

### WRITTEN NOTICE IMA PERMISSION

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To: **Lloyds Banking Group plc (FRN: 203491)**  
**(“the company”)**

Date: 23 December 2021

#### DECISIONS

1. In accordance with the discretions afforded to the PRA by Sections 1, 2, 3 and 4, Chapter 5, Part 3, Title IV of Regulation 575/2013 of the European Parliament and of the Council of 26th June 2013 on prudential requirements for credit institutions and investment firms as it forms part of retained EU law (the “CRR”), the PRA has granted the company a permission to use the internal model approach in its calculation of own funds requirements for market risk on the terms and conditions set out in Annex 1 (the “IMA Permission”).
2. Annex 3 of the IMA Permission Notice summarises any permissions previously granted by the PRA under CRR.
3. If the company ceases to comply with the conditions for granting of this IMA Permission set out in Sections 1, 2, 3 and 4, Chapter 5, Part 3, Title IV of the CRR, the terms and conditions of the IMA Permission set out in Annex 1, the PRA will re-consider the terms and conditions of the IMA Permission and the requirements relevant to it, including a revocation of the IMA Permission in whole or in part.
4. The IMA Permission as set out in this IMA Permission Notice takes effect on 12 December 2021.
5. Details of the IMA Permission will be published on the PRA Register. The full text of this Decision Notice will not be published.

This decision was taken by SRPC



## ANNEX 1

### THE INTERNAL MODEL APPROACH PERMISSION

#### Legal Entities

1. The IMA Permission means that the company may use, for the legal entities listed in Table 1, on a consolidated basis, 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 Sections 1, 2, 3 and 4, Chapter 5, Part 3, Title IV of the CRR.

**Table 1**

<b>Legal entity</b>	<b>Consolidated</b>
Lloyds Bank plc	Consolidated
Bank of Scotland Plc	Consolidated
Lloyds Bank Corporate Markets Plc	Consolidated

#### Other Matters

2. The PRA has granted further permissions under
  - 2.1. Article 363(3) of the CRR.

#### Material, significant and other changes

3. In accordance with Article 363(3), first paragraph, of the CRR material changes to the models subject to the IMA Permission, and the extension of use of those models (in particular to new legal entities, trading locations, risk categories, and categories of position) will require a separate permission from the PRA. Changes to the permission with respect to the inclusion or exclusion of those types of position or sets of positions listed in Table 4 above will also require permission from the PRA.
4. In accordance with Article 363(3), second paragraph, of the CRR the company must notify the PRA of all other extensions and changes to the use of internal models covered by this permission. As per clause 9.16 of Supervisory Statement 13/13, and in accordance with Article 363(3) of the CRR, the PRA expects the company to notify and discuss with the PRA in advance details of any of the more significant planned changes or extensions relevant to the internal models covered by this permission, and that do not trigger a requirement to apply for a permission under Article 363(1) of the CRR before those changes are implemented. Such changes might include, for example:
  - 4.1. new models and systems;
  - 4.2. changes to existing models and systems;

- 4.3. the inclusion of new types of positions (where sufficiently material, otherwise see notification requirements below);
- 4.4. the inclusion of new sets of positions, e.g. trading strategies, business units (where sufficiently material, otherwise see notification requirements below );
- 4.5. significant changes to existing types of position, e.g. currencies, geographies, sectors, maturities/tenors (where sufficiently material).

These details should include information about the nature of the change, including an estimate of the impact of the change on key risk measures (e.g. VaR) and on the company's own funds requirements for market risk. They should also include the impact on the own funds requirements for other risk types (such as CVA risk), where relevant.

For avoidance of doubt, this requirement to discuss such significant changes in advance is in addition to both:

- the requirement to apply for a separate permission for new legal entities, trading locations, risk categories, and categories of position (or changes to the specific inclusion or exclusion of certain types of positions or sets of positions within risk categories), as outlined under above;
  - ongoing reporting requirements, as outlined in this IMA Permission .
5. In accordance with Art 363(3), second paragraph of CRR, the company shall notify the PRA of all other changes and extensions made in respect of that quarter, including the following matters in particular:
    - 5.1.1. methodological changes and developments to the models:
    - 5.1.2. any change to any feeder or pre-processing systems in connection with the models, and any introduction of a new such system;
    - 5.1.3. any changes to the products (types of positions, sets of positions, or otherwise) coming within the scope of the models; this might include (but is not limited to) new instruments, underlyings, geographies, sectors, currencies, and maturities/tenors;
    - 5.1.4. any changes other than with respect to products (e.g. new business lines, trading strategies) that are relevant to the models for which permission has been granted;
    - 5.1.5. introduction of all new pricing models used in connection with the models and any changes to any pricing models used in connection with the models, including details of any material associated valuation or risk management issues;
    - 5.1.6. where applicable (nil returns are not required), details of:

- 5.1.6.1. any use of a changed historical observation period, or any change in the use of any weighting scheme of that observation period, in accordance with Article 365(1)(d) of the CRR,
- 5.1.6.2. any data series becoming unreliable, and any subsequent use of alternative measurement techniques, as referred to in clauses 9.5 and 9.6 of Supervisory Statement 13/13;
- 5.1.6.3. the frequency of updating data sets being increased or decreased, in accordance with Article 365(1)(e) of the CRR and clause 9.7 of Supervisory Statement 13/13;
- 5.1.6.4. any change in the method employed to derive the 10-day VaR measure, in accordance with Article 365(1) of the CRR; and
- 5.1.6.5. to the extent that the use of correlations is permitted by the company's model permission, a summary of any notifications that are required under Article 367(3) of the CRR and clauses 9.8 and 9.9 of Supervisory Statement 13/13.

## **ANNEX 2**

### **Note on disclosure**

The PRA has decided not to publish the full text and annexes of IMA permission notices as it has been deemed inappropriate and unnecessary. In particular, to do so might prejudice, to an unreasonable degree, the commercial interests of the firms and companies concerned.

However, in the interests of transparency, the PRA's policy is to publish an abridged version of the permission notice, as a record that the IMA permission has been granted.