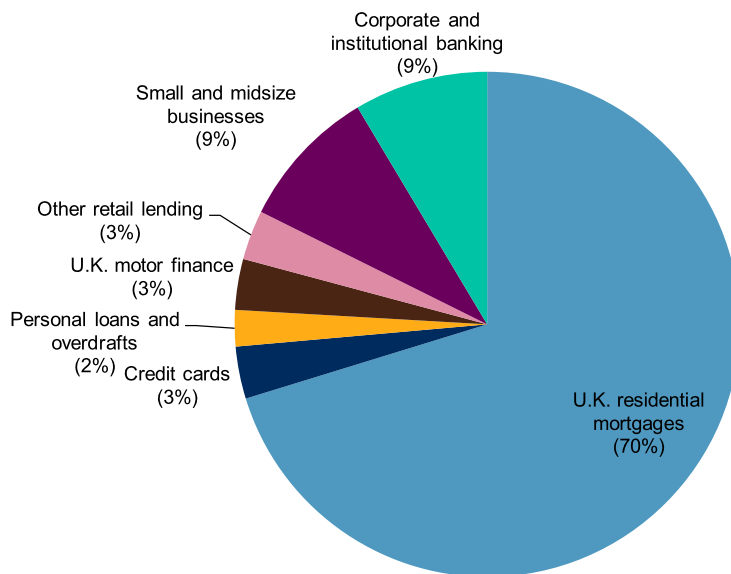
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Rising interest rates are boosting earnings. LB's £4.5 billion consolidated pretax earnings in the first nine months of 2022 were 87% of LBG's result. Rising interest rates are benefiting revenue, which increased 9% year-on-year, through managed product margins and income from the structural hedge. Operating expenses were 2% lower as reduced regulatory provisions offset wage inflation and ongoing strategic technology investments. Following a net release in 2021, LB booked a £1.0 billion impairment charge (0.23% of average customer loans) as the weakening economic outlook triggered reserve building.

Well-collateralized mortgages dominate customer loans. LB's large customer loan portfolio is dominated by residential mortgages but also includes higher-risk elements such as credit cards. LBG disclosed that the average loan-to-value ratio of its mortgage book (almost all of which is held by LB) was 40.3% at Sept. 30, 2022, which mitigates falling house prices significantly. LB's stage 2 and 3 loans increased in the first nine months of 2022 to 13.2% and 1.9%, respectively, and the vast majority of stage 2 balances were fully up-to-date in terms of repayments. We expect arrears and delinquencies to increase as the U.K. economy enters recession but sound underwriting and relatively low unemployment should underpin LB's overall asset quality.

Chart 2**Well-Collateralized Mortgages Dominate Customer Lending**

Gross customer loans at Sept. 30, 2022



Source: Lloyds Bank PLC.

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LB's capitalization is in line with the group's. LB's 15.0% common equity Tier 1 ratio at Sept. 30, 2022, was the same as LBG's and comfortably exceeded its 11.1% minimum regulatory requirement. Its leverage ratio, which excluded central bank claims, was 5.2%.

We view LB's funding and liquidity profiles as solid. Its powerful deposit franchise resulted in a 96% loan-to-deposit ratio at Sept. 30, 2022. Strong deposit growth during the COVID-19 pandemic curbed LB's wholesale funding activity, and issuance (largely secured) is likely to increase in 2023 as it begins to refinance its £30 billion borrowing from the Bank of England. It held £124 billion of high quality liquid assets at Sept. 30, 2022, and reported a comfortable 138% average liquidity coverage ratio.

LBG has downstreamed material loss-absorbing debt to LB. We think this buffer benefits LB's senior creditors and therefore reflect ALAC uplift in the issuer credit rating.

Outlook

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

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

Upside scenario

An upgrade is a remote prospect. In the event we raised the ratings on LBG by improving the group stand-alone credit profile to 'a' from 'a-', it is unlikely that we would raise ratings on LB. This is because, at this elevated ratings 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 LB 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 LB regardless of a rating action on LBG if we saw LB becoming less integral to the group's strategy, which is not a likely scenario given its position at the heart of the retail and commercial banking franchise.

Key Statistics

Table 1

Lloyds Bank PLC--Key Figures					
	--Year ended Dec. 31--				
(Mil. £)	2022*	2021	2020	2019	2018
Adjusted assets	621,558	598,235	595,357	577,113	589,690
Customer loans (gross)	438,802	434,633	431,395	426,009	431,185
Adjusted common equity	27,463	29,406	29,821	29,914	29,346
Operating revenue	8,052	14,673	14,605	16,616	16,974
Noninterest expense	4,405	10,367	8,617	8,844	9,565
Core earnings	2,441	5,057	2,065	4,120	4,928

*Data as of June 30.

Table 2

Lloyds Bank PLC--Business Position					
	--Year ended Dec. 31--				
(%)	2022*	2021	2020	2019	2018
Total revenue from business line (mil. £)	8,052	14,922	14,605	16,616	18,288
Commercial banking/total revenue from business line	18.1	20.1	20.4	21.5	23.7
Retail banking/total revenue from business line	71.7	69.3	68.9	64.8	60.2
Commercial and retail banking/total revenue from business line	89.8	89.3	89.2	86.3	83.9
Insurance activities/total revenue from business line	N/A	N/A	N/A	N/A	10.9
Other revenue/total revenue from business line	10.2	10.7	10.8	13.7	16.1
Return on average common equity	N/A	12.7	3.6	5.5	10.3

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

Table 3

Lloyds Bank PLC--Capital And Earnings					
	--Year ended Dec. 31--				
(%)	2022*	2021	2020	2019	2018
Tier 1 capital ratio	17.7	19.7	19.8	18.3	18.3
Adjusted common equity/total adjusted capital	86.5	85.6	80.3	81.2	83.2
Net interest income/operating revenue	75.6	75.2	73.7	73.5	75.1
Fee income/operating revenue	8.0	8.5	6.9	8.0	7.5
Market-sensitive income/operating revenue	2.6	1.8	5.8	4.6	4.0
Cost to income ratio	54.7	70.7	59.0	53.2	56.4
Preprovision operating income/average assets	N/A	0.7	1.0	1.3	1.0
Core earnings/average managed assets	N/A	0.8	0.3	0.7	0.7

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

Table 4

Lloyds Bank PLC--Risk Position					
	--Year ended Dec. 31--				
(%)	2022*	2021	2020	2019	2018
Growth in customer loans	N.M.	0.8	1.3	(1.2)	(7.8)
Total managed assets/adjusted common equity (x)	22.8	20.5	20.1	19.4	20.2
New loan loss provisions/average customer loans	N/A	(0.3)	0.9	0.3	0.2
Net charge-offs/average customer loans	N/A	0.2	0.3	0.3	0.2
Gross nonperforming assets/customer loans + other real estate owned	4.2	4.0	4.4	4.5	4.8
Loan loss reserves/gross nonperforming assets	20.8	21.9	30.1	16.3	14.5

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

Table 5

Lloyds Bank PLC--Funding And Liquidity				
	--Year ended Dec. 31--			
(%)	2021	2020	2019	2018
Core deposits/funding base	79.3	74.9	74.0	71.5

Table 5

Lloyds Bank PLC--Funding And Liquidity (cont.)				
	--Year ended Dec. 31--			
(%)	2021	2020	2019	2018
Customer loans (net)/customer deposits	100.1	109.2	109.9	112.1
Long-term funding ratio	91.5	90.1	90.0	86.3
Stable funding ratio	108.0	N/A	N/A	N/A
Short-term wholesale funding/funding base	9.2	10.6	10.9	15.0
Broad liquid assets/short-term wholesale funding (x)	2.1	N/A	N/A	N/A
Broad liquid assets/total assets	17.1	N/A	N/A	N/A
Broad liquid assets/customer deposits	24.1	N/A	N/A	N/A
Net broad liquid assets/short-term customer deposits	12.5	N/A	N/A	N/A
Regulatory liquidity coverage ratio (LCR) (x)	N/A	N/A	N/A	N/A
Short-term wholesale funding/total wholesale funding	41.6	40.3	40.0	50.5

N/A--Not applicable.

Related Criteria

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

Related Research

- Lloyds Bank Corporate Markets 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 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
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
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	
Issuer Credit Rating	A/Stable/A-1
Resolution Counterparty Rating	A+/--/A-1

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

Commercial Paper	A-1
Senior Unsecured	A
Short-Term Debt	A-1
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-

*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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