Lloyds Banking Group plc

Resolvability Assessment Framework
Public Disclosure
10 June 2022

INTRODUCTION TO RESOLUTION PLANNING

As the UK's largest retail and commercial financial services provider, Lloyds Banking Group has an important role to play in supporting the economy through lending, deposits, risk management and the efficient flow of funds, while working with others to help build an inclusive, greener and more resilient economy. We aim to Help Britain Prosper by creating a more sustainable and inclusive future for people and businesses. We recognise the significant role we have in providing critical functions and maintaining UK financial stability.

As part of the commitment by the Bank of England ('**BoE**') to protect financial stability and ensure that all major banks and building societies ('**Firms**') are resolvable, we are publishing this summary of our preparations for resolution. Resolution would occur in the event a firm experiences financial distress and recovery options are insufficient to restore financial viability. In order to prepare successfully, we must understand what the process of resolution could look like so we can identify and implement the capabilities that would be needed if we were to fail. This is an on-going, market wide exercise and is not in any way an indication of the Group's current position or prospects.

Resolution is a way to manage the failure of a Firm and is used to minimise the impact on depositors, the financial system and public finances. Liquidation of Lloyds Banking Group ('**the Group'**) under normal insolvency proceedings is judged to be neither credible nor feasible. As such, in case of failure of the Group, it is considered both appropriate and necessary for the BoE to invoke resolution powers under the Banking Act 2009 ('**Banking Act**'). In this case, losses would be borne by our shareholders and certain creditors.

In Section 1, we provide more information on the UK's resolution framework and the powers the BoE could use in resolution. In Section 2, we provide information on the Group's structure, business model and critical functions. In Section 3, we set out what the process of resolution could look like for the Group and in Section 4, we provide details of the capabilities to support that process.

Board and senior management have been engaged in the development and implementation of resolution capabilities since 2012. The Group Chief Executive is responsible for ensuring the Group is resolvable and is supported by a robust oversight and accountability model across our three lines of defence. We are continuing to invest significant time and resources into ensuring and testing that we have robust capabilities and arrangements in place to facilitate the BoE's preferred resolution strategy for the Group should the need arise. Our governance process and testing framework is discussed in Section 5.

Transparency to investors and the public is a key component of the BoE resolution framework and this document summarises how the Group is preparing for, and could support the BoE in executing resolution should it ever be needed. This report is published in compliance with the requirements of the UK Prudential Regulation Authority ('**PRA**').[1]

The BoE is also publishing its assessment of the Group's ability to achieve the three resolvability outcomes, alongside our peers, and a statement of where it believes there is more work for the Group to do, in accordance with our enhancements identified in Section 6. The Group looks forward to working with the BoE in its efforts to further enhance the stability and soundness of the UK financial system.

[1] As set out in the PRA's Supervisory Statement SS4/19 "*Resolution assessment and public disclosure by firms*" (amended with effect from May 2021).

Single point of entry bail-in is the preferred resolution strategy for the largest UK firms

The BoE has set the preferred resolution strategy for the Group, namely single point of entry ('**SPE**') bail-in at the holding company ('**HoldCo**') level.

The aim of bail-in would be to restore the solvency of the Group, enabling it to continue providing, without interruption, functions that are critical for the UK economy and then undertake an orderly restructuring of the business to address the underlying causes of failure.

Losses would be absorbed at the Holdco level. As at 31 March 2022 HoldCo maintained c.£66bn of regulatory loss absorbing capacity. The operating entities' liabilities owed to counterparties and creditors outside the Group – including customer deposits and senior liabilities which are essential to the maintenance of the Group's critical functions – do not have to be bailed in.

The Group's resolution execution plan focuses on:

- Ensuring adequate financial resources, including loss absorbing capital through SPE bail-in instruments to be executed upon the determination that the Group is 'Failing or Likely to Fail' ('**FOLTF**') and the subsequent determination that resolution conditions are met;
- Ensuring the continuity of critical functions, such as payment services, during and following the execution of the resolution strategy; and
- Restructuring to address the cause(s) of failure and to return to viability.

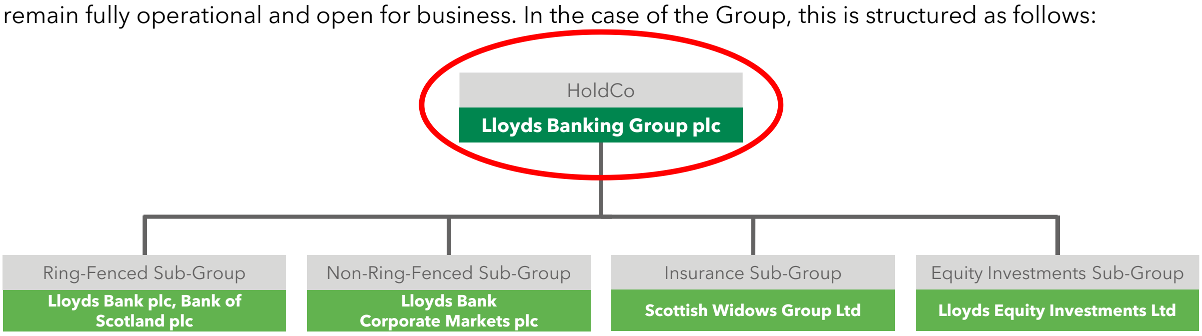
The ability to operationalise the resolution execution plan has been an important objective. The actions which may be required in the lead-up to, during and after the execution of the resolution strategy have been defined and mapped to the three resolution outcomes (outlined in Section 3).

By recapitalising and restructuring the Group, our key operating entities, critical functions and services which the Group provides are expected to be able to continue functioning as necessary. This approach preserves, as far as possible, the going concern value of the Group and imposes any losses on shareholders and private creditors rather than on UK taxpayers.

The Group's first resolvability self-assessment was submitted in October 2021, with an update undertaken in February 2022 detailing our resolution strategy, alongside the capabilities and arrangements in place to address any barriers to resolution and meet the three resolvability outcomes.

What is an SPE strategy?

Under a SPE strategy, the parent / holding company absorbs losses ensuring that the lower operating entities remain fully operational and open for business. In the case of the Group, this is structured as follows:



What are the Resolution outcomes?

To be considered resolvable, the Group must, as a minimum, be able to achieve these outcomes:

1. Have adequate financial resources in the context of resolution
2. Be able to continue to do business through resolution and restructuring
3. Be able to coordinate and communicate effectively within the Group and with the authorities and markets so that resolution and subsequent restructuring are orderly.

Critical Functions and Material & Significant subsidiaries

Critical Functions are activities performed by the Group for third parties (both retail and business customers) where failure would lead to the disruption of services that are vital for the functioning of the real economy and for financial stability. **Critical Services** are those within the Group that must be maintained and be available to support Critical Functions.

Material subsidiaries & entities are identified by considering both their size and the provision of critical functions.

Our disclosure is structured as follows

1 ABOUT THE UK RESOLUTION FRAMEWORK AND THIS DISCLOSURE

The purpose of resolution

The 2008/9 financial crisis highlighted the importance of both firms and regulators being prepared to respond effectively to unforeseen severe stress events and the disruptive and costly nature of disorderly bank failure. As part of the subsequent global regulatory reforms, regulators have called on large, systemically important financial institutions to improve their recovery plans for restoring their capital, liquidity and balance sheet positions during times of severe stress. In addition and in the event of the failure of recovery plans, regulators require such institutions to ensure they have capabilities to support their resolution.

The BoE describes the purpose of resolution in the following way:

> *Resolution imposes losses on failed banks' shareholders and investors, not taxpayers. It ensures larger firms' services can continue to operate for a sufficient period, allowing authorities or new management to restructure them or wind them down.*
>
> *By ensuring losses will fall on a failed bank's investors, resolution can reduce the risk of bank failures by encouraging more responsible risk-taking. This can limit the impact of bank failures when they do occur, by placing the cost of failure on shareholders and investors, not public finances*.[2]

The UK's Resolution Framework

The BoE, as the regulatory authority with responsibility for resolution of banking groups and building societies in the UK, has at its disposal several 'stabilisation options' provided for under the Banking Act. These include:

- the bail-in of liabilities (including issued debt) in order to recapitalise the entity or the group;
- a sale of the entity either to a private sector purchaser, most likely another banking group, or a publicly-owned 'bridge company';
- a sale of some or all of the group's business to another industry participant; and
- as a last resort, temporary public ownership of the entity or the group.

These powers can be exercised individually or in combination, and with respect to operating companies in the UK, such as banks or investment firms, or with respect to their UK organised holding companies.

Resolution planning and this report

The BoE has developed a resolvability assessment framework ('**RAF'**) which requires a firm to:

1. Have the **capabilities and arrangements to address any barriers to resolution** and meet the BoE's three resolvability outcomes (Adequate Financial Resources, Continuity and Restructuring, and Coordination and Communication). These are outlined in Section 4.
2. Have Board and senior management being formally responsible for resolvability and overseeing **regular RAF self-assessments**

[2] Bank of England (2018) 'Introduction to the Resolvability Assessment Framework', page 2.

3. Publish a summary of their preparations for resolution and for the BoE to make a public statement as to the resolvability of these firms to provide **transparency to investors and the public**

As discussed within the Introduction, the BoE is making a public statement on their assessment of Firms' ability to achieve the three resolvability outcomes. Together, these provide transparency to investors and the public.

At the time of completing our RAF self-assessment in February 2022, we were implementing improvements to Funding in Resolution forecasting capabilities. The BoE have assessed this as a shortcoming in our ability to achieve the Adequate Financial Resources outcome. We have since implemented and tested improvements which we believe will work towards addressing the BoE findings and we will continue to engage with them in that respect. Assurance is ongoing as detailed within our Funding in Resolution discussion in Section 4 and Further Enhancements in Section 6, .

As the RAF is a new framework, it is expected that there will be further work for the industry to do in the coming years to enhance resolvability.

2 GROUP STRUCTURE & BUSINESS MODEL

The Group's UK focused Business Model

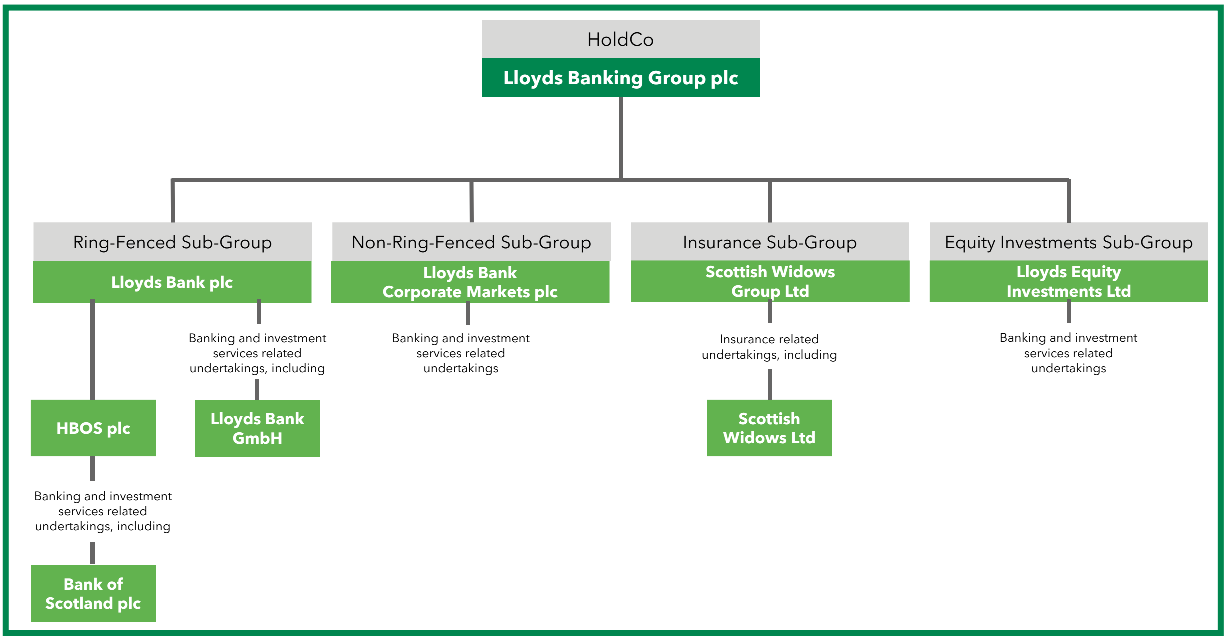
Lloyds Banking Group is a domestic systemically important bank ('D-SIB') due to our balance sheet size and the critical functions we provide to the UK economy. Our business areas are structured according to the products and the services we provide to best serve our customers' financial needs. We have three business areas: Retail, Commercial Banking and Insurance and Wealth. Our products range across lending, deposit taking, insurance, investment, commercial financing and risk management.

Our scale and reach across the UK means that our franchise extends to 26 million customers, offering services through a number of recognised brands to address the needs of different customer segments more effectively:

Our brands

The Group's operations outside of the UK are not material and are primarily retail banking services in the EU, assisting retail customers in the Crown Dependencies and providing corporate clients access to North America.

The Group's UK focused structure with limited international presence simplifies the strategy and process of resolution for the Group. A summarised diagrammatical representation as at 31 December 2021 of the Group is provided below.



LBG plc or HoldCo is the primary resolution entity for the Group:

Entity	Description
Lloyds Banking Group plc	The resolution entity ('LBG plc' or 'HoldCo') which consists of four operating sub-groups. This is where the BoE would apply resolution powers

The HoldCo has four operating sub groups:

Sub-group	Description
Ring Fenced Bank ('RFB')	Includes Lloyds Bank plc ('**LB**') and its subsidiaries, offering banking services permitted inside the ring fence
Non Ring Fenced Bank ('NRFB')	Includes Lloyds Bank Corporate Markets plc ('**LBCM**') and its subsidiaries, mainly offering banking services to our customers that are not permitted inside the ring fence
Insurance Sub-Group	Includes Scottish Widows Group Ltd and its subsidiaries ('SWG'), offering life and general insurance products and services.
Equity Sub-Group	Includes LBG Equity Investments Limited and its subsidiaries ('LEIL'), including the Group's private equity business, the Group's share of Scottish Widows Schroder Personal Wealth Limited, and other equity investments.

Post-crisis Reforms

Since the financial crisis in 2008/9, the Group (along with much of the financial services industry) has taken active steps to ensure that it would be better prepared for future stress scenarios. These steps have encompassed improvements to the Group's capital, liquidity and structure, as well as appropriate risk reduction measures. Each of these actions have been undertaken in consultation with the BoE, PRA and (where appropriate) the Financial Conduct Authority ('**FCA**').

In 2011 the Group established a clear focus on becoming a simple, low risk, customer focused UK bank with significantly reduced risk-weighted assets, lower reliance on short-term funding, strong asset quality and capital levels. The Group's presence is now predominantly UK focused, with a relatively small presence in six other countries, down from thirty countries in 2011.

To meet ring-fencing requirements from 1 January 2019, core UK retail financial services and ancillary retail activities were ring-fenced from other activities of the Group. This separated personal banking services such as current and savings accounts from risks in other parts of the business, like investment banking. LB and Bank of Scotland plc ('**BoS**') are the banks, within the Group, which have been included within the ring-fence (together, the RFB). This separation ensures independent decision making by the RFB Board, including maintenance of the capital adequacy and liquidity of the RFB.

The Group has focused on holding the appropriate level of capital to maintain financial resilience and market confidence, underpinning our strategic objectives of supporting the UK economy. Further to this a strong funding position has been maintained in line with the Group's low risk strategy. Discussion of the Group's capital and funding capabilities are included within Section 4.1 and 4.3.

The Group's Critical Functions

A key aim of resolution is to avoid significant adverse effects on the financial system by ensuring continuity of banking services and critical functions undertaken by the Group to deliver broad economic stability.

The Group has conducted an evaluation of the criticality of its economic functions within each legal entity, identifying the nature of the function (transactional or lending), customer type (retail, small to medium enterprise ('SME'), or corporate), volumes, ease of substitution and market share. This assessment concluded the Group has twenty functions that are critical and these are provided by the RFB and SWG. The results of the evaluation are highlighted below.

The Group's Critical Functions			
Retail Mortgages	Other Secured Auto (Leasing)	SME Lending (Secured)	Settlement Services
Retail Credit Cards	Other Unsecured Auto (Hire Purchase)	SME Current and Savings Accounts	Derivatives
Retail Unsecured Personal Lending	Payment Services	Corporate Lending	Third Party Operational Services
Retail Current Accounts	Cash Services	Corporate Deposits	General Insurance
Retail Savings	Credit Card Merchant Services	Trade Finance	Life, Pensions, Investments

Additional information related to our critical functions & lines of business is contained within our 2021 Annual Report and Accounts and through our quarterly performance updates, available at www.lloydsbankinggroup.com/investors/financial-downloads

The Group's Shared Service Model

The Group operates an 'in-house' Shared Service Model, centred within the RFB, for the provision of services across the Group, including services that are critical to the functioning of the core business lines[3] of the Group and its critical functions.

This structure creates a level of operational interconnectedness with many support functions covering the Group as a whole aligned to the operating divisional and business unit structure operated by the Group, rather than being aligned to legal entities or jurisdictions.

The Group does not have a separate service company. During resolution, the Shared Service Model is expected to continue to operate, supported by the Group's operational model, ensuring the continued provision of services to the Group and its subsidiaries assisted by all support services being conducted from within the RFB. The RFB has significant resources, thereby safeguarding the service provision in resolution.

International and Non-Ring Fenced Banking Activities and Operations

The Group has relatively limited exposure to international/non-UK operations through both the NRFB and RFB sub-groups. Non-UK activity is a non-material proportion of the Group's operations and earnings, therefore does not present a material risk in terms of the provision of critical functions or services within the UK. In addition to the LBCM and RFB operations listed below, Scottish Widows Europe Société Anonyme ('SWE') was established in 2018 in order to help ensure continued servicing of life insurance policies to customers in Europe, as a result of the United Kingdom's exit from the European Union. Currently SWE is not seeking new business.

<u>LBCM non-UK operations</u>

The majority of non-UK banking activity is conducted through LBCM which provides a wide range of commercial and retail banking services through branches and offices in the Crown Dependencies, North America and Germany. The Singapore branch of LBCM closed for new business in March 2022, and is being wound down during the course of the year.

International Strategy	Location	Geography Served	Business Products
North America	New York	North America	Business offers core banking products to our Corporate and Institutional Coverage clients including lending, deposits and a range of debt capital and financial markets solutions through the US Broker Dealer, Lloyds Securities Inc. The team supports both North America offerings, Standby Letters of Credit, Supplier and Trade Finance, and UK Cash Management. The US Private Placements team supports bond issuances for entities such as UK housing associations, higher education clients and utility companies.
Germany	Frankfurt	Economic European Area ('EEA')	Distribution to (and secondary trading with) EEA investor clients (including credit short covering). Commercial Paper/Certificates of Deposit distribution to EEA investor clients for Group entities.
Islands	Jersey	Jersey, Guernsey & Isle of Man	Retail offerings to Crown Dependency customers (mortgages, personal loans, deposit accounts and motor finance), alongside corporate banking activity, financial intermediaries activity and UK expat wealth and private banking.

[3] Business lines and associated services, representing material sources of revenue, profit or franchise value.

RFB non-UK operations

International Strategy	Location	Geography Served	Business Products
Europe	Berlin	Germany	Lloyds Bank plc – Niederlassung Berlin. A branch of LB primarily managing the required cash collateral for the Group's euro payments in TARGET2 which are held as deposits at the Deutsche Bundesbank. This branch also has loan exposures to a limited group of customers (German domiciled employees of the Group). There are no loans to customers that are external to the Group.
		Germany & Netherlands	Lloyds Bank GmbH is a subsidiary of LB which holds a banking licence in Germany from BaFin (German regulator) and operates a branch in the Netherlands via a EU banking services passported authority. The subsidiary provides Dutch mortgages and German deposits.

3 OUR RESOLUTION EXECUTION PLAN

The Group's resolution execution plan consists of:

- the preferred resolution strategy, set by the BoE and executed upon the determination that the Group is FOLTF and the subsequent determination that resolution conditions are met;
- the actions to continue to operate critical functions during and following the execution of the resolution strategy; and
- the options for restructuring the business to address the cause(s) of failure and return to viability.

The Group's preferred resolution strategy

The BoE has stated that the preferred resolution strategy for the Group is a SPE bail-in, led by the BoE as the home resolution authority.

We understand the BoE has selected SPE bail-in because bail-in is considered to be the only credible resolution tool for the Group. The "sale of business" tool has been considered but discounted due to the Group's size, although selling businesses under private terms may be used subsequently as part of post-resolution business restructuring. At the point of non-viability ('**PONV**'), the Group will need to be re-capitalised and its authorisation continued to support an orderly resolution. Bail-in at the Holdco is the best tool to achieve this. It is assumed that at the PONV, the Public Interest Test[4] will be met given the critical functions the Group provides to the UK economy.

The bail-in mechanism enables the BoE to impose losses on shareholders and creditors. Under the Banking Act it is expected that resolution bail-in powers would be utilised at HoldCo as the SPE entity. Losses realised in material subsidiaries or sub-groups would be transferred to the HoldCo through write-down or conversion of internal own funds instruments using mandatory write-down or conversion powers (Section 6B of the Banking Act), or in the case of internal senior non-preferred (**MREL**[5] qualifying) instruments, through contractual triggers. These contractual write-down triggers can be effected in the case where the subsidiary is deemed to be failing, or its own funds have been written down or converted, or the Group is subject to resolution proceedings. The write-down and conversion of internal MREL[6] through statutory powers or contractual triggers effectively recapitalises the material subsidiary or sub-group, with losses and recapitalisation needs transferred to the HoldCo. Therefore, the Group needs sufficient loss-absorbing capacity at a HoldCo level, as

[4] The public interest test is a key safeguard in resolution, to protect taxpayers and financial stability. When faced with a failing firm, the BoE considers whether resolution best serves the public interest.
[5] Minimum requirement for own funds and eligible liabilities (MREL)
[6] External MREL instruments are issued from HoldCo. Internal MREL instruments are issued from the material subsidiaries to the HoldCo, either directly or indirectly.

well as at material subsidiaries and sub-groups, namely: RFB, LB, BoS, and LBCM. Our Insurance sub-group is managed in accordance with Solvency II capital requirements, setting out specific regulatory requirements for insurance firms and groups, as detailed within the Solvency II returns available at [www.scottishwidows.co.uk/about_us/financial_information/solvency-ii-returns/.](www.scottishwidows.co.uk/about_us/financial_information/solvency-ii-returns/)

The resolution timeline and Stress Crisis Continuum

In accordance with BoE's Approach to Assessing Resolvability Statement of Policy (updated in May 2021), the Group has developed its own, customised version of a stylised resolution timeline to illustrate the actions that would be required to support resolution. The Group's stylised resolution timeline consists of four resolution periods:

Pre-Resolution Contingency Planning	Resolution Weekend	Bail in Period	Restructuring & Exit
During which LBG would be expected to take actions to support the BoE's assessment of whether the conditions to put the Group into resolution have been met and to prepare the Group for an orderly resolution.	Which begins at the point that the BoE announces the resolution and ends the next business day when markets open. SPE bail-in resolution strategy is commenced and LBG delivers crucial communications including to the market, customers, counterparties, employees and suppliers, as well as integrating the bail-in administrator ('**BIA**') into governance.	Which immediately follows the Resolution Weekend, during which the Group is expected to take actions to stabilise and ensure the continuity of critical functions, finalise and begin executing the business reorganisation plan ('**BRP**'), and calibrate the final terms of the bail-in, returning the Group to private control.	During which the Group's new management and Board will continue to implement the business reorganisation plan under the supervision of the PRA and continue to rebuild financial stability. It is expected that finalisation of any No Creditor Worse Off ('**NCWO**')[7] compensation would take place during this period as well.

We recognise that ultimately the BoE will trigger the resolution regime when it has determined that the Group is FOLTF and the conditions for resolution are met.

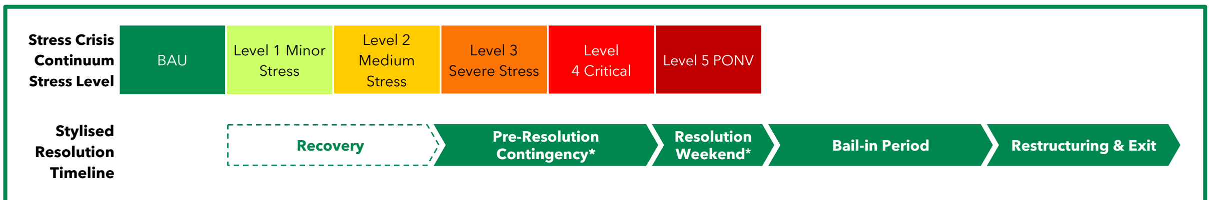
Nonetheless, we have made it a priority to ensure that management have timely information and objective assessment criteria to determine whether resolution-related actions need to be commenced, and to ensure there is sufficient time for contingency planning before the PONV is reached.

To embed the resolution execution plan into our governance, we have integrated the pre-resolution phase and the resolution weekend into our Stress Crisis Continuum or Capital and Liquidity Contingency Framework. This is a governance tool which outlines key metrics and associated actions the Group will consider during times of stress, through the recovery phase, and up until the point at which the Group enters resolution.

Our Stress Crisis Continuum has the following components, supported by a governance structure, including Group Incident Management ('**GIM**'), to oversee the resolution process:

- A series of early warning **indicators and metrics**, predominately capital and liquidity, that provide management with an early indication of any current or potential financial deterioration to help inform their decisions to enter each successive stress level in the Stress Crisis Continuum; and
- A set of **actions** (supported by playbooks where relevant) that detail steps to be taken at each successive stress level.

[7]A legal safeguard in the Banking Act that requires that no shareholder or creditor is left worse off from the use of resolution powers than they would have been had the whole bank been placed into a normal insolvency process.



** Note: as the BoE makes the determination when LBG would be FOLTF, the timing of these steps relative to the Stress Crisis Continuum may differ in practice*

Pre-resolution activity may commence as either the liquidity or capital position of the Group deteriorates to Level 3 (as referred to below) and at the point at which the recovery actions appear insufficient and failure is considered likely. It is expected that at least some recovery actions will be in progress and may be further informed by Valuations in Resolution outcomes.

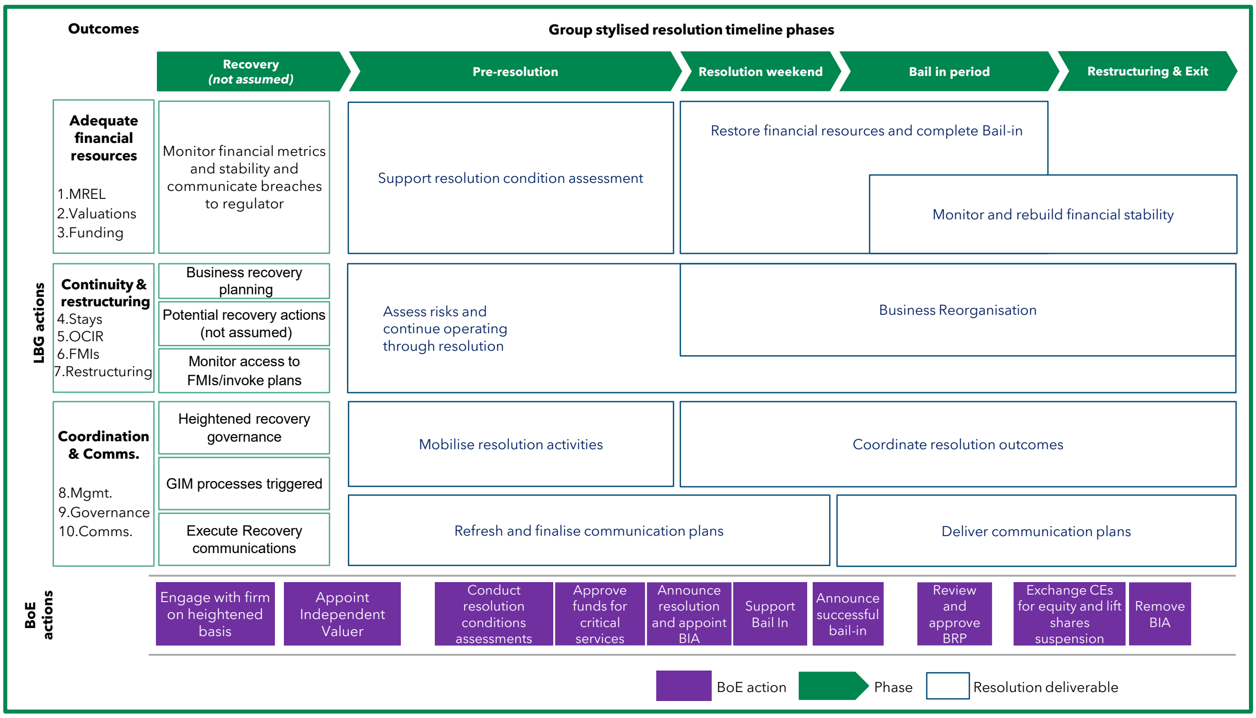
We have determined two indicative triggers for the commencement of pre-resolution as follows:

1. the BoE notify the Group that an Independent Valuer has been appointed to support the assessment of whether conditions for resolution have been met; or
2. the Group has reached "Level 3 – Severe Stress" within the Capital and/or Liquidity Contingency Framework and the CFO and Group Treasurer agree to heighten resolution planning.

Upon either of the above triggers being met, our management and staff would initiate our enhanced resolution governance (as discussed in section 4). In parallel, the GIM Framework would be invoked (if not already) to support the coordination of resolution activities. During this period, our focus would be to see that our Board of Directors, management and employees take the appropriate actions at the right times. Decision making would be escalated as appropriate to ensure a timely response to developing conditions.

Our approach to enabling the resolution execution plan

The ability to operationalise the resolution execution plan has been an important objective. The actions which may be required in the lead-up to, during, and after a FOLTF decision, necessary to operationalise the SPE bail-in resolution strategy and broader resolution execution plan have been defined and structured into the four resolution periods: Pre-resolution contingency planning ('pre-resolution'); Resolution weekend; Bail-in period; Restructuring and Exit. Resolution periods are mapped to the three resolution outcomes in our stylised resolution timeline depicted below, together with the corresponding actions we would expect the BoE to take. The resolution outcomes are explained in Section 4.



Below sets out the key actions performed within the four resolution periods:

Pre-resolution
• Supporting the resolution condition assessment through heightened liquidity and funding reporting, identifying recapitalisation requirements, preparing for bail-in and restructuring as supported by refreshed valuations and early drafts of the BRP, including the involvement of the BoE and Independent Valuer as necessary. • Assessing operational risks and continuing to operate through resolution with enhanced service provision reporting, monitoring of contractual continuity and activation of critical financial markets infrastructure contingency plans. • Mobilising resolution activities by triggering the Group's Incident Management Framework, activating succession and retention measures as well as preparing to support the BoE with the introduction of a BIA. • Assess and update the resolution communication plan across all stakeholders.
Resolution weekend
• Restoring financial resources by defining the scope of bail-in and write-down required and triggering the bail-in clauses of MREL instruments. • Near-final drafting of the BRP. • Co-ordinating resolution outcomes and finalising communications plans by facilitating rapid review and decision making supported by our GIM and Corporate Governance Frameworks.

Bail-in period
• Continuing to complete bail-in by issuing certificates of entitlement ('**CE**s') to MREL bond holders and determining the allocation of equity to be received by bailed-in creditors in accordance with the NCWO principles. • Delivering the communications plan to external and internal stakeholders, including Day 1 resolution announcements (following the resolution weekend) and finalisation of the BRP. • Monitoring and rebuilding financial stability by reassessing the capital and liquidity risk appetite frameworks and updating our capital and liquidity plans in line with the finalised BRP. • Continuing to monitor service provision, contractual continuity and engagement with critical FMIs to ensure continuity of critical functions and banking services.
Restructuring & Exit
• Executing the BRP ensuring operational continuity of critical functions and banking services. • Continuing to deliver market disclosures concerning the progress of restructuring actions. • Monitoring and refreshing capital and liquidity plans and actions to ensure adequate financial resources are maintained through restructuring. • Implement management changes and support the exit of the BIA following BoE approval of the BRP.

Resolution Execution Plan impact on key stakeholders

This section highlights the key impacts of our resolution execution plan on creditors, depositors, vendors and service providers.

Creditors
Our strategy is designed to ensure that operating subsidiaries can continue to meet all of their payments and performance obligations to counterparties, vendors and creditors. However, in the extremely unlikely event that loss absorbing debt at HoldCo was insufficient, it could result in the write-down or conversion of other, more senior-ranking liabilities of the Group. In this circumstance, certain creditors would be protected by the express exclusions from bail-in provided for under the Banking Act. In particular, secured liabilities, deposits that are covered under the UK Financial Services Compensation Scheme ('**FSCS'**), employee fixed remuneration (and some variable remuneration) entitlements, liabilities owed to pensions schemes (except certain variable remuneration based entitlements) and liabilities owed to suppliers of non-financial goods and services that are critical to our daily operations are all expressly excluded from the potential scope of any bail-in.

Depositors
Our resolution strategy is aimed at ensuring that depositors continue to have uninterrupted access to their deposits and related banking services throughout the entire resolution process. Part of the resolution planning process involves assessing the likely sources and modelling the likely uses of liquidity in resolution, including that required to meet any withdrawals made by depositors in the unlikely event they might arise. The Group has a variety of sources of liquidity available to it, including existing central bank facilities that would be made available by the BoE and other central bank and third party facilities.

Vendors & service providers
The UK resolution framework recognises the critical importance of preserving relationships with key vendors and service providers. Liabilities to key vendors and service providers are generally excluded from the scope of liabilities that could be affected by a bail-in. The vast majority of these relationships are entered into by subsidiaries of HoldCo which will not be placed into resolution, administration or insolvency proceedings and who will continue to operate on an ordinary basis. Operational continuity arrangements for vendors and service providers (including Financial Market Infrastructure providers) are addressed through specific capabilities discussed in Section 4.

4 CAPABILITIES, RESOURCES AND ARRANGEMENTS IN PLACE TO ACHIEVE THE RESOLVABILITY OUTCOMES

To be considered resolvable, we need to be able to meet three key outcomes in resolution:

1. Have adequate financial resources in the context of resolution, specifically to absorb losses and recapitalise without exposing public funds to loss. This includes resources to meet the Group's financial obligations in resolution.
2. Be able to continue to provide critical functions through resolution and restructuring, specifically ensuring activities can continue while the authorities take charge and begin to restructure the firm in such a way that the business can be reshaped, including any parts of it being sold or wound down (as appropriate).
3. Be able to co-ordinate and communicate effectively within the firm, the authorities, and with the market, so that resolution and subsequent restructuring are orderly.

<table>
<tr><th colspan="3">Going Concern</th></tr>
<tr><td colspan="3">Under the SPE strategy, the Group will remain a going concern, ensuring NCWO and reducing the risk of market disruption. Critical functions and services continue to operate without our clients experiencing disruption in the services we provide.</td></tr>
<tr><th colspan="3">Adequate Financial Resources</th></tr>
<tr><td>Minimum requirement for own funds and eligible liabilities (MREL)

Our material entities and subgroups hold sufficient levels of capital and MREL eligible instruments to absorb losses, facilitating bail-in without any significant legal barriers whilst ensuring NCWO.</td><td>Valuations in Resolution

We can perform timely and robust valuations to inform the extent of re-capitalisation and/or restructuring to restore viability as well as to ensure NCWO.</td><td>Funding in Resolution

Our material entities and subgroups hold sufficient levels of liquidity and are able to raise funding to facilitate operational continuity and meet the needs of restructuring through resolution. We can monitor liquidity positions and mobilise liquidity resources as and when required to ensure adequate liquidity levels are maintained.</td></tr>
<tr><th colspan="3">Continuity</th></tr>
<tr><td>Stays in Financial Contracts

We have minimised the risk of early termination of financial contracts by including relevant clauses where appropriate within non-UK financial contracts.</td><td>Operational Continuity in Resolution (OCIR)

Our Group remains operational, minimising the possibility of disruptions to banking services and critical functions. All critical third party and intragroup agreements contain continuation of service clauses.</td><td>Access to Financial Markets Infrastructure (FMI)

We maintain contingency plans for critical FMI to facilitate continued access to these essential services within the framework of our existing membership arrangements and contractual relationships.</td></tr>
<tr><th colspan="3">Restructuring</th></tr>
<tr><td colspan="3">We can identify and execute credible restructuring options to facilitate an optimal and targeted response to the causes of failure, enabling a return to a viable business model which supports the continuity of banking services and critical functions in the UK.</td></tr>
<tr><th colspan="3">Coordination & Communication</th></tr>
<tr><td>Management

Established retention and succession capabilities ensure continued resourcing of roles key to decision-making, coordination and continuity of the Group.</td><td>Governance

Leveraging the GIM framework, rapid decision making and oversight arrangements are available to support the coordination of resolution outcomes.</td><td>Communications

We have experience in delivering timely and effective communication to internal and external stakeholders, supporting the business in maintaining operational continuity and market stability.</td></tr>
</table>

This section describes what we have done to address the barriers to resolution and how this supports the delivery of the resolution outcomes. A robust oversight and accountability model across our three lines of defence has been implemented to ensure capabilities are maintained and will continue to comply with the BoE's ongoing requirements and guidelines.

4.1 MINIMUM REQUIREMENT FOR OWN FUNDS AND ELIGIBLE LIABILITIES (MREL)

The Group is required to maintain a sufficient amount of resources that can credibly and feasibly be used to absorb losses and recapitalise the Group in resolution, whilst continuing to provide critical functions. This requirement is set by the BoE and implemented through the policy setting out the minimum requirements for own funds and eligible liabilities. MREL can be satisfied by a combination of regulatory capital and certain unsecured liabilities (which must be subordinated to the Group's operating liabilities).

We have a strong risk management framework with prudent risk appetite and are meeting the external and internal capital and MREL requirements. With proven access to issuance markets in a range of market conditions and comprehensive capital planning informing the issuance strategy, we are confident that we will continue to meet capital and MREL requirements on an ongoing basis.

The Group's current MREL requirement, excluding regulatory capital and leverage buffers, is the higher of 2 times Pillar 1 plus 2 times Pillar 2A, equivalent to 23.0 per cent of risk-weighted assets as based upon minimum capital requirements at 31 March 2022, or 6.5 per cent of the UK leverage ratio exposure measure.

An analysis of the Group's current regulatory MREL position is provided below:

	31 Mar 2022 £m
Total MREL resources	66,448
Risk-weighted assets	210,220
MREL ratio	31.6%
Leverage exposure measure	663,025
MREL leverage ratio	10.0%

Further detail on the Group's capital management and capital resources can be found within the Group's Annual Pillar 3 Disclosures, available at www.lloydsbankinggroup.com/investors/financial-downloads

The structure of our issuance supports the SPE resolution strategy, with the HoldCo issuing MREL eligible debt externally, and the Group's material subsidiaries issuing MREL eligible debt to the HoldCo, directly or indirectly. Surplus MREL, the difference between the amount of debt issued externally from the HoldCo and debt issued internally to the HoldCo, is readily available to allow the BoE flexibility in resolution to recapitalise subsidiaries further as required. The Group complies with the 'clean holdco rules'[8] which limit the amount of non-bail-in-able liabilities at the Holdco and will monitor the position on an ongoing basis. This ensures MREL resources can be bailed in effectively without legal or operational challenge to support the resolution strategy and meet the regulatory requirements.

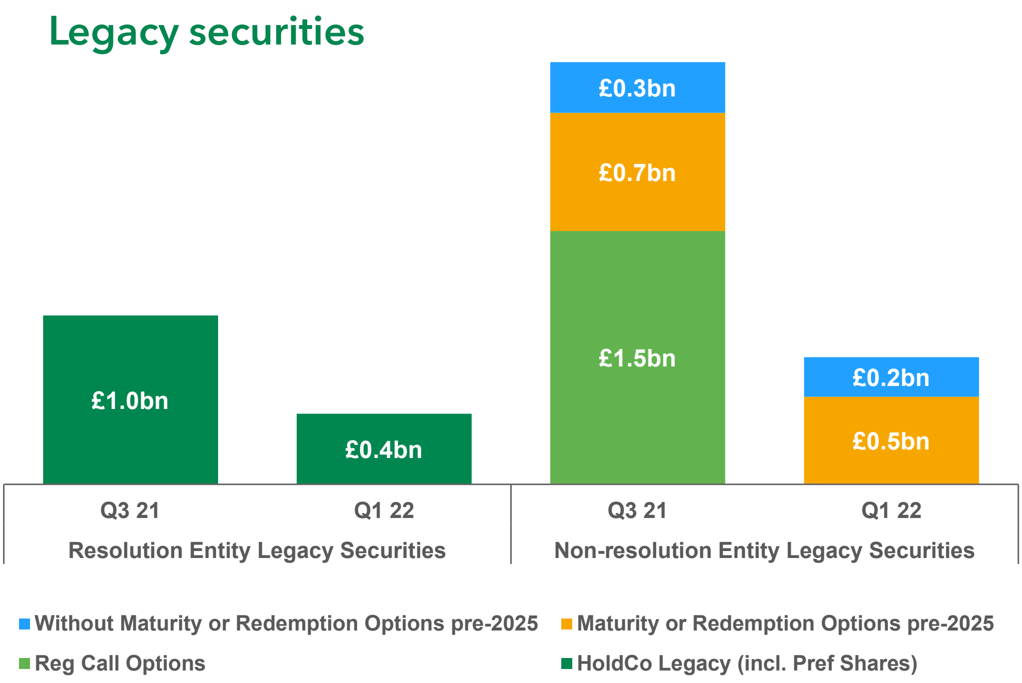
We can plan, monitor and report MREL requirements leveraging established BAU processes which meet ongoing requirements in BAU and throughout the resolution timeline.

We have developed a playbook and tested our capabilities to operationalise bail-in. The playbook includes the process for identifying the population and quantum of bail-in-able instruments,

[8] As defined in Statement of Policy, The BoE's approach to setting a minimum requirement for own funds and eligible liabilities, December 2021 (updating June 2018)

executing the bail-in of those instruments, issuing CEs and exchanging CEs into LBG plc shares on exit from resolution. These capabilities have been developed in line with the BoE's guidance and in conjunction with third parties involved in the bail-in process such as Issuing and Paying Agents ('IPAs'), Trustees, Share Registrars, Exchange Agents and advisors from leading Investment Banks.

Changes in the PRA's capital eligibility rules have resulted in certain capital instruments becoming ineligible as regulatory capital and MREL. These instruments are considered 'legacy' securities. The outstanding amount of legacy securities at end Q1 2022 totals £1.2bn, with £0.4bn of that amount issued from HoldCo, our resolution entity, meaning the BoE have the power to exercise bail-in. There is only one non-HoldCo legacy security (notional c£0.2bn) without a maturity or redemption option prior to the end of 2025. This is compared to fully counting MREL resources of c.£66bn as at March 2022.



4.2 VALUATIONS IN RESOLUTION

In order to conduct an orderly resolution, it is important to have the capability to produce robust and timely valuations of the Group and its component parts, and update those valuations dynamically as the resolution process progresses. These valuations are needed to inform a number of decisions throughout the process, including: (i) determining whether the Group is FOLTF; (ii) informing the extent of re-capitalisation / bail-in required to restore capital adequacy for the ongoing business at both Group and legal entity level; iii) understanding the relative merits of various restructuring options to help optimise the restructuring plan to return the Group to viability and inform creditor compensation, and (iv) assessing what the outcome would be in an alternative hypothetical insolvent wind-down scenario to ensure NCWO as a result of the resolution actions taken such as bail-in.

In order to achieve these objectives, the Group has developed specific Valuation in Resolution ('**ViR**') capabilities. In order to perform these valuations in a resolution scenario the Group will use its existing data, modelling and management information reporting processes and tools, enhanced with bespoke ViR processes and analysis. These capabilities enable the Group to produce iterative granular valuations to assess the accounting, economic, and equity value of the Group in multiple scenarios, including the ability to forecast and conduct high-level sensitivity analysis. The ViR capabilities we have developed have been tested to ensure that they are suitably robust and can be operated in a timely manner to inform key decision making throughout the resolution process from before the decision that resolution is required has been made, through bail-in, restructuring and eventual exit from resolution.

4.3 FUNDING IN RESOLUTION

The purpose of Funding in Resolution is to ensure adequate liquidity through pre-resolution, as well as being able to raise funding to meet the needs of restructuring post the resolution weekend. To achieve this, we have capabilities to monitor the liquidity position at material legal entity level, analyse various scenarios that could arise through resolution, and monitor and mobilise liquidity sources.

The Group has the ability to perform liquidity reporting and analysis through stress and resolution on a timely basis, supported by the daily production of data and reporting across liquidity groups and material entities. We can plan, monitor and report liquidity needs leveraging established reporting and forecasting capabilities in both the short term and up to three years including the latest economic scenarios.

We have delivered two enhancements to our stress testing capabilities. The first enhancement goes beyond the Group's internal liquidity stress scenarios by including resolution specific liquidity drivers. The second enhancement builds on our existing capabilities and provides the ability to produce and consolidate longer term liquidity projections covering the key phases of the stylised resolution timeline as shown in Section 3. At the time of the RAF Self-Assessment in February 2022 the second enhancement had not been fully completed. The BoE have assessed this as a shortcoming with our Funding in Resolution capabilities. The Group has now delivered this enhancement to our liquidity modelling, which:

- models liquidity projections over a stress continuum that combines the impact of a prolonged stress and potential outflows in the run-up to and during resolution;
- allows greater flexibility in modelling the variability of cash flows and resolution stress factors; and
- provides greater sensitivity analysis on a range of liquidity projections, from worst to best case outcomes in the event of resolution.

This second enhancement was delivered in April, with testing largely completed in May, including second line oversight and challenge by our Risk function. Assurance continues in this regard, as detailed further in section 6. We believe these enhancements will work towards addressing the BoE findings and we will continue to engage with them in that respect.

The Group has well developed capabilities to monitor and mobilise both current and future liquidity resources. These capabilities have been leveraged and enhanced in the context of resolution, and can be split into the monitoring and mobilisation of primary liquidity resources and secondary liquidity resources including central bank support. Primary liquidity resources in the form of high quality liquid assets ('**HQLA**') are monitored and managed daily, and are made up of central bank reserves, outright securities and repo activity. Secondary liquidity resources are in the form of customer lending assets readily available as collateral in the event of resolution, which can be monitored at least weekly in the event of resolution.

As at December 2021, the Group's funding and liquidity position is underpinned by its significant customer deposit base, and is supported by strong relationships across customer segments. The composition of the Group's funding results in a low liquidity coverage ratio ('**LCR**') outflow coverage requirement relative to the overall size of the funding base, as a large proportion of this deposit base comes from Retail customers, which in aggregate provide a stable source of funding. The LCR also captures both contractual derivative outflows and the impact of an adverse market scenario on derivative outflows and collateral calls. In addition, derivative outflows are subject to internal risk appetite through the Group's stress testing.

Further details on the Group's liquidity portfolio can be found in the Risk Management section of the 2021 Lloyds Banking Group plc Annual Report and Accounts (Funding and Liquidity section) and the Pillar 3 disclosures, available at www.lloydsbankinggroup.com/investors/financial-downloads.

4.4 CONTRACTUAL STAYS IN FINANCIAL CONTRACTS

The objective of contractual Stays is to support business continuity in resolution by addressing the risk of early termination of financial contracts. The Group achieves this not only by including a provision that ensures that the UK special resolution regime will apply in contracts governed by the laws of a non-UK jurisdiction, but also by having readily available data to calculate contract value at risk in resolution and enable communication with key counterparties.

Readily available information on financial contracts enables identification of trades, contracts and counterparties which are both in and out of scope for Stays rules. This data can be used to calculate the total contract value at risk of termination upon entry to resolution. Established communications capabilities are also in place to ensure that key counterparties understand their legal obligations in relation to Stays throughout the resolution process.

4.5 MAINTAINING OPERATIONAL CONTINUITY OF THE GROUP IN RESOLUTION (OCIR)

The purpose of OCIR is to ensure continuity of banking services and critical functions through resolution. We achieve this by making readily and rapidly available comprehensive information on all functions and services across the group to facilitate monitoring of both service provision and financial resources required to operate through resolution and restructuring and to support the BRP.

As outlined previously the Group operates a Shared Service Model and does not have a separate service company. All services are provided by the RFB which has significant resources, thereby safeguarding the service provision to divested entities in recovery and resolution.

The Group has established a comprehensive service provision catalogue. This enables a timely identification of services provided both internally and externally in the event of a recovery or resolution scenario, providing the basis with which to monitor and escalate service provision performance.

Contractual continuation of service clauses have been agreed and included in all OCIR critical third-party contracts and intra-group agreements to support the continuation of services through resolution. Since 2016, the Group has included resolution and divestment clauses in all OCIR critical third-party contracts. The clauses stipulate that the supplier must commit to providing the service for a defined period of time in the event of resolution. Resolution clauses also stipulate that the supplier commits to providing services to a future divested entity for a period of time to support restructuring requirements.

The Group holds segregated liquidity to support the continued provision of critical services through resolution, and has done so since 2019, based on critical service cost data calculated in accordance with OCIR policy requirements. Cost updates can be refreshed in a timely manner to ensure liquid asset reserves are adjusted as required.

OCIR capabilities are well established within the Group, facilitating service performance monitoring and escalation, as well as supporting the creation of Transitional Service Agreements in resolution. These established capabilities have continued to be enhanced through considerable divestment experience.

4.6 MAINTAINING THE CONTINUITY OF ACCESS TO FINANCIAL MARKET INFRASTRUCTURE (FMI)

What is FMI?

FMI is a multilateral system among participating financial institutions, used for the purposes of recording, clearing, or settling payments, securities, derivatives, or other financial transactions'. FMI include payment systems, central securities depositories (CSDs), securities settlement systems (SSSs), and central counterparties (CCPs). It does not extend to trade repositories or to trading platforms.

Access to FMI is essential for banks to be able to continue to operate and provide critical functions. In particular, access to FMI is required to record, clear, or settle payments, securities, derivatives, or other financial transactions.

The Group has identified critical FMI service providers (direct and indirect memberships throughout the Group) and designed contingency plans, documented in playbooks, which include the operational steps to support maintaining access. These are live documents, which are reviewed regularly and updated based on the continuous evolution of our understanding of FMI service providers.

For these contingency plans to be credible, there is significant reliance on understanding the expectations and plausible actions of FMI service providers in stress and resolution. We have reviewed industry-wide questionnaires completed by FMI service providers, held bilateral discussions with FMI service providers and participated in working groups aimed at improving clarity on membership requirements.

We actively monitor the membership requirements of FMI service providers, and maintain a view of how those requirements may change in a stress and resolution scenario. For example, a significant deterioration in the financial stability of the Group is likely to lead to FMI service providers expecting pre-payment or collateral. In addition, we expect heightened communication with FMI service providers in resolution and a requirement for additional information. To support this, we have the capability to produce settlement and forecast transaction data and the ability to calculate and post collateral as required, working closely with our Funding & Liquidity teams.

The Group has also established an FMI service provider monitoring framework with defined triggers, and clear roles and responsibility for invoking contingency plans.

4.7 IMPLEMENTING AND EXECUTING CREDIBLE AND VIABLE RESTRUCTURING PLANS (RESTRUCTURING PLANNING)

Restructuring may be required to address the cause(s) of failure, enable a return to a viable business model and support the continuity of banking services and critical functions in the UK. In the context of resolution, this also means that the proposed restructuring options should be viable to facilitate a return to private control. Actions are highly dependent on the cause(s) of failure and so the preferred options are not known ex-ante.

A BRP would be approved in resolution, under the direction of the BIA and/or our Board. This plan would take into account the cause(s) of failure and include the chosen restructuring options and an assessment of the strategic, financial, and operational viability of the Group on an ongoing basis post execution of these options. The BRP will also include the implementation steps to execute the restructuring and take into account recovery actions that may already be in progress.

We have established a process to enable the creation of a credible BRP in a timely manner, so as to meet the resolution planning objectives. To support this, we have identified a suite of restructuring options that are flexible and comprehensive to respond to a range of circumstances. We will leverage the valuations processes to carry out the base case and worst-case scenario analysis on the financial projections. This will inform an assessment of the financial viability of the Group post various restructuring actions. Dedicated restructuring option playbooks have been developed detailing the credibility assessments, in particular the operational severability considerations, which form the basis of the operational viability considerations. We also expect to leverage our established Group Strategy capabilities to support the strategic viability assessment of the BRP.

Implementation of the BRP will utilise our considerable divestment experience in accordance with established execution policies and guidelines.

Our restructuring options:

1. are diverse, flexible, and Group-wide, enabling the BIA and/or Directors of the firm to respond to various scenarios impacting the different business lines and legal entities;
2. balance financial benefits with the loss of franchise and incomes, and the execution costs;
3. ensure continuity of banking services and critical functions in the UK; and
4. are realistic and achievable for credible execution within appropriate timelines (supported by significant Group experience).

4.8 MANAGEMENT THROUGH RESOLUTION

In order to execute resolution and facilitate business continuity, our management framework is critical. Activation of the Group's retention and succession capabilities ensures continued resourcing of roles that are key to decision-making, coordination and continuity of the Group, prior to and throughout resolution. The Group has processes and controls in place to identify key job roles, as well as retention and succession frameworks which ensure these roles continue to be incentivised and staffed.

The Group has experience in triggering utilisation of these role lists to support decision-making and critical processes during crises (e.g. COVID-19), meaning that in a resolution event, key job roles can be rapidly refreshed to support retention and succession planning.

4.9 COMMUNICATIONS THROUGH RESOLUTION

The purpose of communications in resolution is to deliver timely and effective communication to internal and external stakeholders, supporting the business in managing an orderly resolution. The Group has multi-audience, multi-channel communications capabilities with clearly identified audience groups, leveraging established processes and capabilities.

These capabilities are regularly proven through high scale, impact and sensitive scenarios where communications are required to provide core messages and confidence to internal and external audiences. Examples include the 2022 strategy announcements and leadership changes and communications throughout the 2020 global pandemic, EU Exit (concluding in 2020) and ring-fencing (concluding in 2019).

Our core communications teams (Group Corporate Affairs, Chief Customer Office, Investor Relations and Group Secretariat) and business subject matter experts work collaboratively including through membership of communications working groups when applicable.

The approach in resolution will follow the proven approach and capabilities, with these considered to be relevant, robust and sufficient to meet the requirements of communicating in resolution – with rapid development, approval and delivery of communications.

A range of regular, targeted, proactive and audience-specific communications methods, ranging from website / SMS / email and social media content for customers, to letters, press releases and direct engagement with other key stakeholders including media and investors, would be employed to ensure the Group provides clear and timely communications and engagement throughout.

4.10 MAINTAINING TIMELY DECISION-MAKING AND OVERSIGHT ARRANGEMENTS TO ACCOMMODATE GOVERNANCE CHANGES IN RESOLUTION (GOVERNANCE)

The purpose of governance in resolution is to ensure that rapid decision-making and oversight arrangements can be maintained to accommodate changes to the firm's governance that may be introduced in resolution. The Group is predominantly able to leverage existing Governance structures and capabilities to meet resolution requirements, facilitating a straightforward transition between BAU and resolution.

As outlined in the Introduction, our resolution strategy is a BoE-led bail-in and the appointment of a BIA, with the Resolution Instrument[9] providing direction on the nature of the BIA role . We have considered how BAU governance arrangements provide the ability to make decisions at short notice upon entry into resolution; the flexibility of our Corporate Governance Framework facilitates a straightforward transition regardless of the role of the BIA. With short, familiar and clear lines of escalation, and provisions which enable Boards to take an agile approach to governance, resolution can be coordinated in an efficient manner, facilitating decision-making at pace and with clear accountability.

Upon commencement of any stress event that may lead into recovery or resolution, the established GIM framework would support the Group's response to the event, with capabilities proven during major stresses including the Covid-19 pandemic. Resolution-specific governance (including Resolution Steering Committee supported by Accountable Executive Steering Committees, Forums and Working Groups) provides an additional layer of support to management and the BIA, with barrier Accountable Executives and subject matter experts supporting the coordination of the resolution outcomes.

As a large but comparatively simple UK group, existing governance arrangements are considered sufficiently flexible and robust to facilitate rapid execution of decisions in resolution. Recognising the effectiveness of the Group's governance structure, the Group considers that all existing Board and executive governance committees and mandates would continue to operate in resolution.

Our resolution governance includes the following key aspects, each of which is described in more detail in this section:

- **A GIM Framework & 'In Resolution' governance structure** that provides a framework and structure for engaging senior teams and management in charge of decision-making covering all key aspects our resolution strategy execution, with support from subject matter experts;
- Our **stress crisis continuum** underpinned by defined contingency levels to support appropriate escalation;
- A **comprehensive set of playbooks**, including master playbooks, that serve as an overarching guide for senior management to manage and coordinate all Group-wide actions.

Group Incident Management Framework

The Group has a mature and well-established GIM framework to manage the Group's response to incidents as they occur, as well as testing and evidencing operational resilience / readiness through incident response exercises.

[9] Bail-in Resolution Instrument is made by the Bank of England at the point of entry into resolution. It would formally place the firm into resolution and contain actions to give effect to the bail-in including the issuance of CEs to creditors affected by the bail-in. *Executing bail-in: an operational guide from the Bank of England July 2021*

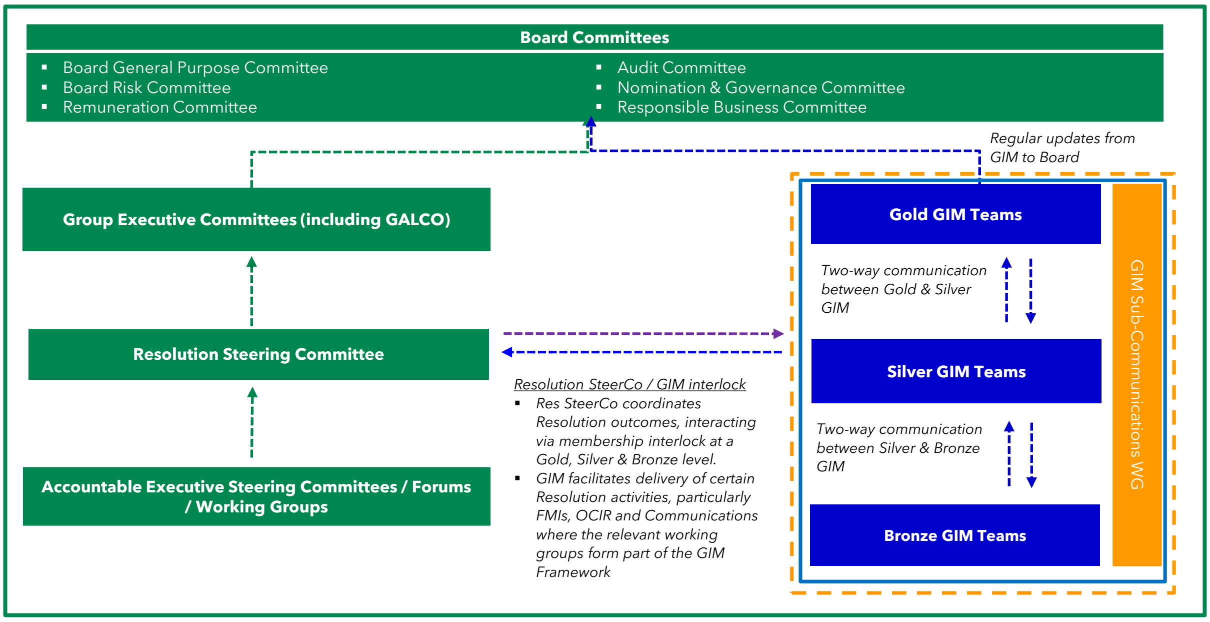
The GIM framework has four levels, referred to as Gold, Silver, Bronze and Emerald, which deal with the most significant incidents in the Group. In a crisis, this tiered structure allows a clear differentiation of responsibility for the three key management activities;

1. Strategic direction and critical decision making
2. Customer treatment, operational co-ordination across the organisation and other external parties
3. Technical fix and resolution of the issue

The Gold Team is made up of Group Executive members who are responsible for setting the Group strategic intent for the incident response, agreeing the communication strategy and assessing the strategic implications. The Silver team operate in parallel to define and manage the customer treatment, operational co-ordination, communication approach and technical responses to the incident, with representation from all Group divisions. These Gold and Silver teams may be further supported by Bronze teams at a Business Unit level, as well as by separate sub-working groups that focus on key areas such as people, communications and customer response. These teams are regularly convened in the case of natural or man-made disasters, cyber or IT threats/issues, providing the opportunity to regularly test in real time. Emerald supports external incidents that have no direct impact to the Group but where a coordinated response is required.

'In Resolution' Governance Structure

Although the exact 'In Resolution' governance structure would be confirmed and approved by the Board at the start of the resolution weekend, dependent on any direction received from the BoE or as set out in the Resolution Instrument, the below diagram details expected interlock between the Group's GIM teams and processes, the BAU Executive and Board committees, and the resolution-specific governance.



Our Board of Directors provide the ultimate oversight of the resolution activities carried out by senior management. The purpose of the Resolution Steering Committee throughout resolution is to lead and coordinate effective execution of the Group's resolution strategy. GIM will facilitate and co-ordinate cross Group Gold and Silver members to support resolution key activities, particularly relating to FMIs, OCIR and Communications. For example, where required, escalations may occur from GIM Gold Chair to the Group Executive Committee ('**GEC**') or Board to ensure operational continuity is maintained.

Significant membership overlap exists between Gold GIM and the GEC, and between Silver GIM and Resolution Steering Committee. This interlock with members' Senior Managers and Certification Regime ('**SMCR**' or '**SMR**') responsibilities supports rapid decision-making and incident coordination, whilst the continued running of BAU Committees and Resolution Steering Committee ensures subject matter expert knowledge is utilised in making resolution-specific decisions.

5 OUR GOVERNANCE PROCESS SUPPORTING THE DEVELOPMENT OF OUR RESOLUTION CAPABILITIES

We have established governance to support the Group's ability to deliver the three BoE resolvability outcomes, leveraging established roles and responsibilities and committees for the management of risk, and integrating resolution considerations into the management and oversight of our Group activities. This includes a Resolution Steering Committee which has been established as the key oversight committee for resolvability capabilities and outcomes. The Resolution Steering Committee is supported by Accountable Executives, including their Steering Committees / Forums / Working Groups.

Accountable Executives have been appointed based on the alignment of capabilities with their core BAU accountabilities and responsibilities. This ensures that management has requisite expertise to design appropriate capabilities that fulfil their resolution responsibilities.

Our framework for ensuring that management actions are sufficient to meet the three BoE resolvability outcomes follow the principles of the Group's Three Lines of Defence ('**3LOD**') model. In particular:

(a) Structured oversight by BAU governance bodies at the Executive and Board level;

(b) First Line of Defence accountability at the Executive level for capability design and testing; and

(c) Independent review, challenge and assurance provided by Second and Third Line of Defence.

This arrangement is set out below in our overview of our Group governance structure as relevant to resolvability:

- The Group Board and the Board Risk Committee ('**BRC**') review and challenge capabilities and resolution outcomes.

- The Group Chief Executive is responsible for the Group's resolution planning and for overseeing the internal processes regarding its approval and governance (our Recovery & Resolution Planning Senior Manager, or '**RRP SMR**'). The Group Asset and Liability Committee ('**GALCO**') has the delegated authority to recommend the RAF self-assessment to Board, providing the oversight of resolution planning and resolvability.
- The Resolution Steering Committee reports to GALCO and directs and monitors all activities relating to resolution planning, including monitoring capabilities and resolution outcomes.

Our Three Lines of Defence

Our RAF is implemented through a 3LOD model which defines clear responsibilities and accountabilities and ensures effective independent oversight and assurance activities take place covering key decisions.

Business lines and functional areas (first line) have primary responsibility for resolution capability decisions, identifying, measuring, monitoring and controlling capabilities within their areas of accountability. They are required to establish effective governance and control frameworks for their business to be compliant with Group policy requirements, to maintain appropriate resolution capability management skills, mechanisms and toolkits, and to act within Group risk appetite parameters set and approved by the Board.

Risk division (second line) is a centralised function, headed by the Chief Risk Officer, engaging with the first line, providing oversight of the effectiveness of assurance components and plans, documentation and testing in achieving resolvability requirements and outcomes.

It also has a key role in delivering independent opinions on RAF submissions which will include (not exhaustive):

- Views on the Group's oversight and accountability model, resolution execution plan and testing framework.
- Challenges on capability design and processes to meet barrier objectives and principles which support meeting the three BoE resolvability outcomes; and
- Challenges on the adequacy and results of testing to provide assurance over the Group's capabilities in resolution and making recommendations for further assurance activities.

The primary role of Group Internal Audit (third line) in the context of resolution is to help the Board and executive management protect the assets, reputation and sustainability of the Group. Group Internal Audit is led by the Group Chief Internal Auditor. It does this by:

- Assessing whether all significant risks in relation to resolution planning are identified and reported appropriately to the Board and Executive Management of the Group;
- Assessing the design and operation of key controls operated by 1st and 2nd Line to determine whether they are effective at mitigating significant risks e.g. to ensure compliance with BoE's regulatory requirements in relation to resolution planning;
- Challenging Executive Management to improve the effectiveness of governance, risk management and internal controls by providing assurance over the effectiveness of the first and second line of defence functions.

Group Internal Audit is a single independent internal audit function, reporting to the Audit Committee of the Group and the Audit Committees of the key subsidiaries.

Testing

We have established a clear and robust Board-approved Testing Framework which has been designed to provide the Board and senior management with assurance of our continued ability to meet the three resolvability outcomes. The Board approves the Testing Framework on a biennial basis alongside the RAF Self-Assessment. Testing results are monitored on an ongoing basis by the Resolution Steering Committee and reported to the Board annually.

We have carried out testing of our capabilities and resolution deliverables, including a Resolution Steering Committee fire-drill as well as a comprehensive desk-top exercise of the end-to-end process held with the Board, senior management and Non-Executive Directors ('**NEDs**'). These exercises ensured a clear understanding of the end-to-end resolution process: the governance, key senior management decisions, activities undertaken and associated timelines.

We will continue to conduct regular testing, especially the use of practical exercises in the form of fire-drills. Key learnings from our ongoing testing will be used to continuously improve our capabilities and our end-to-end resolution process.

6 FURTHER ENHANCEMENTS TO OUR RESOLVABILITY

Whilst we consider we have taken robust steps to prepare for the unlikely event of our own resolution, as outlined in Section 1 and 4 the BoE have assessed a shortcoming with our Funding in Resolution forecasting capabilities due to the capability enhancement still being in progress at the time of the RAF self-assessment.

We have enhanced our resolution-specific scenarios and modelling capabilities to facilitate more flexible, timely and granular liquidity projections moving from stress to resolution as discussed in Section 4.3. We believe these enhancements will work towards addressing the BoE findings and we will continue to engage with them in that respect. Delivery of our forecasting capabilities have been monitored through our dedicated Funding in Resolution working group, Resolution Steering Committee and GALCO. Risk have provided oversight and challenge on the design of our enhanced capabilities, with key learnings and insight incorporated into the final delivery and test results.

The Group has leveraged existing systems, infrastructure and personnel to establish resolution capabilities, hence embedding resolution into the business has largely been achieved. The Group continues to embed resolution into business as usual capabilities, recognising resolvability is a journey with ongoing obligations.

The embedding of our resolvability capabilities into business as usual along with our ongoing enhancements will be subject to our robust oversight and accountability model across our three lines of defence.

As the Group's technology and data capabilities are modernised, we will ensure that maintaining and improving the Group's resolvability is taken into account. We seek to continually deliver value and improve resilience as we progressively modernise and simplify our technology estate, including rationalising data centres and legacy applications, driving greater adoption of the cloud and increasing automation. Alongside these we will enhance our operating model by embedding modern engineering practices, with multi-skilled teams.

The Group is also enhancing Operational Continuity in Resolution capabilities in line with the new policy requirements effective 1 January 2023.

The Group looks forward to continuing to work with the BoE in its efforts to further enhance the stability and soundness of the UK financial system.

7 EXTERNAL FACTORS THAT COULD PREVENT RESOLVABILITY OUTCOMES FROM BEING ACHIEVED

Resolution is complex and, despite our capabilities in place, its success will never be entirely guaranteed. The Group's resolution capabilities are designed to be sufficiently flexible to respond to a variety of scenarios. However, there are factors that could arise outside of our control which may directly or indirectly impact the ability to implement the Group's resolution execution plan and achieve the resolvability outcomes. These factors are discussed below.

Cooperation with Regulators / International Authorities

Our international business areas and activities are outlined in section 2. Whilst they are not material in terms of their size or their provision of critical functions, the Group and the BoE would work with other host authorities to ensure continued authorisation for those international areas to ensure we can continue to achieve the resolution outcomes.

Access to market participants

Whilst we have identified a suite of restructuring options that are comprehensive and cover all material parts of the Group, we recognise market capacity driven by a systemic crisis will have an impact on the credibility and viability of restructuring options. We will also adapt our management of market/liquidity risk positions depending on the depth and characteristics of the relevant market at the time.

Access to FMI and counterparties

Despite the extensive work we have performed with FMI to develop specific contingency plans to support the continuity of access through stress and resolution, FMI are not obligated to continue to provide this access. The Group is also subject to the risk of deterioration of the commercial soundness and/or perceived soundness of other financial services institutions within and outside the UK. Financial services institutions that deal with each other are interrelated as a result of trading, investment, clearing, counterparty and other relationships. This presents systemic risk and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with which the Group interacts on a daily basis, any of which could have a material adverse effect on the Group's ability to raise new funding as required.

Additional Risk Factors

Our 2021 Form 20-F disclosures provide comprehensive discussion on risk factors assessed by the Group, the following key risk factors are some that might be relevant in preventing resolvability outcomes from being achieved (please refer to our 2021 Annual Report or Form 20-F for further detail):

- The Group's businesses are subject to inherent and indirect risks arising from general macroeconomic conditions in the UK in particular, but also in the Eurozone, the U.S. and globally. Any adverse changes affecting the economies of the countries in which the Group has significant direct and indirect credit exposures and any further deterioration in global macroeconomic conditions, including as a result of geopolitical events, global health issues, including the COVID-19 pandemic or acts of war or terrorism, could have a material adverse effect on the Group's results of operations, financial condition or prospects.

- Increases in the volume and sophistication of cyber-attacks alongside the growth in connected devices continues to heighten the potential for cyber-enabled crime. The Group can be impacted directly of through attacks on its supply chain. Geopolitical tensions increases the risk of the Group being impacted directly or indirectly, by a sophisticated cyber-attack. The capability of organised crime groups is growing rapidly, which along with the commoditisation of cyber crime increases the likelihood that the Group or one of its suppliers will be the target of a sophisticated attack.

- The Group's businesses are subject to inherent risks concerning liquidity and funding, particularly if the availability of traditional sources of funding such as retail deposits or the access to wholesale funding markets becomes more limited. The ability of the Group to gain access to wholesale and retail funding sources on satisfactory economic terms is subject to a number of factors outside its control, such as liquidity constraints, general market conditions, regulatory requirements, the encouraged or mandated repatriation of deposits by foreign wholesale or central bank depositors and the level of confidence in the UK banking system.
- Rating agencies regularly evaluate the Group and subsidiaries, and their ratings of longer-term debt are based on a number of factors which can change over time, including the Group's financial strength as well as factors not entirely within its control, including conditions affecting the financial services industry generally, and the legal and regulatory frameworks affecting its legal structure, business activities and the rights of its creditors. In light of the difficulties in the financial services industry and the financial markets, there can be no assurance that the Group or subsidiaries will maintain their current ratings. Downgrades of the Group's longer-term credit rating could lead to additional collateral posting and cash outflow, significantly increase its borrowing costs, limit its issuance capacity in the capital markets and weaken the Group's competitive position in certain markets.
- The Group's businesses are inherently subject to risks in financial markets including changes in, and increased volatility of, interest rates, inflation rates, credit spreads, foreign exchange rates, commodity, equity, bond and property prices and the risk that its customers act in a manner which is inconsistent with the Group's business, pricing and hedging assumptions. Movements in these markets will continue to have a significant impact on the Group in a number of key areas.
- The risks associated with climate change are coming under an increasing focus, both in the UK and internationally, from governments, regulators and large sections of society. These risks include: physical risks, arising from climate and weather-related events of increasing severity and/or frequency; transition risks resulting from the process of adjustment towards a lower carbon economy (including stranded, redundant or prohibited assets); and liability risks arising from the Group or clients experiencing litigation or reputational damage as a result of sustainability issues.

FORWARD-LOOKING STATEMENTS

This document contains certain forward-looking statements within the meaning of Section 21E of the US Securities Exchange Act of 1934, as amended, and section 27A of the US Securities Act of 1933, as amended, with respect to Lloyds Banking Group plc together with its subsidiaries (the Group) and its current goals and expectations. Statements that are not historical or current facts, including statements about the Group's or its directors' and/or management's beliefs and expectations, are forward looking statements. Words such as, without limitation, 'believes', 'achieves', 'anticipates', 'estimates', 'expects', 'targets', 'should', 'intends', 'aims', 'projects', 'plans', 'potential', 'will', 'would', 'could', 'considered', 'likely', 'may', 'seek', 'estimate', 'probability', 'goal', 'objective', 'deliver', 'endeavour', 'prospects', 'optimistic' and similar expressions or variations on these expressions are intended to identify forward looking statements. These statements concern or may affect future matters, including but not limited to: projections or expectations of the Group's future financial position, including profit attributable to shareholders, provisions, economic profit, dividends, capital structure, portfolios, net interest margin, capital ratios, liquidity, risk-weighted assets (RWAs), expenditures or any other financial items or ratios; litigation, regulatory and governmental investigations; the Group's future financial performance; the level and extent of future impairments and write-downs; the Group's ESG targets and/or commitments; statements of plans, objectives or goals of the Group or its management and other statements that are not historical fact; expectations about the impact of COVID-19; and statements of assumptions underlying such statements. By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend upon circumstances that will or may occur in the future. Factors that could cause actual business, strategy, plans and/or results (including but not limited to the payment of dividends) to differ materially from forward looking statements include, but are not limited to: general economic and business conditions in the UK and internationally; market related risks, trends and developments; risks concerning borrower and counterparty credit quality; fluctuations in interest rates, inflation, exchange rates, stock markets and currencies; volatility in credit markets; volatility in the price of our securities; any impact of the transition from IBORs to alternative reference rates; the ability to access sufficient sources of capital, liquidity and funding when required; changes to the Group's credit ratings; the ability to derive cost savings and other benefits including, but without limitation, as a result of any acquisitions, disposals and other strategic transactions; inability to capture accurately the expected value from acquisitions; potential changes in dividend policy; the ability to achieve strategic objectives; insurance risks; management and monitoring of conduct risk; exposure to counterparty risk; credit rating risk; tightening of monetary policy in jurisdictions in which the Group operates; instability in the global financial markets, including within the Eurozone, and as a result of ongoing uncertainty following the exit by the UK from the European Union (EU) and the effects of the EU-UK Trade and Cooperation Agreement; political instability including as a result of any UK general election and any further possible referendum on Scottish independence; operational risks; conduct risk; technological changes and risks to the security of IT and operational infrastructure, systems, data and information resulting from increased threat of cyber and other attacks; natural pandemic (including but not limited to the COVID-19 pandemic) and other disasters; inadequate or failed internal or external processes or systems; acts of hostility or terrorism and responses to those acts, or other such events; geopolitical unpredictability; the war between Russia and Ukraine; risks relating to sustainability and climate change (and achieving climate change ambitions), including the Group's ability along with the government and other stakeholders to measure, manage and mitigate the impacts of climate change effectively; changes in laws, regulations, practices and accounting standards or taxation; changes to regulatory capital or liquidity requirements and similar contingencies; assessment related to resolution planning requirements; the policies and actions of governmental or regulatory authorities or courts together with any resulting impact on the future structure of the Group; failure to comply with anti-money laundering, counter terrorist financing, anti-bribery and sanctions regulations; failure to prevent or detect any illegal or improper activities; projected employee numbers and key person risk; increased labour costs; assumptions and estimates that form the basis of our financial statements; the impact of competitive conditions; and exposure to legal, regulatory or competition proceedings, investigations or complaints. A number of these influences and factors are beyond the Group's control. Please refer to the latest Annual Report on Form 20-F filed by Lloyds Banking Group plc with the US Securities and Exchange Commission (the SEC), which is available on the SEC's website at www.sec.gov, for a discussion of certain factors and risks. Lloyds Banking Group plc may also make or disclose written and/or oral forward-looking statements in other written materials and in oral statements made by the directors, officers or employees of Lloyds Banking Group plc to third parties, including financial analysts. Except as required by any applicable law or regulation, the forward-looking statements contained in this document are made as of today's date, and the Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statements contained in this document whether as a result of new information, future events or otherwise. The information, statements and opinions contained in this document do not constitute a public offer under any applicable law or an offer to sell any securities or financial instruments or any advice or recommendation with respect to such securities or financial instruments.