

Bank of England

Prudential Regulation Authority

WRITTEN NOTICE: IRB PERMISSION

To: Lloyds Bank Plc (FRN 119278)
Bank of Scotland Plc (FRN 169628)
Lloyds Bank Corporate Markets Plc (FRN 763256)
(Each a "firm" and together the "firms")
Lloyds Banking Group Plc (FRN 203491) ("the holding company")
(together "the addressees")

Ref: 00006242
00006243
00006244

Of: 25 Gresham Street, London EC2V 7HN

Date: 14 August 2023

DECISIONS

1. On 27 December 2007 Lloyds Bank Plc and Bank of Scotland Plc was granted an IRB waiver under s138A of the Financial Services and Markets Act 2000 (the "Act") by the Prudential Regulation Authority ("PRA"). In accordance with Waivers Transitional Provisions 2.1(2) of the PRA Rulebook Lloyds Bank Plc and Bank of Scotland's IRB waiver took effect on 1 January 2014 as permissions granted by the PRA under Chapter 3, Title II, Part Three of Regulation 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (the "CRR"). The permission was carried over to Lloyds Bank Corporate Markets Plc on 28 May 2018. On 12 December 2021 the holding company was approved by the PRA as a parent mixed financial holding company under section 192R(2) of the Act. Accordingly the addressees have been granted the permission to calculate their risk weighted exposure amounts using the Internal Ratings Based Approach ("IRB Approach") on the terms and conditions set out in Annex 1 and Annex 5 (the "IRB Permission").



2. Further to regulations 34B and 35B of the Capital Requirements Regulations 2013 and an application made by the firm in accordance with section 55M(5) of the Financial Services and Markets Act 2000 (the "Act") for certain requirements, the PRA has decided to grant to the firm the requirements specified in Annex 2. The PRA expects the holding company to submit the information requested in Annex 3.
3. If an addressee ceases to comply with the conditions in Chapter 5, Title IV, Part 3 of the CRR, the terms of the IRB permission set out in Annex 1, or the requirements set out in Annex 2, the PRA will re-consider the terms and conditions of the IRB Permission and the requirements relevant to it, which may include a revocation of the IRB Permission in whole or in part.
4. The IRB Permission takes effect on 31 July 2023. This written notice replaces all previous written notices of this IRB Permission.

PROCEDURAL MATTERS

5. If an addressee wishes to challenge the decisions taken by the PRA in relation to the IRB Permission, the addressee may refer the matter to the Upper Tribunal.
6. Details of the IRB Permission and the related requirements sought or imposed under section 55M of the Act will be published on the Financial Services Register. The full text of this Written Notice will not be published.
7. Further details of procedural matters are contained in Annex 4.

Anna Ghobadian-Grinham
Head of Division, Domestic Systemically Important Banks

ANNEX 1

THE INTERNAL RATINGS BASED PERMISSION

Legal Entities

1. The IRB Permission means that each firm may apply the internal ratings based approach to the legal entities in its calculation of own funds requirements on the following basis:

a. on its consolidated situation in respect of:

Lloyds Bank Plc
Bank of Scotland Plc

and any other firm authorised by the PRA or FCA within the LBG Group consolidation in accordance with Part One, Title II, Chapter 2.

b. on an individual basis in respect of:

Lloyds Bank Plc
Bank of Scotland Plc
Lloyds Bank Corporate Markets Plc

c. on a sub-consolidated basis in respect of:

Lloyds Bank Plc

2. Each firm must calculate its risk-weighted exposure amounts for the categories of exposure identified in Table 1 of Schedule 1 (with the exception of the permanent exemptions and any exposures still subject to sequential implementation) using the IRB Approach, to the extent, in the manner and subject to the conditions set out in this IRB Permission, and in accordance with Table 1 in Schedule 1.

3. The holding company may use the internal model approach in its calculation of own funds requirements for market risk in relation to the risk categories and categories of position described in paragraphs 3 and 4 of this Annex, in accordance with Section 1 and 2, Chapter 5, Title IV, Part 3 of the CRR, on a consolidated basis in respect of Lloyds Bank Plc, Bank of Scotland Plc and Lloyds Bank Corporate Markets Plc.

Ratings Systems

4. Each addressee is permitted to use the ratings systems and internal models approaches to equity exposures (together the "Ratings Systems") as specified in the documentation contained in the addressee's IRB case file (reference ACTS 31450) comprising its IRB application documentation, as modified by all changes and specifications notified to the addressee by the PRA, including those specified in this IRB Permission Notice, all changes and extensions notified by the addressee and accepted by the PRA, and all material changes and extensions for which permission has been granted by the PRA noted in Annex 5.

Permanent partial use under CRR Article 150

5. Each addressee is permitted to apply the Standardised Approach for the exposures listed in Table 2 in Schedule 1 in accordance with art 150 of the CRR.

Reversion to the Standardised Approach under CRR Article 14

6. Each addressee is permitted to revert to use the Standardised Approach for the calculation of risk-weighted exposure amounts for the exposure classes or types of exposure listed in Table 3 in Schedule 1.

Reversion to CRR Article 151(8) LGD/Conversion factors under CRR Article 149

7. This paragraph does not apply to this IRB Permission.

Sequential implementation

8. Each addressee is permitted to implement the IRB Approach sequentially in accordance with Table 5 in Schedule 1 in accordance with art 148 of the CRR.
9. Each addressee is required to submit their application for the IRB Approach for all exposures subject to sequential implementation by 31 December 2024.

Treatment by exposure class

10. Each addressee is permitted to use the approach in Article 155(2) for equity exposures as set out in Table 1 of Schedule 1.
11. Each addressee is permitted to use its own estimates of LGDs and conversion factors for the exposure classes as set out in Table 1 of Schedule 1.

Maturity under CRR Article 162

12. To the extent that the addressee does not have permission to use own estimates of LGDs and conversion factors it shall calculate maturity as set out under CRR Article 162(2) and (3).

Definition of default under CRR Article 178

13. 90 days is replaced with 180 days in CRR Article 178(1)(b) for exposures secured by residential real estate in the retail exposure class.

Unfunded credit protection

14. Each addressee may recognise unfunded credit protection by adjusting PD and/or LGD.

Eligible collateral under CRR Article 199

15. Each addressee may use as eligible collateral types of physical collateral other than those indicated in paragraphs 2, 3 and 4 of Article 199 of the CRR where permission is or has been granted in accordance with paragraph 6 of Article 199.

Further specifications

16. This paragraph does not apply to this IRB Permission.

Material, significant and other changes

17. In accordance with Article 143(3), (4) of the CRR and the Delegated Regulation (EU) No 529/2014 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for assessing the materiality of extensions and changes of the Internal Ratings Based Approach and the Advanced Measurement (as amended),

- (1) the addressee will require a further permission from the PRA in respect of the following changes to the IRB Permission:
 - (a) material changes to the range of application of a ratings system or an internal models approach to equity exposures; or
 - (b) material changes to a ratings system or an internal models approach to equity exposures; and
- (2) the addressee must notify the PRA of all changes to ratings systems and internal models approaches to equity exposures subject to the IRB Permission.

18. In accordance with Article 143(3) of the CRR, the PRA has granted permission for material changes as set out in Annex 5.

SCHEDULE 1

High level scope and coverage of IRB permission.

The PRA has granted the IRB permission for the categories and types of exposures identified in Table 1 below with the exception of the permanent exemptions. Exposure classes that are not applicable to the firms are marked N/A.

Table 1

IRB exposure classes	Sub-classes (& Art 155 approaches, if applicable)	Country	Own estimates of LGDs and Conversion Factors (tick if apply)	Additional provisions/
Exposures to central governments and central banks	All sub-classes defined in CRR Article 147(2)(a), as further described in Article 147(3)	All countries		
Exposures to institutions	All sub-classes defined in CRR Article 147(2)(b), as further described in Article 147(4)	All countries		
Exposures to corporates	SME	All countries		
	Specialised Lending as described in Article 147(8)			
	Other			
Retail exposures	Secured by real estate SME	All countries	✓	
	Secured by real estate non-SME			
	Qualifying revolving			
	Other SME			
	Other non-SME			
Equity exposures	All as described in Article 155(2)	All countries		
Items representing securitisation positions		All countries		Treated according to hierarchy of methods in Article 259 including the use of the Internal

				Assessment Approach for ABCP
Other non-credit obligation assets	All	All countries		

ANNEX 2

REQUIREMENTS RELEVANT TO THE IRB PERMISSION THAT THE PRA HAS IMPOSED UNDER SECTION 55M (5) OF THE ACT

Reporting Requirements

1. The firm must submit, on an annual basis, an inventory of
 - (i) all ratings systems; and
 - (ii) all internal approaches to equity exposureswhich are included within the scope of its IRB Permission as of 30 September of that year. Each firm must submit the inventory no later than 31 December of the relevant year.

ANNEX 3

EXPECTATIONS RELEVANT TO THE IRB PERMISSION

1. It is the PRA's expectation that the holding company will submit, on an annual basis, an inventory of
 - (i) all ratings systems; and
 - (ii) all internal approaches to equity exposureswhich are included within the scope of its IRB Permission as of 30 September of that year. Please submit the inventory no later than 31 December of the relevant year.

ANNEX 4

PROCEDURAL MATTERS

Decision-Maker

1. The decision which gave rise to the obligation to give this Notice was made by the Acting Head of Division, Major UK Retail Banks by delegation from the Supervision, Risk and Policy Committee (SRPC).

The Tribunal

2. The firm has the right to refer the decision to grant the IMA Permission to the Upper Tribunal (the "Tribunal"). The Tax and Chancery Chamber is the part of the Tribunal which, amongst other things, hears references arising from decisions of the PRA. Under paragraph 2(2) of Schedule 3 of the Tribunal Procedure (Upper Tribunal) Rules 2008, the addressee has 28 days from the date on which this Written Notice is given to refer the matter to the Tribunal.
3. A reference to the Tribunal can be made by way of a reference notice (Form FTC3) signed by the addressee and filed with a copy of this Written Notice. The Tribunal's contact details are: The Upper Tribunal, Tax and Chancery Chamber, 45 Bedford Square, London WC1B 3DN (telephone: 020 7612 9700; email: financeandtaxappeals@tribunals.gsi.gov.uk). Further details are contained in "Making a Reference to the UPPER TRIBUNAL (Tax and Chancery Chamber)" which is available from the Tribunal website: <http://www.tribunals.gov.uk/financeandtax/FormsGuidance.htm>.
4. The firm should note that a copy of the reference notice (Form FTC3) must be sent to the PRA at the same time that a reference is filed with the Tribunal. A copy of the reference notice should be sent to Ayush Kanungo at the PRA, 20 Moorgate, London EC2R 6DA.

PRA contacts

5. For more information concerning this matter generally, the firm should contact Mustafa Naveed on 020 3461 8640.

ANNEX 5

VERSION CONTROL SCHEDULE

NOTICES OF MATERIAL CHANGES AND EXTENSIONS TO IRB PERMISSION

Version	Comment	Date
1.0	IRB Permission granted	27.12.2007
2.0	A material change to the permission	08.05.2009
3.0	Inclusion of HBOS Group firms in Retail IRB and Foundation waiver Direction. Roll out plan	31.12.2010
4.0	A material change to the permission	23.03.2012
5.0	A material change to the permission	9.05.2014
6.0	A material change to the permission	24.07.2014
7.0	A material change to the permission	17.10.2014
8.0	A material change to the permission	13.05.2015
9.0	A material change to the permission	13.05.2015
10.0	A material change to the permission	24.11.2015
11.0	A material change to the permission	26.07.2016
12.0	A material change to the permission	26.07.2016
13.0	A material change to the permission	26.07.2016
14.0	A material change to the permission	26.07.2016
15.0	A material change to the permission	26.07.2016
16.0	A material change to the permission	22.06.2016
17.0	A material change to the permission	26.07.2016
18.0	A material change to the permission	8.12.2016
19.0	A material change to the permission	14.02.2017
20.0	A material change to the permission	8.05.2017
21.0	A material change to the permission	14.07.2017
22.0	A material change to the permission	14.07.2017
23.0	A material change to the permission	14.07.2017
24.0	A material change to the permission	15.08.2017
25.0	A material change to the permission	15.08.2017
26.0	A material change to the permission	15.08.2017
27.0	A material change to the permission	15.08.2017
28.0	A material change to the permission	15.08.2017
29.0	A material change to the permission	15.08.2017
30.0	A material change to the permission	15.08.2017
31.0	A material change to the permission	19.06.2018
32.0	A material change to the permission	6.07.2018
33.0	A material change to the permission	14.08.2018
34.0	A material change to the permission	14.08.2018
35.0	A material change to the permission	2.10.2018
36.0	A material change to the permission	28.08.2019
37.0	Changes to IRB roll-out plan	18.02.2020
38.0	Changes to exposures permanently exempted from the IRB approach and IRB roll-out plan	2.02.2021
39.0	PPU permission for two mortgage portfolios	30.11.2022
40.0	A material change to the permission	31.07.2023

41.0	A material change to the permission	31.07.2023
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