



BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

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5 January 2016

Dear Mr Sanders

I write further to your letter dated 28 November 2015 relating to the composition of Lloyds Banking Group's (LBG's) Core Tier 1 capital in 2009. In view of the ongoing litigation process previously referenced, and the fact that this is a firm-specific matter, I am unable to comment on the detail of LBG's circumstances.

In my last letter I referred you to the relevant UK regulatory rules in the General Prudential sourcebook (GENPRU) which implemented European Union Directives. With regard to regulatory capital resources calculations, all EU Banks (including LBG) were therefore subject to the same minimum EU requirements applicable at the time to which you refer.

One specific rule, GENPRU 1.3.4, required a firm to apply the relevant accounting principles in the recognition and valuation of financial statement items in applying the GENPRU rules (unless stated otherwise) for capital resources calculation purposes. Negative goodwill that might arise from an acquisition would form part of a firm's profit and loss account under International Financial Reporting Standards (IFRS), and would therefore be included in its Core tier 1 capital, in line with the requirements in GENPRU 2 Annex 2.

Yours Sincerely

Andrew Bailey

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