

FITCH RATES LLOYDS' EUROPEAN INVESTMENT FIRM, TUTP17, AT 'A(EXP)'

Fitch Ratings-London-06 November 2018: Fitch Ratings has assigned TUTP17 Management GmbH an expected Long-Term Issuer Default Rating (IDR) of 'A(EXP)' with a Stable Outlook, Short-Term IDR of 'F1(EXP)' and Support Rating (SR) of '1(EXP)'.

TUTP17's Long- and Short-Term IDRs are equalised with its parent's, Lloyds Bank Corporate Markets plc (LBCM; A/Stable), which along with the SR of '1(EXP)' reflects our view of an extremely high likelihood that TUTP17 would be supported by its 100% parent, if needed. LBCM's Long-Term IDR, in turn, is equalised with the Viability Rating of Lloyds Banking Group's (LBG; A+/Stable/a), the ultimate provider of support for TUTP17 and for LBCM, in our view.

TUTP17 will be a Frankfurt-based European Investment Firm (EIF) and is expected to change its name to LBCM Wertpapierhandelsbank GmbH, pending licencing approvals from the German regulator.

TUTP17 is targeted to become fully operational by March 2019 and will focus mainly on bond origination and distribution to European Economic Area clients, activities that are currently carried out by LBCM in London. The transfer of this business to EIF is aimed at avoiding business disruption following Brexit. Fitch expects to assign final ratings to EIF once the entity becomes fully operational.

KEY RATING DRIVERS

IDRS AND SR

We have equalised the IDRs of TUTP17 and LBCM to reflect its, and LBCM's, strategic importance to LBG due to its role in providing continued access to the group's commercial banking clients to services which may not be permitted to be done from within the UK following Brexit. We consider that there would be an extremely high reputational risk to LBG if it were to allow this entity to default.

We believe that LBG would have a strong ability to provide such support given TUTP17's expected small relative size compared to the group.

Like LBCM, TUTP17's IDRs are equalised with LBG's VR as opposed to LBG's IDR to reflect insufficient certainty that senior creditors of LBCM and of its subsidiary would benefit from LBG's qualifying junior debt buffer in a resolution of the group.

Fitch has not assigned a VR to TUTP17 as we do not believe that it will have a meaningful standalone franchise without the ownership of LBG. The Short-Term IDR maps to the bank's Long-Term IDR.

RATING SENSITIVITIES

IDRS AND SR

TUTP17's expected IDRs are primarily sensitive to LBCM's and LBG's ratings. TUTP17's expected IDRs and SR are also sensitive to changes in our assumptions around the propensity or ability of LBG to provide timely support. This could result from a change to LBG's VR, or to the strategic importance of LBCM/TUTP17 within the group.

The prohibition or restriction by LBG's regulator to upstream dividends from the ring-fenced bank to support non-ring fenced entities could also result in a downgrade of TUTP17's IDRs.

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Applicable Criteria

Bank Rating Criteria - Effective from 22 June 2018 to 12 October 2018 (pub. 22 Jun 2018)
<https://www.fitchratings.com/site/re/10034713>

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