Lloyds Bank Corporate Markets plc

2022 Half-Year Results

Member of the Lloyds Banking Group

CONTENTS

REVIEW OF PERFORMANCE

Lloyds Bank Corporate Markets plc (the Bank) and its subsidiaries (the Group) carries out the non-ring fenced banking operations of Lloyds Banking Group (LBG) and provides a wide range of banking and financial services in the UK and overseas. The Group operates as an integrated business across the UK, the Crown Dependencies, the USA, Singapore and Germany, and contributes to the financial results of the Commercial Banking Division of LBG.

The Group's strategic purpose as part of LBG is to Help Britain Prosper by connecting the UK and LBG with the world through a first class banking, financing and risk management proposition. All underpinned by excellent customer service.

Principal activities

Supporting a diverse range of customers, the Group provides a broad range of banking products to help them achieve their financial goals. The Group's revenues are earned through the provision of financing and risk management solutions to commercial customers; and current accounts, savings accounts, mortgages, car finance and personal loans in the retail market in our Crown Dependencies businesses.

The target market for these products and services in the UK and internationally is made up of large corporates, financial institutions and commercial customers plus, in the Crown Dependencies, retail customers and includes the following product propositions:

- Commercial lending (including fixed rate loans, revolving credit facilities, variable loans and business mortgages)
- Trade and working capital management (including trade services, trade finance, supply chain finance and asset finance)
- Bonds and structured finance (including bonds, structured lending and asset securitisation)
- Risk management (including foreign exchange, rates, credit, commodities and liabilities management)
- Retail banking services (including mortgages, personal current accounts, personal loans and motor finance) in the Crown Dependencies
- ESG product solutions (including green bonds and sustainability-linked loans)

Review of results

During the half-year to 30 June 2022, the Group recorded a profit before tax of £249 million compared to £193 million during the half-year to 30 June 2021, an overall increase of £56 million. The Group has benefited from good performance in its core businesses including increased lending combined with rising interest rates and foreign exchange trading activity. Work has continued successfully on the tasks required to safely close down the Singapore branch which is on schedule to complete this year and continued progress has been made on the transition from Interbank Offered Rates (IBORs) to Alternative Risk Free Reference Rates (refer Note 14).

The Group recognised an impairment charge of £11 million (2021: £47 million impairment credit in the half-year to 30 June 2021) in the income statement relating to expected credit loss (ECL) driven largely by the future economic outlook. The Group's ECL calculated under IFRS 9 requires the use of a range of possible future outcomes and more details are contained in Notes 2 and 4.

Regulatory capital adequacy remains strong, with a Bank CET1 ratio of 12.6 per cent (2021: 13.1 per cent); reflecting the stability of the business, and the strength of the client franchise served by the Bank. Risk weighted assets have increased by £2,136 million from £18,436 million at 31 December 2021 to £20,572 million at 30 June 2022, reflecting increased lending and an increase on 1 January 2022 regarding the impact of regulatory changes, including a new standardised approach for measuring counterparty credit risk (SA-CCR). The Bank's UK leverage ratio of 4.5 per cent at 30 June 2022 increased from 3.5 per cent at 31 December 2021, largely following the impact of regulatory changes applied under the UK leverage ratio framework on 1 January 2022.

Total income was £476 million in the first half of 2022 compared to £350 million in the first half of 2021 which is an increase of 36 per cent. This predominantly comprises net interest income of £131 million (£70 million in the half-year to 30 June 2021), net fee and commission income of £107 million (£117 million in the half-year to 30 June 2021) and net trading income of £234 million (£171 million in the half-year to 30 June 2021). This reflects good lending growth, stable funding and resilient trading performance.

Operating expenses were £216 million, up from £204 million in the half-year to 30 June 2021, an increase of £12 million which includes severance and other costs of closing the Singapore branch. Operating expenses consist predominantly of management charges relating to the Intra Group Agreement paid to Lloyds Bank plc, staff costs and other operating expenses. The taxation charge in the period was £42 million (six months to 30 June 2021 £60 million charge) and more details are contained in Note 5.

Total assets were £1,378 million higher at £90,077 million at 30 June 2022 compared to £88,699 million at 31 December 2021. Cash and balances at central banks decreased by £5,798 million from £22,140 million at 31 December 2021 to £16,342 million at 30 June 2022 reflecting a lower assessment of liquidity required. Financial assets at fair value through profit or loss were £15,709 million at 30 June 2022 compared to £22,409 million at 31 December 2021 and predominantly consist of reverse repurchase agreements which have reduced in the period offsetting increases in derivative balances. Derivative financial instruments of £27,716 million at 30 June 2022 increased by £9,726 million compared to £17,990 million at 31 December 2021 reflecting fair value mark to market movements and the impact of the USD exchange rate at the period end. Financial assets at amortised cost increased by £2,296 million from £25,616 million at 31 December 2021 to £27,912 million at 30 June 2022, mainly as a result of increased customer lending.

Total liabilities of the Group were £86,867 million at 30 June 2022 compared to £85,210 million at 31 December 2021, a increase of £1,657 million. Deposits from banks were £3,223 million at 30 June 2022 which is £598 million lower than £3,821 million at 31 December 2021. Customer deposits increased by £314 million from £26,967 million at 31 December 2021 to £27,281 million at 30 June 2022 reflecting customer activity. Financial liabilities at fair value through profit or loss at 30 June 2022 of £14,082 million have decreased by £2,500 million when compared with the 31 December 2021 balance of £16,582 million which reflects a reduction in repurchase agreements offset by an increase in short positions. Derivative financial instruments of £23,122 million have increased by £7,550 million compared to the 31 December 2021 balance of £15,572 million reflecting fair value mark to market movements. Debt securities in issue of £14,929 million has decreased by £1,715 million compared to £16,644 million at 31 December 2021.

Total equity at 30 June 2022 was £3,210 million which is a decrease of £279 million compared to £3,489 million at 31 December 2021 including profits in the period less the dividend paid to LBG in the period of £220 million (2021: £200 million) and movements in other reserves (refer Note 10).

Capital position at 30 June 2022

The Bank’s capital position as at 30 June 2022 is set out in the following section.

Capital resources of the bank	At 30 June 2022 £m	At 31 Dec 2021 £m
Common equity tier 1		
Shareholders’ equity per balance sheet	**2,483**	2,783
Adjustment to retained earnings for foreseeable dividends	**—**	(220)
Cash flow hedging reserve	**308**	48
Debit valuation adjustment	**(35)**	(16)
	2,756	2,595
less: deductions from common equity tier 1		
Prudent valuation adjustment	**(168)**	(163)
Excess of expected losses over impairment provisions and value adjustments	**—**	(9)
Common equity tier 1 capital	**2,588**	2,423
Additional tier 1		
Additional tier 1 instruments	**757**	757
Total tier 1 capital	**3,345**	3,180
Tier 2		
Tier 2 instruments	**697**	633
Other adjustments	**(101)**	(104)
Total tier 2 capital	**596**	529
Total capital resources	**3,941**	3,709
Risk-weighted assets	**20,572**	18,436
Common equity tier 1 capital ratio	**12.6 %**	13.1%
Tier 1 capital ratio	**16.3 %**	17.2%
Total capital ratio	**19.2 %**	20.1%

Risk-weighted assets of the Bank	At 30 June 2022 £m	At 31 Dec 2021 £m
Foundation Internal Ratings Based (IRB) Approach	**9,302**	7,665
Other IRB Approach	**545**	579
IRB Approach	**9,848**	8,244
Standardised Approach[1]	**1,324**	1,337
Credit risk	**11,171**	9,581
Securitisation	**516**	571
Counterparty credit risk	**5,426**	4,024
Credit valuation adjustment risk	**383**	472
Operational risk	**763**	855
Market risk	**2,313**	2,933
Total risk-weighted assets	**20,572**	18,436
Of which threshold risk-weighted assets[2]	565	555

1 Threshold risk-weighted assets are now included within Other IRB Approach and the Standardised (STA) Approach. In addition securitisation risk-weighted assets are now shown separately. Comparatives have been presented on a consistent basis.

2 Threshold risk-weighted assets reflect the element of significant investments and deferred tax assets that are permitted to be risk-weighted instead of being deducted from CET1 capital.

PRINCIPAL RISKS AND UNCERTAINTIES

The most significant risks that could impact the Group's ability to deliver its long-term strategic objectives, and approach to managing each risk, are reviewed and reported to the Board Risk Committee regularly. There has been no change to the principal risks as disclosed in the Group 2021 Annual Report and Accounts.

The external risks faced by the Group may also impact the success of delivering against the Group's long-term strategic objectives. These risks arise primarily from the war between Russia and Ukraine and the COVID-19 pandemic. The conflict is generating severe economic, political, social and humanitarian impacts across Europe and in the rest of the world. The Group's exposure to Russia, Ukraine and surrounding countries is not material, given our low risk appetite, and the impact of economic sanctions remains limited and manageable. However consequences are being felt through financial markets volatility, inflationary pressures and the risks associated with the conflict remain very high, such as economic contraction, cyber-attacks, higher default levels and other consequences of sanctions. The possibility of secondary sanctions could however add complexity to existing operational requirements in managing our exposure. In addition, the COVID-19 pandemic impacts remain through additional pressure on the global macro-economic conditions, global supply chains or public debts. A deterioration in the macro-economic environment may also impact the Group through higher impairments.

In addition to the geopolitical situation and COVID-19, the Group continues to monitor and address existing and emerging risks that could have an adverse impact on business model, financial conditions, operations and our ability to achieve revenue targets:

- The Group is subject to extensive regulation, supervision and examination by regulatory bodies in countries where it has a presence, as well as from wider initiatives. The pace and scope of new regulations could have material adverse impacts on the Group's business, financial and operating conditions such as regulatory fines for non compliance, additional capital requirements, business operations restrictions and associated costs
- The Group continues its transition from Interbank Offered Rates (IBORs) to Alternative Risk Free Reference Rates. The complexity of the transition could have material adverse impacts such as less liquid interest rates, increased litigation or disputes and higher operational risks
- Since the relationship between the UK and the European Union has still not settled, the UK's exit from the EU continues to create uncertainty as to what the future UK legal and regulatory framework will look like, noting the potential for the UK to deviate from the EU's legal and regulatory system. Trade disruption continues to be felt and meeting stringent EU regulations restrict the scope of the Group business model in the European Union
- The Group uses proprietary models to forecast losses, measure capital requirements, make business decisions and assess and control our operations and financial condition. Models are inherently subject to limitations due to their use of historical data and trends, simplifying assumptions and reliance on uncertain macroeconomic and financial variables. Our models may not be sufficiently predictive of future results due to limited historical data, extreme market volatility, parameterisation and implementation errors. In addition, our models may be ineffective if we fail to oversee them and detect flaws in the review and monitoring process
- The Group operates in a highly competitive market where the recruitment and retention of talent, particularly at a junior level, remains challenging. Ensuring that we have the right number and calibre of employees is core to the Group's success
- On climate risk, the Group is aligned with LBG, its service provider, which has taken a strategic approach to support the transition to a low carbon economy and the aims of the 2015 Paris Climate Agreement, the UK Government's net zero target, the Ten Point Plan for the Green Industrial Revolution and the Task Force on Climate-related Financial Disclosures (TCFD) recommendations
- The provision of services to the Group is outsourced to Lloyds Bank plc via a shared service provision model or by external providers via Lloyds Bank plc. Therefore, issues impacting the shared service provider could have a detrimental impact on the Group's operations

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

Credit risk - The risk that parties with whom the Group has contracted fail to meet their financial obligations (both on and off-balance sheet). Observed or anticipated changes in the economic environment could impact profitability due to an increase in delinquency, defaults, write-downs and/or expected credit losses.

Regulatory and legal risk – The risk arising from the failure to identify, assess, correctly interpret, comply with, or manage regulatory and/or legal requirements, leading to customer detriment, failure to prevent and/or detect economic crime, financial penalties, regulatory censure, criminal or civil enforcement action.

Conduct risk – The risk of detriment across the customer life cycle including: failures in product management, distribution and servicing activities, from other risks materialising, or other activities which could undermine the integrity of the market or distort competition, leading to unfair customer outcomes, regulatory censure, reputational damage or financial loss.

Operational risk – The risk of inadequate or failed internal processes, people, systems or from external events leading to loss. This includes cyber-attack, internal and/or external fraud or financial crime, IT systems failures or, failure to ensure compliance with associated increasingly complex and detailed regulation.

Operational risk: shared services model (SSM) – LBG's chosen ring-fencing operating model introduces risk for the Group in the execution of that model as a shared service recipient.

Key Risks include:

- Key reliance on the SSM increases the prominence of internal service provision risk which is compounded, given the leanness of the relevant teams, in situations where the Group’s priorities are not wholly aligned with those of the wider LBG
- Business process risk (i.e. non-adherence to key processes, including those relating to market, operational, capital, credit, economic crime prevention and funding & liquidity risk)
- Information security & cyber risk including access management, records, data protection and cyber
- IT systems risk due to reliance on the shared service from LBG's IT department
- Reliance on the SSM to operate a number of key controls and processes designed to detect, prevent and respond to economic crime
- Operational risk around business resilience, change activity and sourcing
- Impact of resourcing challenges LBG might face around attracting and retaining people with the necessary skills

Operational resilience risk – The risk that the Group fails to design resilience into business operations, underlying infrastructure and controls (people, process and technical) to withstand external or internal events that could impact the continuity of operations or alternatively the failure to respond to events in a way which meets stakeholder expectations and needs when the continuity of operations is compromised.

People risk – The risk that the Group fails to provide an appropriate colleague and customer centric culture, supported by robust reward and wellbeing policies and processes; effective leadership to manage colleague resources; effective talent and succession management; and control framework to ensure all colleague related requirements are met.

Capital risk – The risk that the Group has a sub-optimal quantity or quality of capital or that capital is inefficiently deployed across the Group.

Funding and liquidity risk – Funding risk is defined as the risk that the Group does not have sufficiently stable and diverse sources of funding or the funding structure is inefficient. Liquidity risk is defined as the risk that financial resources are insufficient to meet commitments as they fall due or can only secure them at excessive cost.

Market risk – The risk that the Group’s capital or earnings profile is affected by adverse market rates, in particular changes and volatility in interest and foreign exchange rates, inflation rates, commodity prices and credit spreads through activity in the banking and markets businesses.

Model risk – The risk of financial loss, regulatory censure, reputational damage or customer detriment from deficiencies in developing, applying and operating models and rating systems.

Data risk – The risk of the Group failing to effectively govern, manage, and control its data (including data processed by third party suppliers) leading to unethical decisions, poor customer outcomes, loss of value to the Group and mistrust.

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

Governance risk – The risk that its organisational infrastructure fails to provide robust oversight of decision making and the control mechanisms to ensure strategies and management instructions are implemented effectively.

Change/execution risk – The risk that, in delivering its change agenda, the Group fails to ensure compliance with laws and regulation, maintain effective customer service and availability, and/or operate within the Group's risk appetite.

Strategic risk – Strategic risk is defined as the risk which results from:

- Incorrect assumptions about internal or external operating environments
- Failure to understand the potential impact of strategic responses and business plans on existing risk types
- Failure to respond or the inappropriate strategic response to material changes in the external or internal operating environments

STATUTORY INFORMATION

CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Note	**Half-year to 30 June 2022 £m**	Half-year to 30 June 2021 £m
Interest income[1]		**290**	162
Interest expense[1]		**(159)**	(92)
Net interest income		**131**	70
Fee and commission income		**122**	132
Fee and commission expense		**(15)**	(15)
Net fee and commission income		**107**	117
Net trading income		**234**	171
Other operating income (expense)		**4**	(8)
Other income		**345**	280
Total income		**476**	350
Operating expenses	3	**(216)**	(204)
Impairment (charge) credit	4	**(11)**	47
Profit before tax		**249**	193
Tax expense	5	**(42)**	(60)
Profit for the period		**207**	133
Profit attributable to ordinary shareholders		**190**	117
Profit attributable to other equity holders		**17**	16
Profit for the period		**207**	133

[1] Restated - See note 1

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	Note	**Half-year to 30 June 2022 £m**	Half-year to 30 June 2021 £m
Profit for the period		**207**	133
Other comprehensive income			
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, net of tax	10	**1**	5
Movements in cash flow hedging reserve, net of tax	10	**(260)**	(63)
Movements in foreign currency translation reserve, net of tax	10	**10**	(2)
Other comprehensive income for the period, net of tax		**(249)**	(60)
Total comprehensive income for the period		**(42)**	73
Total comprehensive income attributable to ordinary shareholders		**(59)**	57
Total comprehensive income attributable to other equity holders		**17**	16
Total comprehensive income for the period		**(42)**	73

CONSOLIDATED BALANCE SHEET

	Note	At 30 June 2022 (unaudited) £m	At 31 Dec 2021 (audited) £m
Assets			
Cash and balances at central banks		**16,342**	22,140
Financial assets at fair value through profit or loss	6	**15,709**	22,409
Derivative financial instruments		**27,716**	17,990
Loans and advances to banks		**2,021**	2,354
Loans and advances to customers		**20,809**	17,432
Reverse repurchase agreements		**4,461**	5,044
Debt securities		**309**	229
Due from fellow Lloyds Banking Group undertakings		**312**	557
Financial assets at amortised cost	7	**27,912**	25,616
Financial assets at fair value through other comprehensive income		**12**	100
Property, plant and equipment		**60**	67
Current tax recoverable		**2**	16
Deferred tax assets		**134**	37
Other assets		**2,190**	324
Total assets		**90,077**	88,699
Liabilities and equity			
Liabilities			
Deposits from banks		**3,223**	3,821
Customer deposits		**27,281**	26,967
Repurchase agreements		**1**	1,019
Due to fellow Lloyds Banking Group undertakings		**1,261**	3,442
Financial liabilities at fair value through profit or loss		**14,082**	16,582
Derivative financial instruments		**23,122**	15,572
Debt securities in issue	8	**14,929**	16,644
Other liabilities		**2,188**	461
Current tax liabilities		**5**	5
Deferred tax liabilities		**—**	—
Other provisions	9	**26**	13
Subordinated liabilities		**749**	684
Total liabilities		**86,867**	85,210
Equity			
Share capital		**120**	120
Other reserves	10	**(313)**	(64)
Retained profits		**2,621**	2,651
Ordinary shareholder's equity		**2,428**	2,707
Other equity instruments		**782**	782
Total equity		**3,210**	3,489
Total equity and liabilities		**90,077**	88,699

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Attributable to ordinary shareholders					
	Share capital £m	Other reserves £m	Retained profits £m	Total £m	Other equity instruments £m	Total £m
At 1 January 2022	**120**	**(64)**	**2,651**	**2,707**	**782**	**3,489**
Comprehensive income						
Profit for the period			**190**	**190**	**17**	**207**
Other comprehensive income						
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		**(260)**		**(260)**		**(260)**
Movements in foreign currency translation reserve, net of tax		**10**		**10**		**10**
Total other comprehensive income		**(249)**		**(249)**		**(249)**
Total comprehensive income		**(249)**	**190**	**(59)**	**17**	**(42)**
Transactions with owners						
Dividends			**(220)**	**(220)**		**(220)**
Distributions on other equity instruments					**(17)**	**(17)**
Total transactions with owners			**(220)**	**(220)**	**(17)**	**(237)**
At 30 June 2022	**120**	**(313)**	**2,621**	**2,428**	**782**	**3,210**

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

	Attributable to ordinary shareholders					
	Share capital	Other reserves	Retained profits	Total	Other equity instruments	Total
	£m	£m	£m	£m	£m	£m
At 1 January 2021	120	81	2,646	2,847	782	3,629
Comprehensive income						
Profit for the period	—	—	117	117	16	133
Other comprehensive income						
Movements in revaluation reserve in respect of financial assets held at fair value through other comprehensive income, net of tax	—	5	—	5	—	5
Movements in cash flow hedging reserve, net of tax	—	(63)	—	(63)	—	(63)
Movements in foreign currency translation reserve, net of tax	—	(2)	—	(2)	—	(2)
Total other comprehensive income	—	(60)	—	(60)	—	(60)
Total comprehensive income	—	(60)	117	57	16	73
Transactions with owners						
Dividends	—	—	(200)	(200)	—	(200)
Distributions on other equity instruments	—	—	—	—	(16)	(16)
Total transactions with owners	—	—	(200)	(200)	(16)	(216)
At 30 June 2021	120	21	2,563	2,704	782	3,486

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

	Attributable to ordinary shareholders					
	Share capital	Other reserves	Retained profits	Total	Other equity instruments	Total
	£m	£m	£m	£m	£m	£m
At 1 July 2021	120	21	2,563	2,704	782	3,486
Comprehensive income						
Profit for the period	—	—	88	88	17	105
Other comprehensive income						
Movements in revaluation reserve in respect of financial assets held at fair value through other comprehensive income, net of tax	—	3	—	3	—	3
Movements in cash flow hedging reserve, net of tax	—	(90)	—	(90)	—	(90)
Movements in foreign currency translation reserve, net of tax	—	2	—	2	—	2
Total other comprehensive income	—	(85)	—	(85)	—	(85)
Total comprehensive income	—	(85)	88	3	17	20
Transactions with owners						
Dividends	—	—	—	—	—	—
Distributions on other equity instruments	—	—	—	—	(17)	(17)
Total transactions with owners	—	—	—	—	(17)	(17)
At 31 December 2021	120	(64)	2,651	2,707	782	3,489

CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

	Half-year to 30 June 2022 **£m**	Half-year to 30 June 2021 £m
Profit (loss) before tax	**249**	193
Adjustments for:		
Change in operating assets	**(6,498)**	6,104
Change in operating liabilities	**915**	(10,306)
Non-cash and other items	**(606)**	(26)
Tax paid	**(26)**	(33)
Net cash provided by operating activities	**(5,966)**	(4,068)
Cash flows from investing activities		
Purchase of financial assets	**(27)**	(25)
Proceeds from sale and maturity of financial assets	**119**	41
Purchase of fixed assets	**(1)**	(4)
Net cash used in investing activities	**91**	12
Cash flows from financing activities		
Dividends paid to ordinary shareholders	**(220)**	(200)
Distributions on other equity instruments	**(17)**	(16)
Interest paid on subordinated liabilities	**(9)**	(8)
Finance Leases	**(1)**	—
Net cash provided by financing activities	**(247)**	(224)
Effect of exchange rate changes on cash and cash equivalents	**716**	(63)
Change in cash and cash equivalents	**(5,406)**	(4,343)
Cash and cash equivalents at beginning of period [1]	**23,103**	26,392
Cash and cash equivalents at end of period [1]	**17,697**	22,049

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

[1] Restated see Note 1

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS

Note 1: Basis of preparation and accounting policies

These condensed consolidated half-year financial statements as at and for the period to 30 June 2022 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 Lloyds Bank Corporate Markets plc (the Bank) 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 2021 which complied with international accounting standards in conformity with the requirements of the Companies Act 2006 and were prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. Copies of the 2021 Annual Report and Accounts are available on the Group's website Group's website and are available upon request from Investor Relations, Lloyds Banking Group plc, 25 Gresham Street, London EC2V 7HN.

The Directors consider that it is appropriate to continue to adopt the going concern basis in preparing the 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 2021 interest income and interest expense balances as at 30 June 2021 have been restated to reflect £11 million negative interest correctly in the interest expense line. There has been no impact to net interest income.

Changes in accounting policy

Except for the matter referred to below, the Group's accounting policies are consistent with those applied by the Group in its financial statements for the year ended 31 December 2021 and there have been no changes in the Group's methods of computation.

Cash and cash equivalents: Following a decision by the IFRS Interpretations Committee in April 2022, the Group includes mandatory reserve deposits with central banks that are held in demand accounts within cash and cash equivalents disclosed in the cash flow statement, whereas these amounts were previously excluded from the amount presented in the cash flow statement. This change increased the Group's cash and cash equivalents at 31 December 2021 by £45 million (to £23,103 million) and at 30 June 2022 by £23 million (to £17,697 million).

Future accounting developments

The IASB has issued a number of minor amendments to IFRSs effective 1 January 2023 (including IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*). These amendments are not expected to have a significant impact on the Group.

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

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

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that impact the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, actual results reported in future periods may include amounts which differ from those 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. The Group's significant judgements, estimates and assumptions are unchanged compared to those applied at 31 December 2021, except as detailed below.

Allowance for expected credit losses

The Group recognises an allowance for expected credit losses (ECLs) for loans and advances to customers and banks, other financial assets held at amortised cost, financial assets measured at fair value through other comprehensive income and certain loan commitment and financial guarantee contracts. At 30 June 2022, the Group's ECL allowance was £28 million (31 December 2021: £17 million), of which £17 million (31 December 2021: £11 million) was in respect of drawn balances.

The calculation of the Group's ECLs and provisions against loan commitments and guarantees under IFRS 9 requires the Group to make a number of judgements, assumptions and estimates. These are set out in detail in the Group's 2021 Annual Report and Accounts. The principal changes made in the period ended 30 June 2022 are as follows:

Base case and MES economic assumptions

The Group's base case economic scenario has been revised in light of the ongoing war in Ukraine, intensifying global inflation pressures, and a continuing shift towards a more restrictive monetary policy stance by central banks. The Group's updated base case scenario has two conditioning assumptions: first, no further UK COVID-19 national lockdowns are mandated; and, second, the war in Ukraine remains 'local', i.e. without overtly involving neighbouring countries, NATO or China.

Based on these assumptions and incorporating the economic data published in the second quarter, the Group's base case scenario is for a modest rise in the unemployment rate alongside an easing of residential and commercial property prices, as the UK Bank Rate continues to be raised in response to persistent inflationary pressures. Risks around this base case economic view lie in both directions, and are partly captured by the generation of alternative economic scenarios. Uncertainties relating to key epidemiological developments, notably the possibility that a vaccine-resistant strain could emerge, are not specifically captured by these 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 in the second quarter of 2022, for which actuals may have since emerged prior to publication.

The Group's approach to generating alternative economic scenarios is set out in detail in its financial statements for the year ended 31 December 2021. For June 2022, the Group has judged it appropriate to include a non-modelled severe downside scenario to incorporate high CPI inflation and UK Bank Rate profiles and to adopt this adjusted severe downside scenario to calculate the Group's ECL. This is because the historic macroeconomic and loan loss data upon which the scenario model is calibrated imply an association of downside economic outcomes with easier monetary policy, and therefore low interest rates. The adjustment is considered to better reflect the risks around the Group's base case view in an economic environment where supply shocks are the principal concern.

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

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

Scenarios by year

Key annual assumptions made by the Group are shown below. Gross domestic product 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 within the period. Unemployment rate and UK Bank Rate are averages for the period. For 31 December 2021, CPI numbers are translations of modelled Retail Price Index excluding mortgage interest payments (RPIX) estimates, except for the base case view.

The key UK economic assumptions made by the Group averaged over a five-year period are also shown below. The use of calendar years maintains a comparability between tables disclosed, noting that comparatives reflect one calendar year earlier.

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

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

At 30 June 2022	2022 %	2023 %	2024 %	2025 %	2026 %	2022-2026 average %
Upside						
UK Gross domestic product	3.5	1.2	1.8	1.7	1.7	2.0
UK Unemployment rate	3.1	2.7	2.9	3.2	3.4	3.1
UK Commercial real estate price growth	9.2	1.8	0.9	(0.9)	(0.2)	2.1
UK Bank Rate	1.64	3.12	2.97	2.88	2.78	2.68
CPI inflation	8.6	5.5	2.5	1.9	2.2	4.1
US Gross domestic product	3.0	3.2	2.3	1.4	1.0	2.2
US Unemployment rate	3.5	2.9	2.6	3.0	3.6	3.1
Base case						
UK Gross domestic product	3.3	0.6	1.5	1.6	1.7	1.7
UK Unemployment rate	3.8	4.2	4.4	4.5	4.5	4.3
UK Commercial real estate price growth	1.8	(5.0)	(1.6)	(1.3)	0.8	(1.1)
UK Bank Rate	1.44	2.25	2.00	2.00	2.00	1.94
CPI inflation	8.6	5.5	2.2	1.3	1.5	3.8
US Gross domestic product	2.5	1.1	1.4	2.2	2.0	1.9
US Unemployment rate	3.6	3.8	4.0	4.0	4.1	3.9
Downside						
UK Gross domestic product	3.0	(0.1)	1.1	1.4	1.7	1.4
UK Unemployment rate	4.5	6.0	6.3	6.1	5.9	5.8
UK Commercial real estate price growth	(4.4)	(11.9)	(5.5)	(3.6)	(0.7)	(5.3)
UK Bank Rate	1.25	1.23	0.80	0.85	0.95	1.02
CPI inflation	8.7	5.5	1.8	0.6	0.7	3.5
US Gross domestic product	2.1	(0.9)	0.0	2.6	3.0	1.3
US Unemployment rate	3.8	5.0	6.0	6.0	5.5	5.3
Severe downside						
UK Gross domestic product	1.6	(1.8)	1.0	1.4	1.6	0.8
UK Unemployment rate	5.8	8.7	8.7	8.3	7.7	7.8
UK Commercial real estate price growth	(14.9)	(20.9)	(11.0)	(5.6)	1.0	(10.6)
UK Bank Rate - modelled	0.76	0.18	0.18	0.21	0.24	0.31
UK Bank Rate – adjusted	2.9	4.8	3.0	2.3	2.3	3.0
CPI inflation – modelled	8.6	5.1	0.9	(0.5)	(0.5)	2.7
CPI inflation – adjusted	9.8	13.7	4.1	1.7	0.1	5.9
US Gross domestic product	1.5	(3.5)	(1.7)	2.9	4.2	0.6
US Unemployment rate	4.0	6.5	8.7	8.5	7.3	7.0
Probability-weighted						
UK Gross domestic product	3.1	0.3	1.5	1.5	1.7	1.6
UK Unemployment rate	4.0	4.7	5.0	5.0	4.9	4.7
UK Commercial real estate price growth	0.5	(6.6)	(3.0)	(2.3)	0.1	(2.3)
UK Bank Rate - modelled	1.37	2.00	1.75	1.74	1.75	1.72
UK Bank Rate – adjusted	1.59	2.46	2.03	1.94	1.95	1.99
CPI inflation – modelled	8.6	5.5	2.0	1.1	1.3	3.7
CPI inflation – adjusted	8.8	6.3	2.3	1.3	1.3	4.0
US Gross domestic product	2.4	0.7	1.0	2.1	2.2	1.7
US Unemployment rate	3.7	4.2	4.7	4.7	4.7	4.4

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

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

At 31 December 2021	2021 %	2022 %	2023 %	2024 %	2025 %	2021–2025 average %
Upside						
UK Gross domestic product	7.1	4.0	1.4	1.3	1.4	3.0
UK Unemployment rate	4.4	3.3	3.4	3.5	3.7	3.7
UK Commercial real estate price growth	12.4	5.8	0.7	1.0	(0.6)	3.7
UK Bank Rate	0.14	1.44	1.74	1.82	2.03	1.43
CPI inflation	2.6	5.9	3.3	2.6	3.3	3.5
US Gross domestic product	5.7	6.7	4.4	0.3	(0.5)	3.3
US Unemployment rate	5.3	3.4	2.6	3.4	4.6	3.9
Base case						
UK Gross domestic product	7.1	3.7	1.5	1.3	1.3	2.9
UK Unemployment rate	4.5	4.3	4.4	4.4	4.5	4.4
UK Commercial real estate price growth	10.2	(2.2)	(1.9)	0.1	0.6	1.2
UK Bank Rate	0.14	0.81	1.00	1.06	1.25	0.85
CPI inflation	2.6	5.9	3.0	1.6	2.0	3.0
US Gross domestic product	5.5	3.6	2.5	2.0	1.5	3.0
US Unemployment rate	5.4	4.0	3.9	3.9	4.1	4.3
Downside						
UK Gross domestic product	7.1	3.4	1.3	1.1	1.2	2.8
UK Unemployment rate	4.7	5.6	5.9	5.8	5.7	5.6
UK Commercial real estate price growth	8.6	(10.1)	(7.0)	(3.4)	(0.3)	(2.6)
UK Bank Rate	0.14	0.45	0.52	0.55	0.69	0.47
CPI inflation	2.6	5.8	2.8	1.3	1.6	2.8
US Gross domestic product	5.4	1.0	0.2	2.4	3.0	2.4
US Unemployment rate	5.4	4.7	5.9	5.8	5.2	5.4
Severe downside						
UK Gross domestic product	6.8	0.9	0.4	1.0	1.4	2.1
UK Unemployment rate	4.9	7.7	8.5	8.1	7.6	7.3
UK Commercial real estate price growth	5.8	(19.6)	(12.1)	(5.3)	(0.5)	(6.8)
UK Bank Rate	0.14	0.04	0.06	0.08	0.09	0.08
CPI inflation	2.6	5.8	2.3	0.5	0.9	2.4
US Gross domestic product	5.2	(3.2)	(3.1)	3.9	5.7	1.6
US Unemployment rate	5.4	5.8	8.5	7.9	5.9	6.7
Probability-weighted						
UK Gross domestic product	7.0	3.4	1.3	1.2	1.3	2.8
UK Unemployment rate	4.6	4.7	5.0	5.0	4.9	4.8
UK Commercial real estate price growth	9.9	(3.9)	(3.7)	(1.2)	(0.1)	0.1
UK Bank Rate	0.14	0.82	0.99	1.04	1.20	0.83
CPI inflation	2.6	5.9	2.9	1.7	2.2	3.1
US Gross domestic product	5.5	3.1	1.8	1.8	1.8	2.8
US Unemployment rate	5.4	4.2	4.6	4.7	4.7	4.7

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

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

ECL sensitivity to economic assumptions

The table below shows the Group's ECL for the upside, base case, downside and severe downside scenarios. 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 and post-model adjustments is constant, reflecting the basis on which they are evaluated. Judgements applied through changes to inputs are reflected in the scenario sensitivities. 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 £4 million compared to £1 million at 31 December 2021.

	Probability-weighted	Upside	Base case	Downside	Severe downside
	£m	£m	£m	£m	£m
At 30 June 2022	**28**	**20**	**24**	**30**	**53**
At 31 December 2021	17	13	16	18	26

Application of judgement in adjustments to modelled ECL

Impairment models fall within the Group's Model Risk framework as reported in note 3 of the 2021 Annual Report and Accounts.

The coronavirus pandemic and the various support measures that were put in place resulted in an economic environment which differed significantly from the historical economic conditions upon which the impairment models had been built. As a result there has been a greater need for management judgements to be applied alongside the use of models. Over the first half of 2022 the intensifying inflationary pressures within the Group's outlook have created further risks not present in these historic conditions. Conversely, the direct impact of the pandemic on both economic and credit performance has appeared to reduce, resulting in a reduction in judgements required specifically to capture COVID-19 risks. At 30 June 2022 total management judgement resulted in additional ECL allowances of £6 million (31 December 2021: £6 million). The table below analyses total ECL allowance by portfolio, separately identifying the amounts that have been modelled, those that have been individually assessed and those arising through the application of management judgement.

	Modelled ECL	Individually assessed	Management Judgements[1]	Total ECL
	£m	£m	£m	£m
At 30 June 2022	**22**	**—**	**6**	**28**
At 31 December 2021	10	1	6	17

1 Judgements introduced to address the impact that COVID-19 and resulting interventions have had on the Group's economic outlook and observed loss experience, which have required additional model limitations to be addressed.

Post-model adjustments have been raised to reflect uncertainty in the near term economic outlook and limitations in the models in dealing with this uncertainty but the impact on staging of assets has not been reflected. These adjustments principally comprise:

Economic impacts not captured by models: £5 million (31 December 2021: £5 million)

Management adjustment of £5 million has been maintained to reflect additional uncertainty in the economic outlook, specifically for risks associated with inflationary pressures. This qualitative overlay is a management judgement to ensure the overall provision adequately reflects the current material risks; considering the range of the quarterly provision release, review of trends and provision coverage.

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

Note 3: Operating expenses

	Half-year to 30 June 2022 £m	Half-year to 30 June 2021 £m
Staff costs:		
Salaries	**(76)**	(81)
Social security costs	**(8)**	(7)
Pensions and other post-retirement benefit schemes	**(7)**	(7)
Restructuring costs	**(11)**	(4)
Other staff costs	**(4)**	(3)
	(106)	(102)
Management charges payable	**(79)**	(69)
Depreciation and amortisation	**(9)**	(7)
Premises and equipment	**(3)**	(9)
Communications and data processing	**(7)**	(6)
Professional fees	**(2)**	(2)
Other operating expenses	**(10)**	(9)
Total operating expenses	**(216)**	(204)

Note 4: Impairment

	Half-year to 30 June 2022 £m	Half-year to 30 June 2021 £m
Loans and advances to banks	**(1)**	1
Loans and advances to customers	**(5)**	25
Impairment (charge) credit on drawn balances	**(6)**	26
Loan commitments and financial guarantees	**(5)**	21
Total impairment (charge) credit	**(11)**	47

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

Note 5: Tax expense

In accordance with IAS 34, the Group's income tax expense for the half-year to 30 June 2022 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 June 2022	Half-year to 30 June 2021
	£m	£m
Profit before tax	**249**	193
UK corporation tax thereon at 19 per cent (2021: 19 per cent)	**(47)**	(37)
Impact of surcharge on banking profits	**(7)**	(13)
Non-deductible costs	**—**	(3)
Non-taxable income	**14**	1
Tax relief on coupons on other equity instruments	**3**	3
Tax losses where no deferred tax recognised	**(2)**	(3)
Remeasurement of deferred tax due to rate changes	**—**	(1)
Differences in overseas tax rates	**(3)**	(7)
Tax expense	**(42)**	(60)

Note 6: Financial assets at fair value through profit or loss

	At 30 June 2022	At 31 Dec 2021
	£m	£m
Trading assets	**14,998**	21,773
Financial assets mandatorily at fair value through profit or loss:		
Loans and advances to customers	**402**	307
Debt securities	**288**	310
Treasury and other bills	**21**	19
	711	636
Total financial assets at fair value through profit or loss	**15,709**	22,409

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

Note 7: Financial assets at amortised cost

Half-year to 30 June 2022

	Gross carrying amount				Allowance for expected credit losses			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Loans and advances to banks								
At 1 January 2022	2,355	—	—	2,355	1	—	—	1
Exchange and other adjustments[1]	108	—	—	108	—	—	—	—
Additions and repayments	(440)	—	—	(440)	1	—	—	1
Other changes in credit quality					—	—	—	—
Charge (credit) to the income statement					1	—	—	1
At 30 June 2022	2,023			2,023	2	—	—	2
Allowance for impairment losses	(2)	—	—	(2)				
Net carrying amount	2,021	—	—	2,021				
Loans and advances to customers								
At 1 January 2022	17,366	47	29	17,442	7	2	1	10
Exchange and other adjustments[1]	1,090	1	—	1,091	—	—	—	—
Transfers to Stage 1	6	(6)	—	—	—	—	—	—
Transfers to Stage 2	(98)	98	—	—	—	—	—	—
Transfers to Stage 3	(17)	—	17	—	—	—	—	—
Impact of transfers between stages	(109)	92	17	—	—	1	—	1
					—	1	—	1
Other changes in credit quality					2	(1)	—	1
Additions and repayments	2,296	13	(18)	2,291	3	—	—	3
Methodology and model changes					—	—	—	—
Charge (credit) to the income statement					5	—	—	5
Advances written off			—	—			—	—
Recoveries of advances written off in previous years			—	—			—	—
At 30 June 2022	20,643	153	28	20,824	12	2	1	15
Allowance for impairment losses	(12)	(2)	(1)	(15)				
Net carrying amount	20,631	151	27	20,809				

1 Exchange and other adjustments includes the impact of movements in exchange rates.

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

Note 7: Financial assets at amortised cost (continued)

	Gross carrying amount				Allowance for expected credit losses			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Debt securities								
At 1 January 2022	229	—	—	229	—	—	—	—
Exchange and other adjustments[1]	11	—	—	11	—	—	—	—
Additions and repayments	69	—	—	69	—	—	—	—
Charge to the income statement					—	—	—	—
At 30 June 2022	309	—	—	309	—	—	—	—
Allowance for impairment losses	—	—	—	—				
Net carrying amount	309	—	—	309				
Reverse repurchase agreements								
At 30 June 2022	4,461	—	—	4,461				
Allowance for impairment losses	—	—	—	—				
Net carrying amount	4,461	—	—	4,461				
Due from fellow Lloyds Banking Group undertakings								
At 30 June 2022	312	—	—	312				
Allowance for impairment losses	—	—	—	—				
Net carrying amount	312	—	—	312				
Total financial assets at amortised cost	27,734	151	27	27,912				

1. Exchange and other adjustments includes the impact of movements in exchange rates, discount unwind, and derecognising assets as a result of modifications.

Movements in allowance for expected credit losses in respect of undrawn balances were as follows:

	Allowance for expected credit losses			
	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m
Undrawn balances				
At 1 January 2022	6	—	—	6
Exchange and other adjustments	—	—	—	—
Transfers to Stage 1	—	—	—	—
Transfers to Stage 2	(1)	1	—	—
Transfers to Stage 3	—	—	—	—
Impact of transfers between stages	—	1	—	1
	(1)	2	—	1
Other changes in credit quality	4	—	—	4
Charge (credit) to the income statement	3	2	—	5
At 30 June 2022	9	2	—	11

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

Note 7: Financial assets at amortised cost (continued)

The Group's total impairment allowances were as follows:

	Allowance for expected credit losses			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	£m	**£m**	**£m**	**£m**
In respect of:				
Loans and advances to banks	**2**	**—**	**—**	**2**
Loans and advances to customers	**12**	**2**	**1**	**15**
Financial assets at amortised cost	**14**	**2**	**1**	**17**
Provisions in relation to loan commitments and financial guarantees	**9**	**2**	**—**	**11**
Total	**23**	**4**	**1**	**28**
Expected credit loss in respect of financial assets at fair value through other comprehensive income (memorandum item)	**—**	**—**	**—**	**—**

Year ended 31 December 2021

	Gross carrying amount				Allowance for expected credit losses			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Loans and advances to banks								
At 1 January 2021	3,602	—	—	3,602	2	—	—	2
Exchange and other adjustments[1]	(23)	—	—	(23)	—	—	—	—
Additions and repayments	(1,224)	—	—	(1,224)	—	—	—	—
Charge (credit) to the income statement					(1)	—	—	(1)
At 31 December 2021	2,355	—	—	2,355	1	—	—	1
Allowance for impairment losses	(1)	—	—	(1)				
Net carrying amount	2,354	—	—	2,354				

1 Exchange and other adjustments includes the impact of movements in exchange rates, discount unwind, and derecognising assets as a result of modifications.

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

Note 7: Financial assets at amortised cost (continued)

	Gross carrying amount				Allowance for expected credit losses			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Loans and advances to customers								
At 1 January 2021	13,886	379	39	14,304	26	20	2	48
Exchange and other adjustments[1]	(113)	(7)	—	(120)	—	—	(1)	(1)
Transfers to Stage 1	43	(42)	(1)	—	2	(2)	—	—
Transfers to Stage 2	(14)	14	—	—	—	—	—	—
Transfers to Stage 3	—	(3)	3	—	—	—	—	—
Impact of transfers between stages	29	(31)	2	—	(2)	—	—	(2)
					—	(2)	—	(2)
Other changes in credit quality					(8)	(13)	1	(20)
Additions and repayments	3,564	(294)	(11)	3,259	(11)	(3)	—	(14)
Methodology and model changes					—	—	—	—
Charge (credit) to the income statement					(19)	(18)	1	(36)
Advances written off			(1)	(1)			(1)	(1)
At 31 December 2021	17,366	47	29	17,442	7	2	1	10
Allowance for impairment losses	(7)	(2)	(1)	(10)				
Net carrying amount	17,359	45	28	17,432				
Debt securities								
At 1 January 2021	257	—	—	257	—	—	—	—
Exchange and other adjustments[1]	1	—	—	1	—	—	—	—
Additions and repayments	(29)	—	—	(29)	—	—	—	—
At 31 December 2021	229	—	—	229	—	—	—	—
Allowance for impairment losses	—	—	—	—				
Net carrying amount	229	—	—	229				
Reverse repurchase agreements								
At 31 December 2021	5,044	—	—	5,044				
Allowance for impairment losses	—	—	—	—				
Net carrying amount	5,044	—	—	5,044				
Due from fellow Lloyds Banking Group undertakings								
At 31 December 2021	557	—	—	557				
Allowance for impairment losses	—	—	—	—				
Net carrying amount	557	—	—	557				
Total financial assets at amortised cost	25,543	45	28	25,616				

[1] Exchange and other adjustments includes the impact of movements in exchange rates, discount unwind, and derecognising assets as a result of modifications.

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

Note 7: Financial assets at amortised cost (continued)

Movements in allowance for expected credit losses in respect of undrawn balances were as follows:

	Allowance for expected credit losses			
	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m
Undrawn balances				
At 1 January 2021	20	13	—	33
Exchange and other adjustments	(1)	(1)	—	(2)
Transfers to Stage 1	4	(4)	—	—
Transfers to Stage 2	—	—	—	—
Transfers to Stage 3	—	—	—	—
Impact of transfers between stages	(4)	—	—	(4)
	—	(4)	—	(4)
Other changes in credit quality	(13)	(8)	—	(21)
Charge (credit) to the income statement	(13)	(12)	—	(25)
At 31 December 2021	6	—	—	6

The Group's total impairment allowances were as follows:

	Allowance for expected credit losses			
	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m
In respect of:				
Loans and advances to banks	1	—	—	1
Loans and advances to customers	7	2	1	10
Financial assets at amortised cost	8	2	1	11
Provisions in relation to loan commitments and financial guarantees	6	—	—	6
At 31 December 2021	14	2	1	17
Expected credit loss in respect of financial assets at fair value through other comprehensive income (memorandum item)	—	—	—	—

The movement tables are compiled by comparing the position at the reporting date to that at the beginning of the year.

Transfers between stages are deemed to have taken place at the start of the reporting period, with all other movements shown in the stage in which the asset is held at the period end, with the exception of those held within purchased or originated credit-impaired, which are not transferable.

Additions and repayments comprise new loans originated and repayments of outstanding balances throughout the reporting period. Loans which are written off in the period are first transferred to Stage 3 before acquiring a full allowance and subsequent write-off.

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

Note 8: Debt securities in issue

	At 30 June 2022	At 31 December 2021
	£m	£m
Medium-term notes issued	**3,921**	4,181
Certificates of deposit issued	**4,413**	4,164
Commercial paper	**3,241**	5,129
Amounts due to fellow Group undertakings	**3,354**	3,170
Total debt securities in issue	**14,929**	16,644

Note 9: Other provisions

	Provisions for financial commitments and guarantees	**Regulatory and legal provisions**	**Other**	**Total**
	£m	**£m**	**£m**	**£m**
At 1 January 2022	**6**	**2**	**5**	**13**
Exchange and other adjustments	**—**	**—**	**—**	**—**
Provisions applied	**—**	**—**	**—**	**—**
Charge for the period	**5**	**—**	**8**	**13**
At 30 June 2022	**11**	**2**	**13**	**26**

Note 10: Other reserves

	At 30 June 2022	At 31 December 2021
	£m	£m
Other reserves comprise:		
Revaluation reserve in respect of debt securities held at fair value through other comprehensive income	**(1)**	(2)
Cash flow hedging reserve	**(308)**	(48)
Foreign currency translation reserve	**(4)**	(14)
Total other reserves	**(313)**	(64)

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

Note 10: Other reserves (continued)

	At 30 June 2022	At 31 December 2021
	£m	£m
Revaluation reserve in respect of debt securities held at fair value through other comprehensive income		
At 1 January	**(2)**	(10)
Change in fair value	**1**	5
Deferred tax	**—**	(1)
	1	4
Income statement transfers in respect of disposals	**—**	5
Deferred tax	**—**	(1)
	—	4
At period end	**(1)**	(2)

	At 30 June 2022	At 31 December 2021
	£m	£m
Cash flow hedging reserve		
At 1 January	**(48)**	105
Change in fair value of hedging derivatives	**(349)**	(169)
Deferred tax	**94**	48
	(255)	(121)
Net income statement transfers	**(7)**	(44)
Deferred tax	**2**	12
	(5)	(32)
At period end	**(308)**	(48)

	At 30 June 2022	At 31 December 2021
	£m	£m
Foreign currency translation reserve		
At 1 January	**(14)**	(14)
Currency translation differences arising in the year	**10**	—
At period end	**(4)**	(14)

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

Note 11: Related party transactions

Balances and transactions with fellow Lloyds Banking Group undertakings

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

	At 30 June 2022 £m	At 31 Dec 2021 £m
Assets, included within:		
Financial assets at amortised cost: due from fellow Lloyds Banking Group undertakings	**312**	557
Financial assets at fair value through profit or loss	**11**	12
Derivative financial instruments	**2,985**	2,094
	3,308	2,663
Liabilities, included within:		
Due to fellow Lloyds Banking Group undertakings	**1,261**	3,442
Financial liabilities at fair value through profit or loss	**5**	—
Derivative financial instruments	**2,660**	2,579
Debt securities in issue	**3,354**	3,170
Subordinated liabilities	**749**	684
	8,029	9,875
Other equity instruments:	**782**	782
Additional tier 1 instruments	**782**	782

During the half-year to 30 June 2022 the Group earned £1 million (half-year to 30 June 2021: £1 million) of interest income and incurred £46 million (half-year to 30 June 2021: £54 million) of interest expense on balances and transactions with Lloyds Banking Group plc and fellow Group undertakings.

Other related party transactions

Other related party transactions for the half-year to 30 June 2022 are similar in nature to those for the year ended 31 December 2021.

Management charges payable to Lloyds Bank plc of £79 million (half-year to 30 June 2021: £69 million) have been incurred in the period, see note 3.

During the period to June 2021, the Group sold a portfolio of facilities (£55 million of assets and £489 million of commitments) to Lloyds Bank plc, on which an £8 million operating loss arose. There have been no such transactions in the period to 30 June 2022.

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

Note 12: Contingent liabilities, commitments and guarantees

Legal actions and regulatory matters

During the ordinary course of business the Group is subject to complaints and threatened or actual legal proceedings (including class or group action claims) brought by or on behalf of current or former employees, customers, investors or other third parties, as well as legal and regulatory reviews, challenges, investigations and enforcement actions, which could relate to a number of issues, including financial, environmental or other regulatory matters, 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. In those instances where it is concluded that it is more likely than not that a payment will be made, a provision is established based on management's best estimate of the amount required at the relevant balance sheet date. In some cases it will not be possible to form a view; for example because the facts are unclear or because further time is needed to assess properly the merits of the case, and no provisions are held in relation to such matters. In these circumstances, specific disclosure in relation to a contingent liability will be made where material. However, 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.

Contingent liabilities, commitments and guarantees arising from the banking business

	At 30 June 2022 £m	At 31 Dec 2021 £m
Contingent liabilities		
Acceptances and endorsements	—	170
Other:		
Other items serving as direct credit substitutes	—	77
Performance bonds, including letters of credit, and other transaction-related contingencies	142	158
	142	235
Total contingent liabilities	142	405
Commitments and guarantees		
Undrawn formal standby facilities, credit lines and other commitments to lend:		
Less than 1 year original maturity:		
Mortgage offers made	58	50
Other commitments and guarantees	9,898	8,831
	9,956	8,881
1 year or over original maturity	7,521	6,310
Total commitments and guarantees	17,477	15,191

Of the amounts shown above in respect of undrawn formal standby facilities, credit lines and other commitments to lend, £16,942 million (31 December 2021: £15,124 million) were irrevocable.

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

Note 13: 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 32 to the Group's financial statements for the year ended 31 December 2021 details the definitions of the three levels in the fair value hierarchy.

Valuation control framework

Key elements of the valuation control framework, which covers processes for all levels in the fair value hierarchy including level 3 portfolios, include model validation (incorporating pre-trade and post-trade testing), product implementation review and independent price verification. 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 2021 applied to these portfolios.

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 2022		At 31 December 2021	
	Carrying value	**Fair value**	Carrying value	Fair value
	£m	**£m**	£m	£m
Financial assets				
Loans and advances to banks	**2,021**	**2,023**	2,354	2,354
Loans and advances to customers	**20,809**	**20,876**	17,432	17,488
Reverse repurchase agreements	**4,461**	**4,461**	5,044	5,044
Debt securities	**309**	**309**	229	229
Due from fellow Lloyds Banking Group undertakings	**312**	**312**	557	557
Financial assets at amortised cost	**27,912**	**27,981**	25,616	25,672
Financial liabilities				
Deposits from banks	**3,223**	**3,233**	3,821	3,821
Customer deposits	**27,281**	**27,351**	26,967	27,047
Repurchase agreements	**1**	**1**	1,019	1,019
Due to fellow Lloyds Banking Group undertakings	**1,261**	**1,261**	3,442	3,442
Debt securities in issue	**14,929**	**14,747**	16,644	16,723
Subordinated liabilities	**749**	**749**	684	684

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 carrying amount of the following financial instruments is a reasonable approximation of fair value: cash and balances at central banks, items in the course of collection from banks and items in course of transmission to banks.

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

Note 13: Fair values of financial assets and liabilities (continued)

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.

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 2022				
Financial assets at fair value through profit or loss:				
Loans and advances to customers and reverse repurchase agreements	**—**	**12,496**	**2**	**12,498**
Loans and advances to banks and reverse repurchase agreements	**—**	**299**	**—**	**299**
Debt securities	**2,424**	**300**	**167**	**2,891**
Treasury and other bills	**21**	**—**	**—**	**21**
Total financial assets at fair value through profit or loss	**2,445**	**13,095**	**169**	**15,709**
Financial assets at fair value through other comprehensive income:				
Debt securities	**—**	**—**	**12**	**12**
Treasury and other bills	**—**	**—**	**—**	**—**
Total financial assets at fair value through other comprehensive income	**—**	**—**	**12**	**12**
Derivative financial instruments	**43**	**27,049**	**624**	**27,716**
Total financial assets carried at fair value	**2,488**	**40,144**	**805**	**43,437**
At 31 December 2021				
Financial assets at fair value through profit or loss				
Loans and advances to customers and reverse repurchase agreements	—	14,741	2	14,743
Loans and advances to banks and reverse repurchase agreements	—	486	—	486
Debt securities	6,580	393	188	7,161
Treasury and other bills	19	—	—	19
Total financial assets at fair value through profit or loss	6,599	15,620	190	22,409
Financial assets at fair value through other comprehensive income:				
Debt securities	—	—	15	15
Treasury and other bills	85	—	—	85
Total financial assets at fair value through other comprehensive income	85	—	15	100
Derivative financial instruments	22	17,239	729	17,990
Total financial assets carried at fair value	6,706	32,859	934	40,499

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

Note 13: Fair values of financial assets and liabilities (continued)

Financial liabilities	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 30 June 2022				
Financial liabilities at fair value through profit or loss:				
Trading liabilities	**2,341**	**11,741**	**—**	**14,082**
Total financial liabilities at fair value through profit or loss	**2,341**	**11,741**	**—**	**14,082**
Derivative financial instruments	**30**	**22,410**	**682**	**23,122**
Total financial liabilities carried at fair value	**2,371**	**34,151**	**682**	**37,204**
At 31 December 2021				
Financial liabilities at fair value through profit or loss:				
Trading liabilities	1,569	15,013	—	16,582
Total financial liabilities at fair value through profit or loss	1,569	15,013	—	16,582
Derivative financial instruments	13	14,633	926	15,572
Total financial liabilities carried at fair value	1,582	29,646	926	32,154

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	Financial assets at fair value through other comprehensive income £m	Derivative assets £m	Total financial assets carried at fair value £m
At 1 January 2022	**190**	**15**	**729**	**934**
Exchange and other adjustments	**—**	**—**	**21**	**21**
(Losses) gains recognised in the income statement within other income	**(21)**	**—**	**133**	**112**
Gains recognised in other comprehensive income within the revaluation reserve in respect of financial assets at fair value through other comprehensive income	**—**	**1**	**—**	**1**
Purchases/increases	**—**	**—**	**41**	**41**
Sales/repayments	**—**	**(4)**	**(9)**	**(13)**
Transfers into the level 3 portfolio	**—**	**—**	**—**	**—**
Transfers out of the level 3 portfolio	**—**	**—**	**(291)**	**(291)**
At 30 June 2022	**169**	**12**	**624**	**805**
(Losses) gains recognised in the income statement, within other income, relating to the change in fair value of those assets held at 30 June 2022	**(21)**	**—**	**254**	**233**

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

Note 13: Fair values of financial assets and liabilities (continued)

	Financial assets at fair value through profit or loss £m	Financial assets at fair value through other comprehensive income £m	Derivative assets £m	Total financial assets carried at fair value £m
At 1 January 2021	570	113	948	1,631
Exchange and other adjustments	—	(4)	3	(1)
(Losses) gains recognised in the income statement within other income	(30)	—	(175)	(205)
Gains recognised in other comprehensive income within the revaluation reserve in respect of financial assets at fair value through other comprehensive income	—	6	—	6
Purchases/increases	—	—	249	249
Sales/repayments	(226)	(6)	(64)	(296)
Transfers into the level 3 portfolio	1	—	—	1
Transfers out of the level 3 portfolio	(119)	—	—	(119)
At 30 June 2021	196	109	961	1,266
Gains recognised in the income statement, within other income, relating to the change in fair value of those assets held at 30 June 2021	(30)	1	(168)	(197)

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

Note 13: Fair values of financial assets and liabilities (continued)

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 2022	**—**	**926**	**926**
Exchange and other adjustments	**—**	**17**	**17**
Losses (gains) recognised in the income statement within other income	**—**	**(12)**	**(12)**
Purchases/increases	**—**	**37**	**37**
Sales/repayments	**—**	**(2)**	**(2)**
Transfers into the level 3 portfolio	**—**	**—**	**—**
Transfers out of the level 3 portfolio	**—**	**(284)**	**(284)**
At 30 June 2022	**—**	**682**	**682**
Losses (Gains) recognised in the income statement, within other income, relating to the change in fair value of those liabilities held at 30 June 2022	**—**	**28**	**28**
At 1 January 2021	—	1,251	1,251
Exchange and other adjustments	—	3	3
Losses (gains) recognised in the income statement within other income	—	(196)	(196)
Purchases/increases	—	265	265
Sales/repayments	—	(43)	(43)
Transfers into the level 3 portfolio	—	—	—
Transfers out of the level 3 portfolio	—	—	—
At 30 June 2021	—	1,280	1,280
(Gains) recognised in the income statement, within other income, relating to the change in fair value of those liabilities held at 30 June 2021	—	(201)	(201)

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

Note 13: Fair values of financial assets and liabilities (continued)

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

			At 30 June 2022		
				Effect of reasonably possible alternative assumptions[2]	
	Valuation techniques	**Significant unobservable inputs**[1]	**Carrying value**	**Favourable changes**	**Unfavourable changes**
			£m	**£m**	**£m**
Financial assets at fair value through profit or loss					
Loans and advances to customers	Comparable pricing	Spread (-/+20bps)	**2**	—	—
Debt securities	Discounted cash flows	Credit spreads (discount factor) and inflation volatility (-/+7bps)	**167**	**12**	**(12)**
			169	**12**	**(12)**
Financial assets at fair value through other comprehensive income					
Asset-backed securities	Comparable pricing	Spread (-/+7bps)	**12**	**1**	**(1)**
			12	**1**	**(1)**
Derivative financial assets					
Interest rate derivatives	Option pricing model	Inflation volatility	—	—	—
	Option pricing model	Interest rate volatility (11.1-146.6bps)	**624**	**5**	**(5)**
			624	**5**	**(5)**
Level 3 financial assets carried at fair value			**805**	**18**	**(18)**
Derivative financial liabilities					
Interest rate derivatives	Option pricing model	Illiquid long dated repo rate	—	—	—
	Option pricing model	Inflation volatility	—	—	—
	Option pricing model	Interest rate volatility (11.1-146.6bps)	**682**	**15**	**(15)**
			682	**15**	**(15)**
Level 3 financial liabilities carried at fair value			**682**	**15**	**(15)**

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

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

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

Note 13: Fair values of financial assets and liabilities (continued)

			At 31 December 2021		
				Effect of reasonably possible alternative assumptions[2]	
	Valuation techniques	Significant unobservable inputs[1]	Carrying value	Favourable changes	Unfavourable changes
			£m	£m	£m
Financial assets at fair value through profit or loss					
Loans and advances to customers	Comparable pricing	Spread (-/+20bps)	2	—	—
Debt securities	Discounted cash flows	Credit spreads (discount factor) and inflation volatility (-/+7bps)	188	13	(13)
			190	13	(13)
Financial assets at fair value through other comprehensive income					
Asset-backed securities	Comparable pricing	Spread (-/+0bps)	15	—	—
			15	—	—
Derivative financial assets					
Interest rate derivatives	Option pricing model	Inflation volatility (31.0-58.7bps)	345	5	(4)
	Option pricing model	Interest rate volatility (12.8-167.9bps)	384	1	(1)
			729	6	(5)
Level 3 financial assets carried at fair value			934	19	(18)
Derivative financial liabilities					
Interest rate derivatives	Option pricing model	Illiquid long dated repo rate (-/+10.2bps)	2	—	—
	Option pricing model	Inflation volatility (31.0-58.7bps)	297	6	(5)
	Option pricing model	Interest rate volatility (12.8-167.9bps)	627	11	(11)
			926	17	(16)
Level 3 financial liabilities carried at fair value			926	17	(16)

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

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

Unobservable inputs

Significant unobservable inputs affecting the valuation of debt securities, unlisted equity investments and derivatives are unchanged from those described in the Group's financial statements for the year ended 31 December 2021

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

Note 13: Fair values of financial assets and liabilities (continued)

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 are unchanged from those described in the Group's financial statements for the year ended 31 December 2021.

Note 14: Interest rate benchmark reform

During 2022, the Group continues to manage the transition to alternative benchmark rates as part of the LBG IBOR transition programme. During 2021, the Group transitioned substantially all of its non-US Dollar LIBOR products and continues to work with customers to transition a small number of remaining contracts that either have yet to transition or have defaulted to the relevant synthetic LIBOR benchmark in the interim.

US Dollar LIBOR transition is expected to take place in the next year as these settings are expected to cease immediately after 30 June 2023. The majority of the Group's exposures are expected to transition through industry-led transition programmes managed by the London Clearing House and Futures exchanges, or through the International Swaps and Derivatives Association (ISDA) protocol. Other contracts (primarily loans) maturing after June 2023 will be managed through the Group's existing processes, either transitioning to an alternative benchmark rate or allowed to fallback under existing contract protocols or through US legislation.

At 30 June 2022, the Group had the following significant exposures impacted by interest rate benchmark reform which have yet to transition to the replacement benchmark rate:

At 30 June 2022	Sterling LIBOR £m	US Dollar LIBOR £m	Other £m [1]	Total
Non-derivative financial assets				
Financial assets at fair value through profit or loss	**—**	**40**	**—**	**40**
Loans and advances to banks	**—**	**293**	**—**	**293**
Loans and advances to customers	**3**	**1,962**	**56**	**2,021**
Reverse repurchase agreements	**—**	**—**	**—**	**—**
Debt securities	**—**	**—**	**—**	**—**
Financial assets at amortised cost	**3**	**2,255**	**56**	**2,314**
Financial assets at fair value through other comprehensive income	**12**	**—**	**—**	**12**
	15	**2,295**	**56**	**2,366**
Non-derivative financial liabilities				
Customer deposits	**—**	**83**	**—**	**83**
Subordinated liabilities	**—**	**620**	**—**	**620**
	—	**703**	**—**	**703**
Derivative notional/contract amount				
Cross Currency	**—**	**33,943**	**1,018**	**34,961**
Interest rate	**1,429**	**165,461**	**731**	**167,621**
	1,429	**199,404**	**1,749**	**202,582**

1 Balances within Other include Canadian Dollar Offered Rate for which a cessation announcement, effective after 28 June 2024, was published on 16 May 2022.

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

Note 14: Interest rate benchmark reform (continued)

At 31 December 2021	Sterling LIBOR £m	US Dollar LIBOR £m	Other £m	Total
Non-derivative financial assets				
Financial assets at fair value through profit or loss	189	96	—	285
Loans and advances to banks	—	854	—	854
Loans and advances to customers	123	3,426	—	3,549
Reverse repurchase agreements	—	—	—	—
Debt securities	126	—	—	126
Financial assets at amortised cost	249	4,280	—	4,529
Financial assets at fair value through other comprehensive income	15	—	—	15
	453	4,376	—	4,829
Non-derivative financial liabilities				
Customer deposits	—	74	—	74
Subordinated liabilities	—	558	—	558
	—	632	—	632
Derivative notional/contract amount				
Cross Currency	—	36,212	—	36,212
Interest rate	5,238	184,573	—	189,811
	5,238	220,785	—	226,023

As at 30 June 2022, the LIBOR balances in the above table relate to contracts that have not transitioned to an alternative benchmark rate. In the case of Sterling LIBOR, this includes contracts that will have both cash flows and valuations determined on a synthetic LIBOR basis during 2022 as well as contracts referencing panel bank LIBOR that have not yet had an interest rate reset in 2022.

Of the £199,404 million of USD derivative notional balances as at 30 June 2022, £70,695 million relate to contracts with their final LIBOR fixing prior to LIBOR cessation and £83,223 million relate to exchange traded futures or contracts settled through the London Clearing House. Of the remaining £45,486 million, £36,179 million are fallback-eligible and £8,979 million are intragroup trades.

By 31 December 2021, the Group had transitioned its Sterling, Euro, Japanese Yen and Swiss Franc LIBOR hedge accounting models to risk-free rates. The Group plans to complete the transition of its USD LIBOR hedge accounting models ahead of the 30 June 2023 cessation date.

Note 15: Dividends on ordinary shares

The Bank paid a dividend of £220 million on 26th April 2022 (2021: £200 million).

Note 16: Ultimate parent undertaking

The Bank'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 2021 and half-year results for the six month period to 30 June 2022, and copies may be obtained from Investor Relations, Lloyds Banking Group, 25 Gresham Street, London EC2V 7HN and available for download from www.lloydsbankinggroup.com.

Note 17: Events since the balance sheet date

There are no events since the balance sheet date to disclose.

Note 18: Other information

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 2021 were approved by the directors on 24 March 2022 and were delivered to the Registrar of Companies on 8 April 2022. The 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.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors listed below (being all the directors of Lloyds Bank Corporate Markets 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 2022 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 2022 and any material changes in the related party transactions described in the last annual report.

Signed on behalf of the Board by

Eduardo J Stock da Cunha
Chief Executive Officer
15 September 2022

Lloyds Bank Corporate Markets plc Board of directors:

Eduardo J Stock da Cunha (Chief Executive Officer)

Julienne C Daglish (Executive director and Chief Financial Officer)

Eve A Henrikson (Non-executive director)

Lord Lupton CBE (Non-executive director and Chair)

Andrew J McIntyre (Non-executive director)

Rupert H Mingay (Non-executive director)

John S W Owen (Non-executive director)

Changes to the composition of the Board since 1 January 2022 up to the date of this report are shown below:

John J Cummins (resigned 28 February 2022)

Rupert H Mingay (appointed 11 April 2022)

Emma Lawrence (resigned 7 July 2022)

Carla A S Antunes da Silva (resigned 8 September 2022)

Changes to the composition of the Board after the date of the report are shown below:

Rupert Mingay – will resign as Non-executive director on 30 September 2022 and will take up role of Chief Risk Officer from 1 October 2022

Eduardo Stock da Cunha – to resign as Chief Executive Officer in early 2023

Carla A S Antunes da Silva – to be appointed Chief Executive Officer in early 2023 (subject to regulatory approval)

Rose St Louis – to be appointed internal Non-executive director (subject to regulatory approval)

INDEPENDENT REVIEW REPORT TO LLOYDS BANK CORPORATE MARKETS PLC

Conclusion

We have been engaged by the Bank to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2022 which comprises the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement and related notes 1 to 18.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2022 is not prepared, in all material respects, in accordance with United Kingdom adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Basis for Conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

As disclosed in note 1, the annual financial statements of the Group will be prepared in accordance with United Kingdom adopted international accounting standards. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with United Kingdom adopted International Accounting Standard 34, “Interim Financial Reporting”.

Conclusion Relating to Going Concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for Conclusion section of this report, nothing has come to our attention to suggest that the directors have inappropriately adopted the going concern basis of accounting or that the directors have identified material uncertainties relating to going concern that are not appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with this ISRE (UK), however future events or conditions may cause the entity to cease to continue as a going concern.

Responsibilities of the directors

The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom’s Financial Conduct Authority.

In preparing the half-yearly financial report, the directors are responsible for assessing the Group’s ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor’s Responsibilities for the review of the financial information

In reviewing the half-yearly financial report, we are responsible for expressing to the Group a conclusion on the condensed consolidated set of financial statement in the half-yearly financial report. Our conclusion, including our Conclusions Relating to Going Concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for Conclusion paragraph of this report.

Use of our report

This report is made solely to the Group in accordance with International Standard on Review Engagements (UK) 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the Group those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Group, for our review work, for this report, or for the conclusions we have formed.

Deloitte LLP

Deloitte LLP

Statutory Auditor

London, England

15 September 2022

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 Lloyds Bank Corporate Markets 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 or Lloyds Banking Group plc’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 and/or Lloyds Banking Group plc’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 control of the Group or Lloyds Banking Group plc. Please refer to the Base Prospectus for the Group’s Euro Medium Term Note Programme and 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.

FORWARD LOOKING STATEMENTS (continued)

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.