HBOS plc

2025 Half-Year Results

24 July 2025

Member of the Lloyds Banking Group

CONTENTS

FINANCIAL REVIEW

Principal activities

HBOS plc (the Company) and its subsidiaries (together, the Group) provide a wide range of banking and financial services. The Group's revenue is earned through interest and fees on a broad range of financial services products including current and savings accounts, personal loans, credit cards and mortgages within the retail market and loans and other products to commercial and corporate customers.

Income statement

The Group's profit before tax for the first half of 2025 was £804 million, compared to a profit before tax of £462 million for the same period in 2024. This was driven by higher total income, partially offset by higher operating expenses and a higher impairment charge. Profit after tax was £647 million (half-year to 30 June 2024: £338 million).

Total income for the half-year was £2,617 million, an increase of 28% on the first half of 2024. Net interest income was £2,282 million, compared to £1,835 million for the same period in 2024, driven by higher average interest-earning assets and a higher margin. Other income of £335 million was £130 million higher than the first half of 2024. The increase reflected higher net trading income of £95 million which was £45 million higher than the first half of 2024, reflecting rate movements. This was alongside higher net fee and commission income of £177 million which was £79 million higher than the same period in 2024 which was impacted by changes to commission arrangements with Scottish Widows.

Operating expenses of £1,752 million were 11% higher than in the first half of 2024, reflecting inflationary pressures, strategic investment including planned higher severance front-loaded into the first quarter of 2025 and business growth costs, partly offset by cost savings and continued cost discipline. The Group recognised remediation costs of £2 million (half-year to 30 June 2024: £41 million), across a small number of rectification programmes.

Asset quality remained robust in the first half of 2025. The impairment charge of £61 million compared to a charge of £5 million in the half-year to 30 June 2024, which benefitted from a credit from improvements in the Group's economic outlook.

The Group recognised a tax expense of £157 million in the first half of 2025 (half-year to 30 June 2024: £124 million).

Balance sheet

Total assets of £336,938 million were £7,018 million higher, or 2%, compared to £329,920 million at 31 December 2024. Financial assets at amortised cost were £9,428 million higher at £326,702 million compared to £317,274 million at 31 December 2024, with increases in loans and advances to customers of £6,726 million to £307,515 million. The increase in loans advances to customers was primarily due to growth in UK mortgages. There were also increases in balances due from fellow Lloyds Banking Group undertakings of £2,814 million in the period.

Total liabilities of £319,559 million increased £6,852 million compared to £312,707 million at 31 December 2024. This was driven by an increase in customer deposits of £2,580 million in the period, driven by a strong performance throughout the ISA season, as well as increases in balances due to fellow Lloyds Banking Group undertakings of £3,725 million.

Total equity increased by £166 million from £17,213 million at 31 December 2024 to £17,379 million at 30 June 2025. The movement reflected attributable profit for the period, partially offset by an interim dividend of £250 million.

Capital

Neither the Company nor the Group are regulated from a capital perspective. Regulatory capital is instead managed in the Company's principal banking subsidiary, Bank of Scotland plc.

PRINCIPAL RISKS AND UNCERTAINTIES

The important risks faced by the Group are detailed below. External risks may impact the success of delivering against the Group's long-term strategic objectives. They include, but are not limited to, macroeconomic and geopolitical uncertainties and inflation trends which could contribute to the cost of living and associated implications for consumers and businesses.

Asset quality remains robust with stable credit performance throughout the period. The Group continues to monitor the impacts of the economic environment closely through a suite of early warning indicators and governance arrangements that ensure risk mitigating action plans are in place to support customers and protect the Group's positions.

The Group continues to invest in technology to strengthen its capabilities, ensuring the appropriate use of models and artificial intelligence. Operational resilience remains a high priority area for the Group to ensure that it can continue to effectively prevent, withstand and respond to potential cybersecurity threats and incidents such as IT system outages, using threat intelligence and learnings from recent industry events where relevant.

The Group is transforming its approach to risk management to support its strategic ambition and purpose of Helping Britain Prosper. Following changes to the three lines of defence model in 2024 to ensure more clearly defined responsibilities and accountabilities across the business, further enhancements to the way the Group delivers risk management have been made by standardising practices and streamlining processes. The Group Risk Management Framework was enhanced during the first half of 2025, along with the approach to risk appetite and risk governance, enabling simplification and efficiency.

The Group has 10 principal risks, which are unchanged in 2025 and are underpinned by a suite of level two risks. These risks are reviewed and reported regularly to the Board in alignment with the enhanced Group Risk Management Framework, and consist of capital risk, climate risk, compliance risk, conduct risk, credit risk, economic crime risk, liquidity risk, market risk, model risk and operational risk. Further information regarding the Group's principal risks is available on page 4 in the Group's 2024 annual report and accounts.

STATUTORY INFORMATION

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Note	Half-year to 30 Jun 2025 £m	Half-year to 30 Jun 2024 £m
Interest income		7,347	6,891
Interest expense		(5,065)	(5,056)
Net interest income		2,282	1,835
Fee and commission income		342	334
Fee and commission expense		(165)	(236)
Net fee and commission income	3	177	98
Net trading income		95	50
Other operating income		63	57
Other income		335	205
Total income		2,617	2,040
Operating expenses	4	(1,752)	(1,573)
Impairment	6	(61)	(5)
Profit before tax		804	462
Tax expense	7	(157)	(124)
Profit for the period		647	338
Profit attributable to ordinary shareholders		527	239
Profit attributable to non-controlling interests		120	99
Profit for the period		647	338

The accompanying notes are an integral part of the condensed consolidated half-year financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	Half-year to 30 Jun 2025 £m	Half-year to 30 Jun 2024 £m
Profit for the period	647	338
Other comprehensive income		
Items that will not subsequently be reclassified to profit or loss:		
Post-retirement defined benefit scheme remeasurements		
Remeasurements before tax	(141)	(138)
Current tax	7	11
Deferred tax	28	24
	(106)	(103)
Items that may subsequently be reclassified to profit or loss:		
Movements in revaluation reserve in respect of debt securities held at fair value through other comprehensive income:		
Change in fair value	(6)	(4)
Deferred tax	–	–
	(6)	(4)
Movements in cash flow hedging reserve:		
Effective portion of changes in fair value taken to other comprehensive income	(11)	3
Net income statement transfers	(4)	(3)
Deferred tax	4	–
	(11)	–
Movements in foreign currency translation reserve:		
Currency translation differences (tax: £nil)	2	–
Transfers to income statement (tax: £nil)	–	–
Currency translation differences (tax: £nil)	2	–
Total other comprehensive loss for the period, net of tax	(121)	(107)
Total comprehensive income for the period	526	231
Total comprehensive income attributable to ordinary shareholders	406	132
Total comprehensive income attributable to non-controlling interests	120	99
Total comprehensive income for the period	526	231

The accompanying notes are an integral part of the condensed consolidated half-year financial statements.

CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

	Note	At 30 Jun 2025 £m	At 31 Dec 2024 £m
Assets			
Cash and balances at central banks		2,689	2,853
Financial assets at fair value through profit or loss	8	259	278
Derivative financial instruments		2,338	3,337
Loans and advances to banks		145	111
Loans and advances to customers		307,515	300,789
Debt securities		1,204	1,350
Due from fellow Lloyds Banking Group undertakings		17,838	15,024
Financial assets at amortised cost		326,702	317,274
Financial assets at fair value through other comprehensive income	8	103	103
Goodwill		452	452
Current tax recoverable		172	1,272
Deferred tax assets		1,564	1,577
Retirement benefit assets	5	906	1,018
Other assets		1,753	1,756
Total assets		336,938	329,920
Liabilities			
Deposits from banks		103	179
Customer deposits		167,633	165,053
Repurchase agreements at amortised cost		23,157	22,168
Due to fellow Lloyds Banking Group undertakings		110,656	106,931
Financial liabilities at fair value through profit or loss	8	18	22
Derivative financial instruments		3,655	3,490
Notes in circulation		2,119	2,121
Debt securities in issue at amortised cost	10	8,461	8,654
Other liabilities		1,441	1,321
Retirement benefit obligations	5	73	74
Provisions	11	456	511
Subordinated liabilities		1,787	2,183
Total liabilities		319,559	312,707
Equity			
Share capital		3,778	3,778
Share premium account		585	585
Other reserves		11,162	11,177
Retained losses		(746)	(950)
Ordinary shareholders' equity		14,779	14,590
Non-controlling interests		2,600	2,623
Total equity		17,379	17,213
Total equity and liabilities		336,938	329,920

The accompanying notes are an integral part of the condensed consolidated half-year financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Attributable to ordinary shareholders					
	Share capital and premium £m	Other reserves £m	Retained losses £m	Total £m	Non-controlling interests £m	Total £m
At 1 January 2025	4,363	11,177	(950)	14,590	2,623	17,213
Comprehensive income						
Profit for the period	–	–	527	527	120	647
Other comprehensive income						
Post-retirement defined benefit scheme remeasurements, net of tax	–	–	(106)	(106)	–	(106)
Movements in revaluation reserve in respect of debt securities held at fair value through other comprehensive income, net of tax	–	(6)	–	(6)	–	(6)
Movements in cash flow hedging reserve, net of tax	–	(11)	–	(11)	–	(11)
Movements in foreign currency translation reserve, net of tax	–	2	–	2	–	2
Total other comprehensive loss	–	(15)	(106)	(121)	–	(121)
Total comprehensive (loss) income[1]	–	(15)	421	406	120	526
Transactions with owners						
Dividends	–	–	(250)	(250)	–	(250)
Distributions to non-controlling interests	–	–	–	–	(120)	(120)
Changes in non-controlling interests	–	–	23	23	(23)	–
Capital contributions received	–	–	10	10	–	10
Total transactions with owners	–	–	(217)	(217)	(143)	(360)
At 30 June 2025[2]	4,363	11,162	(746)	14,779	2,600	17,379

[1] Total comprehensive income attributable to owners of the parent was £406 million.

[2] Total equity attributable to owners of the parent was £14,779 million.

The accompanying notes are an integral part of the condensed consolidated half-year financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED) (continued)

	Attributable to ordinary shareholders					
	Share capital and premium £m	Other reserves £m	Retained losses £m	Total £m	Non-controlling interests £m	Total £m
At 1 January 2024	4,363	11,182	(317)	15,228	2,573	17,801
Comprehensive income						
Profit for the period	–	–	239	239	99	338
Other comprehensive income						
Post-retirement defined benefit scheme remeasurements, net of tax	–	–	(103)	(103)	–	(103)
Movements in revaluation reserve in respect of debt securities held at fair value through other comprehensive income, net of tax	–	(4)	–	(4)	–	(4)
Total other comprehensive loss	–	(4)	(103)	(107)	–	(107)
Total comprehensive (loss) income[1]	–	(4)	136	132	99	231
Transactions with owners						
Dividends	–	–	(650)	(650)	–	(650)
Distributions to non-controlling interests	–	–	–	–	(99)	(99)
Capital contributions received	–	–	10	10	–	10
Total transactions with owners	–	–	(640)	(640)	(99)	(739)
At 30 June 2024[2]	4,363	11,178	(821)	14,720	2,573	17,293
Comprehensive income						
Profit for the period	–	–	408	408	107	515
Other comprehensive income						
Post-retirement defined benefit scheme remeasurements, net of tax	–	–	(150)	(150)	–	(150)
Movements in revaluation reserve in respect of debt securities held at fair value through other comprehensive income, net of tax	–	1	–	1	–	1
Movements in cash flow hedging reserve, net of tax	–	(2)	–	(2)	–	(2)
Total other comprehensive loss	–	(1)	(150)	(151)	–	(151)
Total comprehensive (loss) income[1]	–	(1)	258	257	107	364
Transactions with owners						
Dividends	–	–	(400)	(400)	–	(400)
Distributions to non-controlling interests	–	–	–	–	(107)	(107)
Changes in non-controlling interests	–	–	–	–	50	50
Capital contributions received	–	–	13	13	–	13
Total transactions with owners	–	–	(387)	(387)	(57)	(444)
At 31 December 2024[2]	4,363	11,177	(950)	14,590	2,623	17,213

[1] Total comprehensive income attributable to owners of the parent for the half-year to 30 June 2024 was £132 million (half-year to 31 December 2024: £257 million).

[2] Total equity attributable to owners of the parent at 30 June 2024 was £14,720 million (31 December 2024: £14,590 million).

The accompanying notes are an integral part of the condensed consolidated half-year financial statements.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

	Half-year to 30 Jun 2025 £m	Half-year to 30 Jun 2024 £m
Cash flows from operating activities		
Profit before tax	804	462
Adjustments for:		
Change in operating assets	(8,204)	(5,643)
Change in operating liabilities	7,295	6,954
Non-cash and other items	(95)	(266)
Tax paid[1]	(167)	(617)
Tax refunded[1]	1,162	350
Net cash provided by operating activities	795	1,240
Cash flows from investing activities		
Purchase of financial assets	–	(1)
Purchase of fixed assets[1]	(150)	(82)
Purchase of other intangible assets[1]	(3)	(46)
Proceeds from sale of fixed assets[1]	2	7
Proceeds from sale of goodwill and other intangible assets[1]	2	–
Net cash used in investing activities	(149)	(122)
Cash flows from financing activities		
Dividends paid to ordinary shareholders	(250)	(650)
Distributions to non-controlling interests	(120)	(99)
Interest paid on subordinated liabilities	(65)	(79)
Repayment of subordinated liabilities	(371)	–
Net cash used in financing activities	(806)	(828)
Change in cash and cash equivalents	(160)	290
Cash and cash equivalents at beginning of period	2,883	2,126
Cash and cash equivalents at end of period	2,723	2,416

1 Previously presented in aggregate.

Interest received was £7,306 million (30 June 2024: £6,771 million) and interest paid was £4,133 million (30 June 2024: £4,605 million).

Cash and cash equivalents comprise cash and non-mandatory balances with central banks and amounts due from banks with an original maturity of less than three months.

The accompanying notes are an integral part of the condensed consolidated half-year financial statements.

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (UNAUDITED)

Note 1: Basis of preparation and accounting policies

These condensed consolidated half-year financial statements as at and for the period to 30 June 2025 have been prepared in accordance with the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority (FCA) and with International Accounting Standard 34 (IAS 34), Interim Financial Reporting as adopted by the United Kingdom and comprise the results of HBOS plc (the Company) together with its subsidiaries (the Group). They do not include all of the information required for full annual financial statements and should be read in conjunction with the Group's consolidated financial statements as at and for the year ended 31 December 2024 which complied with international accounting standards in conformity with the requirements of the Companies Act 2006 and were prepared in accordance with IFRS® Accounting Standards as issued by the International Accounting Standards Board (IASB). Copies of the 2024 annual report and accounts are available on the Lloyds Banking Group's website and are also available upon request from Investor Relations, Lloyds Banking Group plc, 33 Old Broad Street, London, EC2N 1HZ.

The directors consider that it is appropriate to continue to adopt the going concern basis in preparing these condensed consolidated half-year financial statements. In reaching this assessment, the directors have taken into account the uncertainties affecting the UK economy and their potential effects upon the Group's performance and projected funding and capital position; the impact of further stress scenarios has also been considered. On this basis, the directors are satisfied that the Group will maintain adequate levels of funding and capital for the foreseeable future.

The Group's accounting policies are consistent with those applied by the Group in its financial statements for the year ended 31 December 2024 and there have been no changes in the Group's methods of computation.

The IASB has issued an amendment to IAS 21 The Effects of Changes in Foreign Exchange Rates, effective 1 January 2025. This amendment has not had a significant impact on the Group.

Future accounting developments

There are a number of new accounting pronouncements issued by the IASB with an effective date of 1 January 2027. This includes IFRS 18 Presentation and Disclosure in Financial Statements which replaces IAS 1 Presentation of Financial Statements and IFRS 19 Subsidiaries without Public Accountability: Disclosures. The impact of these standards is being assessed and they have not yet been endorsed for use in the UK.

The IASB has issued its annual improvements and a number of amendments to the IFRS Accounting Standards effective 1 January 2026, including Amendments to IFRS 9 Financial Instruments and Amendments to IFRS 7 Financial Instruments Disclosure. These improvements and amendments are not expected to have a significant impact on the Group.

The Company's ultimate parent undertaking and controlling party is Lloyds Banking Group plc which is incorporated in Scotland. Lloyds Banking Group plc has published consolidated accounts for the year to 31 December 2024 and copies may be obtained from Investor Relations, Lloyds Banking Group plc, 33 Old Broad Street, London, EC2N 1HZ and are available for download from www.lloydsbankinggroup.com.

The financial information contained in this document does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006 (the Act). The statutory accounts for the year ended 31 December 2024 were approved by the directors on 27 February 2025 and were delivered to the Registrar of Companies on 2 April 2025. The independent auditors' report on those accounts was unqualified and did not include a statement under sections 498(2) (accounting records or returns inadequate or accounts not agreeing with records and returns) or 498(3) (failure to obtain necessary information and explanations) of the Act.

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (UNAUDITED) (continued)

Note 2: Critical accounting judgements and key sources of estimation uncertainty

The preparation of the Group's financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions in applying the accounting policies that affect the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, actual results reported in future periods may be based upon amounts which differ from these estimates. Estimates, judgements and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In preparing the financial statements, the Group has considered the impact of climate-related risks on its financial position and performance. While the effects of climate change represent a source of uncertainty, the Group does not consider there to be a material impact on its judgements and estimates from the physical, transition and other climate-related risks in the short-term.

The Group's significant judgements, estimates and assumptions are unchanged compared to those disclosed in note 3 of the Group's 2024 financial statements. Further information on the critical accounting judgements and key sources of estimation uncertainty for the allowance for expected credit losses is set out in note 9.

Note 3: Net fee and commission income

	Half-year to 30 Jun 2025 £m	Half-year to 30 Jun 2024 £m
Fee and commission income:		
Current accounts	104	97
Credit and debit card fees	209	207
Other fees and commissions	29	30
Total fee and commission income	342	334
Fee and commission expense	(165)	(236)
Net fee and commission income	177	98

Note 4: Operating expenses

	Half-year to 30 Jun 2025 £m	Half-year to 30 Jun 2024 £m
Staff costs	558	496
Premises and equipment costs	129	86
Depreciation and amortisation	147	135
Amounts payable to fellow Lloyds Banking Group undertakings and other expenses	918	856
Total operating expenses	1,752	1,573

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (UNAUDITED) (continued)

Note 5: Retirement benefit obligations

The Group's post-retirement defined benefit scheme obligations are comprised as follows:

	At 30 Jun 2025 £m	At 31 Dec 2024 £m
Defined benefit pension schemes:		
Present value of funded obligations	(9,104)	(9,305)
Fair value of scheme assets	9,954	10,266
Net pension scheme asset	850	961
Other post-retirement schemes	(17)	(17)
Total amounts recognised in the balance sheet	833	944
Recognised on the balance sheet as:		
Retirement benefit assets	906	1,018
Retirement benefit obligations	(73)	(74)
Total amounts recognised in the balance sheet	833	944

Movements in the Group's net post-retirement defined benefit scheme asset during the period were as follows:

	£m
Asset at 1 January 2025	944
Income statement credit	(5)
Employer contributions	35
Remeasurement	(141)
Asset at 30 June 2025	833

The principal assumptions used in the valuations of the defined benefit pension schemes were as follows:

	At 30 Jun 2025 %	At 31 Dec 2024 %
Discount rate	5.61	5.55
Rate of inflation:		
Retail Price Index (RPI)	2.72	2.85
Consumer Price Index (CPI)	2.23	2.53
Rate of salary increases	0.00	0.00
Weighted-average rate of increase for pensions in payment	2.93	2.85

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (UNAUDITED) (continued)

Note 6: Impairment

	Half-year to 30 Jun 2025 £m	Half-year to 30 Jun 2024 £m
Loans and advances to customers	78	18
Due from fellow Lloyds Banking Group undertakings	(2)	(3)
Financial assets held at amortised cost	76	15
Loan commitments and financial guarantees	(15)	(10)
Total impairment	61	5

Note 7: Tax

In accordance with IAS 34, the Group's income tax expense for the half-year to 30 June 2025 is based on the best estimate of the weighted-average annual income tax rate expected for the full financial year. The tax effects of one-off items are not included in the weighted-average annual income tax rate, but are recognised in the relevant period.

An explanation of the relationship between tax expense and accounting profit is set out below:

	Half-year to 30 Jun 2025 £m	Half-year to 30 Jun 2024 £m
Profit before tax	804	462
UK corporation tax thereon at 25.0% (2024: 25.0%)	(201)	(116)
Impact of surcharge on banking profits	(19)	(8)
Non-deductible costs: conduct charges	–	5
Other non-deductible costs	(38)	(27)
Non-taxable income	2	6
Tax relief on coupons on other equity instruments	30	25
Tax-exempt gains on disposals	2	–
Adjustments in respect of prior years	67	(9)
Tax expense	(157)	(124)

Note 8: Fair values of financial assets and liabilities

The valuations of financial instruments have been classified into three levels according to the quality and reliability of information used to determine those fair values. Note 15 to the Group's financial statements for the year ended 31 December 2024 details the definitions of the three levels in the fair value hierarchy.

Financial instruments classified as financial assets at fair value through profit or loss, derivative financial instruments, financial assets at fair value through other comprehensive income and financial liabilities at fair value through profit or loss are recognised at fair value.

The Group manages valuation adjustments for its derivative exposures on a net basis; the Group determines their fair values on the basis of their net exposures. In all other cases, fair values of financial assets and liabilities measured at fair value are determined on the basis of their gross exposures.

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (UNAUDITED) (continued)

Note 8: Fair values of financial assets and liabilities (continued)

The following tables provide an analysis of the financial assets and liabilities of the Group that are carried at fair value in the Group's consolidated balance sheet, grouped into levels 1 to 3 based on the degree to which the fair value is observable. There were no significant transfers between level 1 and level 2 during the period.

Financial assets	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 30 June 2025				
Loans and advances to customers at fair value through profit or loss	–	–	259	259
Debt securities at fair value through other comprehensive income	103	–	–	103
Derivative financial instruments	–	2,338	–	2,338
Total financial assets carried at fair value	103	2,338	259	2,700
At 31 December 2024				
Loans and advances to customers at fair value through profit or loss	–	–	278	278
Debt securities at fair value through other comprehensive income	103	–	–	103
Derivative financial instruments	–	3,337	–	3,337
Total financial assets carried at fair value	103	3,337	278	3,718

Financial liabilities	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 30 June 2025				
Debt securities in issue designated at fair value through profit or loss	–	–	18	18
Derivative financial instruments	–	3,533	122	3,655
Total financial liabilities carried at fair value	–	3,533	140	3,673
At 31 December 2024				
Debt securities in issue designated at fair value through profit or loss	–	–	22	22
Derivative financial instruments	–	3,351	139	3,490
Total financial liabilities carried at fair value	–	3,351	161	3,512

Valuation control framework

Key elements of the valuation control framework include model validation (incorporating pre-trade and post-trade testing), product implementation review and independent price verification. The framework covers processes for all 3 levels in the fair value hierarchy. Formal committees meet quarterly to discuss and approve valuations in more judgemental areas.

Transfers into and out of level 3 portfolios

Transfers out of level 3 portfolios arise when inputs that could have a significant impact on the instrument's valuation become market observable; conversely, transfers into the portfolios arise when sources of data cease to be observable.

Valuation methodology

For level 2 and level 3 portfolios, there is no significant change to the valuation methodology (techniques and inputs) disclosed in the Group's financial statements for the year ended 31 December 2024 applied to these portfolios.

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (UNAUDITED) (continued)

Note 8: Fair values of financial assets and liabilities (continued)

Movements in level 3 portfolio

The tables below analyse movements in the level 3 financial assets portfolio.

	Financial assets at fair value through profit or loss £m	Derivative assets £m	Total financial assets carried at fair value £m
At 1 January 2025	278	–	278
Losses recognised in the income statement within other income	(16)	–	(16)
Purchases/increases to customer loans	14	–	14
Repayments of customer loans	(17)	–	(17)
At 30 June 2025	259	–	259
Losses recognised in the income statement, within other income, relating to the change in fair value of those assets held at 30 June 2025	(16)	–	(16)
At 1 January 2024	266	–	266
Gains recognised in the income statement within other income	30	–	30
Purchases/increases to customer loans	3	–	3
Repayments of customer loans	(15)	–	(15)
At 30 June 2024	284	–	284
Gains recognised in the income statement, within other income, relating to the change in fair value of those assets held at 30 June 2024	28	–	28

The tables below analyse movements in the level 3 financial liabilities portfolio.

	Financial liabilities at fair value through profit or loss £m	Derivative liabilities £m	Total financial liabilities carried at fair value £m
At 1 January 2025	22	139	161
Gains recognised in the income statement within other income	(2)	(5)	(7)
Redemptions	(2)	(12)	(14)
At 30 June 2025	18	122	140
Gains recognised in the income statement, within other income, relating to the change in fair value of those liabilities held at 30 June 2025	(2)	(3)	(5)
At 1 January 2024	23	132	155
Losses recognised in the income statement within other income	2	23	25
Redemptions	(2)	(12)	(14)
At 30 June 2024	23	143	166
Losses recognised in the income statement, within other income, relating to the change in fair value of those liabilities held at 30 June 2024	2	21	23

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (UNAUDITED) (continued)

Note 8: Fair values of financial assets and liabilities (continued)

Sensitivity of level 3 valuations

The tables below set out the effects of reasonably possible alternative assumptions for categories of level 3 financial assets and financial liabilities.

				Effect of reasonably possible alternative assumptions[1]	
At 30 June 2025	Valuation techniques	Significant unobservable inputs[2]	Carrying value £m	Favourable changes £m	Unfavourable changes £m
Financial assets at fair value through profit or loss					
Loans and advances to customers	Discounted cash flows	Interest rate spreads (+/- 50bps)	259	20	(18)
Level 3 financial assets carried at fair value			259		
Financial liabilities at fair value through profit or loss					
Securitisation notes	Discounted cash flows	Interest rate spreads (+/- 50bps)	18	1	(1)
Derivative financial liabilities					
Shared appreciation rights	Market values – property valuation	HPI (+/- 1%)	122	12	(11)
Level 3 financial liabilities carried at fair value			140		
At 31 December 2024					
Financial assets at fair value through profit or loss					
Loans and advances to customers	Discounted cash flows	Interest rate spreads (+/- 50bps)	278	19	(18)
Level 3 financial assets carried at fair value			278		
Financial liabilities at fair value through profit or loss					
Securitisation notes	Discounted cash flows	Interest rate spreads (+/- 50bps)	22	1	(1)
Derivative financial liabilities					
Shared appreciation rights	Market values – property valuation	HPI (+/- 1%)	139	12	(11)
Level 3 financial liabilities carried at fair value			161		

1 Where the exposure to an unobservable input is managed on a net basis, only the net impact is shown in the table.

2 Ranges are shown where appropriate and represent the highest and lowest inputs used in the level 3 valuations.

Unobservable inputs

Significant unobservable inputs affecting the valuation of debt securities and derivatives are unchanged from those described in the Group's financial statements for the year ended 31 December 2024.

Reasonably possible alternative assumptions

Valuation techniques applied to many of the Group's level 3 instruments often involve the use of two or more inputs whose relationship is interdependent. The calculation of the effect of reasonably possible alternative assumptions included in the table above reflects such relationships and is unchanged from that described in note 15 to the Group's financial statements for the year ended 31 December 2024.

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (UNAUDITED) (continued)

Note 8: Fair values of financial assets and liabilities (continued)

The table below summarises the carrying values of financial assets and liabilities measured at amortised cost in the Group's consolidated balance sheet. The fair values presented in the table are at a specific date and may be significantly different from the amounts which will actually be paid or received on the maturity or settlement date.

	At 30 June 2025		At 31 December 2024	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Financial assets				
Loans and advances to banks	145	145	111	111
Loans and advances to customers	307,515	306,437	300,789	298,373
Debt securities	1,204	1,198	1,350	1,343
Due from fellow Lloyds Banking Group undertakings	17,838	17,838	15,024	15,024
Financial liabilities				
Deposits from banks	103	103	179	179
Customer deposits	167,633	168,005	165,053	165,478
Repurchase agreements	23,157	23,157	22,168	22,168
Due to fellow Lloyds Banking Group undertakings	110,656	110,656	106,931	106,931
Debt securities in issue	8,461	8,461	8,654	8,705
Subordinated liabilities	1,787	1,806	2,183	2,200

The carrying amounts of cash and balances at central banks and notes in circulation are a reasonable approximation of their fair values.

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (UNAUDITED) (continued)

Note 9: Allowance for expected credit losses

The calculation of the Group's allowance for expected credit loss allowances requires the Group to make a number of judgements, assumptions and estimates. These are set out in full in note 18 to the Group's financial statements for the year ended 31 December 2024, with the most significant set out below.

The table below analyses total ECL allowance, separately identifying the amounts that have been modelled, those that have been individually assessed and those arising through the application of judgemental adjustment.

	Modelled ECL £m	Individually assessed £m	Judgemental adjustments £m	Total ECL £m
At 30 June 2025	1,440	58	100	1,598
At 31 December 2024	1,634	146	102	1,882

Adjustments to modelled ECL

These adjustments principally comprise:

Repossession risk: £93 million (31 December 2024: £114 million)
Additional ECL continues to be held judgementally to capture the potential repossession and recovery risk from specific subsets of largely long-term defaulted cases. This is alongside an adjustment to capture a longer duration between default and repossession than model assumptions use on existing and future defaults. The reduction in the period reflects latest data points on the population judged at risk.

Adjustment for specific segments: £13 million (31 December 2024: £14 million)
The Group monitors risks across specific segments of its portfolios which may not be fully captured through collective models. The judgement for fire safety and cladding uncertainty remains in place as the only Mortgages segment sufficiently material to address, given evidence of cases with defective cladding, or other fire safety issues.

Lifetime extension on revolving products: £34 million (31 December 2024: £40 million)
An adjustment is required to extend the lifetime used for Stage 2 exposures on Retail revolving products from a three-year modelled lifetime, which reflected the outcome data available when the ECL models were developed, to a more representative lifetime. Incremental defaults beyond year three are calculated through the extrapolation of the default trajectory observed throughout the three years and beyond.

Adjustments to loss given defaults (LGDs): £(32) million (31 December 2024: £(52) million)
A number of adjustments are made to the loss given default (LGD) assumptions used within unsecured and motor credit models. For unsecured portfolios, the adjustments reflect the impact of changes in collection debt sale strategy on the Group's LGD models, incorporating up to date customer performance and forward flow debt sale pricing.

In preceding years, adjustments have been required to mitigate limitations identified in the modelling approach which were causing loss given defaults to be inflated. These included the lack of benefit from amortisation of exposures relative to collateral values at default, and the need to reflect an exposure-weighted calculation. These two adjustments have been released following respective enhancements to models. One remaining adjustment remains for a specific segment of the SME portfolio which judgementally applies a more appropriate blended LGD rate from credit risk profile segments more aligned to experience.

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (UNAUDITED) (continued)

Note 9: Allowance for expected credit losses (continued)

Corporate insolvency rates: £(20) million (31 December 2024: £(35) million)

The volume of UK corporate insolvencies continues to exhibit an elevated trend beyond December 2019 levels, revealing a marked misalignment between observed UK corporate insolvencies and the Group's equivalent credit performance. This dislocation gives rise to uncertainty over the drivers of the observed trends in the metric and the appropriateness of the Group's Commercial Banking model response which uses observed UK corporate insolvencies data to anchor future loss estimates to. Given the Group's asset quality remains robust with low defaults, a negative adjustment is applied by reverting judgementally to the long-term average of the insolvency rate. The scale of the negative adjustment reduced in the period reflecting both the reduction in observed actual UK corporate insolvencies rates, narrowing the gap of the misalignment, as well from a one-off change due to the interaction with the implementation of loss rate model enhancements in the period.

Global tariff and geo-political disruption risks: £2 million (31 December 2024: £nil)

This new adjustment was raised in the first half of 2025 to recognise the potential risks to specific drivers across various corporate sectors not reflected in broad macroeconomic model drivers. These are potential nuanced risks to businesses inherent in the base case which could also worsen in the downside scenarios. This assessment is judgemental and apportioned across all sectors given the uncertainty of how these risks would emerge.

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (UNAUDITED) (continued)

Note 9: Allowance for expected credit losses (continued)

Base case and MES economic assumptions

The Group's base case economic scenario has been updated to reflect ongoing geopolitical developments and changes in domestic economic policy. The Group's updated base case scenario has three conditioning assumptions. First, global conflicts do not lead to major discontinuities in commodity prices or global trade. Second, the US will impose tariffs on countries with a bilateral trade deficit after the Liberation Day 90 day pause expires, resulting in an increased effective tariff rate relative to prior assumptions. Third, the UK Industrial Strategy and Spending Review are not assumed to substantially change the UK fiscal outlook.

Based on these assumptions and incorporating the economic data published in the second quarter of 2025, the Group's base case scenario is for a slow expansion in gross domestic product (GDP) and a further rise in the unemployment rate alongside small gains in residential and commercial property prices. With underlying inflationary pressures expected to recede, gradual cuts in UK Bank Rate are expected to continue during 2025, reaching a 'neutral' policy stance in 2026. Risks around this base case economic view lie in both directions and are largely captured by the generation of alternative economic scenarios.

The Group has taken into account the latest available information at the reporting date in defining its base case scenario and generating alternative economic scenarios. The scenarios include forecasts for key variables as at the second quarter of 2025. Actuals for this period, or restatements of past data, may have since emerged prior to publication and have not been included.

The Group's approach to generating alternative economic scenarios is set out in detail in note 18 to the financial statements for the year ended 31 December 2024. For June 2025, the Group continues to judge it appropriate to include a non-modelled severe downside scenario for Group ECL calculations. The scenario is now generated as a simple average of a fully modelled severe scenario, better representing shocks to demand, and a scenario with higher paths for UK Bank Rate and CPI inflation, as a representation of shocks to supply. The combined 'adjusted' scenario used in ECL modelling is considered to better reflect the risks around the Group's base case view in an economic environment where demand and supply shocks are more balanced.

Scenarios by year

The key UK economic assumptions made by the Group are shown in the following tables across a number of measures explained below.

Annual assumptions

Gross domestic product (GDP) growth and Consumer Price Index (CPI) inflation are presented as an annual change, house price growth and commercial real estate price growth are presented as the growth in the respective indices over each year. Unemployment rate and UK Bank Rate are averages over the year.

Five-year average

The five-year average reflects the average annual growth rate, or level, over the five-year period. It includes movements within the current reporting year, such that the position as of 30 June 2025 covers the five years 2025 to 2029. The inclusion of the reporting year within the five-year period reflects the need to predict variables which remain unpublished at the reporting date and recognises that credit models utilise both level and annual changes. The use of calendar years maintains a comparability between the annual assumptions presented.

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (UNAUDITED) (continued)

Note 9: Allowance for expected credit losses (continued)

At 30 June 2025	2025 %	2026 %	2027 %	2028 %	2029 %	2025 to 2029 average %
Upside						
Gross domestic product growth	1.2	2.0	1.8	1.4	1.4	1.6
Unemployment rate	4.4	3.5	3.1	3.1	3.2	3.5
House price growth	3.6	6.5	7.9	6.2	4.8	5.8
Commercial real estate price growth	5.1	8.1	3.8	1.1	0.4	3.6
UK Bank Rate	4.21	4.50	4.84	5.05	5.21	4.76
CPI inflation	3.3	2.5	2.7	3.1	3.1	2.9
Base case						
Gross domestic product growth	1.0	1.0	1.5	1.5	1.5	1.3
Unemployment rate	4.8	5.0	4.7	4.5	4.5	4.7
House price growth	2.6	3.0	2.3	2.5	2.8	2.6
Commercial real estate price growth	1.6	1.1	1.3	0.3	0.0	0.9
UK Bank Rate	4.13	3.56	3.50	3.50	3.50	3.64
CPI inflation	3.3	2.7	2.4	2.5	2.4	2.7
Downside						
Gross domestic product growth	0.6	(1.2)	0.6	1.3	1.5	0.5
Unemployment rate	5.2	7.2	7.5	7.2	7.0	6.8
House price growth	1.6	(0.8)	(5.9)	(4.7)	(1.8)	(2.4)
Commercial real estate price growth	(1.6)	(6.8)	(1.6)	(2.3)	(2.7)	(3.0)
UK Bank Rate	4.02	1.90	0.99	0.68	0.46	1.61
CPI inflation	3.3	2.5	1.9	1.5	1.1	2.1
Severe downside						
Gross domestic product growth	0.1	(3.0)	0.0	1.2	1.4	(0.1)
Unemployment rate	5.8	9.7	10.2	9.8	9.4	9.0
House price growth	0.8	(3.9)	(13.4)	(10.9)	(6.3)	(6.9)
Commercial real estate price growth	(6.5)	(16.0)	(7.4)	(6.7)	(5.7)	(8.6)
UK Bank Rate – modelled	3.88	0.68	0.11	0.03	0.01	0.94
UK Bank Rate – adjusted[1]	4.34	3.09	2.80	2.77	2.76	3.15
CPI inflation – modelled	3.3	2.5	1.4	0.5	(0.1)	1.5
CPI inflation – adjusted[1]	3.5	3.8	3.2	2.8	2.4	3.1
Probability-weighted						
Gross domestic product growth	0.9	0.2	1.1	1.4	1.4	1.0
Unemployment rate	4.9	5.7	5.6	5.4	5.4	5.4
House price growth	2.4	2.2	0.0	0.1	1.1	1.2
Commercial real estate price growth	0.9	(0.9)	0.3	(1.0)	(1.2)	(0.4)
UK Bank Rate – modelled	4.09	3.06	2.81	2.77	2.75	3.10
UK Bank Rate – adjusted[1]	4.14	3.30	3.08	3.04	3.03	3.32
CPI inflation – modelled	3.3	2.5	2.2	2.2	2.0	2.4
CPI inflation – adjusted[1]	3.3	2.7	2.4	2.4	2.2	2.6

[1] The adjustment to UK Bank Rate and CPI inflation in the severe downside is considered to better reflect the risks to the Group's base case view in an economic environment where the risks of supply and demand shocks are seen as more balanced.

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (UNAUDITED) (continued)

Note 9: Allowance for expected credit losses (continued)

At 31 December 2024	2024 %	2025 %	2026 %	2027 %	2028 %	2024 to 2028 average %
Upside						
Gross domestic product growth	0.8	1.9	2.2	1.5	1.4	1.6
Unemployment rate	4.3	3.5	2.8	2.7	2.8	3.2
House price growth	3.4	3.7	6.5	6.6	5.4	5.1
Commercial real estate price growth	0.7	7.8	6.7	3.2	0.5	3.7
UK Bank Rate	5.06	4.71	5.02	5.19	5.42	5.08
CPI inflation	2.6	2.8	2.6	2.9	3.0	2.8
Base case						
Gross domestic product growth	0.8	1.0	1.4	1.5	1.5	1.2
Unemployment rate	4.3	4.7	4.7	4.5	4.5	4.5
House price growth	3.4	2.1	1.0	1.4	2.4	2.0
Commercial real estate price growth	0.7	0.3	2.5	1.9	0.0	1.1
UK Bank Rate	5.06	4.19	3.63	3.50	3.50	3.98
CPI inflation	2.6	2.8	2.4	2.4	2.2	2.5
Downside						
Gross domestic product growth	0.8	(0.5)	(0.4)	1.0	1.5	0.5
Unemployment rate	4.3	6.0	7.4	7.4	7.1	6.4
House price growth	3.4	0.6	(5.5)	(6.6)	(3.4)	(2.4)
Commercial real estate price growth	0.7	(7.8)	(3.1)	(0.9)	(2.3)	(2.7)
UK Bank Rate	5.06	3.53	1.56	0.96	0.68	2.36
CPI inflation	2.6	2.8	2.3	1.8	1.2	2.1
Severe downside						
Gross domestic product growth	0.8	(1.9)	(1.5)	0.7	1.3	(0.1)
Unemployment rate	4.3	7.7	10.0	10.0	9.7	8.4
House price growth	3.4	(0.8)	(12.4)	(13.6)	(8.8)	(6.7)
Commercial real estate price growth	0.7	(17.4)	(8.5)	(5.5)	(5.7)	(7.5)
UK Bank Rate – modelled	5.06	2.68	0.28	0.08	0.02	1.62
UK Bank Rate – adjusted[1]	5.06	4.03	2.70	2.23	1.95	3.19
CPI inflation – modelled	2.6	2.8	1.9	1.0	0.1	1.7
CPI inflation – adjusted[1]	2.6	3.6	2.1	1.4	0.8	2.1
Probability-weighted						
Gross domestic product growth	0.8	0.5	0.8	1.2	1.4	1.0
Unemployment rate	4.3	5.0	5.5	5.4	5.3	5.1
House price growth	3.4	1.8	(0.7)	(1.0)	0.4	0.8
Commercial real estate price growth	0.7	(1.7)	1.0	0.7	(1.1)	(0.1)
UK Bank Rate – modelled	5.06	4.00	3.09	2.90	2.88	3.59
UK Bank Rate – adjusted[1]	5.06	4.13	3.33	3.12	3.08	3.74
CPI inflation – modelled	2.6	2.8	2.4	2.2	1.9	2.4
CPI inflation – adjusted[1]	2.6	2.9	2.4	2.3	2.0	2.4

[1] The adjustment to UK Bank Rate and CPI inflation in the severe downside is considered to better reflect the risks to the Group's base case view in an economic environment where the risks of supply and demand shocks are seen as more balanced.

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (UNAUDITED) (continued)

Note 9: Allowance for expected credit losses (continued)

Base case scenario by quarter

Gross domestic product growth is presented quarter-on-quarter. House price growth, commercial real estate price growth and CPI inflation are presented year-on-year, i.e. from the equivalent quarter in the previous year. Unemployment rate and UK Bank Rate are presented as at the end of each quarter.

At 30 June 2025	First quarter 2025 %	Second quarter 2025 %	Third quarter 2025 %	Fourth quarter 2025 %	First quarter 2026 %	Second quarter 2026 %	Third quarter 2026 %	Fourth quarter 2026 %
Gross domestic product growth	0.7	0.0	0.1	0.2	0.3	0.3	0.4	0.4
Unemployment rate	4.5	4.7	4.9	5.0	5.0	5.0	4.9	4.9
House price growth	2.9	3.1	2.7	2.6	3.7	4.0	3.5	3.0
Commercial real estate price growth	2.5	2.7	2.6	1.6	1.2	1.0	1.0	1.1
UK Bank Rate	4.50	4.25	4.00	3.75	3.75	3.50	3.50	3.50
CPI inflation	2.8	3.6	3.4	3.5	3.0	2.6	2.6	2.4

At 31 December 2024	First quarter 2024 %	Second quarter 2024 %	Third quarter 2024 %	Fourth quarter 2024 %	First quarter 2025 %	Second quarter 2025 %	Third quarter 2025 %	Fourth quarter 2025 %
Gross domestic product growth	0.7	0.4	0.0	0.1	0.2	0.3	0.3	0.3
Unemployment rate	4.3	4.2	4.3	4.4	4.5	4.6	4.7	4.8
House price growth	0.4	1.8	4.6	3.4	3.6	4.0	3.0	2.1
Commercial real estate price growth	(5.3)	(4.7)	(2.8)	0.7	1.8	1.4	0.9	0.3
UK Bank Rate	5.25	5.25	5.00	4.75	4.50	4.25	4.00	4.00
CPI inflation	3.5	2.1	2.0	2.5	2.4	3.0	2.9	2.7

ECL sensitivity to economic assumptions

The table below shows the Group's ECL for the probability-weighted, upside, base case, downside and severe downside scenarios, with the severe downside scenario incorporating adjustments made to CPI inflation and UK Bank Rate paths. The stage allocation for an asset is based on the overall scenario probability-weighted PD and hence the staging of assets is constant across all the scenarios. In each economic scenario the ECL for individual assessments is held constant reflecting the basis on which they are evaluated. Judgemental adjustments applied through changes to model inputs or parameters, or more qualitative post model adjustments, are apportioned across the scenarios in proportion to modelled ECL where this better reflects the sensitivity of these adjustments to each scenario. The probability-weighted view shows the extent to which a higher ECL allowance has been recognised to take account of multiple economic scenarios relative to the base case; the uplift being £244 million compared to £287 million at 31 December 2024.

ECL allowance	Probability-weighted £m	Upside £m	Base case £m	Downside £m	Severe downside £m
At 30 June 2025	1,598	1,119	1,354	1,837	3,047
At 31 December 2024	1,882	1,265	1,595	2,174	3,721

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (UNAUDITED) (continued)

Note 9: Allowance for expected credit losses (continued)

Movement in expected credit loss allowance

	Half-year to 30 June 2025 £m	Half-year to 30 June 2024 £m	Half-year to 31 December 2024 £m
Opening ECL at start of period	1,882	2,403	2,082
Write-offs and other[1]	(345)	(326)	(287)
Income statement charge	61	5	87
Net ECL decrease	(284)	(321)	(200)
Closing ECL at end of period	1,598	2,082	1,882

[1] Contains adjustments in respect of purchased or originated credit-impaired financial assets.

Note 10: Debt securities in issue

	At 30 June 2025			At 31 December 2024		
	At fair value through profit or loss £m	At amortised cost £m	Total £m	At fair value through profit or loss £m	At amortised cost £m	Total £m
Senior unsecured notes issued	–	5,720	5,720	–	5,899	5,899
Securitisation notes	18	2,741	2,759	22	2,755	2,777
	18	8,461	8,479	22	8,654	8,676

Covered bonds and securitisation programmes

The Group's securitisation vehicles issue notes that are held both externally and internally, and are secured on loans and advances to customers amounting to £25,838 million at 30 June 2025 (31 December 2024: £25,738 million), the majority of which have been sold by subsidiary companies to bankruptcy remote structured entities. As the structured entities are funded by the issue of debt on terms whereby the majority of the risks and rewards of the portfolio are retained by the subsidiary, the structured entities are consolidated fully and all of these loans are retained on the Group's balance sheet.

Cash deposits of £955 million (31 December 2024: £1,020 million) which support the debt securities issued by the structured entities, the term advances related to covered bonds and other legal obligations, are held by the Group.

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (UNAUDITED) (continued)

Note 11: Provisions

	Provisions for financial commitments and guarantees[1] £m	Regulatory and legal provisions £m	Other £m	Total £m
At 1 January 2025	113	300	98	511
Provisions applied	–	(73)	(84)	(157)
(Credit) charge for the period	(15)	2	115	102
At 30 June 2025	98	229	129	456

1 In respect of loans and advances to customers.

Regulatory and legal provisions

In the course of its business, the Group is engaged on a regular basis in discussions with UK and overseas regulators and other governmental authorities on a range of matters, including legal and regulatory reviews and, from time to time, enforcement investigations (including in relation to compliance with applicable laws and regulations, such as those relating to prudential regulation, consumer protection, investment advice, employment, business conduct, systems and controls, environmental, sustainability, competition/anti-trust, tax, anti-bribery, anti-money laundering and sanctions). Any matters discussed or identified during such discussions and inquiries may result in, among other things, further inquiry or investigation, other action being taken by governmental and/or regulatory authorities, increased costs being incurred by the Group, remediation of systems and controls, public or private censure, restriction of the Group's business activities and/or fines. The Group also receives complaints in connection with its past conduct and claims brought by or on behalf of current and former employees, customers (including their appointed representatives), investors and other third parties and is subject to legal proceedings and other legal actions from time to time. Any events or circumstances disclosed could have a material adverse effect on the Group's financial position, operations or cash flows. Provisions are held where the Group can reliably estimate a probable outflow of economic resources. The ultimate liability of the Group may be significantly more, or less, than the amount of any provision recognised. If the Group is unable to determine a reliable estimate, a contingent liability is disclosed. The recognition of a provision does not amount to an admission of liability or wrongdoing on the part of the Group. During the half-year to 30 June 2025 the Group charged a further £2 million in respect of legal actions and other regulatory matters and the unutilised balance at 30 June 2025 was £229 million (31 December 2024: £300 million). The most significant items are outlined below.

HBOS Reading – review

The Group continues to apply the recommendations from Sir Ross Cranston's review, issued in December 2019, including a reassessment of direct and consequential losses by an independent panel (the Foskett Panel), an extension of debt relief and a wider definition of de facto directors. The Foskett Panel's full scope and methodology was published on 7 July 2020. The Foskett Panel's stated objective is to consider cases via a non-legalistic and fair process and to make its decisions in a generous, fair and common sense manner, assessing claims against an expanded definition of the fraud and on a lower evidential basis.

In June 2022, the Foskett Panel announced an alternative option, in the form of a fixed sum award which could be accepted as an alternative to participation in the full re-review process, to support earlier resolution of claims for those deemed by the Foskett Panel to be victims of the fraud.

Virtually all of the population have now had decisions via the Fixed Sum Award process, with operational costs, redress and tax costs associated with the re-reviews recognised within the amount provided.

Notwithstanding the settled claims and the increase in outcomes which builds confidence in the full estimated cost, uncertainties remain and the final outcome could be different. There is no confirmed timeline for the completion of the re-review process nor the review by Dame Linda Dobbs. The Group remains committed to implementing the recommendations in full.

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (UNAUDITED) (continued)

Note 11: Provisions (continued)

Payment protection insurance (PPI)

The Group continues to challenge PPI litigation cases, with mainly operational costs and legal fees associated with litigation activity recognised within regulatory and legal provisions.

Note 12: Dividends on ordinary shares

The Company paid a dividend of £250 million on 25 February 2025 (£650 million in the half-year to 30 June 2024).

Note 13: Related party transactions

Balances and transactions with fellow Lloyds Banking Group undertakings

The Company and its subsidiaries have balances due to and from the Company's ultimate parent company, Lloyds Banking Group plc, and fellow Lloyds Banking Group undertakings. These are included on the balance sheet as follows:

	At 30 Jun 2025 £m	At 31 Dec 2024 £m
Assets, included within:		
Derivative financial instruments	2,003	2,893
Financial assets at amortised cost: due from fellow Lloyds Banking Group undertakings	17,838	15,024
Liabilities, included within:		
Due to fellow Lloyds Banking Group undertakings	110,656	106,931
Derivative financial instruments	3,304	3,028
Debt securities in issue	5,449	5,363
Subordinated liabilities	1,503	1,504

During the half-year to 30 June 2025 the Group earned £392 million (half-year to 30 June 2024: £488 million) of interest income and incurred £2,883 million (half-year to 30 June 2024: £2,732 million) of interest expense and recognised net fee and commission income of £17 million (half year to 30 June 2024: net fee and commission expense of £66 million) on balances and transactions with Lloyds Banking Group plc and fellow Lloyds Banking Group undertakings.

In addition, during the half-year to 30 June 2025 the Group incurred expenditure of £61 million (half-year ended 30 June 2024: £39 million) on behalf of fellow Lloyds Banking Group undertakings which was recharged to those undertakings; and fellow Lloyds Banking Group undertakings incurred expenditure of £909 million (half-year ended 30 June 2024: £681 million) on behalf of the Group which has been recharged to the Group.

Other related party transactions

Other related party transactions for the half-year to 30 June 2025 are similar in nature to those for the year ended 31 December 2024.

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (UNAUDITED) (continued)

Note 14: Contingent liabilities, commitments and guarantees

Contingent liabilities, commitments and guarantees

At 30 June 2025 contingent liabilities, such as performance bonds and letters of credit, arising from the banking business were £100 million (31 December 2024: £98 million).

The contingent liabilities of the Group arise in the normal course of its banking business and it is not practicable to quantify their future financial effect. Total commitments and guarantees were £66,264 million (31 December 2024: £65,069 million), of which in respect of undrawn formal standby facilities, credit lines and other commitments to lend, £20,264 million (31 December 2024: £18,025 million) was irrevocable.

Interchange fees

With respect to multi-lateral interchange fees (MIFs), the Lloyds Banking Group is not a party in the ongoing or threatened litigation which involves the card schemes Visa and Mastercard or any settlements of such litigation. However, the Group is a member/licensee of Visa and Mastercard and other card schemes. The litigation in question is as follows:

- Litigation brought by or on behalf of retailers against both Visa and Mastercard in the English Courts, in which retailers are seeking damages on grounds that Visa and Mastercard's MIFs breached competition law (this includes a final judgment of the Supreme Court in 2020 upholding the Court of Appeal's finding in 2018 that certain historic interchange arrangements of Mastercard and Visa infringed competition law and a subsequent judgment of the Competition Appeal Tribunal in June 2025 finding that all default interchange fee rules of Mastercard and Visa (including after the Interchange Fee Regulation), infringed competition law)
- Litigation brought on behalf of UK consumers in the English Courts against Mastercard (settlement of which was approved by the Competition Appeal Tribunal in the first half of 2025)

Any impact on the Group of the litigation against Visa and Mastercard remains uncertain at this time, such that it is not practicable for the Group to provide an estimate of any potential financial effect. Insofar as Visa is required to pay damages to retailers for interchange fees set prior to June 2016, contractual arrangements to allocate liability have been agreed between various UK banks (including the Lloyds Banking Group) and Visa Inc, as part of Visa Inc's acquisition of Visa Europe in 2016. These arrangements cap the maximum amount of liability to which the Lloyds Banking Group may be subject and this cap is set at the cash consideration received by the Lloyds Banking Group for the sale of its stake in Visa Europe to Visa Inc in 2016. In 2016, the Lloyds Banking Group received Visa preference shares as part of the consideration for the sale of its shares in Visa Europe. A release assessment is carried out by Visa on certain anniversaries of the sale (in line with the Visa Europe sale documentation) and as a result, some Visa preference shares may be converted into Visa Inc Class A common stock from time to time. Any such release and any subsequent sale of Visa common stock does not impact the contingent liability.

LIBOR and other trading rates

Certain Lloyds Banking Group companies, together with other panel banks, have been named as defendants in ongoing private lawsuits, including purported class action suits, in the US in connection with their roles as panel banks contributing to the setting of US dollar, Japanese yen and Sterling London Interbank Offered Rate.

Certain Lloyds Banking Group companies are also named as defendants in (i) UK-based claims, and (ii) two Dutch class actions, raising LIBOR manipulation allegations. A number of claims against the Lloyds Banking Group in the UK relating to the alleged mis-sale of interest rate hedging products also include allegations of LIBOR manipulation.

It is currently not possible to predict the scope and ultimate outcome on the Lloyds Banking Group of any private lawsuits or ongoing related challenges to the interpretation or validity of any of the Lloyds Banking Group's contractual arrangements, including their timing and scale. As such, it is not practicable to provide an estimate of any potential financial effect.

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (UNAUDITED) (continued)

Note 14: Contingent liabilities, commitments and guarantees (continued)

Tax authorities

The Group has an open matter in relation to a claim for group relief of losses incurred in its former Irish banking subsidiary, which ceased trading on 31 December 2010. In 2020, HMRC concluded its enquiry into the matter and issued a closure notice denying the group relief claim. The Group appealed to the First Tier Tax Tribunal. The hearing took place in May 2023. In January 2025, the First Tier Tribunal concluded in favour of HMRC. The Group believes it has applied the rules correctly and that the claim for group relief is correct. Having reviewed the Tribunal's conclusions and having taken appropriate advice the Group has appealed to the Upper Tier Tax Tribunal, and does not consider this to be a case where an additional tax liability will ultimately fall due. If the final determination of the matter by the judicial process is that HMRC's position is correct, management believes that this would result in an increase in current tax liabilities of the Group of approximately £420 million (including interest). The Group, following conclusion of the hearing and having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due.

There are a number of other open matters on which the Group is in discussions with HMRC (including the tax treatment of costs relating to HBOS Reading), none of which is expected to have a material impact on the financial position of the Group.

Arena and Sentinel litigation claims

The Group is facing claims alleging breach of duty and/or mandate in the context of an underlying external fraud matter involving Arena Television. The Group is defending the claims, which are at an early stage. As such, it is not practicable to estimate the final outcome of the matter and its financial impact (if any) to the Group.

Other legal actions and regulatory matters

In addition, in the course of its business the Group is subject to other complaints and threatened or actual legal proceedings (including class or group action claims) brought by or on behalf of current or former employees, customers (including their appointed representatives), investors or other third parties, as well as legal and regulatory reviews, enquiries and examinations, requests for information, audits, challenges, investigations and enforcement actions, which could relate to a number of issues. This includes matters in relation to compliance with applicable laws and regulations, such as those relating to prudential regulation, employment, consumer protection, investment advice, business conduct, systems and controls, environmental, sustainability, competition/anti-trust, tax, anti-bribery, anti-money laundering and sanctions, some of which may be beyond the Group's control, both in the UK and overseas. Where material, such matters are periodically reassessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of the Group incurring a liability. The Group does not currently expect the final outcome of any such case to have a material adverse effect on its financial position, operations or cash flows. Where there is a contingent liability related to an existing provision the relevant disclosures are included within note 11.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors listed below (being all the directors of HBOS plc) confirm that to the best of their knowledge these condensed consolidated half-year financial statements have been prepared in accordance with UK adopted International Accounting Standard 34, Interim Financial Reporting, and that the half-year management report herein includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R, namely:

- an indication of important events that have occurred during the six months ended 30 June 2025 and their impact on the condensed consolidated half-year financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related party transactions in the six months ended 30 June 2025 and any material changes in the related party transactions described in the last annual report.

Signed on behalf of the Board by

Charlie Nunn
Group Chief Executive
23 July 2025

HBOS plc Board of Directors:

Executive directors:
Charlie Nunn (Group Chief Executive)
William Chalmers (Chief Financial Officer)

Non-executive directors:
Sir Robin Budenberg CBE (Chair)
Sarah Legg
Amanda Mackenzie LVO OBE
Harmeen Mehta
Cathy Turner
Scott Wheway
Catherine Woods
Nathan Bostock
Chris Vogelzang

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 the business, strategy, plans and/or results of HBOS 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 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, targets, 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 (including in relation to tariffs); imposed and threatened tariffs and changes to global trade policies; acts of hostility or terrorism and responses to those acts, or other such events; geopolitical unpredictability; the war between Russia and Ukraine; the escalation of conflicts in the Middle East; the tensions between China and Taiwan; political instability including as a result of any UK general election; market related risks, trends and developments; changes in client and consumer behaviour and demand; exposure to counterparty risk; the ability to access sufficient sources of capital, liquidity and funding when required; changes to the Group's credit ratings; fluctuations in interest rates, inflation, exchange rates, stock markets and currencies; volatility in credit markets; volatility in the price of the Group's securities; natural pandemic and other disasters; risks concerning borrower and counterparty credit quality; risks affecting defined benefit pension schemes; changes in laws, regulations, practices and accounting standards or taxation; changes to regulatory capital or liquidity requirements and similar contingencies; the policies and actions of governmental or regulatory authorities or courts together with any resulting impact on the future structure of the Group; risks associated with the Group's compliance with a wide range of laws and regulations; assessment related to resolution planning requirements; risks related to regulatory actions which may be taken in the event of a bank or Group failure; exposure to legal, regulatory or competition proceedings, investigations or complaints; 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; operational risks including risks as a result of the failure of third party suppliers; 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; technological failure; inadequate or failed internal or external processes or systems; risks relating to ESG matters, such as climate change (and achieving climate change ambitions) and decarbonisation, including the Group's ability along with the government and other stakeholders to measure, manage and mitigate the impacts of climate change effectively, and human rights issues; the impact of competitive conditions; failure to attract, retain and develop high calibre talent; the ability to achieve strategic objectives; 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; and assumptions and estimates that form the basis of the Group's financial statements. 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.

CONTACTS

For further information please contact:

INVESTORS AND ANALYSTS
Douglas Radcliffe
Group Investor Relations Director
020 7356 1571
douglas.radcliffe@lloydsbanking.com

Rohith Chandra-Rajan
Director of Investor Relations
07353 885 690
rohith.chandra-rajan@lloydsbanking.com

Nora Thoden
Director of Investor Relations – ESG
020 7356 2334
nora.thoden@lloydsbanking.com

Tom Grantham
Investor Relations Senior Manager
07851 440 091
thomas.grantham@lloydsbanking.com

Sarah Robson
Investor Relations Senior Manager
07494 513 983
sarah.robson2@lloydsbanking.com

CORPORATE AFFAIRS
Matt Smith
Head of Media Relations
07788 352 487
matt.smith@lloydsbanking.com

Emma Fairhurst
Media Relations Senior Manager
07814 395 855
emma.fairhurst@lloydsbanking.com

Copies of this News Release may be obtained from:
Investor Relations, Lloyds Banking Group plc, 33 Old Broad Street, London, EC2N 1HZ
The statement can also be found on the Group's website – www.lloydsbankinggroup.com

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