2024 HALF-YEAR RESULTS

News Release

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Alternative performance measures

The Group uses a number of alternative performance measures, including underlying profit, in the description of its business performance and financial position. These measures are labelled with a superscript 'A' throughout this document, with the exception of content on pages 1 to 2 and pages 7 to 8 which is, unless otherwise stated, presented on an underlying basis. Further information on these measures is set out on page 26.

Forward-looking statements

This news release contains forward-looking statements. For further details, reference should be made to page 102.

RESULTS FOR THE HALF-YEAR

"In the first six months of 2024, the Group delivered robust financial results with solid income performance and cost discipline alongside strong capital generation.

2024 is a key year for our strategic delivery. We continue to deliver on our strategic transformation, as illustrated in the fourth of our investor seminars last month. We remain on track to meet our 2024 targeted outcomes. Indeed, our progress to date enables us to reaffirm 2024 guidance and remain confident in achieving our 2026 strategic objectives and guidance.

Guided by our purpose, we continue to support customers in reaching their financial goals and successfully transform our Group. This underpins our ambition of higher, more sustainable returns that will deliver for all of our stakeholders as we continue to Help Britain Prosper."

Charlie Nunn, Group Chief Executive

Delivering on our purpose driven strategy; on track to meet 2024 and 2026 strategic outcomes

- Supporting customers to reach financial goals, by meeting a broad range of their financial needs
- Continued strategic transformation, with c.£3 billion planned investment between 2022 and the end of 2024, enabling delivery of business and financial benefits
- Successful execution demonstrated through four strategic seminars, delivered over the last twelve months

Robust financial performance, in line with expectations[1]

- Statutory profit after tax of £2.4 billion (half-year to 30 June 2023: £2.9 billion) with net income down 9 per cent on the prior year and operating costs up 7 per cent (including Bank of England Levy), partly offset by a lower impairment charge
- Return on tangible equity of 13.5 per cent (half-year to 30 June 2023: 16.6 per cent)
- Underlying net interest income of £6.3 billion, down 10 per cent with a lower banking net interest margin, as expected, of 2.94 per cent and average interest-earning banking assets of £449.2 billion
- Underlying other income of £2.7 billion, 8 per cent higher, driven by continued recovery in customer and market activity and the benefit of strategic initiatives
- Operating lease depreciation of £679 million, up on the prior year reflecting growth in the fleet size, depreciation of higher value vehicles and declines in used electric car prices
- Operating costs of £4.7 billion, up 7 per cent, with cost efficiencies helping to offset higher ongoing strategic investment, planned elevated severance charges and continued inflationary pressures, alongside c.£0.1 billion in the first quarter relating to the sector-wide change in the charging approach for the Bank of England Levy (excluding this, operating costs were up 4 per cent)
- Remediation costs of £95 million (half-year to 30 June 2023: £70 million), largely in relation to pre-existing programmes
- Underlying impairment charge of £101 million and asset quality ratio of 5 basis points. Excluding the impact of improvements to the economic outlook, the asset quality ratio was 19 basis points. The portfolio remains well-positioned with resilient credit performance and strong asset quality

Growth in customer franchise

- Loans and advances to customers increased by £2.7 billion during the half-year period to £452.4 billion, with growth across Retail, including mortgages and unsecured loans
- Customer deposits of £474.7 billion increased by £3.3 billion, with growth in Retail deposits of £4.9 billion partly offset by a reduction in Commercial Banking deposits of £1.6 billion

RESULTS FOR THE HALF-YEAR (continued)

Strong capital generation, in line with expectations, enabling an increased interim dividend

- Strong capital generation of 87 basis points, after regulatory headwinds of 7 basis points
- CET1 ratio of 14.1 per cent after 48 basis points for ordinary dividend accrual. Significantly above our ongoing target of c.13.0 per cent by 2026
- Risk-weighted assets of £222.0 billion up £2.9 billion in the period, reflecting lending growth and other movements, partly offset by effective management of risk-weighted assets
- Tangible net assets per share of 49.6 pence, down from 50.8 pence at 31 December 2023 after capital distributions, alongside the impact of increased longer-term rates on the cash flow hedge reserve and pension surplus
- Interim ordinary dividend of 1.06 pence per share (equivalent to £662 million), up 15 per cent on the prior year

Reaffirming guidance for 2024

Based on our current macroeconomic assumptions, for 2024 the Group continues to expect:

- Banking net interest margin of greater than 290 basis points
- Operating costs of c.£9.4 billion including the c.£0.1 billion Bank of England Levy
- Asset quality ratio now expected to be less than 20 basis points
- Return on tangible equity of c.13 per cent
- Capital generation of c.175 basis points[2]
- Risk-weighted assets between £220 billion and £225 billion
- To pay down to a CET1 ratio of c.13.5 per cent

Confident in 2026 guidance:

Based on our current macroeconomic assumptions and confidence in our strategy, the Group is maintaining its medium-term guidance for 2026:

- Cost:income ratio of less than 50 per cent
- Return on tangible equity of greater than 15 per cent
- Capital generation of greater than 200 basis points[2]
- To pay down to a CET1 ratio of c.13 per cent

[1] See the basis of presentation on page 101.

[2] Excluding capital distributions. Inclusive of ordinary dividends received from the Insurance business in February of the following year.

INCOME STATEMENT (UNDERLYING BASIS)[A] AND KEY BALANCE SHEET METRICS

	Half-year to 30 Jun 2024 £m	Half-year to 30 Jun 2023 £m	***Change %***	Half-year to 31 Dec 2023 £m	***Change %***
Underlying net interest income	**6,338**	7,004	***(10)***	6,761	***(6)***
Underlying other income	**2,734**	2,538	***8***	2,585	***6***
Operating lease depreciation	**(679)**	(356)	***(91)***	(600)	***(13)***
Net income	**8,393**	9,186	***(9)***	8,746	***(4)***
Operating costs	**(4,700)**	(4,413)	***(7)***	(4,727)	***1***
Remediation	**(95)**	(70)	***(36)***	(605)	***84***
Total costs	**(4,795)**	(4,483)	***(7)***	(5,332)	***10***
Underlying profit before impairment	**3,598**	4,703	***(23)***	3,414	***5***
Underlying impairment (charge) credit	**(101)**	(662)	***85***	354	
Underlying profit	**3,497**	4,041	***(13)***	3,768	***(7)***
Restructuring	**(15)**	(25)	***40***	(129)	***88***
Volatility and other items	**(158)**	(146)	***(8)***	(6)	
Statutory profit before tax	**3,324**	3,870	***(14)***	3,633	***(9)***
Tax expense	**(880)**	(1,006)	***13***	(979)	***10***
Statutory profit after tax	**2,444**	2,864	***(15)***	2,654	***(8)***
Earnings per share	**3.4p**	3.9p	***(0.5)p***	3.7p	***(0.3)p***
Dividends per share – ordinary	**1.06p**	0.92p	***15***	1.84p	
Banking net interest margin[A]	**2.94%**	3.18%	***(24)bp***	3.03%	***(9)bp***
Average interest-earning banking assets[A]	**£449.2bn**	£453.8bn	***(1)***	£452.9bn	***(1)***
Cost:income ratio[A]	**57.1%**	48.8%	***8.3pp***	61.0%	***(3.9)pp***
Asset quality ratio[A]	**0.05%**	0.29%	***(24)bp***	(0.15)%	***20bp***
Return on tangible equity[A]	**13.5%**	16.6%	***(3.1)pp***	15.3%	***(1.8)pp***

	At 30 Jun 2024	At 31 Mar 2024	***Change %***	At 31 Dec 2023	***Change %***
Loans and advances to customers	**£452.4bn**	£448.5bn	***1***	£449.7bn	***1***
Customer deposits	**£474.7bn**	£469.2bn	***1***	£471.4bn	***1***
Loan to deposit ratio[A]	**95%**	96%	***(1pp)***	95%	
CET1 ratio	**14.1%**	13.9%	***0.2pp***	14.6%	***(0.5)pp***
Pro forma CET1 ratio[A,1]	**14.1%**	13.9%	***0.2pp***	13.7%	***0.4pp***
UK leverage ratio	**5.4%**	5.6%	***(0.2)pp***	5.8%	***(0.4)pp***
Risk-weighted assets	**£222.0bn**	£222.8bn		£219.1bn	***1***
Wholesale funding	**£97.6bn**	£99.9bn	***(2)***	£98.7bn	***(1)***
Liquidity coverage ratio[2]	**144%**	143%	***1pp***	142%	***2pp***
Net stable funding ratio[3]	**130%**	130%		130%	
Tangible net assets per share[A]	**49.6p**	51.2p	***(1.6)p***	50.8p	***(1.2)p***

[A] See page 26.

[1] 31 December 2023 reflects both the full impact of the share buyback announced in respect of 2023 and the ordinary dividend received from the Insurance business in February 2024, but excludes the impact of the phased unwind of IFRS 9 relief on 1 January 2024.

[2] The liquidity coverage ratio is calculated as a monthly rolling simple average over the previous 12 months.

[3] Net stable funding ratio is based on an average of the four previous quarters.

QUARTERLY INFORMATION[A]

	Quarter ended 30 Jun 2024 £m	Quarter ended 31 Mar 2024 £m	Change %	Quarter ended 31 Dec 2023 £m	Quarter ended 30 Sep 2023 £m	Quarter ended 30 Jun 2023 £m	Quarter ended 31 Mar 2023 £m
Underlying net interest income	**3,154**	3,184	*(1)*	3,317	3,444	3,469	3,535
Underlying other income	**1,394**	1,340	*4*	1,286	1,299	1,281	1,257
Operating lease depreciation	**(396)**	(283)	*(40)*	(371)	(229)	(216)	(140)
Net income	**4,152**	4,241	*(2)*	4,232	4,514	4,534	4,652
Operating costs	**(2,298)**	(2,402)	*4*	(2,486)	(2,241)	(2,243)	(2,170)
Remediation	**(70)**	(25)		(541)	(64)	(51)	(19)
Total costs	**(2,368)**	(2,427)	*2*	(3,027)	(2,305)	(2,294)	(2,189)
Underlying profit before impairment	**1,784**	1,814	*(2)*	1,205	2,209	2,240	2,463
Underlying impairment (charge) credit	**(44)**	(57)	*23*	541	(187)	(419)	(243)
Underlying profit	**1,740**	1,757	*(1)*	1,746	2,022	1,821	2,220
Restructuring	**(3)**	(12)	*75*	(85)	(44)	(13)	(12)
Volatility and other items	**(41)**	(117)	*65*	114	(120)	(198)	52
Statutory profit before tax	**1,696**	1,628	*4*	1,775	1,858	1,610	2,260
Tax expense	**(467)**	(413)	*(13)*	(541)	(438)	(387)	(619)
Statutory profit after tax	**1,229**	1,215	*1*	1,234	1,420	1,223	1,641
Earnings per share	**1.7p**	1.7p		1.7p	2.0p	1.6p	2.3p
Banking net interest margin[A]	**2.93%**	2.95%	*(2)bp*	2.98%	3.08%	3.14%	3.22%
Average interest-earning banking assets[A]	**£449.4bn**	£449.1bn		£452.8bn	£453.0bn	£453.4bn	£454.2bn
Cost:income ratio[A]	**57.0%**	57.2%	*(0.2)pp*	71.5%	51.1%	50.6%	47.1%
Asset quality ratio[A]	**0.05%**	0.06%	*(1)bp*	(0.47)%	0.17%	0.36%	0.22%
Return on tangible equity[A]	**13.6%**	13.3%	*0.3pp*	13.9%	16.9%	13.6%	19.1%

	At 30 Jun 2024	At 31 Mar 2024	Change %	At 31 Dec 2023	At 30 Sep 2023	At 30 Jun 2023	At 31 Mar 2023
Loans and advances to customers[1]	**£452.4bn**	£448.5bn	*1*	£449.7bn	£452.1bn	£450.7bn	£452.3bn
Customer deposits	**£474.7bn**	£469.2bn	*1*	£471.4bn	£470.3bn	£469.8bn	£473.1bn
Loan to deposit ratio[A]	**95%**	96%	*(1)pp*	95%	96%	96%	96%
CET1 ratio	**14.1%**	13.9%	*0.2pp*	14.6%	14.6%	14.2%	14.1%
Pro forma CET1 ratio[A,2]	**14.1%**	13.9%	*0.2pp*	13.7%	14.6%	14.2%	14.1%
UK leverage ratio	**5.4%**	5.6%	*(0.2)pp*	5.8%	5.7%	5.7%	5.6%
Risk-weighted assets	**£222.0bn**	£222.8bn		£219.1bn	£217.7bn	£215.3bn	£210.9bn
Wholesale funding	**£97.6bn**	£99.9bn	*(2)*	£98.7bn	£108.5bn	£103.5bn	£101.1bn
Liquidity coverage ratio[3]	**144%**	143%	*1pp*	142%	142%	142%	143%
Net stable funding ratio[4]	**130%**	130%		130%	130%	130%	129%
Tangible net assets per share[A]	**49.6p**	51.2p	*(1.6)p*	50.8p	47.2p	45.7p	49.6p

1 The increase between 31 March 2024 and 30 June 2024 is net of the impact of the securitisation of £0.9 billion of legacy Retail mortgages in May 2024. The reduction between 30 September 2023 and 31 December 2023 is net of the impact of the securitisation of £2.7 billion of UK Retail unsecured loans.

2 31 December 2023 reflects both the full impact of the share buyback announced in respect of 2023 and the ordinary dividend received from the Insurance business in February 2024, but excludes the impact of the phased unwind of IFRS 9 relief on 1 January 2024.

3 The liquidity coverage ratio is calculated as a monthly rolling simple average over the previous 12 months.

4 Net stable funding ratio is based on an average of the four previous quarters.

BALANCE SHEET ANALYSIS

	At 30 Jun 2024 £bn	At 31 Mar 2024 £bn	***Change %***	At 31 Dec 2023 £bn	***Change %***
UK mortgages[1,2]	**306.9**	304.6	***1***	306.2	
Credit cards	**15.6**	15.2	***3***	15.1	***3***
UK Retail unsecured loans	**8.2**	7.6	***8***	6.9	***19***
UK Motor Finance	**16.2**	15.8	***3***	15.3	***6***
Overdrafts	**1.0**	1.0		1.1	***(9)***
Retail other[1,3]	**17.2**	16.9	***2***	16.6	***4***
Small and Medium Businesses	**31.5**	32.2	***(2)***	33.0	***(5)***
Corporate and Institutional Banking	**56.6**	55.6	***2***	55.6	***2***
Central Items[4]	**(0.8)**	(0.4)		(0.1)	
Loans and advances to customers	**452.4**	448.5	***1***	449.7	***1***
Retail current accounts	**101.7**	103.1	***(1)***	102.7	***(1)***
Retail savings accounts[5]	**201.5**	196.4	***3***	194.8	***3***
Wealth	**10.1**	10.2	***(1)***	10.9	***(7)***
Commercial Banking	**161.2**	159.3	***1***	162.8	***(1)***
Central Items	**0.2**	0.2		0.2	
Customer deposits	**474.7**	469.2	***1***	471.4	***1***
Total assets	**892.9**	889.6		881.5	***1***
Total liabilities	**847.8**	841.8	***1***	834.1	***2***
Ordinary shareholders' equity	**39.0**	40.7	***(4)***	40.3	***(3)***
Other equity instruments	**5.9**	6.9	***(14)***	6.9	***(14)***
Non-controlling interests	**0.2**	0.2		0.2	
Total equity	**45.1**	47.8	***(6)***	47.4	***(5)***
Ordinary shares in issue, excluding own shares	**62,458m**	63,653m	***(2)***	63,508m	***(2)***

1 From the first quarter of 2024, open mortgage book and closed mortgage book loans and advances, previously presented separately, are reported together as UK mortgages; Wealth loans and advances, previously reported separately, are included within Retail other. The 31 December 2023 comparative is presented on a consistent basis.

2 The increase between 31 March 2024 and 30 June 2024 is net of the impact of the securitisation of £0.9 billion of legacy Retail mortgages in May 2024.

3 Within loans and advances, Retail other includes the European and Wealth businesses.

4 Central Items includes central fair value hedge accounting adjustments.

5 From the first quarter of 2024, Retail relationship savings accounts and Retail tactical savings accounts, previously reported separately, are reported together as Retail savings accounts. The 31 December 2023 comparative is presented on a consistent basis.

GROUP RESULTS – STATUTORY BASIS

The results below are prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards (IFRS). The underlying results are shown on page 3.

Summary income statement	**Half-year to 30 Jun 2024 £m**	Half-year to 30 Jun 2023 £m	***Change %***	Half-year to 31 Dec 2023 £m	***Change %***
Net interest income	**6,046**	6,798	***(11)***	6,500	***(7)***
Other income	**12,843**	8,097	***59***	14,010	***(8)***
Total income	**18,889**	14,895	***27***	20,510	***(8)***
Net finance expense in respect of insurance and investment contracts	**(10,013)**	(5,589)	***(79)***	(11,187)	***10***
Total income, after net finance expense in respect of insurance and investment contracts	**8,876**	9,306	***(5)***	9,323	***(5)***
Operating expenses	**(5,452)**	(4,774)	***(14)***	(6,049)	***10***
Impairment (charge) credit	**(100)**	(662)	***85***	359	
Profit before tax	**3,324**	3,870	***(14)***	3,633	***(9)***
Tax expense	**(880)**	(1,006)	***13***	(979)	***10***
Profit for the period	**2,444**	2,864	***(15)***	2,654	***(8)***
Profit attributable to ordinary shareholders	**2,145**	2,572	***(17)***	2,361	***(9)***
Ordinary shares in issue (weighted-average – basic)	**63,453m**	66,226m	***(4)***	63,718m	
Basic earnings per share	**3.4p**	3.9p	***(0.5)p***	3.7p	***(0.3)p***

Summary balance sheet	**At 30 Jun 2024 £m**	At 31 Mar 2024 £m	***Change %***	At 31 Dec 2023 £m	***Change %***
Assets					
Cash and balances at central banks	**66,808**	70,990	***(6)***	78,110	***(14)***
Financial assets at fair value through profit or loss	**209,139**	212,435	***(2)***	203,318	***3***
Derivative financial instruments	**18,983**	18,820	***1***	22,356	***(15)***
Financial assets at amortised cost	**525,698**	520,053	***1***	514,635	***2***
Financial assets at fair value through other comprehensive income	**27,847**	27,206	***2***	27,592	***1***
Other assets	**44,452**	40,129	***11***	35,442	***25***
Total assets	**892,927**	889,633		881,453	***1***
Liabilities					
Deposits from banks	**5,584**	6,105	***(9)***	6,153	***(9)***
Customer deposits	**474,693**	469,150	***1***	471,396	***1***
Repurchase agreements at amortised cost	**37,914**	37,461	***1***	37,703	***1***
Financial liabilities at fair value through profit or loss	**27,056**	25,837	***5***	24,914	***9***
Derivative financial instruments	**16,647**	16,727		20,149	***(17)***
Debt securities in issue at amortised cost	**74,760**	76,569	***(2)***	75,592	***(1)***
Liabilities arising from insurance and participating investment contracts	**125,007**	124,160	***1***	120,123	***4***
Liabilities arising from non-participating investment contracts	**48,280**	47,274	***2***	44,978	***7***
Other liabilities	**27,421**	27,982	***(2)***	22,827	***20***
Subordinated liabilities	**10,448**	10,577	***(1)***	10,253	***2***
Total liabilities	**847,810**	841,842	***1***	834,088	***2***
Total equity	**45,117**	47,791	***(6)***	47,365	***(5)***
Total equity and liabilities	**892,927**	889,633		881,453	***1***

GROUP CHIEF EXECUTIVE'S STATEMENT

We are now half way through the five year strategy we set out in February 2022. We continue to make strong progress in delivering against our strategic targets. We are on track to achieve our 2024 outcomes, including c.£0.7 billion of additional income and c.£1.2 billion of gross cost savings from strategic initiatives and we are reaffirming our 2024 financial guidance. We also remain confident in achieving our 2026 strategic outcomes and financial guidance.

The Group is performing well and has delivered a robust financial performance in the first half of the year, with continued business momentum, cost discipline and strong returns. In addition, the resilience of our business model and customer franchise, alongside our measured approach to risk, is demonstrated by our continued strong asset quality performance. Our performance positions the Group well for the future, and enables the Board to announce an interim ordinary dividend of 1.06 pence per share, up 15 per cent on the first half of 2023.

I am confident that our strategy remains the right one. As we look ahead to the UK's priorities and opportunities, including the new government emphasis on sustained economic growth, our strong financials and business model position the Group well to continue to support our customers, and to help Britain prosper.

Robust financial performance and consistent delivery supporting higher interim dividend

Statutory profit after tax was £2.4 billion in the first half of 2024, down 15 per cent on the prior year with net income down 9 per cent and operating costs up 7 per cent, partly offset by strong asset quality contributing to a lower impairment charge. Robust net income of £8.4 billion included a resilient banking net interest margin of 2.94 per cent and 8 per cent growth in underlying other income, offset by higher operating lease depreciation. Operating costs of £4.7 billion reflected higher planned strategic investment, elevated severance charges and inflationary pressures. We continue to see strong asset quality, with credit performance improving. The impairment charge of £101 million includes a benefit from improved economic assumptions. Excluding this, the asset quality ratio was 19 basis points, remaining in line with our enhanced guidance.

The Group's balance sheet grew in the first six months of the year, with loans and advances to customers increasing by £2.7 billion to £452.4 billion. This reflected growth across Retail, including mortgages and unsecured loans. Customer deposits of £474.7 billion also increased in the period, by £3.3 billion. This included growth in Retail deposits (including Wealth) of £4.9 billion offsetting a reduction in Commercial Banking deposits of £1.6 billion.

The Group delivered strong capital generation of 87 basis points and a CET1 ratio of 14.1 per cent after 48 basis points for ordinary dividend accrual. Given the strength of the capital generation and CET1 position, the Board has announced an interim ordinary dividend of 1.06 pence per share, up 15 per cent on the prior year and equivalent to £662 million. As usual, the Board will give due consideration at year end to the return of any surplus capital. In February this year, the Board decided to return surplus capital through a share buyback programme of up to £2.0 billion. As at 30 June 2024, the programme had completed £0.9 billion of the buyback, with c.1.8 billion ordinary shares purchased.

Delivering on purpose driven strategy, benefitting all stakeholders

We have a purpose-driven strategy. Delivering in line with our purpose of Helping Britain Prosper ensures that we drive outcomes that benefit all stakeholders. We continue to provide support to our customers to help them meet their financial needs, including supporting their savings goals through our strong ISA propositions, attracting an additional £6 billion of new Cash ISA savings during the first half of 2024. We also helped over 50,000 small businesses and charities open a new business current account with us.

Core to our purpose is our focus on creating new opportunities for future growth while contributing to an inclusive society and supporting the transition to a low carbon economy. Our initiatives in building a more inclusive society include lending over £7 billion to first time buyers and supporting c.£1.2 billion of funding to the social housing sector in the first half of the year, whilst continuing to support over 340 housing associations across the UK. We continue our partnership with the homelessness charity Crisis and together we believe we can help to end homelessness. Importantly, we also continue to progress towards the Group's diversity targets for gender, ethnicity and disability.

To help build a sustainable future and support the transition to a low carbon economy we have delivered c.£38 billion[1] of cumulative sustainable financing since 2022. We remain on track to meet our 2024 targets in this area. In the first half we also published our new sustainable bond framework and have since issued €1 billion of green bonds. We have also launched Buildings Transition Loans, offering Small and Medium businesses discounted lending for investing in energy efficient property portfolios.

[1] From January 2022 to June 2024: £21.7 billion sustainable finance in Commercial Banking, £9.1 billion EPC A/B mortgage lending (up to March 2024), £7.6 billion financing for electric vehicles and plug-in hybrid electric vehicles.

GROUP CHIEF EXECUTIVE'S STATEMENT (continued)

In the third year of our five-year strategic transformation, continued momentum across our strategic initiatives is enabling us to realise business and financial benefits. As a result, we are on track to meet our strategic objectives, alongside our financial targets. Our transformation is supported by c.£3 billion planned investment between 2022 and the end of 2024.

We have seen progress across all of our strategic priority areas, alongside the strategic enablers of people, technology and data. This gives us confidence that we are on track to deliver c.£0.7 billion of additional revenues from strategic initiatives and c.£1.2 billion of gross cost savings by the end of 2024. We have started to demonstrate this successful execution to investors, with two strategic seminars in 2023 and two in the first half of 2024 focused on our core business areas. Looking further out, we remain confident in achieving our 2026 strategic and financial outcomes, including generating an additional c.£1.5 billion revenues per annum from strategic initiatives.

Driving revenue growth and diversification

The Group continues to strengthen customer relationships, with a view to delivering diversified revenue growth across the business. In the first six months of 2024, we further enhanced our mobile apps, which now have over 19 million active users, bringing together products across the Group within dynamic ecosystems. For our mass affluent customers, we continued the roll out of 'Lloyds Bank 360', now reaching c.500,000 customers and we launched both Ready-Made Pensions and Invest Wise, a bespoke investment product for those aged between 18 and 25. Through investment in digital capability and product development, we have seen c.30 per cent growth in mobile active customers within Small and Medium Businesses. We were awarded Best Bank for Digitalisation Globally at the Global Trade Review Awards 2024.

Investing in efficiency and enablers to improve delivery

Strengthening cost and capital efficiency is critical. The Group is making strong progress in utilising technology to improve operating leverage. Over the first six months of 2024, we accelerated our shift to Cloud-based technology, surpassing our initial target for applications on Cloud. We also increased the number of legacy technology applications decommissioned by 20 per cent, taking our total decommissioned applications to c.500. In addition, the Cash Access UK Banking Hub network has doubled this year, providing continued support to customers in the heart of their communities in an efficient manner. This is in addition to the expansion of digital journeys within Small and Medium Businesses, with c.45 per cent of servicing journeys digitised to date.

Future outlook

We are progressing well towards our ambition of generating higher, more sustainable returns for shareholders and are on track to achieve our 2024 strategic and financial outcomes.

Reaffirming guidance for 2024

Based on our current macroeconomic assumptions, for 2024 the Group continues to expect:

- Banking net interest margin of greater than 290 basis points
- Operating costs of c.£9.4 billion including the c.£0.1 billion Bank of England Levy
- Asset quality ratio now expected to be less than 20 basis points
- Return on tangible equity of c.13 per cent
- Capital generation of c.175 basis points[1]
- Risk-weighted assets between £220 billion and £225 billion
- To pay down to a CET1 ratio of c.13.5 per cent

Confident in 2026 guidance:

Based on our current macroeconomic assumptions and confidence in our strategy, the Group is maintaining its medium-term guidance for 2026:

- Cost:income ratio of less than 50 per cent
- Return on tangible equity of greater than 15 per cent
- Capital generation of greater than 200 basis points[1]
- To pay down to a CET1 ratio of c.13 per cent

[1] Excluding capital distributions. Inclusive of ordinary dividends received from the Insurance business in February of the following year.

SUMMARY OF GROUP RESULTS[A]

Statutory results

The Group's statutory profit before tax for the first half of 2024 was £3,324 million,14 per cent lower than the same period in 2023. This was due to lower net interest income and higher operating expenses, partly offset by a lower impairment charge. Statutory profit after tax was £2,444 million (half-year to 30 June 2023: £2,864 million).

The Group's statutory income statement includes income and expenses attributable to the policyholders of the Group's long-term assurance funds, investors in the Group's non-participating investment contracts and third party interests in consolidated funds. These items materially offset in arriving at profit before tax but can, depending on market movements, lead to significant variances on a statutory basis between total income and net finance expense in respect of insurance and investment contracts from one period to the next.

Total income, after net finance expense in respect of insurance and investment contracts for the period was £8,876 million, a decrease of 5 per cent on the same period in 2023, primarily reflecting lower net interest income. Net interest income of £6,046 million was down 11 per cent compared to the first half of 2023, driven by lower margins. Other income amounted to £12,843 million in the half-year to 30 June 2024, compared to £8,097 million in the same period in 2023. Within other income, net trading income from the Group's insurance activities was £9,820 million in the period compared to £5,464 million for the half-year 30 June 2023, an increase of £4,356 million largely reflecting stronger equity market performance. Outside of the insurance business, there was improved UK Motor Finance performance, including growth following the acquisition of Tusker in the first half of 2023 and an increase in average rental value and continued Commercial Banking growth. The overall movement in other income is broadly offset by the £4,424 million increase in net finance expense in respect of insurance and investment contracts.

Total operating expenses of £5,452 million were 14 per cent higher than in the prior year. This reflects higher operating lease depreciation, due to fleet size growth, the depreciation of higher value vehicles and declines in used electric car prices, alongside higher planned strategic investment, elevated severance charges and continued inflationary pressure. It also includes c.£0.1 billion relating to the sector-wide change in the charging approach for the Bank of England Levy during the first quarter. In the first half of 2024 the Group recognised remediation costs of £95 million (half-year to 30 June 2023: £70 million), largely in relation to pre-existing programmes. There have been no further charges relating to the potential impact of the FCA review into historical motor finance commission arrangements. An update from the FCA is currently expected in September.

Impairment was a net charge of £100 million (half-year to 30 June 2023: £662 million). The decrease reflects a larger credit from improvements to the Group's economic outlook in the period (notably in HPI) and changes in methodology.

The Group recognised a tax expense of £880 million in the period, compared to £1,006 million in the first half of 2023, reflecting decreased profits.

Loans and advances to customers increased by £2.7 billion in the year to date to £452.4 billion. This included growth across most Retail product areas, with £0.7 billion growth in UK mortgages (net of the impact of the securitisation of £0.9 billion of legacy mortgages in the second quarter) and £1.3 billion growth in UK Retail unsecured loans, due to organic balance growth and lower repayments following a securitisation in the fourth quarter of 2023. In Commercial Banking, Small and Medium Business lending decreased by £1.5 billion including repayments of £0.8 billion of government-backed lending, partly offset by a £1.0 billion increase in Corporate and Institutional Banking balances through strategic growth. Growth of £3.9 billion in the second quarter was driven by balance increases across Retail, including £2.3 billion in UK mortgages (net of £0.9 billion securitisation) and £1.0 billion in Corporate and Institutional Banking. This supports a positive trajectory for average interest-earning banking assets in the second half of 2024.

Customer deposits stood at £474.7 billion at 30 June 2024, a healthy increase of £3.3 billion in the year to date and £5.5 billion in the second quarter. Retail deposits were up £4.9 billion in the first half with a combined increase of £5.9 billion across Retail savings and Wealth, driven by inflows to limited withdrawal and fixed products, partly offset by £1.0 billion reduction in current account balances. This was driven by seasonal tax payments and outflows to savings products, including the Group's own savings offers, partly offset by wage inflation. Commercial Banking deposits reduced by £1.6 billion in the first half (with £1.9 billion growth in the second quarter). This was driven by managing for value in Corporate and Institutional Banking, while within Small and Medium Businesses, growth in targeted sectors was partly offset by outflows due to business utilisation.

Total equity of £45.1 billion at 30 June 2024 decreased from £47.4 billion at 31 December 2023. The movement reflected attributable profit for the period, offset by the dividend paid in May 2024, the redemption of a US Dollar denominated AT1 capital instrument and the impact of the share buyback programme announced in February 2024. At 30 June 2024, the programme had completed £0.9 billion of the buyback, with c.1.8 billion ordinary shares purchased.

SUMMARY OF GROUP RESULTS (continued)

Underlying results

The Group's underlying profit was £3,497 million, a reduction of 13 per cent compared to £4,041 million in the first half of 2023. Lower underlying net interest income and higher operating lease depreciation and operating costs were partly offset by growth in underlying other income and a lower underlying impairment charge. Underlying profit in the second quarter was down by 1 per cent compared to the first quarter of 2024, with lower net income partly offset by lower operating costs.

Net income[A]

	Half-year to 30 Jun 2024 £m	Half-year to 30 Jun 2023 £m	***Change %***	Half-year to 31 Dec 2023 £m	***Change %***
Underlying net interest income	**6,338**	7,004	***(10)***	6,761	***(6)***
Underlying other income	**2,734**	2,538	***8***	2,585	***6***
Operating lease depreciation[1]	**(679)**	(356)	***(91)***	(600)	***(13)***
Net income[A]	**8,393**	9,186	***(9)***	8,746	***(4)***
Banking net interest margin[A]	**2.94%**	3.18%	***(24)bp***	3.03%	***(9)bp***
Average interest-earning banking assets[A]	**£449.2bn**	£453.8bn	***(1)***	£452.9bn	***(1)***

1 Net of profits on disposal of operating lease assets of £37 million (half-year to 30 June 2023: £67 million).

Net income of £8,393 million was down 9 per cent on the first half of 2023, driven by lower underlying net interest income and an increased charge for operating lease depreciation. This was partly offset by higher underlying other income. Net income in the second quarter of 2024 is down 2 per cent versus the first quarter.

Underlying net interest income of £6,338 million was down 10 per cent on the first half of 2023, driven by an expected lower banking net interest margin of 2.94 per cent (half-year to 30 June 2023: 3.18 per cent). The lower margin reflects anticipated headwinds due to deposit churn and asset margin compression, particularly in the mortgage book as it refinances in a lower margin environment. These factors were partially offset by benefits from higher structural hedge earnings as it refinances in the higher rate environment. Average interest-earning banking assets in the first half of 2024 at £449.2 billion were slightly lower (1 per cent) compared to the first half of 2023. This was due to a modest reduction in the mortgage book and a reduction in Commercial Banking lending, including continued repayments of government-backed lending in Small and Medium Businesses. Loans and advances to customers increased by £2.7 billion in the first six months of 2024, with £3.9 billion in the second quarter, which will support expected growth in average interest-earning banking assets in the second half of 2024. Net interest income in the first half of the year included non-banking interest expense of £229 million (half-year to 30 June 2023: £155 million), increasing as a result of higher funding costs and growth in the Group's non-banking businesses.

Underlying net interest income of £3,154 million in the second quarter of 2024 was slightly lower than the first quarter (three months to 31 March 2024: £3,184 million), with an anticipated continuation of first quarter trends, including asset margin compression (mainly within UK mortgages), deposit mix headwinds and lower Commercial Banking deposits. The Group still expects the banking net interest margin for 2024 to be greater than 290 basis points and average interest-earning banking assets to be greater than £450 billion.

The Group manages the risk to earnings and capital from movements in interest rates by hedging the net liabilities which are stable or less sensitive to movements in rates. The notional balance of the sterling structural hedge was £242 billion (31 December 2023: £247 billion, 31 March 2024: £244 billion) with a weighted average duration of approximately three-and-a-half years (31 December 2023: approximately three-and-a-half years). The Group continues to expect a modest reduction in the notional balance during 2024, inclusive of the reduction in the first half, with balances stabilising over the course of the year. The Group generated c.£1.9 billion of total income from sterling structural hedge balances in the first half of 2024, representing material growth over the prior year (half-year to 30 June 2023: £1.6 billion). The Group expects sterling structural hedge earnings in 2024 to be slightly over £0.7 billion higher than in 2023.

SUMMARY OF GROUP RESULTS (continued)

Underlying other income in the first half of 2024 of £2,734 million was 8 per cent higher compared to £2,538 million in the first half of 2023. Retail was up 14 per cent versus the first half of 2023, primarily due to UK Motor Finance, including growth following the acquisition of Tusker in the first half of 2023 and an increase in fleet size and average rental value. Within Commercial Banking, 11 per cent growth was driven by a strong markets performance due to growth from strategic investment and higher levels of client activity. Insurance, Pensions and Investments underlying other income grew by 5 per cent compared to the first half of 2023, driven by market share gains within general insurance alongside favourable market returns partly offset by the effects of the agreed sale (subject to regulatory approval) of the in-force bulk annuity portfolio (with associated income and costs for the period recognised within volatility and other items). Excluding the in-force bulk annuity portfolio, Insurance, Pensions and Investments was up 9 per cent. In Equity Investments and Central Items underlying other income was impacted by the timing of exits in the first half in the Group's equity investment businesses. Compared to the first quarter of 2024, underlying other income was 4 per cent higher in the second quarter, primarily driven by growth in Retail and Insurance, Pensions and Investments.

The Group delivered organic growth in assets under administration (AuA) in Insurance, Pensions and Investments and Wealth (reported within Retail), with combined £2.9 billion net new money in open book AuA over the first half of 2024. In total, open book AuA now stands at c.£193 billion.

Operating lease depreciation of £679 million increased compared to the prior year (half-year to 30 June 2023: £356 million), largely given fleet growth, the depreciation of higher value vehicles and declines in used electric car prices. This decline in used electric car prices drove a c.£100 million additional charge in the second quarter to reflect future expected residual values.

Total costs[A]

	Half-year to 30 Jun 2024 £m	Half-year to 30 Jun 2023 £m	***Change %***	Half-year to 31 Dec 2023 £m	***Change %***
Operating costs[A]	**4,700**	4,413	***(7)***	4,727	***1***
Remediation	**95**	70	***(36)***	605	***84***
Total costs[A]	**4,795**	4,483	***(7)***	5,332	***10***
Cost:income ratio[A]	**57.1%**	48.8%	***8.3pp***	61.0%	***(3.9)pp***

Total costs, including the Bank of England Levy and remediation, of £4,795 million were 7 per cent higher than the prior year, with operating costs of £4,700 million up 7 per cent. Operating costs include c.£0.1 billion relating to the sector-wide change in the charging approach for the Bank of England Levy (excluding this Levy, operating costs were up 4 per cent), taken in the first quarter. The Levy will have a broadly neutral impact on profit in 2024, with an offsetting benefit recognised in net interest income over the course of the year. The Group maintains its cost discipline with cost efficiencies helping to offset higher ongoing strategic investment, planned elevated severance charges and continued inflationary pressure. The Group's cost:income ratio, including remediation, for the first half of 2024 was 57.1 per cent compared to 48.8 per cent in the prior year. Operating costs in 2024 are still expected to be c.£9.4 billion including c.£0.1 billion for the new Bank of England Levy.

The Group recognised remediation costs of £95 million in the first half (half-year to 30 June 2023: £70 million), largely in relation to pre-existing programmes. There have been no further charges relating to the potential impact of the FCA review into historical motor finance commission arrangements. An update from the FCA is currently expected in September.

SUMMARY OF GROUP RESULTS (continued)

Underlying impairment[A]

	Half-year to 30 Jun 2024 £m	Half-year to 30 Jun 2023 £m	***Change %***	Half-year to 31 Dec 2023 £m	***Change %***
Charges (credits) pre-updated MES[1]					
Retail	**463**	551	***16***	513	***10***
Commercial Banking	**(28)**	108		(595)	***(95)***
Other	**(10)**	(2)		(10)	
	425	657	***35***	(92)	
Updated economic outlook					
Retail	**(269)**	41		(274)	***(2)***
Commercial Banking	**(55)**	(36)	***53***	12	
	(324)	5		(262)	***24***
Underlying impairment charge (credit)[A]	**101**	662	***85***	(354)	
Asset quality ratio[A]	**0.05%**	0.29%	***(24)bp***	(0.15)%	***20bp***
Total underlying expected credit loss allowance (at end of period)[A]	**3,847**	5,419	***(29)***	4,337	***(11)***

[1] Impairment charges excluding the impact from updated economic outlook taken each quarter.

Asset quality remained strong in the half-year with resilient credit performance throughout the period. In UK mortgages, further reductions in new to arrears and flows to default have been observed in the second quarter. Unsecured Retail portfolios continue to exhibit stable new to arrears and default trends. Credit quality remains stable and resilient in Commercial Banking.

Underlying impairment was a charge of £101 million (half-year to 30 June 2023: £662 million), resulting in an asset quality ratio of 5 basis points. The charge is after a £324 million multiple economic scenarios (MES) credit (half-year to 30 June 2023: £5 million charge), primarily from an improved economic outlook, notably in HPI and changes in methodology (see below). The pre-updated MES charge of £425 million (half-year to 30 June 2023: £657 million) is equivalent to an asset quality ratio of 19 basis points. Compared to the prior year, the pre-MES charge is lower, benefitting from strong portfolio performance and the release of judgemental adjustments for inflation and interest rate risks, given portfolio performance and lower charges in UK mortgages. Commercial Banking has benefitted from a one-off release from loss rates used in the model, while observing a low charge on new and existing Stage 3 clients.

The underlying expected credit loss (ECL) allowance reduced to £3.8 billion (31 December 2023: £4.3 billion) in the period, reflecting releases from improvements to the Group's base case scenario. In addition, there has been a further reduction driven by evolution of the CPI inflation and UK Bank Rate profiles in the severe downside scenario, reflecting the more balanced role of a demand and a supply shock in the current environment. Alongside delaying the point of dispersion of all scenarios from the base case by a quarter, this contributed to the MES credit in the second quarter. The uplift from the base case to probability-weighted ECL remains at £0.5 billion (31 December 2023: £0.7 billion).

At 30 June 2024, total judgemental adjustments reduced the ECL allowance by £19 million (31 December 2023: increased the ECL allowance by £67 million). The reduction in the period is from the release, or reduced impact, of judgements held in respect of inflationary and interest rate risks in the Retail portfolios in the second quarter. This reflects the resilient performance observed from those customers identified with potentially heightened affordability risk, as well as inflation and the UK Bank Rate now stabilising.

Stage 3 assets at £10.2 billion are up slightly in the first half, driven by UK mortgages (31 December 2023: £10.1 billion). Write-offs remain low. Stage 2 assets have reduced in the first half to £45.7 billion (31 December 2023: £56.5 billion). The reduction is primarily driven by the transfer of assets from Stage 2 to Stage 1 as a result of improvements in the economic outlook. In Stage 2, 90.4 per cent of loans are up to date (31 December 2023: 91.3 per cent). The Group now expects the asset quality ratio to be less than 20 basis points in 2024.

SUMMARY OF GROUP RESULTS (continued)

Restructuring, volatility and other items

	Half-year to 30 Jun 2024 £m	Half-year to 30 Jun 2023 £m	***Change %***	Half-year to 31 Dec 2023 £m	***Change %***
Underlying profit	**3,497**	4,041	***(13)***	3,768	***(7)***
Restructuring	**(15)**	(25)	***40***	(129)	***88***
Market volatility and asset sales	**(65)**	(63)	***(3)***	98	
Amortisation of purchased intangibles	**(41)**	(35)	***(17)***	(45)	***9***
Fair value unwind	**(52)**	(48)	***(8)***	(59)	***12***
Volatility and other items	**(158)**	(146)	***(8)***	(6)	
Statutory profit before tax	**3,324**	3,870	***(14)***	3,633	***(9)***
Tax expense	**(880)**	(1,006)	***13***	(979)	***10***
Statutory profit after tax	**2,444**	2,864	***(15)***	2,654	***(8)***
Earnings per share	**3.4p**	3.9p	***(0.5)p***	3.7p	***(0.3)p***
Return on tangible equity[A]	**13.5%**	16.6%	***(3.1)pp***	15.3%	***(1.8)pp***

	At 30 Jun 2024	At 31 Mar 2024	***Change %***	At 31 Dec 2023	***Change %***
Tangible net assets per share[A]	**49.6p**	51.2p	***(1.6)p***	50.8p	***(1.2)p***

Restructuring costs for the first half of 2024 were £15 million (half-year to 30 June 2023: £25 million) and include costs relating to the integration of Embark and Tusker. Volatility and other items were a net loss of £158 million for the first half (half-year to 30 June 2023: net loss of £146 million). This comprised £65 million negative market volatility (half-year to 30 June 2023: £63 million), £41 million for the amortisation of purchased intangibles (half-year to 30 June 2023: £35 million) and £52 million relating to fair value unwind (half-year to 30 June 2023: £48 million). Market volatility was substantially driven by longer-term rate rises in the first six months, causing negative insurance volatility, partly offset by positive impacts from banking volatility.

The return on tangible equity for the first half of 2024 was 13.5 per cent (half-year to 30 June 2023: 16.6 per cent). The Group continues to expect the return on tangible equity for 2024 to be c.13 per cent.

Tangible net assets per share at 30 June 2024 were 49.6 pence, down 1.2 pence in the first half (31 December 2023: 50.8 pence) and down 1.6 pence in the second quarter. The reductions resulted from capital distributions in respect of 2023, including the payment of the full year ordinary dividend in the second quarter, alongside increased longer-term rates impacting the cash flow hedge reserve and pension surplus and the foreign exchange impact on the redemption of a US Dollar denominated AT1 capital instrument. This was offset by attributable profit and a reduction in the number of shares in issue due to the ongoing ordinary share buyback. Tangible net assets per share at 30 June 2024 was reduced by a further 0.9 pence as a result of an accrual for the ongoing ordinary share buyback without the corresponding reduction in the number of shares.

Tax

The Group recognised a tax expense of £880 million in the first half of the year (half-year to 30 June 2023: £1,006 million). The Group expects a medium-term effective tax rate of around 27 per cent based on the banking surcharge rate of 3 per cent and the corporation tax rate of 25 per cent.

SUMMARY OF GROUP RESULTS (continued)

Balance sheet

	At 30 Jun 2024	At 31 Mar 2024	***Change %***	At 31 Dec 2023	***Change %***
Loans and advances to customers	**£452.4bn**	£448.5bn	***1***	£449.7bn	***1***
Customer deposits	**£474.7bn**	£469.2bn	***1***	£471.4bn	***1***
Loan to deposit ratio[A]	**95%**	96%	***(1pp)***	95%	
Wholesale funding	**£97.6bn**	£99.9bn	***(2)***	£98.7bn	***(1)***
Wholesale funding <1 year maturity	**£38.0bn**	£39.8bn	***(5)***	£35.1bn	***8***
of which: money market funding <1 year maturity[1]	**£20.7bn**	£22.7bn	***(9)***	£23.8bn	***(13)***
Liquidity coverage ratio – eligible assets[2]	**£136.0bn**	£136.4bn		£136.0bn	
Liquidity coverage ratio[3]	**144%**	143%	***1pp***	142%	***2pp***
Net stable funding ratio[4]	**130%**	130%		130%	

1 Excludes balances relating to margins of £2.1 billion (31 March 2024: £2.2 billion; 31 December 2023: £2.4 billion).

2 Eligible assets are calculated as a monthly rolling simple average of month end observations over the previous 12 months post any liquidity haircuts.

3 The liquidity coverage ratio is calculated as a monthly rolling simple average over the previous 12 months.

4 Net stable funding ratio is based on an average of the four previous quarters.

Loans and advances to customers increased by £2.7 billion in the year to date to £452.4 billion. This included growth across most Retail product areas, with £0.7 billion growth in UK mortgages (net of the impact of the securitisation of £0.9 billion of legacy mortgages in the second quarter) and £1.3 billion growth in UK Retail unsecured loans, due to organic balance growth and lower repayments following a securitisation in the fourth quarter of 2023. In Commercial Banking, Small and Medium Business lending decreased by £1.5 billion including repayments of £0.8 billion of government-backed lending, partly offset by a £1.0 billion increase in Corporate and Institutional Banking balances through strategic growth. Growth of £3.9 billion in the second quarter was driven by balance increases across Retail, including £2.3 billion in UK mortgages (net of £0.9 billion securitisation) and £1.0 billion in Corporate and Institutional Banking. This supports a positive trajectory for average interest-earning banking assets in the second half of 2024.

Customer deposits stood at £474.7 billion at 30 June 2024, a healthy increase of £3.3 billion in the year to date and £5.5 billion in the second quarter. Retail deposits were up £4.9 billion in the first half with a combined increase of £5.9 billion across Retail savings and Wealth, driven by inflows to limited withdrawal and fixed products, partly offset by £1.0 billion reduction in current account balances. This was driven by seasonal tax payments and outflows to savings products, including the Group's own savings offers, partly offset by wage inflation. Commercial Banking deposits reduced by £1.6 billion in the first half (with £1.9 billion growth in the second quarter). This was driven by managing for value in Corporate and Institutional Banking, while within Small and Medium Businesses, growth in targeted sectors was partly offset by outflows due to business utilisation.

The Group has a large, high quality liquid asset portfolio held mainly in cash and government bonds, with all assets hedged for interest rate risk. The Group's liquid assets continue to significantly exceed regulatory requirements and internal risk appetite, with a strong, stable liquidity coverage ratio of 144 per cent (31 December 2023: 142 per cent) and a strong net stable funding ratio of 130 per cent (31 December 2023: 130 per cent). The loan to deposit ratio of 95 per cent, stable compared to 31 December 2023, continues to reflect a robust funding and liquidity position.

Capital

	At 30 Jun 2024	At 31 Mar 2024	***Change %***	At 31 Dec 2023	***Change %***
CET1 ratio	**14.1%**	13.9%	***0.2pp***	14.6%	***(0.5)pp***
Pro forma CET1 ratio[A,1]	**14.1%**	13.9%	***0.2pp***	13.7%	***0.4pp***
UK leverage ratio	**5.4%**	5.6%	***(0.2)pp***	5.8%	***(0.4)pp***
Risk-weighted assets	**£222.0bn**	£222.8bn		£219.1bn	***1***

SUMMARY OF GROUP RESULTS (continued)

Capital generation

Pro forma CET1 ratio as at 31 December 2023[1]	**13.7%**
Banking build (including impairment charge) (bps)	110
Insurance dividend (bps)	10
Risk-weighted assets (bps)	(18)
Other movements[2] (bps)	(8)
Capital generation (bps)	**94**
Retail secured CRD IV model updates and phased unwind of IFRS 9 transitional relief (bps)	(7)
Capital generation (post CRD IV and transitional headwinds) (bps)	**87**
Ordinary dividend (bps)	(48)
CET1 ratio as at 30 June 2024	**14.1%**

[1] 31 December 2023 reflects both the full impact of the share buyback announced in respect of 2023 and the ordinary dividend received from the Insurance business in February 2024, but excludes the impact of the phased unwind of IFRS 9 relief on 1 January 2024.

[2] Includes share-based payments, market volatility and FX loss on USD AT1 redemption.

The Group's CET1 capital ratio at 30 June 2024 was 14.1 per cent (31 December 2023: 13.7 per cent pro forma). Capital generation after regulatory headwinds during the first half of the year was 87 basis points (47 basis points in the second quarter). This reflected robust banking build and the £200 million interim half-year dividend received from the Insurance business in June, partially offset by risk-weighted asset increases and other movements. Other movements include a 15 basis point impact given the recognition of a foreign exchange translation loss upon the redemption of a US Dollar denominated AT1 capital instrument in June. Regulatory headwinds of 7 basis points reflect the reduction in the transitional factor applied to IFRS 9 dynamic relief on 1 January 2024 and an adjustment for part of the impact of the Retail secured CRD IV models. The Group has accrued a foreseeable ordinary dividend of 48 basis points, inclusive of the announced interim ordinary dividend of 1.06 pence per share. The Group continues to expect capital generation in 2024 to be c.175 basis points.

As mentioned in the Group's 2023 Full Year Results, there will be no further deficit contributions made to the Group's main defined benefit pension schemes, fixed or variable, for this triennial period (to 31 December 2025).

Risk-weighted assets increased by £2.9 billion to £222.0 billion at 30 June 2024 (31 December 2023: £219.1 billion). This incorporates the impact of Retail lending growth, offset by optimisation including capital efficient securitisation activity, in addition to other movements. In the context of the Retail secured CRD IV models, it is estimated that a £5 billion risk-weighted asset increase will be required over 2024 to 2026, inclusive of the additional risk-weighted assets recognised in the first half of the year, noting that this will be subject to final model outcomes. The Group's risk-weighted assets guidance for 2024 remains unchanged at between £220 billion and £225 billion.

The Group's total regulatory CET1 capital requirement remains at around 12 per cent. The Board's view of the ongoing level of CET1 capital required to grow the business, meet current and future regulatory requirements and cover economic and business uncertainties is c.13.0 per cent. This includes a management buffer of around 1 per cent. In order to manage risks and distributions in an orderly way, the Board expects to pay down to the previous target of c.13.5 per cent by the end of 2024 before progressing towards paying down to the current capital target of c.13.0 per cent by the end of 2026.

Dividend and share buyback

The Group has a progressive and sustainable ordinary dividend policy whilst maintaining the flexibility to return further surplus capital through buybacks or special dividends. The Board has recommended an interim ordinary dividend of 1.06 pence per share, an increase of 15 per cent compared to the first half of 2023, in line with the Board's commitment to capital returns. The Board intends to pay down to its ongoing capital target of c.13 per cent by the end of 2026.

In February this year, the Board approved an ordinary share buyback programme of up to £2.0 billion to return surplus capital in respect of 2023. This commenced in February 2024 and at 30 June 2024, the programme had completed £0.9 billion of the buyback, with c.1.8 billion ordinary shares purchased.

DIVISIONAL RESULTS

Segmental analysis - underlying basis[A]

Half-year to 30 June 2024	Retail £m	Commercial Banking £m	Insurance, Pensions and Investments £m	Equity Investments and Central Items £m	Group £m
Underlying net interest income	**4,430**	**1,696**	**(74)**	**286**	**6,338**
Underlying other income	**1,148**	**947**	**649**	**(10)**	**2,734**
Operating lease depreciation	**(677)**	**(2)**	**–**	**–**	**(679)**
Net income	**4,901**	**2,641**	**575**	**276**	**8,393**
Operating costs	**(2,778)**	**(1,363)**	**(458)**	**(101)**	**(4,700)**
Remediation	**(54)**	**(32)**	**(5)**	**(4)**	**(95)**
Total costs	**(2,832)**	**(1,395)**	**(463)**	**(105)**	**(4,795)**
Underlying profit before impairment	**2,069**	**1,246**	**112**	**171**	**3,598**
Underlying impairment (charge) credit	**(194)**	**83**	**7**	**3**	**(101)**
Underlying profit	**1,875**	**1,329**	**119**	**174**	**3,497**
Banking net interest margin[A]	**2.49%**	**4.31%**			**2.94%**
Average interest-earning banking assets[A]	**£367.0bn**	**£82.2bn**	**–**	**–**	**£449.2bn**
Asset quality ratio[A]	**0.11%**	**(0.17)%**			**0.05%**
Loans and advances to customers[1]	**£365.1bn**	**£88.1bn**	**–**	**(£0.8bn)**	**£452.4bn**
Customer deposits	**£313.3bn**	**£161.2bn**	**–**	**£0.2bn**	**£474.7bn**
Risk-weighted assets	**£123.3bn**	**£73.2bn**	**£0.2bn**	**£25.3bn**	**£222.0bn**

Half-year to 30 June 2023	Retail £m	Commercial Banking £m	Insurance, Pensions and Investments £m	Equity Investments and Central Items £m	Group £m
Underlying net interest income	5,064	1,934	(70)	76	7,004
Underlying other income	1,006	856	619	57	2,538
Operating lease depreciation	(351)	(5)	–	–	(356)
Net income	5,719	2,785	549	133	9,186
Operating costs	(2,607)	(1,253)	(451)	(102)	(4,413)
Remediation	(15)	(43)	(8)	(4)	(70)
Total costs	(2,622)	(1,296)	(459)	(106)	(4,483)
Underlying profit before impairment	3,097	1,489	90	27	4,703
Underlying impairment (charge) credit	(592)	(72)	1	1	(662)
Underlying profit	2,505	1,417	91	28	4,041
Banking net interest margin[A]	2.89%	4.70%			3.18%
Average interest-earning banking assets[A]	£364.1bn	£87.8bn	–	£1.9bn	£453.8bn
Asset quality ratio[A]	0.33%	0.16%			0.29%
Loans and advances to customers[1]	£361.9bn	£92.1bn	–	(£3.3bn)	£450.7bn
Customer deposits	£305.9bn	£163.6bn	–	£0.3bn	£469.8bn
Risk-weighted assets	£114.8bn	£75.5bn	£0.2bn	£24.8bn	£215.3bn

[1] Equity Investments and Central Items includes central fair value hedge accounting adjustments.

DIVISIONAL RESULTS (continued)

Segmental analysis - underlying basis[A] (continued)

Half-year to 31 December 2023	Retail £m	Commercial Banking £m	Insurance, Pensions and Investments £m	Equity Investments and Central Items £m	Group £m
Underlying net interest income	4,583	1,865	(62)	375	6,761
Underlying other income	1,153	835	590	7	2,585
Operating lease depreciation	(597)	(3)	–	–	(600)
Net income	5,139	2,697	528	382	8,746
Operating costs	(2,862)	(1,394)	(429)	(42)	(4,727)
Remediation	(500)	(84)	(6)	(15)	(605)
Total costs	(3,362)	(1,478)	(435)	(57)	(5,332)
Underlying profit before impairment	1,777	1,219	93	325	3,414
Underlying impairment (charge) credit	(239)	583	6	4	354
Underlying profit	1,538	1,802	99	329	3,768
Banking net interest margin[A]	2.58%	4.56%			3.03%
Average interest-earning banking assets[A]	£367.1bn	£85.8bn	–	–	£452.9bn
Asset quality ratio[A]	0.13%	(1.25)%			(0.15)%
Loans and advances to customers[1]	£361.2bn	£88.6bn	–	(£0.1bn)	£449.7bn
Customer deposits	£308.4bn	£162.8bn	–	£0.2bn	£471.4bn
Risk-weighted assets	£119.3bn	£74.2bn	£0.2bn	£25.4bn	£219.1bn

[1] Equity Investments and Central Items includes central fair value hedge accounting adjustments.

DIVISIONAL RESULTS (continued)

Retail

Retail offers a broad range of financial services products to personal customers, including current accounts, savings, mortgages, credit cards, unsecured loans, motor finance and leasing solutions. Its aim is to build enduring relationships that meet more of its customers' financial needs and improve their financial resilience throughout their lifetime, with personalised products and services. Retail operates the largest digital bank and branch network in the UK and continues to improve service levels and reduce conduct risk, whilst working within a prudent risk appetite. Through strategic investment, alongside increased use of data, Retail aims to deepen existing and new consumer relationships and broaden its intermediary offering, to improve customer experience, operational efficiency and increasingly tailor propositions.

Strategic progress

- UK's largest digital bank with 22.0 million digitally active users, of which 19.4 million actively use the Group's mobile apps, up 4 per cent in year. Mobile messaging service interactions increased 70 per cent versus prior year
- Introduced dynamic ecosystems within the mobile apps[1], bringing together products and services such as savings and investments, mortgages and home insurance into spaces aligned to how customers think about their finances
- Digital capability enhancements, including new eligibility likelihood messaging in 'Your Credit Score', the Group's credit checking tool which now has over 10 million customer registrations, a new mobile journey for customers to transfer in their existing ISAs, and partnering with ApTap to provide a bill management marketplace for mortgage customers
- Scaled up the 'Lloyds Bank 360' mass affluent proposition to c.500,000 customers and launched new dedicated remortgage product for these customers; introduced digital investment advice service on customer mobile apps
- Renewed and expanded partnership with Visa, the Group's preferred scheme partner, to further enhance the debit and credit card businesses. Removed fees on overseas debit card usage for the majority of packaged bank accounts
- Cash Access UK Banking Hub network doubled in size this year, providing continued support to customers in the heart of their communities. Trial of a new banking kiosk format as we continue to innovate on distribution
- Invested in technology business Coadjute, whose goal is to modernise and transform how all parties involved in property transactions connect, collaborate and communicate, to improve and speed up the home buying journey
- On track to meet 2024 sustainability targets, having lent £9.1 billion for mortgages[2] on properties with an EPC rating of B or higher and £7.6 billion for financing and leasing of battery electric and plug-in hybrid vehicles[2]
- Partnered with iconic British brand Aston Martin as their retail finance provider for UK vehicle sales

Financial performance

- Underlying net interest income 13 per cent lower, reflecting anticipated mortgage and unsecured lending margin compression, deposit mix headwinds, partly offset by structural hedge earnings in the higher rate environment
- Underlying other income up 14 per cent, driven by UK Motor Finance, including growth following the acquisition of Tusker in the first half of 2023 and an increase in average rental value
- Operating lease depreciation charge higher due to fleet growth, the depreciation of higher value vehicles and declines in used electric car prices, the latter driving a c.£100 million additional charge in the second quarter
- Operating costs up 7 per cent, with cost efficiencies helping to offset ongoing strategic investment (including planned elevated severance), the sector-wide Bank of England Levy and inflationary pressure. Remediation costs of £54 million relate largely to pre-existing programmes
- Underlying impairment charge of £194 million is lower than prior year. This is due to updated economic scenarios resulting in a £269 million credit (notably an improved HPI outlook), the release of judgmental adjustments for inflation and interest rate risks and further improvement in UK mortgages credit performance
- Loans and advances to customers up £3.9 billion with growth across most product areas. £0.7 billion growth in UK mortgages (net of the securitisation of £0.9 billion legacy mortgages) and £1.3 billion growth in UK Retail unsecured loans, due to organic balance growth and lower repayments following a securitisation in the fourth quarter of 2023
- Customer deposits up 2 per cent, including a £6.7 billion increase in savings, with the higher rate environment driving inflows to fixed and limited withdrawal products. Current account balances down £1.0 billion from seasonal tax payments and outflows to savings including the Groups own offering, partly offset by wage inflation
- Risk-weighted assets up 3 per cent to £123.3 billion, due to higher lending balances and an adjustment for part of the impact of the Retail secured CRD IV models, partly offset by the securitisation of legacy mortgage loans

1 Available to Halifax, Lloyds Bank and Bank of Scotland customers, dependent on product holding and mobile operating system.

2 Since 1 January 2022, new mortgage lending on residential property with an Energy Performance Certificate rating of B or higher at 31 March 2024; and new lending for Black Horse and operating leases for Lex Autolease and Tusker at 30 June 2024.

DIVISIONAL RESULTS (continued)

Retail (continued)

Retail performance summary[A]

	Half-year to 30 Jun 2024 £m	Half-year to 30 Jun 2023 £m	***Change %***	Half-year to 31 Dec 2023 £m	***Change %***
Underlying net interest income	**4,430**	5,064	***(13)***	4,583	***(3)***
Underlying other income	**1,148**	1,006	***14***	1,153	
Operating lease depreciation	**(677)**	(351)	***(93)***	(597)	***(13)***
Net income	**4,901**	5,719	***(14)***	5,139	***(5)***
Operating costs	**(2,778)**	(2,607)	***(7)***	(2,862)	***3***
Remediation	**(54)**	(15)		(500)	***89***
Total costs	**(2,832)**	(2,622)	***(8)***	(3,362)	***16***
Underlying profit before impairment	**2,069**	3,097	***(33)***	1,777	***16***
Underlying impairment	**(194)**	(592)	***67***	(239)	***19***
Underlying profit	**1,875**	2,505	***(25)***	1,538	***22***
Banking net interest margin[A]	**2.49%**	2.89%	***(40)bp***	2.58%	***(9)bp***
Average interest-earning banking assets[A]	**£367.0bn**	£364.1bn	***1***	£367.1bn	
Asset quality ratio[A]	**0.11%**	0.33%	***(22)bp***	0.13%	***(2)bp***

	At 30 Jun 2024 £bn	At 31 Mar 2024 £bn	***Change %***	At 31 Dec 2023 £bn	***Change %***
UK mortgages[1,2]	**306.9**	304.6	***1***	306.2	
Credit cards	**15.6**	15.2	***3***	15.1	***3***
UK Retail unsecured loans	**8.2**	7.6	***8***	6.9	***19***
UK Motor Finance	**16.2**	15.8	***3***	15.3	***6***
Overdrafts	**1.0**	1.0		1.1	***(9)***
Other[1,3]	**17.2**	16.9	***2***	16.6	***4***
Loans and advances to customers	**365.1**	361.1	***1***	361.2	***1***
Operating lease assets[4]	**6.9**	6.8	***1***	6.5	***6***
Total customer assets	**372.0**	367.9	***1***	367.7	***1***
Current accounts	**101.7**	103.1	***(1)***	102.7	***(1)***
Savings accounts[5]	**201.5**	196.4	***3***	194.8	***3***
Wealth	**10.1**	10.2	***(1)***	10.9	***(7)***
Customer deposits	**313.3**	309.7	***1***	308.4	***2***
Risk-weighted assets	**123.3**	121.4	***2***	119.3	***3***

1 From the first quarter of 2024, open mortgage book and closed mortgage book loans and advances, previously presented separately, are reported together as UK mortgages; Wealth loans and advances, previously reported separately, are included within Retail other. The 31 December 2023 comparative is presented on a consistent basis.

2 The increase between 31 March 2024 and 30 June 2024 is net of the impact of the securitisation of £0.9 billion of legacy Retail mortgages in May 2024.

3 Within loans and advances, Retail other includes the European and Wealth businesses.

4 Operating lease assets relate to Lex Autolease and Tusker.

5 From the first quarter of 2024, Retail relationship savings accounts and Retail tactical savings accounts, previously reported separately, are reported together as Retail savings accounts. The 31 December 2023 comparative is presented on a consistent basis.

DIVISIONAL RESULTS (continued)

Commercial Banking

Commercial Banking serves small and medium businesses and corporate and institutional clients, providing lending, transactional banking, working capital management, debt financing and risk management services whilst connecting the whole Group to clients. Through investment in digital capability and product development, Commercial Banking will deliver an enhanced customer experience via a digital-first model in Small and Medium Businesses and an expanded client proposition across Commercial Banking, generating diversified capital efficient growth and supporting customers in their transition to net zero.

Strategic progress

- Increased euro and US Dollar debt capital markets issuance volumes by 61 per cent versus the first half of 2023, significantly above market increase of 27 per cent[1]
- Winning greater than 60 per cent of mandates in Global Transaction Solutions
- Improved cardholder proposition for foreign visitors to the UK with the enablement of local currency card payments and withdrawals, providing guaranteed costs at the point of transaction
- Awarded Best Bank for Digitalisation Globally at the Global Trade Review Awards 2024. Completed the Group's first electronic bill of lading transaction; reducing transaction time, execution risk, costs and environmental impact
- Delivered £5.9 billion of sustainable financing[2] in first half of 2024. Ranked first in ESG-labelled bond issuance for UK issuers[3]
- Launched 'Lloyds Bank Market Insights' bringing together economics and markets expertise to provide topical and timely thought leadership to clients
- Launched new mobile first instant access savings journey enabling clients to open an instant access account seamlessly with straight through processing
- Successful pilot in partnership with CoBa, creating client insights by connecting products and services into one place to establish foreign exchange requirements
- Expanded Merchant Services Clover proposition, offering customers new terminals and faster settlement through an assisted onboarding journey
- Rolled out new mobile overdraft journey, streamlining the customer experience and enabling Business Banking customers to digitally apply for an overdraft facility up to £50,000
- Launched the Buildings Transition Loan offering customers discounted lending for investing in energy efficient property portfolios. Enhancing and expanding Green Asset Finance and Clean Growth Financing lending products
- Hosted the Lilac Review following the publication of the Disability and Entrepreneur Report in partnership with Small Business Britain, demonstrating commitment to drive meaningful change to support disabled-led businesses

Financial performance

- Underlying net interest income of £1,696 million, down 12 per cent on the prior year, driven by a lower banking net interest margin reflecting deposit churn and lower average deposit balances
- Underlying other income increased 11 per cent to £947 million, driven by strong markets performance due to growth from strategic investment and higher levels of client activity resulting in client franchise growth
- Operating costs 9 per cent higher with continued cost efficiencies helping to offset the sector-wide Bank of England Levy, ongoing strategic investment, planned elevated severance charges and inflationary pressures. Remediation charge remains low at £32 million
- Underlying impairment credit of £83 million given strong asset quality and a benefit from a one-off release from loss rates and updated economic scenarios. Continuing to observe a low charge on new and existing Stage 3 clients
- Customer lending 1 per cent lower at £88.1 billion reflecting continued net repayments within Small and Medium Businesses, including government-backed lending, partly offset by strategic growth in Corporate and Institutional Banking
- Customer deposits 1 per cent lower at £161.2 billion, due to managing for value in Corporate and Institutional Banking. Within Small and Medium Businesses, growth in targeted sectors partly offset by outflows due to business utilisation
- Risk-weighted assets decreased to £73.2 billion, demonstrating efficient use of capital and optimisation activity

1 Refinitiv Eikon; All international bonds in euro and US Dollar, excluding Sovereign, supranational and agency issuance.
2 In line with the Sustainable Financing Framework.
3 Bondradar; excluding Sovereign, supranational and agency issuance.

DIVISIONAL RESULTS (continued)

Commercial Banking (continued)

Commercial Banking performance summary[A]

	Half-year to 30 Jun 2024 £m	Half-year to 30 Jun 2023 £m	***Change %***	Half-year to 31 Dec 2023 £m	***Change %***
Underlying net interest income	**1,696**	1,934	***(12)***	1,865	***(9)***
Underlying other income	**947**	856	***11***	835	***13***
Operating lease depreciation	**(2)**	(5)	***60***	(3)	***33***
Net income	**2,641**	2,785	***(5)***	2,697	***(2)***
Operating costs	**(1,363)**	(1,253)	***(9)***	(1,394)	***2***
Remediation	**(32)**	(43)	***26***	(84)	***62***
Total costs	**(1,395)**	(1,296)	***(8)***	(1,478)	***6***
Underlying profit before impairment	**1,246**	1,489	***(16)***	1,219	***2***
Underlying impairment credit (charge)	**83**	(72)		583	***(86)***
Underlying profit	**1,329**	1,417	***(6)***	1,802	***(26)***
Banking net interest margin[A]	**4.31%**	4.70%	***(39)bp***	4.56%	***(25)bp***
Average interest-earning banking assets[A]	**£82.2bn**	£87.8bn	***(6)***	£85.8bn	***(4)***
Asset quality ratio[A]	**(0.17%)**	0.16%		(1.25%)	

	At 30 Jun 2024 £bn	At 31 Mar 2024 £bn	***Change %***	At 31 Dec 2023 £bn	***Change %***
Small and Medium Businesses	**31.5**	32.2	***(2)***	33.0	***(5)***
Corporate and Institutional Banking	**56.6**	55.6	***2***	55.6	***2***
Loans and advances to customers	**88.1**	87.8		88.6	***(1)***
Customer deposits	**161.2**	159.3	***1***	162.8	***(1)***
Risk-weighted assets	**73.2**	74.3	***(1)***	74.2	***(1)***

DIVISIONAL RESULTS (continued)

Insurance, Pensions and Investments

Insurance, Pensions and Investments (IP&I) supports over 10 million customers with assets under administration (AuA) of £226 billion (excluding Wealth) and annualised annuity payments of over £0.8 billion. This was articulated through the investor seminar in March 2024, which highlighted the significant growth potential in the business and the capacity to unlock value. The Group continues to invest significantly into IP&I to develop the business, including the investment propositions to support the Group's mass affluent strategy, innovating intermediary propositions and accelerating the transition to a low carbon economy. The decision to divest the bulk annuities business was a key step in refocusing the activities of IP&I.

Strategic progress

- Open book AuA of £177 billion, with 8 per cent growth year-on-year. Net AuA flows of £2.7 billion, contributing to an increased stock of deferred profit
- Workplace pensions business 5 per cent annual increase in regular contributions to pensions administered, with £2.6 billion net AuA inflows in the period, driven by contributions and pension scheme wins, contributing to 10 per cent AuA growth and over £100 billion of AuA
- Launched new Scottish Widows app to transform the way people save and plan for their future. Currently there are 1 million digitally registered customers across the internet and app platforms
- Continued to grow our home insurance presence with digitisation improvements transforming customer experience. New policies up over 90 per cent and market share up 5.5 percentage points to 16.2 per cent in the first quarter of 2024 versus prior year
- Following the success of Ready-Made Investments, Ready-Made Pensions launched in March allowing customers to open a personal pension, supporting Group mass affluent objectives
- Market share of stocks and shares ISA new account openings at 20.1 per cent, second in market (three months to 31 March 2023: 14.0 per cent, fourth in market)[1]
- Continued momentum in the protection insurance offering, utilising Retail channels with take-up rates (as a percentage of mortgage completions) increasing from 9.1 per cent to 12.1 per cent in the period
- Supported 8,400 customers to secure a guaranteed income for life (half-year to 30 June 2023: c.6,000), issuing c.£800 million of annuity policies (half-year to 30 June 2023: c.£450 million)
- Agreed the sale of the in-force bulk annuity portfolio to Rothesay Life plc, enabling the Division to focus on growing strategically important lines of business
- Climate-aware investment strategy assets increased by £2.2 billion, cumulatively to £23.9 billion, on track to meet the target of between £20 billion and £25 billion by 2025[2]

Financial performance

- Underlying other income of £649 million, up 5 per cent driven by strong trading, with higher general insurance income partly offset by higher claims in the first quarter and the agreed sale (subject to regulatory approval) of the in-force bulk annuity portfolio, with associated income and costs for the quarter recognised within volatility and other items
- Underlying other income was up 9 per cent, excluding the in-force bulk annuity portfolio
- Operating costs up 2 per cent, with cost efficiencies helping to offset higher ongoing strategic investment, planned elevated severance charges and inflationary pressure
- Contractual service margin broadly stable in the year at £4.0 billion (after release to income of £168 million), including £27 million from new business, reflecting value generation in workplace pensions and annuities. Balance of deferred profits (including the risk adjustment) £5.1 billion at 30 June 2024
- Life and pensions sales (PVNBP) reduced by 9 per cent driven by the agreed sale (subject to regulatory approval) of the in-force bulk annuity portfolio offset by strong performance in the annuities business
- Positive contribution to the Group's CET1 ratio through the payment of a £200 million interim dividend to Lloyds Banking Group. This was supported by a strong capital position with an estimated Insurance Solvency II ratio of 177 per cent (169 per cent after interim dividend)
- Credit asset portfolio remains strong, rated 'A-' on average. Well diversified, with less than 1.5 per cent of assets backing annuities being sub-investment grade or unrated. Strong liquidity position with c.£3 billion cash and cash equivalents

[1] Three months to 31 March 2024. ISA information reflects opening through our direct channels.

[2] Includes a range of funds with a bias towards investing in companies that are reducing the carbon intensity of their businesses and/or are developing climate solutions.

DIVISIONAL RESULTS (continued)

Insurance, Pensions and Investments (continued)

Insurance, Pensions and Investments performance summary[A]

	Half-year to 30 Jun 2024 £m	Half-year to 30 Jun 2023 £m	***Change %***	Half-year to 31 Dec 2023 £m	***Change %***
Underlying net interest income	**(74)**	(70)	***(6)***	(62)	***(19)***
Underlying other income	**649**	619	***5***	590	***10***
Net income	**575**	549	***5***	528	***9***
Operating costs	**(458)**	(451)	***(2)***	(429)	***(7)***
Remediation	**(5)**	(8)	***38***	(6)	***17***
Total costs	**(463)**	(459)	***(1)***	(435)	***(6)***
Underlying profit before impairment	**112**	90	***24***	93	***20***
Underlying impairment	**7**	1		6	***(17)***
Underlying profit	**119**	91	***31***	99	***20***
Life and pensions sales (PVNBP)[A,1]	**8,155**	8,956	***(9)***	8,493	***(4)***
New business value of insurance and participating investment contracts recognised in the year[A,2]					
of which: deferred to contractual service margin and risk adjustment	**61**	98	***(38)***	75	***(19)***
of which: losses recognised on initial recognition	**(10)**	(9)	***(11)***	(11)	***(9)***
	51	89	***(43)***	64	***(20)***
Assets under administration (net flows)[3]	**£2.7bn**	£3.7bn	***(27)***	£1.4bn	***93***
General insurance underwritten new gross written premiums[A]	**95**	42		82	***16***
General insurance underwritten total gross written premiums[A]	**343**	258	***33***	321	***7***
General insurance combined ratio[4]	**101%**	99%	***2pp***	113%	***(12)pp***

	At 30 Jun 2024	At 31 Mar 2024	***Change %***	At 31 Dec 2023	***Change %***
Insurance Solvency II ratio (pre-dividend)[5]	**177%**	173%	***4pp***	186%	***(9)pp***
Total customer assets under administration	**£225.9bn**	£221.7bn	***2***	£213.1bn	***6***

1 Present value of new business premiums.

2 New business value represents the value added to the contractual service margin and risk adjustment at the initial recognition of new contracts, net of acquisition expenses and any loss component on onerous contracts (which is recognised directly in the income statement) but does not include existing business increments.

3 The movement in asset inflows and outflows driven by business activity (excluding market movements).

4 General insurance combined ratio for the first half of 2024 includes £30 million (half-year to 30 June 2023: £18 million; half-year to 31 December 2023: £33 million) relating to severe weather event claims (storm, flood, subsidence and freeze). Excluding these items and reserve releases the ratio was 91 per cent (half-year to 30 June 2023: 98 per cent; half-year to 31 December 2023 96 per cent).

5 Equivalent estimated regulatory view of ratio (including With-Profits funds and post dividend where applicable) was 160 per cent (31 December 2023: 166 per cent, post February 2024 dividend).

DIVISIONAL RESULTS (continued)

Insurance, Pensions and Investments (continued)

Movement in the contractual service margin (CSM) and risk adjustment

	Half-year to 30 June 2024			Half-year to 30 June 2023			***Change***
	CSM £m	**Risk adjustment £m**	**Total[1] £m**	CSM £m	Risk adjustment £m	Total[1] £m	***Total £m***
At start of period	**4,195**	**1,110**	**5,305**	3,999	1,109	5,108	***197***
New business written in year							
of which: workplace and retirement account	**7**	**24**	**31**	20	16	36	***(5)***
of which: individual and bulk annuities	**29**	**8**	**37**	43	24	67	***(30)***
of which: protection	**(9)**	**2**	**(7)**	(7)	2	(5)	***(2)***
	27	**34**	**61**	56	42	98	***(37)***
Release to income statement	**(168)**	**(27)**	**(195)**	(152)	(38)	(190)	***(5)***
Other[2]	**(35)**	**(63)**	**(98)**	29	17	46	***(144)***
At end of period	**4,019**	**1,054**	**5,073**	3,932	1,130	5,062	***11***

1 Total deferred profit is represented by CSM and risk adjustment, both held on the balance sheet. CSM is released as insurance contract services are provided; risk adjustment is released as uncertainty within the calculation of the liabilities diminishes. Amounts are shown net of reinsurance.

2 For the half-year to 30 June 2024, Other includes the impact of the Rothesay Life plc reinsurance contract, relating to the proposed sale of the in-force bulk annuity portfolio. This is not included in the new business value.

Volatility arising in the Insurance business

	Half-year to 30 Jun 2024 £m	Half-year to 30 Jun 2023 £m	Half-year to 31 Dec 2023 £m
Insurance volatility	**(16)**	24	174
Policyholder interests volatility	**112**	29	87
Total volatility	**96**	53	261
Insurance hedging arrangements	**(324)**	(235)	(187)
Total[1]	**(228)**	(182)	74

1 Total insurance volatility is included within market volatility and asset sales, which in total resulted in a loss of £65 million in the half-year to 30 June 2024 (half-year to 30 June 2023: loss of £63 million; half-year to 31 December 2023: gain of £98 million). See page 28.

The Group's Insurance business has policyholder liabilities that are supported by substantial holdings of investments. IFRS requires that changes in both the value of the liabilities and investments are reflected within the income statement. The value of the liabilities does not move exactly in line with changes in the value of the investments. As the investments are substantial, movements in their value can have a significant impact on the profitability of the Group. Management believes that it is appropriate to disclose the division's results on the basis of an expected return. The impact of the actual return on these investments differing from the expected return is included within insurance volatility. Insurance volatility on business accounted for under the Variable Fee Approach (largely unit-linked pensions business) is deferred to the CSM, other than where the risk mitigation option is applied. Policyholder interests volatility is driven by the additional management charges made to some life product customers to cover the extra tax on their products. Underlying profit therefore includes the expected charge or credit for the year, with the variance to expectation included in volatility.

During the first half of 2024 the small loss in the insurance volatility line was driven by asset value losses from increases to interest rates, partly offset by increases in equity market levels which resulted in profit from application of the risk mitigation option, as permitted under IFRS 17. At a total level there was a larger loss from hedging arrangements.

The Group manages its Insurance business exposures to equity, interest rate, foreign currency exchange rate, inflation and market movements within the Insurance, Pensions and Investments division. It does so by balancing the importance of managing the impacts to both capital and earnings volatility.

DIVISIONAL RESULTS (continued)

Equity Investments and Central Items

	Half-year to 30 Jun 2024 £m	Half-year to 30 Jun 2023 £m	***Change %***	Half-year to 31 Dec 2023 £m	***Change %***
Net income	**276**	133		382	***(28)***
Operating costs	**(101)**	(102)	***1***	(42)	
Remediation	**(4)**	(4)		(15)	***73***
Total costs	**(105)**	(106)	***1***	(57)	***(84)***
Underlying profit before impairment	**171**	27		325	***(47)***
Underlying impairment	**3**	1		4	***(25)***
Underlying profit	**174**	28		329	***(47)***

Equity Investments and Central Items includes the Group's equity investments businesses, including Lloyds Development Capital (LDC), the Group's share of the Business Growth Fund (BGF) and the Housing Growth Partnership (HGP), as well as Citra Living. Also included are income and expenses not attributed to other divisions, including residual underlying net interest income after transfer pricing (which includes the recharging to other divisions of the Group's external AT1 distributions), in period gains from gilt sales and the unwind of associated hedging costs.

Net income for the first half of 2024 was higher compared to the same period in 2023, with stronger underlying net interest income partly offset by weaker underlying other income. Underlying net interest income benefitted from the effect of rising rates on income earned from the placement of funds raised through the issuance of structured medium-term notes (offset within underlying other income by the increased funding costs of the notes) as well as higher internal recharges to other divisions as a result of increased AT1 distribution costs. Underlying other income was weaker, primarily as a result of higher funding costs and the timing of exits in LDC.

Total costs of £105 million in the first half of 2024 were stable on the prior year. Underlying impairment was a £3 million credit compared to a £1 million credit in the first half of 2023.

ALTERNATIVE PERFORMANCE MEASURES

The statutory results are supplemented with those presented on an underlying basis and also with other alternative performance measures. This is to enable a comprehensive understanding of the Group and facilitate comparison with peers. The Group Executive Committee, which is the 'chief operating decision maker' (as defined by IFRS 8 *Operating Segments*) for the Group, reviews the Group's results on an underlying basis in order to assess performance and allocate resources. Management uses underlying profit before tax, an alternative performance measure, as a measure of performance and believes that it provides important information for investors. This is because it allows for a comparable representation of the Group's performance by removing the impact of items such as volatility caused by market movements outside the control of management.

In arriving at underlying profit, statutory profit before tax is adjusted for the items below, to allow a comparison of the Group's underlying performance:

- Restructuring costs relating to merger, acquisition and integration activities
- Volatility and other items, which includes the effects of certain asset sales, the volatility relating to the Group's hedging arrangements and that arising in the Insurance business, the unwind of acquisition-related fair value adjustments and the amortisation of purchased intangible assets
- Losses from insurance and participating investment contract modifications relating to the enhancement to the Group's longstanding and workplace pension business through the addition of a drawdown feature

The analysis of lending and expected credit loss (ECL) allowances is presented on both a statutory and an underlying basis and a reconciliation between the two is shown on page 40. On a statutory basis, purchased or originated credit-impaired (POCI) assets include a fixed pool of mortgages that were purchased as part of the HBOS acquisition at a deep discount to face value reflecting credit losses incurred from the point of origination to the date of acquisition. Over time, these POCI assets will run off as the loans redeem, pay down or losses crystallise. The underlying basis assumes that the lending assets acquired as part of a business combination were originated by the Group and are classified as either Stage 1, 2 or 3 according to the change in credit risk over the period since origination. Underlying ECL allowances have been calculated accordingly. The Group uses the underlying basis to monitor the creditworthiness of the lending portfolio and related ECL allowances.

ALTERNATIVE PERFORMANCE MEASURES (continued)

The Group calculates a number of metrics that are used throughout the banking and insurance industries on an underlying basis. These metrics are not necessarily comparable to similarly titled measures presented by other companies and are not any more authoritative than measures presented in the financial statements, however management believes that they are useful in assessing the performance of the Group and in drawing comparisons between years. A description of these measures and their calculation, is given below. Alternative performance measures are used internally in the Group's Monthly Management Report.

Asset quality ratio	The underlying impairment charge or credit for the period in respect of loans and advances to customers, both drawn and undrawn, expressed as a percentage of average gross loans and advances to customers for the period. This measure is useful in assessing the credit quality of the loan book.
Banking net interest margin	Banking net interest income on customer and product balances in the banking businesses as a percentage of average gross interest-earning banking assets for the period. This measure is useful in assessing the profitability of the banking business.
Cost:income ratio	Total costs as a percentage of net income calculated on an underlying basis. This measure is useful in assessing the profitability of the Group's operations before the effects of the underlying impairment credit or charge.
Gross written premiums	Gross written premiums is a measure of the volume of General Insurance business written during the period. This measure is useful for assessing the growth of the General Insurance business.
Life and pensions sales (present value of new business premiums)	Present value of regular premiums plus single premiums from new business written in the current period. This measure is useful for assessing sales in the Group's life, pensions and investments insurance business.
Loan to deposit ratio	Loans and advances to customers divided by customer deposits.
Operating costs	Operating expenses adjusted to remove the impact of remediation, restructuring costs, operating lease depreciation, the amortisation of purchased intangibles, the insurance gross up and other statutory items.
New business value	This represents the value added to the contractual service margin and risk adjustment at the initial recognition of new contracts, net of acquisition expenses (derived from the statutory balance sheet movements) and any loss component on onerous contracts (which is recognised directly in the income statement) but does not include existing business increments.
Pro forma CET1 ratio	CET1 ratio adjusted for the effects of the dividend paid up by the Insurance business in the subsequent quarter and the full impact of the announced ordinary share buyback programme.
Return on tangible equity	Profit attributable to ordinary shareholders, divided by average tangible net assets. This measure is useful in providing a consistent basis with which to measure the Group's performance.
Tangible net assets per share	Net assets excluding intangible assets such as goodwill and acquisition-related intangibles divided by the number of ordinary shares in issue. This measure is useful in assessing shareholder value.
Underlying profit before impairment	Underlying profit adjusted to remove the underlying impairment credit or charge. This measure is useful in allowing for a comparable representation of the Group's performance before the effects of the forward-looking underlying impairment credit or charge.
Underlying profit	Statutory profit before tax adjusted for certain items as detailed above. This measure allows for a comparable representation of the Group's performance by removing the impact of certain items including volatility caused by market movements outside the control of management.

ALTERNATIVE PERFORMANCE MEASURES (continued)

Statutory basis		Removal of:		Underlying basis[A]	
		Volatility and other items[1,2,3]	Insurance gross up[4]		
	£m	£m	£m	£m	
Half-year to 30 June 2024					
Net interest income	**6,046**	**300**	**(8)**	**6,338**	Underlying net interest income
Other income, net of net finance expense in respect of insurance and investment contracts	**2,830**	**(208)**	**112**	**2,734**	Underlying other income
		(679)	**–**	**(679)**	Operating lease depreciation
Total income, after net finance expense in respect of insurance and investment contracts	**8,876**	**(587)**	**104**	**8,393**	**Net income**
Operating expenses[5]	**(5,452)**	**761**	**(104)**	**(4,795)**	Total costs[5]
Impairment charge	**(100)**	**(1)**	**–**	**(101)**	Underlying impairment charge
Profit before tax	**3,324**	**173**	**–**	**3,497**	**Underlying profit**
Half-year to 30 June 2023					
Net interest income	6,798	213	(7)	7,004	Underlying net interest income
Other income, net of net finance expense in respect of insurance and investment contracts	2,508	(109)	139	2,538	Underlying other income
		(356)	–	(356)	Operating lease depreciation
Total income, net of net finance expense in respect of insurance and investment contracts	9,306	(252)	132	9,186	Net income
Operating expenses[5]	(4,774)	423	(132)	(4,483)	Total costs[5]
Impairment charge	(662)	–	–	(662)	Underlying impairment charge
Profit before tax	3,870	171	–	4,041	Underlying profit
Half-year to 31 December 2023					
Net interest income	6,500	266	(5)	6,761	Underlying net interest income
Other income, net of net finance expense in respect of insurance and investment contracts	2,823	(338)	100	2,585	Underlying other income
		(600)	–	(600)	Operating lease depreciation
Total income, net of net finance expense in respect of insurance and investment contracts	9,323	(672)	95	8,746	Net income
Operating expenses[5]	(6,049)	812	(95)	(5,332)	Total costs[5]
Impairment credit	359	(5)	–	354	Underlying impairment credit
Profit before tax	3,633	135	–	3,768	Underlying profit

1 In the half-year ended 30 June 2024 this comprised the effects of market volatility and asset sales (losses of £65 million); the amortisation of purchased intangibles (£41 million); restructuring costs (£15 million); and fair value unwind (losses of £52 million).

2 In the half-year ended 30 June 2023 this comprised the effects of market volatility and asset sales (losses of £63 million); the amortisation of purchased intangibles (£35 million); restructuring costs (£25 million); and fair value unwind (losses of £48 million).

3 In the half-year ended 31 December 2023 this comprised the effects of market volatility and asset sales (gains of £98 million); the amortisation of purchased intangibles (£45 million); restructuring costs (£129 million); and fair value unwind (losses of £59 million).

4 The Group's insurance businesses' income statements include income and expense attributable to the policyholders of the Group's long-term assurance funds. These items have no impact in total upon profit attributable to equity shareholders. To provide a clearer representation of the underlying trends within the business, these items are shown net within the underlying results.

5 Statutory operating expenses includes operating lease depreciation. On an underlying basis operating lease depreciation is included in net income.

ALTERNATIVE PERFORMANCE MEASURES (continued)

	Half-year to 30 Jun 2024	Half-year to 30 Jun 2023	Half-year to 31 Dec 2023
Asset quality ratio^{A}			
Underlying impairment (charge) credit (£m)	**(101)**	(662)	354
Remove non-customer underlying impairment credit (£m)	**(17)**	(5)	(8)
Underlying customer related impairment (charge) credit (£m)	**(118)**	(667)	346
Loans and advances to customers (£bn)	**452.4**	450.7	449.7
Add back:			
Expected credit loss allowance (drawn, statutory basis) (£bn)	**3.3**	4.7	3.7
Acquisition related fair value adjustments (£bn)	**0.2**	0.3	0.3
Underlying gross loans and advances to customers (£bn)	**455.9**	455.7	453.7
Averaging (£bn)	**(0.5)**	0.4	3.8
Average underlying gross loans and advances to customers (£bn)	**455.4**	456.1	457.5
Asset quality ratio^{A}	**0.05%**	0.29%	(0.15)%
Banking net interest margin^{A}			
Underlying net interest income (£m)	**6,338**	7,004	6,761
Remove non-banking underlying net interest expense (£m)	**229**	155	156
Banking underlying net interest income (£m)	**6,567**	7,159	6,917
Underlying gross loans and advances to customers (£bn)	**455.9**	455.7	453.7
Adjustment for non-banking and other items:			
Fee-based loans and advances (£bn)	**(9.9)**	(8.7)	(8.9)
Other (£bn)	**5.3**	7.0	4.2
Interest-earning banking assets (£bn)	**451.3**	454.0	449.0
Averaging (£bn)	**(2.1)**	(0.2)	3.9
Average interest-earning banking assets^{A} **(£bn)**	**449.2**	453.8	452.9
Banking net interest margin^{A}	**2.94%**	3.18%	3.03%
Cost:income ratio^{A}			
Operating costs^{A} (£m)	**4,700**	4,413	4,727
Remediation (£m)	**95**	70	605
Total costs (£m)	**4,795**	4,483	5,332
Net income (£m)	**8,393**	9,186	8,746
Cost:income ratio^{A}	**57.1%**	48.8%	61.0%
Operating costs^{A}			
Operating expenses (£m)	**5,452**	4,774	6,049
Adjustment for:			
Remediation (£m)	**(95)**	(70)	(605)
Restructuring (£m)	**(15)**	(25)	(129)
Operating lease depreciation (£m)	**(679)**	(356)	(600)
Amortisation of purchased intangibles (£m)	**(41)**	(35)	(45)
Insurance gross up (£m)	**104**	132	95
Other statutory items (£m)	**(26)**	(7)	(38)
Operating costs^{A} **(£m)**	**4,700**	4,413	4,727

ALTERNATIVE PERFORMANCE MEASURES (continued)

	Half-year to 30 Jun 2024	Half-year to 30 Jun 2023	Half-year to 31 Dec 2023
Return on tangible equity[A]			
Profit attributable to ordinary shareholders (£m)	**2,145**	2,572	2,361
Average ordinary shareholders' equity (£bn)	**39.9**	38.8	38.5
Remove average goodwill and other intangible assets (£bn)	**(8.0)**	(7.6)	(7.9)
Average tangible equity (£bn)	**31.9**	31.2	30.6
Return on tangible equity[A]	**13.5%**	16.6%	15.3%
Underlying profit before impairment[A]			
Statutory profit before tax (£m)	**3,324**	3,870	3,633
Remove impairment charge (£m)	**100**	662	(359)
Remove volatility and other items including restructuring (£m)	**174**	171	140
Underlying profit before impairment[A] **(£m)**	**3,598**	4,703	3,414
Life and pensions sales (present value of new business premiums)[A]			
Total net earned premiums (£m)	**5,270**	5,147	4,621
Investment sales (£m)	**4,512**	5,264	5,351
Effect of capitalisation factor (£m)	**1,898**	1,715	1,711
Effect of annualisation (£m)	**350**	279	176
Gross premiums from existing long-term business (£m)	**(3,875)**	(3,449)	(3,366)
Life and pensions sales (present value of new business premiums)[A] **(£m)**	**8,155**	8,956	8,493

	Half-year to 30 Jun 2024 £m	Half-year to 30 Jun 2023 £m	Half-year to 31 Dec 2023 £m
New business value of insurance and participating investment contracts recognised in the year[A]			
Contractual service margin	**26**	45	47
Risk adjustment for non-financial risk	**33**	49	37
Losses recognised on initial recognition	**(40)**	(36)	(35)
	19	58	49
Impacts of reinsurance contracts recognised in the year	**18**	14	15
Increments, single premiums and transfers received on workplace pension contracts initially recognised in the year	**10**	5	12
Amounts relating to contracts modified to add a drawdown feature and recognised as new contracts	**4**	12	(12)
New business value of insurance and participating investment contracts recognised in the year[A]	**51**	89	64

ALTERNATIVE PERFORMANCE MEASURES (continued)

	At 30 Jun 2024	At 31 Mar 2024	At 31 Dec 2023
Loan to deposit ratio[A]			
Loans and advances to customers (£bn)	**452.4**	448.5	449.7
Customer deposits (£bn)	**474.7**	469.2	471.4
Loan to deposit ratio[A]	**95%**	96%	95%
Pro forma CET1 ratio[A]			
CET1 ratio	**14.1%**	13.9%	14.6%
Insurance dividend and share buyback accrual[1]	**–%**	–%	(0.9)%
Pro forma CET1 ratio[A]	**14.1%**	13.9%	13.7%
Tangible net assets per share[A]			
Ordinary shareholders' equity (£m)	**38,959**	40,641	40,224
Goodwill and other intangible assets (£m)	**(8,315)**	(8,350)	(8,306)
Deferred tax effects and other adjustments (£m)	**305**	325	352
Tangible net assets (£m)	**30,949**	32,616	32,270
Ordinary shares in issue, excluding own shares	**62,458m**	63,653m	63,508m
Tangible net assets per share[A]	**49.6p**	51.2p	50.8p

[1] Dividend paid up by the Insurance business in the subsequent quarter period and the impact of the announced ordinary share buyback programmes.

RISK MANAGEMENT

PRINCIPAL RISKS AND UNCERTAINTIES

The most important risks faced by the Group are detailed below. The external risks faced by the Group may impact the success of delivering against the Group's long-term strategic objectives. They include, but are not limited to, macroeconomic uncertainty and elevated interest rates which are contributing to the cost of living and associated implications for UK consumers and businesses.

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

With respect to conduct risk there have been no further charges relating to the potential impact of the FCA review into historical motor finance commission arrangements. An update from the FCA is currently expected in September.

The Group is transforming its approach to risk management to support its strategic ambition and purpose of Helping Britain Prosper. The Group has reviewed its three lines of defence model and is evolving its accountabilities with enhanced focus on controls and expertise. This will increase the pace of decision making, with the intent of improving risk management. The Group has initially focused on non-financial risks.

The Group has also undertaken a detailed review of its risk categories and implemented an events-based risk management framework. This has resulted in a reduction in the number of principal risk types and the simplification of secondary risk categories. This change better aligns to the Basel Committee on Banking Supervision's event categories which will benefit the Group for scenario activities and regulatory reporting.

The Group has 11 principal risks; capital risk, climate risk, compliance risk (previously regulatory and legal risk), conduct risk, credit risk, economic crime risk, insurance underwriting risk, liquidity risk (previously liquidity and funding risk), market risk, model risk and operational risk (operational resilience risk has been removed as a separate risk category as it relates to many of the principal risk types).

The below principal risk definitions have changed since the Group's 2023 annual report and accounts:

Conduct risk – The risk of our Group activities, behaviours, strategy or business planning, having an adverse impact on outcomes for customers, undermining the integrity of the market or distorting competition, which could lead to regulatory censure, reputational damage or financial loss.

Economic crime risk – The risk that the Group implements ineffective policies, systems, processes and controls to prevent, detect and respond to the risk of fraud and/or financial crime resulting in increased losses, regulatory censure/ fines and/or adverse publicity in the UK or other jurisdictions in which the Group operates.

Insurance underwriting risk – The risk of adverse developments in net liabilities due to: timing, frequency and severity of claims for insured/underwritten events; customer behaviour; and expense costs.

Liquidity risk – The risk that the Group does not have sufficient financial resources to meet its commitments when they fall due or can only secure them at excessive cost.

Model risk – The potential for adverse consequences from model errors or the inappropriate use of modelled outputs to inform business decisions. Adverse consequences could lead to a deterioration in the prudential position, non-compliance with applicable laws and/or regulations, or damage to the Group's reputation. Model risk can also lead to financial loss, as well as qualitative limitations such as the imposition of restrictions on business activities.

Operational risk – The risk of actual or potential impact to the Group (financial and/or non-financial) resulting from inadequate or failed internal processes, people, and systems or from external events. Resilience is core to the management of operational risk within Lloyds Banking Group to ensure that business processes (including those that are outsourced) can withstand operational risks and can respond to and meet customer and stakeholder needs when continuity of operations is compromised.

All other principal risk definitions remain unchanged.

CAPITAL RISK

CET1 target capital ratio

The Board's revised view of the ongoing level of CET1 capital required by the Group to grow the business, meet current and future regulatory requirements and cover economic and business uncertainties is c.13.0 per cent which includes a management buffer of around 1 per cent. This takes into account, amongst other considerations:

- The minimum Pillar 1 CET1 capital requirement of 4.5 per cent of risk-weighted assets
- The Group's Pillar 2A CET1 capital requirement, set by the PRA, which is the equivalent of around 1.5 per cent of risk-weighted assets
- The Group's countercyclical capital buffer (CCyB) requirement which is currently 1.8 per cent of risk-weighted assets
- The capital conservation buffer (CCB) requirement of 2.5 per cent of risk-weighted assets
- The Ring-Fenced Bank (RFB) sub-group's other systemically important institution (O-SII) buffer of 2.0 per cent of risk-weighted assets, which equates to 1.7 per cent of risk-weighted assets at Group level
- The Group's PRA Buffer, set after taking account of the results of any PRA stress tests and other information, as well as outputs from the Group's own internal stress tests. The PRA requires this buffer to remain confidential
- The likely performance of the Group in various potential stress scenarios and ensuring capital remains resilient in these
- The economic outlook for the UK and business outlook for the Group
- The desire to maintain a progressive and sustainable ordinary dividend policy in the context of year to year earnings movements

Minimum requirement for own funds and eligible liabilities (MREL)

The Group is not classified as a global systemically important bank (G-SIB) but is subject to the Bank of England's MREL statement of policy (MREL SoP) and must therefore maintain a minimum level of MREL resources.

Applying the MREL SoP to current minimum capital requirements at 30 June 2024, the Group's MREL, excluding regulatory capital and leverage buffers, is the higher of 2 times Pillar 1 plus 2 times Pillar 2A, equivalent to 21.3 per cent of risk-weighted assets, or 6.5 per cent of the UK leverage ratio exposure measure. In addition, CET1 capital cannot be used to meet both MREL and capital or leverage buffers.

Leverage minimum requirements

The Group is currently subject to the following minimum requirements under the UK Leverage Ratio Framework:

- A minimum tier 1 leverage ratio requirement of 3.25 per cent of the total leverage exposure measure
- A countercyclical leverage buffer (CCLB) which is currently 0.6 per cent of the total leverage exposure measure
- An additional leverage ratio buffer (ALRB) of 0.7 per cent of the total leverage exposure measure applies to the RFB sub-group, which equates to 0.6 per cent at Group level

At least 75 per cent of the 3.25 per cent minimum leverage ratio requirement as well as 100 per cent of all regulatory leverage buffers must be met with CET1 capital.

Stress testing

The Group undertakes a wide-ranging programme of stress testing, providing a comprehensive view of the potential impacts arising from the risks to which the Group and its key legal entities are exposed. One of the most important uses of stress testing is to assess the resilience of the operational and strategic plans of the Group and its legal entities to adverse economic conditions and other key vulnerabilities. As part of this programme the Group participated in the Bank of England 2022 Annual Cyclical Scenario stress testing exercise. This assessed the Group's resilience to a severe economic shock where the House Price Index (HPI) falls by 31 per cent, Commercial Real Estate (CRE) falls by 45 per cent, unemployment peaks at 8.5 per cent and the Base Rate peaks at 6 per cent. The results of this exercise were published by the Bank of England on 12 July 2023. The Bank of England calculated the Group's transitional CET1 ratio, after the application of management actions, as 11.6 per cent and its Tier 1 leverage ratio as 4.5 per cent, significantly exceeding the hurdle rates of 6.6 per cent and 3.5 per cent, respectively. The Group has provided data to support the Bank of England 2024 Desk Based Stress Test. This exercise will test two scenarios with results published on an aggregate level by the end of 2024. The Group is also participating in the Bank of England System-Wide Exploratory Scenario. The aggregate findings of Round 1 were published in June 2024 and the Group will make a Round 2 submission in July 2024. The Group continues to internally assess vulnerabilities to adverse economic conditions.

CAPITAL RISK (continued)

Capital and MREL resources

An analysis of the Group's capital position and MREL resources as at 30 June 2024 is presented in the following table. This reflects the application of the transitional arrangements for IFRS 9.

	At 30 Jun 2024 £m	At 31 Dec 2023[1] £m
Common equity tier 1: instruments and reserves		
Share capital and share premium account	**24,923**	24,926
Banking retained earnings[2]	**18,664**	19,000
Banking other reserves[2]	**2,829**	3,136
Adjustment to retained earnings for foreseeable dividends and share buyback	**(1,437)**	(1,169)
	44,979	45,893
Common equity tier 1: regulatory adjustments		
Cash flow hedging reserve	**4,028**	3,766
Goodwill and other intangible assets	**(5,794)**	(5,731)
Prudent valuation adjustment	**(374)**	(417)
Removal of defined benefit pension surplus	**(2,473)**	(2,653)
Significant investments[2]	**(5,088)**	(4,975)
Deferred tax assets	**(3,945)**	(4,048)
Other regulatory adjustments	**(38)**	62
Common equity tier 1 capital	**31,295**	31,897
Additional tier 1: instruments		
Other equity instruments	**5,907**	6,915
Additional tier 1: regulatory adjustments		
Significant investments[2]	**(1,100)**	(1,100)
Total tier 1 capital	**36,102**	37,712
Tier 2: instruments and provisions		
Subordinated liabilities	**6,260**	6,320
Eligible provisions	**67**	371
	6,327	6,691
Tier 2: regulatory adjustments		
Significant investments[2]	**(964)**	(964)
Total capital resources	**41,465**	43,439
Ineligible AT1 and tier 2 instruments[3]	**(118)**	(139)
Amortised portion of eligible tier 2 instruments issued by Lloyds Banking Group plc	**1,420**	1,113
Other eligible liabilities issued by Lloyds Banking Group plc[4]	**27,547**	25,492
Total MREL resources	**70,314**	69,905
Risk-weighted assets	**222,019**	219,130
Common equity tier 1 capital ratio	**14.1%**	14.6%
Tier 1 capital ratio	**16.3%**	17.2%
Total capital ratio	**18.7%**	19.8%
MREL ratio	**31.7%**	31.9%

1 Restated for presentational changes.

2 In accordance with banking capital regulations, the Group's Insurance business is excluded from the scope of the Group's capital position. The Group's investment in the equity and other capital instruments of the Insurance business are deducted from the relevant tier of capital ('Significant investments'), subject to threshold regulations that allow a portion of the equity investment to be risk-weighted rather than deducted from capital. The risk-weighted portion forms part of threshold risk-weighted assets.

3 Instruments with less than or equal to one year to maturity or instruments not issued out of the holding company.

4 Includes senior unsecured debt.

CAPITAL RISK (continued)

Movements in CET1 capital resources

The key movements are set out in the table below.

	Common equity tier 1 £m
At 31 December 2023	31,897
Banking business profits[1]	**2,578**
Movement in foreseeable dividend accrual[2]	**179**
Dividends paid out on ordinary shares during the year	**(1,169)**
Adjustment to reflect full impact of share buyback	**(2,000)**
Dividends received from the Insurance business[3]	**450**
IFRS 9 transitional adjustment to retained earnings	**(156)**
Deferred tax asset	**103**
Goodwill and other intangible assets	**(63)**
Significant investments	**(113)**
Movement in treasury shares and employee share schemes	**(66)**
Redemption of other equity instruments	**(316)**
Distributions on other equity instruments	**(269)**
Other movements	**240**
At 30 June 2024	**31,295**

1 Under banking capital regulations, profits made by Insurance are removed from CET1 capital. However, when dividends are paid to the Group by Insurance these are recognised through CET1 capital.

2 Reflects the reversal of the brought forward accrual for the final 2023 ordinary dividend, net of the accrual for foreseeable 2024 ordinary dividends.

3 Received in February 2024 and June 2024.

The Group's CET1 capital ratio reduced from 14.6 per cent at 31 December 2023 to 14.1 per cent at 30 June 2024, reflecting the reduction in CET1 capital resources and the increase in risk-weighted assets.

CET1 capital resources reduced by £602 million, with banking business profits for the period and the receipt of the dividends paid up by the Insurance business more than offset by:

- The accrual for foreseeable ordinary dividends in respect of the first half of 2024, inclusive of the announced interim ordinary dividend of 1.06 pence per share, and distributions on other equity instruments
- The recognition of the full capital impact of the ordinary share buyback programme announced as part of the Group's 2023 year end results, which commenced in February 2024
- The recognition of a foreign exchange translation loss upon the redemption of a US Dollar denominated AT1 capital instrument in June 2024

The full capital impact of the ordinary share buyback programme and the Insurance dividend received in February 2024 were reflected through the Group's pro forma CET1 ratio of 13.7 per cent at 31 December 2023.

Movements in total capital and MREL

The Group's total capital ratio reduced to 18.7 per cent at 30 June 2024 (31 December 2023: 19.8 per cent), reflecting the reduction in CET1 capital, the redemption of the US Dollar AT1 capital instrument, a reduction in Tier 2 capital and the increase in risk-weighted assets. The reduction in Tier 2 capital reflected the impact of interest rates and regulatory amortisation on instruments and a reduction in eligible provisions recognised through Tier 2 capital, partially offset by a new issuance.

The MREL ratio reduced to 31.7 per cent at 30 June 2024 (31 December 2023: 31.9 per cent) reflecting the reduction in total capital resources and the increase in risk-weighted assets. This was largely offset by an increase in other eligible liabilities driven by new issuances, net of calls, the exclusion of instruments maturing over the next 12 months and the impact of movements in interest and foreign exchange rates.

CAPITAL RISK (continued)

Risk-weighted assets

	At 30 Jun 2024 £m	At 31 Dec 2023 £m
Foundation Internal Ratings Based (IRB) Approach	**42,736**	44,504
Retail IRB Approach	**88,608**	85,459
Other IRB Approach[1]	**21,412**	20,941
IRB Approach	**152,756**	150,904
Standardised (STA) Approach[1]	**22,155**	22,074
Credit risk	**174,911**	172,978
Securitisation	**9,076**	8,958
Counterparty credit risk	**6,355**	5,847
Credit valuation adjustment risk	**574**	689
Operational risk	**26,330**	26,416
Market risk	**4,773**	4,242
Risk-weighted assets	**222,019**	219,130
of which: threshold risk-weighted assets[2]	**10,535**	11,028

1 Threshold risk-weighted assets are included within Other IRB Approach and Standardised (STA) Approach.

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. Significant investments primarily arise from investment in the Group's Insurance business.

Risk-weighted assets increased by £2.9 billion to £222.0 billion at 30 June 2024 (31 December 2023: £219.1 billion). This incorporates the impact of Retail lending growth, offset by optimisation including capital efficient securitisation activity, in addition to other movements.

CAPITAL RISK (continued)

Leverage ratio

The table below summarises the component parts of the Group's leverage ratio.

	At 30 Jun 2024 £m	At 31 Dec 2023 £m
Total tier 1 capital	**36,102**	37,712
Exposure measure		
Statutory balance sheet assets		
Derivative financial instruments	**18,983**	22,356
Securities financing transactions	**69,220**	56,184
Loans and advances and other assets	**804,724**	802,913
Total assets	**892,927**	881,453
Qualifying central bank claims	**(66,321)**	(77,625)
Deconsolidation adjustments[1]		
Derivative financial instruments	**945**	585
Loans and advances and other assets	**(186,553)**	(178,552)
Total deconsolidation adjustments	**(185,608)**	(177,967)
Derivatives adjustments	**(1,404)**	(4,896)
Securities financing transactions adjustments	**2,779**	2,262
Off-balance sheet items	**41,273**	40,942
Amounts already deducted from tier 1 capital	**(12,457)**	(12,523)
Other regulatory adjustments[2]	**(6,253)**	(4,012)
Total exposure measure	**664,936**	647,634
UK leverage ratio	**5.4%**	5.8%
Leverage exposure measure (including central bank claims)	**731,257**	725,259
Leverage ratio (including central bank claims)	**4.9%**	5.2%
Total MREL resources	**70,314**	69,905
MREL leverage ratio	**10.6%**	10.8%

1 Deconsolidation adjustments relate to the deconsolidation of certain Group entities that fall outside the scope of the Group's regulatory capital consolidation, primarily the Group's Insurance business.

2 Includes adjustments to exclude lending under the UK Government's Bounce Back Loan Scheme (BBLS).

Analysis of leverage movements

The Group's UK leverage ratio reduced to 5.4 per cent (31 December 2023: 5.8 per cent) reflecting both the reduction in the total tier 1 capital position and the increase in the leverage exposure measure following increases across securities financing transactions and other assets (excluding central bank claims).

Pillar 3 disclosures

The Group will publish a condensed set of half-year Pillar 3 disclosures in the second half of August. A copy of the disclosures will be available to view at: www.lloydsbankinggroup.com/investors/financial-downloads.html.

CREDIT RISK

Overview

The Group's portfolios are well-positioned to benefit from an improved, but still challenging macroeconomic environment. The Group retains a prudent approach to credit risk appetite and risk management, with strong credit origination criteria and robust LTVs in the secured portfolios.

Asset quality remains strong with resilient credit performance throughout the period. In UK mortgages, reductions in new to arrears and flows to default have been observed in the half-year and second quarter. Unsecured portfolios continue to exhibit stable new to arrears and flow to default trends. Credit quality remains stable and resilient in Commercial Banking. The Group continues to monitor the impacts of the economic environment carefully through a suite of early warning indicators and governance arrangements that ensure risk mitigating action plans are in place to support customers and protect the Group's positions.

The underlying impairment charge in the first half of 2024 was £101 million, down from a charge of £662 million in the first half of 2023. This is partly as a result of improvements in the Group's macroeconomic outlook resulting in a release of £324 million (half-year to 30 June 2023: a charge of £5 million). The Group's underlying ECL allowance on loans and advances to customers decreased in the first half to £3,820 million (31 December 2023: £4,292 million).

Group Stage 2 loans and advances to customers reduced to £45,697 million (31 December 2023: £56,545 million) and as a percentage of total lending to 10.0 per cent (31 December 2023: 12.5 per cent). This is due to improvements in the macroeconomic outlook transferring assets back to Stage 1. Of the total Group Stage 2 loans and advances to customers, 90.4 per cent are up to date (31 December 2023: 91.3 per cent). Stage 2 coverage remains stable at 3.1 per cent (31 December 2023: 3.0 per cent).

Stage 3 loans and advances to customers have increased slightly to £10,213 million (31 December 2023: £10,110 million), and stable as a percentage of total lending at 2.2 per cent (31 December 2023: 2.2 per cent). Stage 3 coverage decreased by 0.9 percentage points to 14.9 per cent (31 December 2023: 15.8 per cent).

Prudent risk appetite and risk management

- The Group continues to take a prudent and proactive approach to credit risk management and credit risk appetite whilst, in line with the Group's strategy, supporting clients to grow, as well as working closely with customers to help them through the impact of higher borrowing costs and higher prices following elevated inflation in recent years
- Sector, asset and product concentrations within the portfolios are closely monitored and controlled, with mitigating actions taken where appropriate. Sector and product risk appetite parameters help manage exposure to certain higher risk and cyclical sectors, segments and asset classes
- The Group's effective risk management seeks to ensure early identification and management of customers and counterparties who may be showing signs of distress
- The Group will continue to work closely with its customers to ensure that they receive the appropriate level of support, including but not restricted to embracing the standards outlined in the Mortgage Charter

CREDIT RISK (continued)

Impairment charge (credit) by division – statutory and *underlying*[A] basis

	Half-year to 30 Jun 2024 £m	Half-year to 30 Jun 2023 £m	***Change %***	Half-year to 31 Dec 2023 £m	***Change %***
UK mortgages	**(119)**	191		(242)	***(51)***
Credit cards	**115**	197	***42***	260	***56***
UK unsecured loans and overdrafts	**140**	160	***13***	91	***(54)***
UK Motor Finance	**61**	43	***(42)***	126	***52***
Other	**(3)**	1		4	
Retail	**194**	592	***67***	239	***19***
Small and Medium Businesses	**11**	25	***56***	89	***88***
Corporate and Institutional Banking	**(94)**	47		(672)	***(86)***
Commercial Banking	**(83)**	72		(583)	***(86)***
Insurance, Pensions and Investments	**(8)**	(1)		(11)	***(27)***
Equity Investments and Central Items	**(3)**	(1)		(4)	***(25)***
Total impairment charge (credit)	**100**	662	***85***	(359)	
Insurance, Pensions and Investments (underlying basis)[A]	***(7)***	*(1)*		*(6)*	***17***
Total impairment charge (credit) (underlying basis)[A]	***101***	*662*	***85***	*(354)*	
Asset quality ratio[A]	**0.05%**	0.29%	***(24)bp***	(0.15)%	

Credit risk balance sheet basis of presentation

The balance sheet analyses which follow have been presented on two bases; the statutory basis which is consistent with the presentation in the Group's accounts and the underlying basis which is used for internal management purposes. A reconciliation between the two bases has been provided.

In the following tables, purchased or originated credit-impaired (POCI) assets include a fixed pool of mortgages that were purchased as part of the HBOS acquisition at a deep discount to face value reflecting credit losses incurred from the point of origination to the date of acquisition. The residual expected credit loss (ECL) allowance and resulting low coverage ratio on POCI assets reflects further deterioration in the creditworthiness from the date of acquisition. Over time, these POCI assets will run off as the loans redeem, pay down or as loans are written off.

Within each table, figures that are different on an underlying basis are shown underneath the statutory basis figures, for UK mortgages, Retail and the total for the Group. The Group uses the underlying basis to monitor the creditworthiness of the lending portfolio and related ECL allowances because it provides a better indication of the credit performance of the POCI assets purchased as part of the HBOS acquisition. The underlying basis assumes that the lending assets acquired as part of a business combination were originated by the Group and are classified as either Stage 1, 2 or 3 according to the change in credit risk over the period since origination. Underlying ECL allowances have been calculated accordingly.

Total expected credit loss allowance – statutory and *underlying*[A] basis

	At 30 Jun 2024 £m	At 31 Dec 2023 £m
Customer related balances		
Drawn	**3,324**	3,717
Undrawn	**279**	322
	3,603	4,039
Loans and advances to banks	**3**	8
Debt securities	**8**	11
Other assets	**16**	26
Total expected credit loss allowance	**3,630**	4,084
Customer related balances (underlying basis)[A]	***3,820***	*4,292*
of which: Drawn	***3,541***	*3,970*
Total expected credit loss allowance (underlying basis)[A]	***3,847***	*4,337*

CREDIT RISK (continued)

Reconciliation between statutory and underlying bases of gross loans and advances to customers and expected credit loss allowance on drawn balances

	Gross loans and advances to customers					Expected credit loss allowance on drawn balances				
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**POCI £m**	**Total £m**	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**POCI £m**	**Total £m**
At 30 June 2024										
Underlying basis[A]	**400,039**	**45,697**	**10,213**	**–**	**455,949**	**773**	**1,301**	**1,467**	**–**	**3,541**
POCI assets	**(1,787)**	**(2,788)**	**(2,860)**	**7,435**	**–**	**(1)**	**(50)**	**(391)**	**442**	**–**
Acquisition fair value adjustment	**–**	**–**	**–**	**(217)**	**(217)**	**–**	**–**	**–**	**(217)**	**(217)**
	(1,787)	**(2,788)**	**(2,860)**	**7,218**	**(217)**	**(1)**	**(50)**	**(391)**	**225**	**(217)**
Statutory basis	**398,252**	**42,909**	**7,353**	**7,218**	**455,732**	**772**	**1,251**	**1,076**	**225**	**3,324**
At 31 December 2023										
Underlying basis[A]	387,060	56,545	10,110	–	453,715	901	1,532	1,537	–	3,970
POCI assets	(1,766)	(3,378)	(2,963)	8,107	–	(1)	(65)	(400)	466	–
Acquisition fair value adjustment	–	–	–	(253)	(253)	–	–	–	(253)	(253)
	(1,766)	(3,378)	(2,963)	7,854	(253)	(1)	(65)	(400)	213	(253)
Statutory basis	385,294	53,167	7,147	7,854	453,462	900	1,467	1,137	213	3,717

Movements in total expected credit loss (ECL) allowance – statutory and *underlying*[A] basis

	Opening ECL at 31 Dec 2023 £m	**Write-offs and other[1] £m**	**Income statement charge (credit) £m**	**Net ECL increase (decrease) £m**	**Closing ECL at 30 Jun 2024 £m**
UK mortgages[2]	1,115	**(25)**	**(119)**	**(144)**	**971**
Credit cards	810	**(225)**	**115**	**(110)**	**700**
UK unsecured loans and overdrafts	515	**(156)**	**140**	**(16)**	**499**
UK Motor Finance	342	**(39)**	**61**	**22**	**364**
Other	88	**(6)**	**(3)**	**(9)**	**79**
Retail	2,870	**(451)**	**194**	**(257)**	**2,613**
Small and Medium Businesses	538	**(52)**	**11**	**(41)**	**497**
Corporate and Institutional Banking	644	**(48)**	**(94)**	**(142)**	**502**
Commercial Banking	1,182	**(100)**	**(83)**	**(183)**	**999**
Insurance, Pensions and Investments	26	**(2)**	**(8)**	**(10)**	**16**
Equity Investments and Central Items	6	**(1)**	**(3)**	**(4)**	**2**
Total[3]	4,084	**(554)**	**100**	**(454)**	**3,630**
UK mortgages (underlying basis)[A]	*1,368*	***(61)***	***(119)***	***(180)***	***1,188***
Retail (underlying basis)[A]	*3,123*	***(487)***	***194***	***(293)***	***2,830***
Insurance, Pensions and Investments (underlying basis)	*26*	***(3)***	***(7)***	***(10)***	***16***
Total (underlying basis)[A]	*4,337*	***(591)***	***101***	***(490)***	***3,847***

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

2 Includes £20 million within write-offs and other relating to the securitisation of £1 billion of legacy Retail mortgages in the second quarter of 2024.

3 Total ECL includes £27 million relating to other non customer-related assets (31 December 2023: £45 million).

CREDIT RISK (continued)

Loans and advances to customers and expected credit loss allowance – statutory and *underlying*[A] basis

At 30 June 2024	Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI £m	Total £m	Stage 2 as % of total	Stage 3 as % of total
Loans and advances to customers							
UK mortgages	266,308	29,842	4,542	7,218	307,910	9.7	1.5
Credit cards	13,329	2,601	290	–	16,220	16.0	1.8
UK unsecured loans and overdrafts	8,261	1,213	186	–	9,660	12.6	1.9
UK Motor Finance	14,185	2,288	117	–	16,590	13.8	0.7
Other	16,434	522	163	–	17,119	3.0	1.0
Retail	318,517	36,466	5,298	7,218	367,499	9.9	1.4
Small and Medium Businesses	26,866	3,773	1,323	–	31,962	11.8	4.1
Corporate and Institutional Banking	53,585	2,670	732	–	56,987	4.7	1.3
Commercial Banking	80,451	6,443	2,055	–	88,949	7.2	2.3
Equity Investments and Central Items[1]	(716)	–	–	–	(716)		
Total gross lending	398,252	42,909	7,353	7,218	455,732	9.4	1.6
UK mortgages (underlying basis)[A,2]	*268,095*	*32,630*	*7,402*		*308,127*	*10.6*	*2.4*
Retail (underlying basis)[A]	*320,304*	*39,254*	*8,158*		*367,716*	*10.7*	*2.2*
Total gross lending (underlying basis)[A]	*400,039*	*45,697*	*10,213*		*455,949*	*10.0*	*2.2*

	Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI £m	Total £m
Customer related ECL allowance (drawn and undrawn)					
UK mortgages	87	328	331	225	971
Credit cards	206	361	133	–	700
UK unsecured loans and overdrafts	158	231	110	–	499
UK Motor Finance[3]	185	112	67	–	364
Other	15	19	45	–	79
Retail	651	1,051	686	225	2,613
Small and Medium Businesses	131	205	161	–	497
Corporate and Institutional Banking	139	123	231	–	493
Commercial Banking	270	328	392	–	990
Equity Investments and Central Items	–	–	–	–	–
Total	921	1,379	1,078	225	3,603
UK mortgages (underlying basis)[A,2]	*88*	*378*	*722*		*1,188*
Retail (underlying basis)[A]	*652*	*1,101*	*1,077*		*2,830*
Total (underlying basis)[A]	*922*	*1,429*	*1,469*		*3,820*

Customer related ECL allowance (drawn and undrawn) as a percentage of loans and advances to customers

	Stage 1 %	Stage 2 %	Stage 3 %	POCI %	Total %	Adjusted Stage 3[4] %	Adjusted Total[4] %
UK mortgages	–	1.1	7.3	3.1	0.3		
Credit cards	1.5	13.9	45.9	–	4.3	*50.0*	*4.3*
UK unsecured loans and overdrafts	1.9	19.0	59.1	–	5.2	*64.7*	*5.2*
UK Motor Finance	1.3	4.9	57.3	–	2.2		
Other	0.1	3.6	27.6	–	0.5		
Retail	0.2	2.9	12.9	3.1	0.7	*13.0*	*0.7*
Small and Medium Businesses	0.5	5.4	12.2	–	1.6	*16.3*	*1.6*
Corporate and Institutional Banking	0.3	4.6	31.6	–	0.9	*31.6*	*0.9*
Commercial Banking	0.3	5.1	19.1	–	1.1	*22.8*	*1.1*
Equity Investments and Central Items		–	–	–			
Total	0.2	3.2	14.7	3.1	0.8	*15.5*	*0.8*
UK mortgages (underlying basis)[A,2]	*–*	*1.2*	*9.8*		*0.4*		
Retail (underlying basis)[A]	*0.2*	*2.8*	*13.2*		*0.8*	*13.3*	*0.8*
Total (underlying basis)[A]	*0.2*	*3.1*	*14.4*		*0.8*	*14.9*	*0.8*

1 Contains centralised fair value hedge accounting adjustments.

2 UK mortgages balances on an underlying basis[A] exclude the impact of the HBOS acquisition-related adjustments.

3 UK Motor Finance for Stages 1 and 2 include £185 million relating to provisions against residual values of vehicles subject to finance leasing agreements for Black Horse. These provisions are included within the calculation of coverage ratios.

4 Adjusted Stage 3 and Total ECL allowances as a percentage of drawn balances exclude loans in recoveries in Credit cards of £24 million, UK unsecured loans and overdrafts of £16 million, Small and Medium Businesses of £337 million and Corporate and Institutional Banking of £1 million.

CREDIT RISK (continued)

Loans and advances to customers and expected credit loss allowance – statutory and *underlying*[A] basis

At 31 December 2023	Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI £m	Total £m	Stage 2 as % of total	Stage 3 as % of total
Loans and advances to customers							
UK mortgages	256,596	38,533	4,337	7,854	307,320	12.5	1.4
Credit cards	12,625	2,908	284	–	15,817	18.4	1.8
UK unsecured loans and overdrafts	7,103	1,187	196	–	8,486	14.0	2.3
UK Motor Finance	13,541	2,027	112	–	15,680	12.9	0.7
Other	15,898	525	144	–	16,567	3.2	0.9
Retail	305,763	45,180	5,073	7,854	363,870	12.4	1.4
Small and Medium Businesses	27,525	4,458	1,530	–	33,513	13.3	4.6
Corporate and Institutional Banking	52,049	3,529	538	–	56,116	6.3	1.0
Commercial Banking	79,574	7,987	2,068	–	89,629	8.9	2.3
Equity Investments and Central Items[1]	(43)	–	6	–	(37)		
Total gross lending	385,294	53,167	7,147	7,854	453,462	11.7	1.6
UK mortgages (underlying basis)[A,2]	*258,362*	*41,911*	*7,300*		*307,573*	*13.6*	*2.4*
Retail (underlying basis)[A]	*307,529*	*48,558*	*8,036*		*364,123*	*13.3*	*2.2*
Total gross lending (underlying basis)[A]	*387,060*	*56,545*	*10,110*		*453,715*	*12.5*	*2.2*

Customer related ECL allowance (drawn and undrawn)	Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI £m	Total £m
UK mortgages	169	376	357	213	1,115
Credit cards	234	446	130	–	810
UK unsecured loans and overdrafts	153	244	118	–	515
UK Motor Finance[3]	188	91	63	–	342
Other	20	21	47	–	88
Retail	764	1,178	715	213	2,870
Small and Medium Businesses	140	231	167	–	538
Corporate and Institutional Banking	156	218	253	–	627
Commercial Banking	296	449	420	–	1,165
Equity Investments and Central Items	–	–	4	–	4
Total	1,060	1,627	1,139	213	4,039
UK mortgages (underlying basis)[A,2]	*170*	*441*	*757*		*1,368*
Retail (underlying basis)[A]	*765*	*1,243*	*1,115*		*3,123*
Total gross lending (underlying basis)[A]	*1,061*	*1,692*	*1,539*		*4,292*

Customer related ECL allowance (drawn and undrawn) as a percentage of loans and advances to customers

	Stage 1 %	Stage 2 %	Stage 3 %	POCI %	Total %	Adjusted Stage 3[4] %	Adjusted Total[4] %
UK mortgages	0.1	1.0	8.2	2.7	0.4		
Credit cards	1.9	15.3	45.8	–	5.1	*49.4*	*5.1*
UK unsecured loans and overdrafts	2.2	20.6	60.2	–	6.1	*65.6*	*6.1*
UK Motor Finance	1.4	4.5	56.3	–	2.2		
Other	0.1	4.0	32.6	–	0.5		
Retail	0.2	2.6	14.1	2.7	0.8	*14.2*	*0.8*
Small and Medium Businesses	0.5	5.2	10.9	–	1.6	*13.9*	*1.6*
Corporate and Institutional Banking	0.3	6.2	47.0	–	1.1	*47.0*	*1.1*
Commercial Banking	0.4	5.6	20.3	–	1.3	*24.1*	*1.3*
Equity Investments and Central Items		–	66.7	–			
Total	0.3	3.1	15.9	2.7	0.9	*16.8*	*0.9*
UK mortgages (underlying basis)[A,2]	*0.1*	*1.1*	*10.4*		*0.4*		
Retail (underlying basis)[A]	*0.2*	*2.6*	*13.9*		*0.9*	*13.9*	*0.9*
Total gross lending (underlying basis)[A]	*0.3*	*3.0*	*15.2*		*0.9*	*15.8*	*0.9*

[1] Contains centralised fair value hedge accounting adjustments.

[2] UK mortgages balances on an underlying basis[A] exclude the impact of the HBOS acquisition-related adjustments.

[3] UK Motor Finance for Stages 1 and 2 include £187 million relating to provisions against residual values of vehicles subject to finance leasing agreements for Black Horse. These provisions are included within the calculation of coverage ratios.

[4] Adjusted Stage 3 and Total ECL allowances as a percentage of drawn balances exclude loans in recoveries in Credit cards of £21 million, UK unsecured loans and overdrafts of £16 million, Small and Medium Businesses of £327 million.

CREDIT RISK (continued)

Stage 2 loans and advances to customers and expected credit loss allowance – statutory and *underlying*[A] basis

	Up to date				1 to 30 days past due[2]		Over 30 days past due		Total	
	PD movements		Other[1]							
At 30 June 2024	Gross lending £m	ECL[3] £m	Gross lending £m	ECL[3] £m	Gross lending £m	ECL[3] £m	Gross lending £m	ECL[3] £m	Gross lending £m	ECL[3] £m
UK mortgages	**17,837**	**109**	**9,350**	**131**	**1,678**	**48**	**977**	**40**	**29,842**	**328**
Credit cards	**2,317**	**272**	**151**	**46**	**96**	**27**	**37**	**16**	**2,601**	**361**
UK unsecured loans and overdrafts	**715**	**135**	**343**	**47**	**114**	**33**	**41**	**16**	**1,213**	**231**
UK Motor Finance	**971**	**44**	**1,127**	**31**	**155**	**26**	**35**	**11**	**2,288**	**112**
Other	**109**	**3**	**308**	**9**	**59**	**5**	**46**	**2**	**522**	**19**
Retail	**21,949**	**563**	**11,279**	**264**	**2,102**	**139**	**1,136**	**85**	**36,466**	**1,051**
Small and Medium Businesses	**2,943**	**171**	**464**	**18**	**229**	**11**	**137**	**5**	**3,773**	**205**
Corporate and Institutional Banking	**2,615**	**122**	**30**	**1**	**6**	**–**	**19**	**–**	**2,670**	**123**
Commercial Banking	**5,558**	**293**	**494**	**19**	**235**	**11**	**156**	**5**	**6,443**	**328**
Total	**27,507**	**856**	**11,773**	**283**	**2,337**	**150**	**1,292**	**90**	**42,909**	**1,379**
UK mortgages (underlying basis)[A]	***18,966***	***117***	***10,261***	***149***	***2,100***	***58***	***1,303***	***54***	***32,630***	***378***
Retail (underlying basis)[A]	***23,078***	***571***	***12,190***	***282***	***2,524***	***149***	***1,462***	***99***	***39,254***	***1,101***
Total (underlying basis)[A]	***28,636***	***864***	***12,684***	***301***	***2,759***	***160***	***1,618***	***104***	***45,697***	***1,429***
At 31 December 2023										
UK mortgages	26,665	146	9,024	133	1,771	52	1,073	45	38,533	376
Credit cards	2,612	345	145	49	115	34	36	18	2,908	446
UK unsecured loans and overdrafts	756	148	279	46	112	34	40	16	1,187	244
UK Motor Finance	735	30	1,120	30	138	21	34	10	2,027	91
Other	125	5	295	7	52	5	53	4	525	21
Retail	30,893	674	10,863	265	2,188	146	1,236	93	45,180	1,178
Small and Medium Businesses	3,455	202	590	17	253	8	160	4	4,458	231
Corporate and Institutional Banking	3,356	214	14	–	28	3	131	1	3,529	218
Commercial Banking	6,811	416	604	17	281	11	291	5	7,987	449
Total	37,704	1,090	11,467	282	2,469	157	1,527	98	53,167	1,627
UK mortgages (underlying basis)[A]	*28,126*	*157*	*9,990*	*156*	*2,297*	*64*	*1,498*	*64*	*41,911*	*441*
Retail (underlying basis)[A]	*32,354*	*685*	*11,829*	*288*	*2,714*	*158*	*1,661*	*112*	*48,558*	*1,243*
Total (underlying basis)[A]	*39,165*	*1,101*	*12,433*	*305*	*2,995*	*169*	*1,952*	*117*	*56,545*	*1,692*

1 Includes forbearance, client and product-specific indicators not reflected within quantitative PD assessments.

2 Includes assets that have triggered PD movements, or other rules, given that being 1 to 29 days in arrears in and of itself is not a Stage 2 trigger.

3 Expected credit loss allowance on loans and advances to customers (drawn and undrawn).

CREDIT RISK (continued)

ECL sensitivity to economic assumptions

The measurement of ECL reflects an unbiased probability-weighted range of possible future economic outcomes. The Group achieves this by generating four economic scenarios to appropriately reflect the range of outcomes; the central scenario reflects the Group's base case assumptions used for medium-term planning purposes, an upside and a downside scenario are also selected together with a severe downside scenario. If the base case moves adversely, it generates a new, more adverse downside and severe downside which are then incorporated into the ECL. Consistent with prior years, the base case, upside and downside scenarios carry a 30 per cent weighting; the severe downside is weighted at 10 per cent. These assumptions can be found in note 14 on page 85 onwards.

The table below shows the Group's ECL for the probability-weighted, upside, base case, downside and severe downside scenarios, with the severe downside scenario incorporating adjustments made to CPI inflation and UK Bank Rate paths. The stage allocation for an asset is based on the overall scenario probability-weighted probability of default and hence the staging of assets is constant across all the scenarios. In each economic scenario the ECL for individual assessments is held constant reflecting the basis on which they are evaluated. Judgemental adjustments applied through changes to model inputs or parameters, or more qualitative post model adjustments, are apportioned across the scenarios in proportion to modelled ECL where this better reflects the sensitivity of these adjustments to each scenario. The probability-weighted view shows the extent to which a higher ECL allowance has been recognised to take account of multiple economic scenarios relative to the base case; the uplift being £468 million compared to £678 million at 31 December 2023.

Total ECL allowance by scenario – statutory and *underlying*[A] basis

	Probability-weighted £m	Upside £m	Base case £m	Downside £m	Severe downside £m
UK mortgages	**971**	**387**	**658**	**1,190**	**3,004**
Credit cards	**700**	**583**	**676**	**772**	**903**
Other Retail	**942**	**855**	**915**	**990**	**1,139**
Commercial Banking	**999**	**746**	**895**	**1,143**	**1,641**
Other	**18**	**16**	**18**	**19**	**21**
At 30 June 2024	**3,630**	**2,587**	**3,162**	**4,114**	**6,708**
UK mortgages (underlying basis)[A]	***1,188***	***604***	***876***	***1,407***	***3,222***
Total (underlying basis)[A]	***3,847***	***2,804***	***3,380***	***4,331***	***6,926***
UK mortgages	1,115	395	670	1,155	4,485
Credit cards	810	600	771	918	1,235
Other Retail	945	850	920	981	1,200
Commercial Banking	1,182	793	1,013	1,383	2,250
Other	32	32	32	32	32
At 31 December 2023	4,084	2,670	3,406	4,469	9,202
UK mortgages (underlying basis)[A]	*1,368*	*650*	*930*	*1,400*	*4,738*
Total (underlying basis)[A]	*4,337*	*2,925*	*3,666*	*4,714*	*9,455*

CREDIT RISK (continued)

Retail

- Asset quality remains strong in the Retail portfolio with resilient credit performance throughout the period. There are signs that affordability pressures are easing as inflation has fallen back and the UK bank rate has settled. However, lagged impacts from previous interest rate rises and rising unemployment remain potential headwinds
- Robust risk management remains in place, with strong affordability and indebtedness controls for both new and existing lending and a prudent risk appetite approach
- Lending strategies are under continuous review and have been proactively managed and calibrated to the latest macroeconomic outlook, with actions taken to enhance both living and housing cost assumptions in affordability assessments
- In UK mortgages, reductions in new to arrears and flows to default have been observed in the half-year and second quarter
- Unsecured portfolios continue to exhibit stable new to arrears and flow to default trends with a small increase observed in flow to default in Motor driven by a normalisation of Voluntary Terminations (VT's) as used car prices fall from historic highs
- The Retail impairment charge in the first half of 2024 was £194 million and is materially lower than the charge of £592 million for the first half of 2023. This is largely due to favourable updates to the Group's macroeconomic outlook within the base case and other scenarios, driving a £269 million release compared to a charge of £41 million in the first half of 2023, as well as the release of inflationary adjustments, given portfolio performance
- All existing IFRS 9 staging rules and triggers have been maintained across Retail from the 2023 year end. Retail customer related ECL allowance as a percentage of drawn loans and advances (coverage) decreased to 0.8 per cent (31 December 2023: 0.9 per cent)
- Favourable updates to the Group's macroeconomic outlook have reduced Stage 2 loans and advances to 10.7 per cent of the Retail portfolio (31 December 2023: 13.3 per cent), of which 89.8 per cent are up to date loans (31 December 2023: 91.0 per cent). Stage 2 ECL coverage increased to 2.8 per cent (31 December 2023: 2.6 per cent)
- Stage 3 loans and advances remain flat at 2.2 per cent of total loans and advances. Retail Stage 3 ECL coverage decreased to 13.3 per cent (31 December 2023: 13.9 per cent) due to portfolio mix changes; notably because UK mortgages require comparatively lower coverage in comparison to other Retail products due to security. Stage 3 loans and advances and Stage 3 coverage for all other Retail products excluding UK mortgages remain broadly stable

UK mortgages

- The UK mortgage portfolio is well positioned with low arrears and a strong loan to value (LTV) profile. The Group has actively improved the quality of the portfolio over recent years using robust affordability and credit controls, while the balances of higher risk legacy vintages have continued to reduce
- New to arrears and flows to default have improved in the half-year and second quarter. The Group is proactively monitoring existing mortgage customers as they reach the end of fixed rate deals with customers' immediate behaviour remaining stable
- Total loans and advances increased to £308.1 billion (31 December 2023: £307.6 billion), with a decrease in average LTV to 43.0 per cent (31 December 2023: 43.6 per cent). The proportion of balances with a LTV greater than 90 per cent decreased to 1.4 per cent (31 December 2023: 2.9 per cent). The average LTV of new business increased to 62.9 per cent (31 December 2023: 61.7 per cent)
- Favourable updates to the Group's macroeconomic outlook and stronger asset performance resulted in a net impairment release of £119 million for the first half of 2024 compared to a charge of £191 million for the first half of 2023. Total ECL coverage remains stable at 0.4 per cent (31 December 2023: 0.4 per cent)
- Favourable macroeconomic updates also resulted in reductions to Stage 2 loans and advances to 10.6 per cent of the portfolio (31 December 2023: 13.6 per cent) and Stage 2 ECL coverage rising slightly to 1.2 per cent (31 December 2023: 1.1 per cent)
- Stage 3 loans and advances remain stable at 2.4 per cent of the portfolio (31 December 2023: 2.4 per cent) with increases in legacy variable rate customers reaching 90 days past due largely offset by legacy mortgage securitisation activity. Stage 3 ECL coverage decreased to 9.8 per cent (31 December 2023: 10.4 per cent), due to the favourable macroeconomic outlook

CREDIT RISK (continued)

Period end and average LTVs across the Retail UK mortgage portfolio – underlying basis[A]

At 30 June 2024	Mainstream %	Buy-to-let %	Specialist %	Total %
Less than 60 per cent	**57.1**	**69.8**	**86.6**	**59.4**
60 per cent to 70 per cent	**17.2**	**21.0**	**7.7**	**17.7**
70 per cent to 80 per cent	**13.4**	**9.0**	**2.3**	**12.6**
80 per cent to 90 per cent	**10.7**	**0.1**	**1.2**	**8.9**
90 per cent to 100 per cent	**1.5**	**0.0**	**1.0**	**1.3**
Greater than 100 per cent	**0.1**	**0.1**	**1.2**	**0.1**
Total	**100.0**	**100.0**	**100.0**	**100.0**
UK mortgages loans and advances to customers (£m)	**255,935**	**47,989**	**4,203**	**308,127**
Average loan to value[1]:				
Stock of residential mortgages	**42.5**	**47.1**	**34.1**	**43.0**
New residential lending in the period	**64.0**	**55.4**	**n/a**	**62.9**
At 31 December 2023				
Less than 60 per cent	55.3	66.9	84.8	57.7
60 per cent to 70 per cent	17.6	21.8	9.2	18.1
70 per cent to 80 per cent	14.3	10.8	2.4	13.5
80 per cent to 90 per cent	9.4	0.4	1.2	7.8
90 per cent to 100 per cent	3.3	0.0	1.1	2.8
Greater than 100 per cent	0.1	0.1	1.3	0.1
Total	100.0	100.0	100.0	100.0
UK mortgages loans and advances to customers (£m)	254,539	47,609	5,425	307,573
Average loan to value[1]:				
Stock of residential mortgages	43.1	48.1	35.0	43.6
New residential lending in the year	62.5	51.6	n/a	61.7

1 Average loan to value is calculated as total loans and advances as a percentage of the total indexed collateral of these loans and advances; the balances exclude the impact of HBOS acquisition adjustments.

UK mortgages greater than three months in arrears, excluding repossessions – underlying basis[A]

	Number of cases		Proportion of total		Value of loans[1]		Proportion of total	
	At 30 Jun 2024 Cases	At 31 Dec 2023 Cases	**At 30 Jun 2024 %**	At 31 Dec 2023 %	**At 30 Jun 2024 £m**	At 31 Dec 2023 £m	**At 30 Jun 2024 %**	At 31 Dec 2023 %
Mainstream	**22,900**	23,123	**1.3**	1.3	**3,163**	3,094	**1.2**	1.2
Buy-to-let	**5,058**	5,037	**1.4**	1.4	**725**	692	**1.5**	1.5
Specialist	**4,085**	4,726	**11.4**	10.5	**699**	806	**16.4**	14.7
Total	**32,043**	32,886	**1.5**	1.5	**4,587**	4,592	**1.5**	1.5

1 Value of loans represents gross book value excluding the impact of HBOS acquisition adjustments of mortgages more than three months in arrears. These accounts are a subset of total Stage 3 given the exclusion of accounts in possession and those meeting other Stage 3 criteria.

CREDIT RISK (continued)

Credit cards

- Credit cards balances increased to £16.2 billion (31 December 2023: £15.8 billion) due to continued recovery in customer spend, with no change to acquisition risk appetite
- The credit card portfolio is a prime book, with stable credit performance in the half-year and continued strong repayment rates
- Impairment charge of £115 million for the first half of 2024, is lower than the charge of £197 million in the first half of 2023, largely due to the release of ECL judgements raised to cover the risk of increased defaults from high inflation and cost of living pressures, given continued resilient portfolio performance. Total ECL coverage reduced to 4.3 per cent (31 December 2023: 5.1 per cent)
- Favourable updates to the macroeconomic outlook resulted in a reduction in Stage 2 loans and advances to 16.0 per cent of the portfolio (31 December 2023: 18.4 per cent), with Stage 2 ECL coverage reducing to 13.9 per cent (31 December 2023: 15.3 per cent)
- Resilient underlying arrears and default performance has also resulted in stable Stage 3 loans and advances at 1.8 per cent of the portfolio (31 December 2023: 1.8 per cent). Stage 3 ECL coverage is broadly stable at 50.0 per cent (31 December 2023: 49.4 per cent)

UK unsecured loans and overdrafts

- Loans and advances for personal current account and the personal loans portfolios increased to £9.7 billion (31 December 2023: £8.5 billion) largely driven by recovering market demand in loans and natural balance build following the securitisation of assets at the end of 2023
- Impairment charge of £140 million for the first half of 2024 is modestly below the charge of £160 million for the first half of 2023 again due to favourable macroeconomic updates and a more resilient underlying performance than previously anticipated. ECL coverage levels by individual stage all remain broadly stable, with Stage 2 ECL coverage at 19.0 per cent (31 December 2023: 20.6 per cent) and Stage 3 ECL coverage at 64.7 per cent (31 December 2023: 65.6 per cent)

UK Motor Finance

- The UK Motor Finance portfolio increased to £16.6 billion (31 December 2023: £15.7 billion) driven by stocking and fleet, partially offset by a softening of Retail demand in the half-year
- Updates to Residual Value (RV) and Voluntary Termination (VT) risk held against Personal Contract Purchase (PCP) and Hire Purchase (HP) lending are included within the impairment charge[1]. Recent significant falls in used car prices have been reflected and absorbed by an existing management judgement within this item. As a result RV and VT provision reduced to £185 million as at 30 June 2024 (31 December 2023: £187 million)
- Impairment charge of £61 million for the first half of 2024 is higher than a charge of £43 million for the first half of 2023, which benefitted from more stable used car prices, partially driven by global supply constraints following the pandemic that have now eased
- ECL coverage levels at a total level and by individual stage remain broadly stable. Total ECL coverage at 2.2 per cent (31 December 2023: 2.2 per cent), Stage 2 ECL coverage at 4.9 per cent (31 December 2023: 4.5 per cent) and Stage 3 ECL coverage at 57.3 per cent (31 December 2023: 56.3 per cent)

Other

- Other loans and advances increased to £17.1 billion (31 December 2023: £16.6 billion). Stage 3 loans and advances remain stable at 1.0 per cent (31 December 2023: 0.9 per cent) and Stage 3 coverage reduced to 27.6 per cent (31 December 2023: 32.6 per cent)
- There was a net impairment credit of £3 million for the first half of 2024 compared to a charge of £1 million in the first half of 2023

[1] The depreciation of operating leases is included separately in the operating lease depreciation charge.

CREDIT RISK (continued)

Commercial Banking

- The Commercial portfolio credit quality remains stable and resilient, benefitting from a focused approach to credit underwriting and monitoring standards and proactively managing exposures to higher risk and vulnerable sectors
- The Group is cognisant of a number of risks and headwinds associated with the elevated interest rate environment especially in, but not limited to, sectors reliant upon consumer discretionary spend. Risks include reduced asset valuation and refinancing risk, a reduction in market liquidity impacting credit supply and pressure on both household discretionary spending and business margins
- The Group continues to closely monitor credit quality, sector and single name concentrations. Sector and credit risk appetite continue to be proactively managed to ensure clients are supported in the right way and the Group is protected
- The Group continues to provide early support to its more vulnerable customers through focused risk management via its Watchlist and Business Support framework. The Group continues to balance prudent risk appetite with ensuring support for financially viable clients

Impairment

- There was a net impairment credit of £83 million in the first half of 2024, compared to a net impairment charge of £72 million in the first half of 2023. Commercial Banking has benefitted from a one-off release from loss rates used in the model, while observing a low charge on new and existing Stage 3 clients
- ECL allowances decreased in the year to £990 million at 30 June 2024 (31 December 2023: £1,165 million). This was driven by the one-off release noted above, as well as a revised approach to modelling the multiple economic scenarios and a more favourable outlook across multiple economic indicators
- Stage 2 loans and advances decreased to £6,443 million (31 December 2023: £7,987 million), largely as a result of improvements in the Group's macroeconomic outlook, with 93.9 per cent of Stage 2 balances up to date (31 December 2023: 92.8 per cent). Stage 2 as a proportion of total loans and advances to customers decreased to 7.2 per cent (31 December 2023: 8.9 per cent). Stage 2 ECL coverage was lower at 5.1 per cent (31 December 2023: 5.6 per cent) with the decrease in coverage largely a result of the change in the forward-looking multiple economic scenarios
- Stage 3 loans and advances were broadly stable at £2,055 million (31 December 2023: £2,068 million) and as a proportion of total loans and advances to customers, flat at 2.3 per cent (31 December 2023: 2.3 per cent). Stage 3 ECL coverage reduced to 22.8 per cent (31 December 2023: 24.1 per cent)

CREDIT RISK (continued)

Commercial Banking UK Real Estate

- Commercial Banking UK Real Estate committed drawn lending stood at £9.7 billion at May 2024 (net of £3.1 billion exposures subject to protection through Significant Risk Transfer (SRT) securitisations). This compares to £10.0 billion at 31 December 2023 (net of £3.6 billion subject to SRT securitisations). In addition there are undrawn lending facilities of £3.4 billion (31 December 2023: £3.6 billion) to predominantly investment grade rated corporate customers
- The Group classifies Real Estate as exposure which is directly supported by cash flows from property activities (as opposed to trading activities, such as hotels, care homes and housebuilders). Exposures of £6.8 billion to social housing providers are also excluded (31 December 2023: £7.0 billion)
- Despite some headwinds, including the impact of elevated interest rates, the portfolio continues to remain well-positioned and proactively managed with conservative LTVs, good levels of interest cover and appropriate risk mitigants in place
- Overall performance of the portfolio has remained resilient. The Group has seen improvement within this sector, with a decrease in cases in its more closely monitored Watchlist category and limited flow into Business Support
- Lending continues to be heavily weighted towards investment real estate (c.90 per cent) rather than development. Of these investment exposures c.90 per cent have an LTV of less than 70 per cent, with an average LTV of 46 per cent. The average interest cover ratio was 3.2 times, with 74 per cent having interest cover of above 2 times. In SME, LTV at origination has been typically limited to c.55 per cent, in the context of prudent repayment cover criteria (including notional base rate stress)
- The portfolio is well diversified with no speculative commercial development lending (defined as property not pre-sold or pre-let at a level to fully repay the debt or generate sufficient income to meet the minimum interest cover requirements). Approximately 49 per cent of exposures relate to commercial real estate, including c.13 per cent secured by office assets, c.12 per cent by retail assets and c.12 per cent by industrial assets. Approximately 49 per cent of the portfolio relates to residential
- Recognising this is a cyclical sector, total (gross and net) and asset type quantum caps are in place to control origination and exposure, including several asset type categories. Focus remains on the UK market and new business has been written in line with a prudent risk appetite criteria including conservative LTVs, strong quality of income and proven management teams. Development lending criteria also includes maximum loan to gross development value and maximum loan to cost, with funding typically only released against completed work, as confirmed by the Group's monitoring quantity surveyor
- Use of SRT securitisations also acts as a risk mitigant in this portfolio. Run-off of these is carefully managed and sequenced

LIQUIDITY RISK

The Group has maintained its strong funding and liquidity position with a loan to deposit ratio of 95 per cent as at 30 June 2024 (31 December 2023: 95 per cent). Total wholesale funding remained broadly stable at £97.6 billion as at 30 June 2024 (31 December 2023: £98.7 billion). The Group maintains access to diverse sources and tenors of funding.

The Group's liquid assets continue to exceed the regulatory minimum and internal risk appetite, with a liquidity coverage ratio (LCR)[1] of 144 per cent as at 30 June 2024 (31 December 2023: 142 per cent) calculated on a Group consolidated basis based on the PRA rulebook. All assets within the liquid asset portfolio are hedged for interest rate risk. Following the implementation of structural reform, liquidity risk is managed at a legal entity level with the Group consolidated LCR representing the composite of the Ring-Fenced Bank and Non-Ring-Fenced Bank entities.

LCR eligible assets[1] have remained stable at £136.0 billion (31 December 2023: £136.0 billion). In addition to the Group's reported LCR eligible assets, the Group maintains borrowing capacity at central banks which averaged £78 billion in the 12 months to 30 June 2024. The net stable funding ratio remains strong at 130 per cent as at 30 June 2024 (31 December 2023: 130 per cent).

During the first half of 2024, the Group accessed wholesale funding across a range of currencies and markets with term issuance volumes totalling £8.0 billion. The Group expects full year wholesale issuance of less than £15.0 billion for 2024. The total outstanding amount of drawings from the TFSME has remained stable at £30.0 billion at 30 June 2024 (31 December 2023: £30.0 billion), with maturities in 2025, 2027 and beyond. The repayment of TFSME has been factored into the Group's funding plans.

The Group's credit ratings continue to reflect the strength of its business model and balance sheet. The rating agencies continue to monitor the impact of economic conditions and elevated rates for the UK banking sector. The strength of the Group's management and franchise, along with its robust financial performance, capital and funding position, are reflected in the Group's strong ratings.

[1] Based on a monthly rolling simple average over the previous 12 months.

LIQUIDITY RISK (continued)

Group funding requirements and sources

	At 30 Jun 2024 £bn	At 31 Dec 2023 £bn	Change %
Group funding position			
Cash and balances at central banks	**66.8**	78.1	***(14)***
Loans and advances to banks[1]	**8.5**	10.7	***(21)***
Loans and advances to customers	**452.4**	449.7	***1***
Reverse repurchase agreements – non-trading	**49.4**	38.8	***27***
Debt securities at amortised cost	**15.4**	15.4	
Financial assets at fair value through other comprehensive income	**27.8**	27.6	***1***
Other assets[2]	**272.6**	261.2	***4***
Total Group assets	**892.9**	881.5	***1***
Less other liabilities[2]	**(237.6)**	(226.3)	***(5)***
Funding requirements	**655.3**	655.2	
Wholesale funding[3]	**97.6**	98.7	***(1)***
Customer deposits	**474.7**	471.4	***1***
Repurchase agreements – non-trading	**7.9**	7.7	***3***
Term Funding Scheme with additional incentives for SMEs (TFSME)	**30.0**	30.0	
Total equity	**45.1**	47.4	***(5)***
Funding sources	**655.3**	655.2	

1 31 December 2023 excludes £0.1 billion of loans and advances to banks within the Insurance business.

2 Other assets and other liabilities primarily include balances in the Group's Insurance business and the fair value of derivative assets and liabilities.

3 The Group's definition of wholesale funding aligns with that used by other international market participants; including bank deposits, debt securities in issue and subordinated liabilities. Excludes balances relating to margins of £2.1 billion (31 December 2023: £2.4 billion).

Reconciliation of Group funding to the balance sheet

At 30 June 2024	**Included in funding analysis £bn**	**Cash collateral received £bn**	**Fair value and other accounting methods £bn**	**Balance sheet £bn**
Deposits from banks	**3.3**	**2.5**	**(0.2)**	**5.6**
Debt securities in issue	**81.6**	**–**	**(6.8)**	**74.8**
Subordinated liabilities	**12.7**	**–**	**(2.3)**	**10.4**
Total wholesale funding	**97.6**	**2.5**		
Customer deposits	**474.7**	**–**	**–**	**474.7**
Total	**572.3**	**2.5**		
At 31 December 2023				
Deposits from banks	3.7	2.9	(0.4)	6.2
Debt securities in issue	82.9	–	(7.3)	75.6
Subordinated liabilities	12.1	–	(1.8)	10.3
Total wholesale funding	98.7	2.9		
Customer deposits	471.4	–	–	471.4
Total	570.1	2.9		

LIQUIDITY RISK (continued)

Analysis of total wholesale funding by residual maturity

	Up to 1 month £bn	1 to 3 months £bn	3 to 6 months £bn	6 to 9 months £bn	9 to 12 months £bn	1 to 2 years £bn	2 to 5 years £bn	Over five years £bn	Total at 30 Jun 2024 £bn	Total at 31 Dec 2023 £bn
Deposits from banks	**1.6**	**0.6**	**0.5**	**0.3**	**0.3**	**–**	**–**	**–**	**3.3**	3.7
Debt securities in issue:										
Senior unsecured notes issued	**1.9**	**0.4**	**2.1**	**5.4**	**3.1**	**4.9**	**16.9**	**12.6**	**47.3**	44.5
Covered bonds	**–**	**–**	**0.5**	**2.0**	**0.1**	**1.6**	**6.6**	**0.9**	**11.7**	14.1
Commercial paper	**1.9**	**3.1**	**2.7**	**1.8**	**1.1**	**–**	**–**	**–**	**10.6**	12.3
Certificates of deposit issued	**0.5**	**1.5**	**1.9**	**1.5**	**1.4**	**0.1**	**–**	**–**	**6.9**	7.8
Securitisation notes	**–**	**–**	**–**	**0.1**	**–**	**0.1**	**4.3**	**0.6**	**5.1**	4.2
	4.3	**5.0**	**7.2**	**10.8**	**5.7**	**6.7**	**27.8**	**14.1**	**81.6**	82.9
Subordinated liabilities	**–**	**–**	**0.8**	**0.6**	**0.3**	**2.3**	**2.4**	**6.3**	**12.7**	12.1
Total wholesale funding[1]	**5.9**	**5.6**	**8.5**	**11.7**	**6.3**	**9.0**	**30.2**	**20.4**	**97.6**	98.7

[1] Excludes balances relating to margins of £2.1 billion (31 December 2023: £2.4 billion).

Analysis of term issuance in half-year to 30 June 2024

	Sterling £bn	US Dollar £bn	Euro £bn	Other currencies £bn	Total £bn
Securitisation[1]	**0.9**	**–**	**–**	**–**	**0.9**
Covered bonds	**–**	**–**	**–**	**–**	**–**
Senior unsecured notes	**0.5**	**4.3**	**1.4**	**0.5**	**6.7**
Subordinated liabilities	**–**	**–**	**0.4**	**–**	**0.4**
Additional tier 1	**–**	**–**	**–**	**–**	**–**
Total issuance	**1.4**	**4.3**	**1.8**	**0.5**	**8.0**

[1] Includes significant risk transfer securitisations.

LIQUIDITY RISK (continued)

Liquidity portfolio

At 30 June 2024, the banking business had £136.0 billion of highly liquid unencumbered LCR eligible assets, based on a monthly rolling average over the previous 12 months post any liquidity haircuts (31 December 2023: £136.0 billion). This comprises £130.4 billion LCR level 1 eligible assets (31 December 2023: £131.3 billion) and £5.6 billion LCR level 2 eligible assets (31 December 2023: £4.7 billion). These assets are available to meet cash and collateral outflows and regulatory requirements. The Insurance business manages a separate liquidity portfolio to mitigate insurance liquidity risk.

The banking business also has a significant amount of non-LCR eligible liquid assets which are eligible for use in a range of central bank or similar facilities. Future use of such facilities will be based on prudent liquidity management and economic considerations, having regard for external market conditions.

LCR eligible assets

	Average		
	2024[1] £bn	2023[1] £bn	***Change %***
Cash and central bank reserves	**72.2**	83.9	***(14)***
High quality government/MDB/agency bonds[2]	**55.2**	44.7	***23***
High quality covered bonds	**3.0**	2.7	***11***
Level 1	**130.4**	131.3	***(1)***
Level 2[3]	**5.6**	4.7	***19***
Total LCR eligible assets	**136.0**	136.0	

1 Based on 12 months rolling simple average to 30 June 2024 (2023: 31 December 2023). Eligible assets are calculated as a simple average of month-end observations over the previous 12 months post any liquidity haircuts.

2 Designated multilateral development bank (MDB).

3 Includes Level 2A and Level 2B.

	At 30 Jun 2024 %	At 31 Mar 2024 %	At 31 Dec 2023 %
Liquidity coverage ratio[1]	**144**	143	142
Net stable funding ratio[2]	**130**	130	130

1 The liquidity coverage ratio and its components are calculated as simple averages of month-end observations over the previous 12 months.

2 Net stable funding ratio is based on an average of the four previous quarters.

Encumbered assets

The Board and Group Asset and Liability Committee (GALCO) monitor and manage total balance sheet encumbrance, including via a defined risk appetite. At 30 June 2024, the Group had £32.3 billion (31 December 2023: £38.0 billion) of externally encumbered on-balance sheet assets with counterparties other than central banks. The decrease in encumbered on-balance sheet assets was primarily driven by a reduction in secured funding. The Group also had £727.5 billion (31 December 2023: £704.5 billion) of unencumbered on-balance sheet assets, and £133.2 billion (31 December 2023: £139.0 billion) of pre-positioned and encumbered assets held with central banks. The decrease in the latter was primarily driven by monthly redemptions to the prepositioned collateral pools. Primarily, the Group encumbers mortgages, unsecured lending, credit card receivables and car loans through the issuance programmes and tradable securities through securities financing activity. The Group mainly pre-positions mortgage assets at central banks.

INTEREST RATE SENSITIVITY

The Group manages the risk to its earnings and capital from movements in interest rates centrally by hedging the net liabilities which are stable or less sensitive to movements in rates. As at 30 June 2024, the Group's sterling structural hedge had a notional balance of £242 billion (a reduction from £247 billion at 31 December 2023).

Illustrative cumulative impact of parallel shifts in interest rate curve[1]

The table below shows the banking book net interest income sensitivity to an instantaneous parallel shift in interest rates. Sensitivities reflect shifts in the interest rate curve. The actual impact will also depend on the prevailing regulatory and competitive environment at the time. This sensitivity is illustrative and does not reflect new business margin implications and/or pricing actions today or in future periods, other than as outlined. The sensitivity is greater on downward parallel shifts due to pricing lags on deposit accounts.

The following assumptions have been applied:

- Instantaneous parallel shift in interest rate curve, including UK Bank Rate
- Balance sheet remains constant
- Illustrative 50 per cent pass-through on deposits and 100 per cent pass-through on assets, which could be different in practice

	Year 1 £m	Year 2 £m	Year 3 £m
+50 basis points	**c.225**	**c.375**	**c.625**
+25 basis points	**c.125**	**c.200**	**c.300**
-25 basis points	**(c.150)**	**(c.200)**	**(c.300)**
-50 basis points	**(c.300)**	**(c.375)**	**(c.600)**

1 Sensitivity based on modelled impact on banking book net interest income, including the future impact of structural hedge maturities. Annual impacts are presented for illustrative purposes only and are based on a number of assumptions which are subject to change. Year 1 reflects the 12 months from the 30 June 2024 balance sheet position.

STATUTORY INFORMATION

Condensed consolidated half-year financial statements (unaudited)

Notes to the condensed consolidated half-year financial statements (unaudited)

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Note	**Half-year to 30 Jun 2024 £m**	Half-year to 30 Jun 2023 £m	Half-year to 31 Dec 2023 £m
Interest income		**15,435**	13,048	15,003
Interest expense		**(9,389)**	(6,250)	(8,503)
Net interest income		**6,046**	6,798	6,500
Fee and commission income		**1,458**	1,426	1,500
Fee and commission expense		**(568)**	(539)	(556)
Net fee and commission income	4	**890**	887	944
Net trading income		**10,758**	6,161	11,888
Insurance revenue		**1,650**	1,450	1,558
Insurance service expense		**(1,339)**	(1,238)	(1,176)
Net (expense) income from reinsurance contracts held		**(23)**	11	(9)
Insurance service result	5	**288**	223	373
Other operating income		**907**	826	805
Other income		**12,843**	8,097	14,010
Total income		**18,889**	14,895	20,510
Net finance expense from insurance, participating investment and reinsurance contracts	5	**(6,477)**	(3,769)	(7,915)
Movement in third party interests in consolidated funds		**(802)**	(332)	(777)
Change in non-participating investment contracts		**(2,734)**	(1,488)	(2,495)
Net finance expense in respect of insurance and investment contracts		**(10,013)**	(5,589)	(11,187)
Total income, after net finance expense in respect of insurance and investment contracts		**8,876**	9,306	9,323
Operating expenses	6	**(5,452)**	(4,774)	(6,049)
Impairment (charge) credit	8	**(100)**	(662)	359
Profit before tax		**3,324**	3,870	3,633
Tax expense	9	**(880)**	(1,006)	(979)
Profit for the period		**2,444**	2,864	2,654
Profit attributable to ordinary shareholders		**2,145**	2,572	2,361
Profit attributable to other equity holders		**269**	255	272
Profit attributable to equity holders		**2,414**	2,827	2,633
Profit attributable to non-controlling interests		**30**	37	21
Profit for the period		**2,444**	2,864	2,654
Basic earnings per share	17	**3.4p**	3.9p	3.7p
Diluted earnings per share	17	**3.3p**	3.8p	3.7p

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	Half-year to 30 Jun 2024 £m	Half-year to 30 Jun 2023 £m	Half-year to 31 Dec 2023 £m
Profit for the period	**2,444**	2,864	2,654
Other comprehensive income			
Items that will not subsequently be reclassified to profit or loss:			
Post-retirement defined benefit scheme remeasurements:			
Remeasurements before tax	**(351)**	(119)	(1,514)
Tax	**93**	27	401
	(258)	(92)	(1,113)
Movements in revaluation reserve in respect of equity shares held at fair value through other comprehensive income:			
Change in fair value	**72**	(48)	(6)
Tax	**–**	–	(3)
	72	(48)	(9)
Gains and losses attributable to own credit risk:			
Losses before tax	**(86)**	(85)	(149)
Tax	**24**	24	42
	(62)	(61)	(107)
Items that may subsequently be reclassified to profit or loss:			
Movements in revaluation reserve in respect of debt securities held at fair value through other comprehensive income:			
Change in fair value	**105**	157	(197)
Income statement transfers in respect of disposals	**(4)**	(107)	(15)
Income statement transfers in respect of impairment	**(2)**	(2)	–
Tax	**(27)**	(13)	60
	72	35	(152)
Movements in cash flow hedging reserve:			
Effective portion of changes in fair value taken to other comprehensive income	**(1,601)**	(1,644)	2,189
Net income statement transfers	**1,238**	756	1,082
Tax	**101**	244	(917)
	(262)	(644)	2,354
Movements in foreign currency translation reserve:			
Currency translation differences (tax: £nil)	**(39)**	(66)	13
Transfers to income statement (tax: £nil)	**–**	–	–
	(39)	(66)	13
Total other comprehensive (loss) income for the period, net of tax	**(477)**	(876)	986
Total comprehensive income for the period	**1,967**	1,988	3,640
Total comprehensive income attributable to ordinary shareholders	**1,668**	1,696	3,347
Total comprehensive income attributable to other equity holders	**269**	255	272
Total comprehensive income attributable to equity holders	**1,937**	1,951	3,619
Total comprehensive income attributable to non-controlling interests	**30**	37	21
Total comprehensive income for the period	**1,967**	1,988	3,640

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

CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

	Note	At 30 Jun 2024 £m	At 31 Dec 2023 £m
Assets			
Cash and balances at central banks		**66,808**	78,110
Financial assets at fair value through profit or loss	10	**209,139**	203,318
Derivative financial instruments	11	**18,983**	22,356
Loans and advances to banks		**8,454**	10,764
Loans and advances to customers	12	**452,408**	449,745
Reverse repurchase agreements		**49,404**	38,771
Debt securities		**15,432**	15,355
Financial assets at amortised cost		**525,698**	514,635
Financial assets at fair value through other comprehensive income	10	**27,847**	27,592
Goodwill and other intangible assets		**8,315**	8,306
Current tax recoverable		**1,152**	1,183
Deferred tax assets		**4,995**	5,185
Retirement benefit assets	7	**3,379**	3,624
Other assets		**26,611**	17,144
Total assets		**892,927**	881,453
Liabilities			
Deposits from banks		**5,584**	6,153
Customer deposits		**474,693**	471,396
Repurchase agreements at amortised cost		**37,914**	37,703
Financial liabilities at fair value through profit or loss	10	**27,056**	24,914
Derivative financial instruments	11	**16,647**	20,149
Notes in circulation		**1,766**	1,392
Debt securities in issue at amortised cost	15	**74,760**	75,592
Liabilities arising from insurance and participating investment contracts	5	**125,007**	120,123
Liabilities arising from non-participating investment contracts		**48,280**	44,978
Other liabilities		**23,544**	19,026
Retirement benefit obligations	7	**130**	136
Current tax liabilities		**47**	39
Deferred tax liabilities		**146**	157
Provisions	16	**1,788**	2,077
Subordinated liabilities		**10,448**	10,253
Total liabilities		**847,810**	834,088
Equity			
Share capital		**6,252**	6,358
Share premium account		**18,671**	18,568
Other reserves		**8,525**	8,508
Retained profits		**5,511**	6,790
Ordinary shareholders' equity		**38,959**	40,224
Other equity instruments		**5,932**	6,940
Total equity excluding non-controlling interests		**44,891**	47,164
Non-controlling interests		**226**	201
Total equity		**45,117**	47,365
Total equity and liabilities		**892,927**	881,453

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Attributable to ordinary shareholders						
	Share capital and premium £m	Other reserves £m	Retained profits £m	Total £m	Other equity instruments £m	Non-controlling interests £m	Total £m
At 1 January 2024	**24,926**	**8,508**	**6,790**	**40,224**	**6,940**	**201**	**47,365**
Comprehensive income							
Profit for the period	**–**	**–**	**2,145**	**2,145**	**269**	**30**	**2,444**
Other comprehensive income							
Post-retirement defined benefit scheme remeasurements, net of tax	**–**	**–**	**(258)**	**(258)**	**–**	**–**	**(258)**
Movements in revaluation reserve in respect of financial assets held at fair value through other comprehensive income, net of tax:							
Debt securities	**–**	**72**	**–**	**72**	**–**	**–**	**72**
Equity shares	**–**	**72**	**–**	**72**	**–**	**–**	**72**
Gains and losses attributable to own credit risk, net of tax	**–**	**–**	**(62)**	**(62)**	**–**	**–**	**(62)**
Movements in cash flow hedging reserve, net of tax	**–**	**(262)**	**–**	**(262)**	**–**	**–**	**(262)**
Movements in foreign currency translation reserve, net of tax	**–**	**(39)**	**–**	**(39)**	**–**	**–**	**(39)**
Total other comprehensive loss	**–**	**(157)**	**(320)**	**(477)**	**–**	**–**	**(477)**
Total comprehensive (loss) income[1]	**–**	**(157)**	**1,825**	**1,668**	**269**	**30**	**1,967**
Transactions with owners							
Dividends	**–**	**–**	**(1,169)**	**(1,169)**	**–**	**(3)**	**(1,172)**
Distributions on other equity instruments	**–**	**–**	**–**	**–**	**(269)**	**–**	**(269)**
Issue of ordinary shares	**171**	**–**	**–**	**171**	**–**	**–**	**171**
Share buyback[2]	**(174)**	**174**	**(1,553)**	**(1,553)**	**–**	**–**	**(1,553)**
Issue of other equity instruments	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Repurchases and redemptions of other equity instruments	**–**	**–**	**(316)**	**(316)**	**(1,008)**	**–**	**(1,324)**
Movement in treasury shares	**–**	**–**	**(136)**	**(136)**	**–**	**–**	**(136)**
Value of employee services:							
Share option schemes	**–**	**–**	**24**	**24**	**–**	**–**	**24**
Other employee award schemes	**–**	**–**	**46**	**46**	**–**	**–**	**46**
Changes in non-controlling interests	**–**	**–**	**–**	**–**	**–**	**(2)**	**(2)**
Total transactions with owners	**(3)**	**174**	**(3,104)**	**(2,933)**	**(1,277)**	**(5)**	**(4,215)**
Realised gains and losses on equity shares held at fair value through other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**–**
At 30 June 2024[3]	**24,923**	**8,525**	**5,511**	**38,959**	**5,932**	**226**	**45,117**

1 Total comprehensive income attributable to owners of the parent was £1,937 million.

2 Contains a closed period accrual of £630 million.

3 Total equity attributable to owners of the parent was £44,891 million.

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

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

	Attributable to ordinary shareholders						
	Share capital and premium £m	Other reserves £m	Retained profits £m	Total £m	Other equity instruments £m	Non-controlling interests £m	Total £m
At 1 January 2023	25,233	6,587	6,550	38,370	5,297	244	43,911
Comprehensive income							
Profit for the period	–	–	2,572	2,572	255	37	2,864
Other comprehensive income							
Post-retirement defined benefit scheme remeasurements, net of tax	–	–	(92)	(92)	–	–	(92)
Movements in revaluation reserve in respect of financial assets held at fair value through other comprehensive income, net of tax:							
Debt securities	–	35	–	35	–	–	35
Equity shares	–	(48)	–	(48)	–	–	(48)
Gains and losses attributable to own credit risk, net of tax	–	–	(61)	(61)	–	–	(61)
Movements in cash flow hedging reserve, net of tax	–	(644)	–	(644)	–	–	(644)
Movements in foreign currency translation reserve, net of tax	–	(66)	–	(66)	–	–	(66)
Total other comprehensive loss	–	(723)	(153)	(876)	–	–	(876)
Total comprehensive (loss) income[1]	–	(723)	2,419	1,696	255	37	1,988
Transactions with owners							
Dividends	–	–	(1,059)	(1,059)	–	(30)	(1,089)
Distributions on other equity instruments	–	–	–	–	(255)	–	(255)
Issue of ordinary shares	115	–	–	115	–	–	115
Share buyback[2]	(327)	327	(2,020)	(2,020)	–	–	(2,020)
Issue of other equity instruments	–	–	(6)	(6)	1,778	–	1,772
Repurchases and redemptions of other equity instruments	–	–	–	–	(135)	–	(135)
Movement in treasury shares	–	–	101	101	–	–	101
Value of employee services:							
Share option schemes	–	–	23	23	–	–	23
Other employee award schemes	–	–	71	71	–	–	71
Changes in non-controlling interests	–	–	–	–	–	–	–
Total transactions with owners	(212)	327	(2,890)	(2,775)	1,388	(30)	(1,417)
Realised gains and losses on equity shares held at fair value through other comprehensive income	–	–	–	–	–	–	–
At 30 June 2023[3]	25,021	6,191	6,079	37,291	6,940	251	44,482

1 Total comprehensive income attributable to owners of the parent was £1,951 million.

2 Contains a closed period accrual of £419 million.

3 Total equity attributable to owners of the parent was £44,231 million.

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

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

	Attributable to ordinary shareholders						
	Share capital and premium £m	Other reserves £m	Retained profits £m	Total £m	Other equity instruments £m	Non-controlling interests £m	Total £m
At 1 July 2023	25,021	6,191	6,079	37,291	6,940	251	44,482
Comprehensive income							
Profit for the period	–	–	2,361	2,361	272	21	2,654
Other comprehensive income							
Post-retirement defined benefit scheme remeasurements, net of tax	–	–	(1,113)	(1,113)	–	–	(1,113)
Movements in revaluation reserve in respect of financial assets held at fair value through other comprehensive income, net of tax:							
Debt securities	–	(152)	–	(152)	–	–	(152)
Equity shares	–	(9)	–	(9)	–	–	(9)
Gains and losses attributable to own credit risk, net of tax	–	–	(107)	(107)	–	–	(107)
Movements in cash flow hedging reserve, net of tax	–	2,354	–	2,354	–	–	2,354
Movements in foreign currency translation reserve, net of tax	–	13	–	13	–	–	13
Total other comprehensive income (loss)	–	2,206	(1,220)	986	–	–	986
Total comprehensive income[1]	–	2,206	1,141	3,347	272	21	3,640
Transactions with owners							
Dividends	–	–	(592)	(592)	–	(71)	(663)
Distributions on other equity instruments	–	–	–	–	(272)	–	(272)
Issue of ordinary shares	16	–	–	16	–	–	16
Share buyback	(111)	111	27	27	–	–	27
Issue of other equity instruments	–	–	–	–	–	–	–
Repurchases and redemptions of other equity instruments	–	–	–	–	–	–	–
Movement in treasury shares	–	–	2	2	–	–	2
Value of employee services:							
Share option schemes	–	–	35	35	–	–	35
Other employee award schemes	–	–	98	98	–	–	98
Changes in non-controlling interests	–	–	–	–	–	–	–
Total transactions with owners	(95)	111	(430)	(414)	(272)	(71)	(757)
Realised gains and losses on equity shares held at fair value through other comprehensive income	–	–	–	–	–	–	–
At 31 December 2023[2]	24,926	8,508	6,790	40,224	6,940	201	47,365

1 Total comprehensive income attributable to owners of the parent was £3,619 million.

2 Total equity attributable to owners of the parent was £47,164 million.

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

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

	Half-year to 30 Jun 2024 £m	Half-year to 30 Jun 2023 £m	Half-year to 31 Dec 2023 £m
Cash flows from operating activities			
Profit before tax	**3,324**	3,870	3,633
Adjustments for:			
Change in operating assets	**(21,509)**	(589)	(8,521)
Change in operating liabilities	**14,032**	10,162	(5,930)
Non-cash and other items	**1,671**	2,222	3,400
Net tax paid	**(398)**	(861)	(576)
Net cash (used in) provided by operating activities	**(2,880)**	14,804	(7,994)
Cash flows from investing activities			
Purchase of financial assets	**(5,809)**	(3,850)	(6,461)
Proceeds from sale and maturity of financial assets	**5,269**	3,657	1,641
Purchase of fixed assets	**(2,884)**	(3,378)	(2,077)
Proceeds from sale of fixed assets	**642**	534	493
Repayment of capital by joint ventures and associates	**–**	9	(9)
Acquisition of businesses, net of cash acquired	**(63)**	(28)	(352)
Net cash used in investing activities	**(2,845)**	(3,056)	(6,765)
Cash flows from financing activities			
Dividends paid to ordinary shareholders	**(1,169)**	(1,059)	(592)
Distributions in respect of other equity instruments	**(269)**	(255)	(272)
Distributions in respect of non-controlling interests	**(3)**	(30)	(71)
Interest paid on subordinated liabilities	**(350)**	(344)	(279)
Proceeds from issue of subordinated liabilities	**427**	746	671
Proceeds from issue of other equity instruments	**–**	1,772	–
Proceeds from issue of ordinary shares	**170**	70	16
Share buyback	**(923)**	(1,523)	(470)
Repayment of subordinated liabilities	**–**	(1,162)	(583)
Repurchases and redemptions of other equity instruments	**(1,324)**	(135)	–
Change in stake of non-controlling interests	**(2)**	–	–
Net cash used in financing activities	**(3,443)**	(1,920)	(1,580)
Effects of exchange rate changes on cash and cash equivalents	**(17)**	(493)	13
Change in cash and cash equivalents	**(9,185)**	9,335	(16,326)
Cash and cash equivalents at beginning of period	**88,838**	95,829	105,164
Cash and cash equivalents at end of period	**79,653**	105,164	88,838

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

Cash and cash equivalents comprise cash and non-mandatory balances with central banks and amounts due from banks with an original maturity of less than three months. Included within cash and cash equivalents at 30 June 2024 is £35 million (30 June 2023: £45 million; 31 December 2023: £31 million) held within the Group’s long-term insurance and investments operations, which is not immediately available for use in the business.

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

Note 1: Basis of preparation and accounting policies

These condensed consolidated half-year financial statements as at and for the period to 30 June 2024 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 Banking Group plc (the Company) together with its subsidiaries (the Group). They do not include all of the information required for full annual financial statements and should be read in conjunction with the Group's consolidated financial statements as at and for the year ended 31 December 2023 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 (IASB). Copies of the 2023 annual report and accounts are available on the Group's website and are also available upon request from Investor Relations, Lloyds Banking Group plc, 25 Gresham Street, London EC2V 7HN.

The UK Finance Code for Financial Reporting Disclosure (the Disclosure Code) sets out disclosure principles together with supporting guidance in respect of the financial statements of UK banks. The Group has adopted the Disclosure Code and these condensed consolidated half-year financial statements have been prepared in compliance with the Disclosure Code's principles. Terminology used in these condensed consolidated half-year financial statements is consistent with that used in the Group's 2023 annual report and accounts.

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

The Group's accounting policies are consistent with those applied by the Group in its financial statements for the year ended 31 December 2023 and there have been no changes in the Group's methods of computation.

The IASB has issued a number of minor amendments to IFRSs that are relevant to the Group effective 1 January 2024, including IFRS 16 *Lease Liability in a Sale and Leaseback*, IAS 1 *Non-current Liabilities with Covenants*, and IAS 1 *Classification of Liabilities as Current or Non-current.* These amendments have not had a significant impact on the Group.

Future accounting developments

The IASB has issued *Amendments to the Classification and Measurement of Financial Instruments* (IFRS 9 and IFRS 7) which is effective 1 January 2026 and IFRS 19 *Subsidiaries without Public Accountability: Disclosures* which is effective 1 January 2027. Neither the amendments nor IFRS 19 are expected to have a significant impact on the Group. The IASB has also issued IFRS 18 *Primary Financial Statements* which is effective 1 January 2027. The standard includes no measurement changes, and the Group is currently assessing the impact of this standard on its income statement presentation.

Related party transactions

The Group has had no significant related party transactions during the half-year to 30 June 2024. Related party transactions for the half-year to 30 June 2024 are similar in nature to those for the year ended 31 December 2023. Full details of the Group's related party transactions for the year ended 31 December 2023 can be found in the Group's 2023 annual report and accounts.

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 2023 were approved by the directors on 21 February 2024 and were delivered to the Registrar of Companies on 30 March 2024. 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.

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

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

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

The Group's significant judgements, estimates and assumptions are unchanged compared to those disclosed in note 3 of the Group's 2023 financial statements. Further information on the critical accounting judgements and key sources of estimation uncertainty for the allowance for expected credit losses is set out in note 14.

Note 3: Segmental analysis

Lloyds Banking Group provides a wide range of banking and financial services in the UK and in certain locations overseas. The Group Executive Committee (GEC) remains the "chief operating decision maker" (as defined by IFRS 8 *Operating Segments*) for the Group.

The segmental results and comparatives are presented on an underlying basis, the basis reviewed by the chief operating decision maker. The underlying basis is derived from the recognition and measurement principles of IFRS with the effects of the following excluded in arriving at underlying profit before tax:

- Restructuring costs relating to merger, acquisition and integration activities
- Volatility and other items, which includes the effects of certain asset sales, the volatility relating to the Group's hedging arrangements and that arising in the insurance businesses, the unwind of acquisition-related fair value adjustments and the amortisation of purchased intangible assets
- Losses from insurance and participating investment contract modifications relating to the enhancement to the Group's longstanding and workplace pension business through the addition of a drawdown feature

For the purposes of the underlying income statement, operating lease depreciation (net of gains on disposal of operating lease assets) is shown as an adjustment to total underlying income.

There has been no change to the descriptions of these segments as provided in note 4 to the Group's financial statements for the year ended 31 December 2023.

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

Note 3: Segmental analysis (continued)

The table below analyses the Group's income and profit by segment on an underlying basis and provides a reconciliation through to certain lines in the Group's statutory income statement. Total income, after net finance income in respect of insurance and investment contracts is also analysed between external and inter-segment income. The Group's full segmental income statement on an underlying basis is shown on page 16.

Half-year to 30 June 2024	**Net interest income £m**	**Other income, after net finance expense[1] £m**	**Total income, after net finance expense[1,2] £m**	**Profit before tax £m**	**External income £m**	**Inter-segment income (expense) £m**
Underlying basis						
Retail	**4,430**	**1,148**	**5,578**	**1,875**	**6,566**	**(988)**
Commercial Banking	**1,696**	**947**	**2,643**	**1,329**	**2,088**	**555**
Insurance, Pensions and Investments	**(74)**	**649**	**575**	**119**	**649**	**(74)**
Other	**286**	**(10)**	**276**	**174**	**(231)**	**507**
Group	**6,338**	**2,734**	**9,072**	**3,497**	**9,072**	**–**
Reconciling items:						
Insurance grossing adjustment	**8**	**(112)**	**(104)**	**–**		
Market volatility and asset sales	**(273)**	**208**	**(65)**	**(65)**		
Amortisation of purchased intangibles	**–**	**–**	**–**	**(41)**		
Restructuring costs[3]	**–**	**–**	**–**	**(15)**		
Fair value unwind and other items	**(27)**	**–**	**(27)**	**(52)**		
Group – statutory	**6,046**	**2,830**	**8,876**	**3,324**		

Half-year to 30 June 2023	Net interest income £m	Other income, after net finance expense[1] £m	Total income, after net finance expense[1,2] £m	Profit before tax £m	External income £m	Inter-segment income (expense) £m
Underlying basis						
Retail	5,064	1,006	6,070	2,505	6,429	(359)
Commercial Banking	1,934	856	2,790	1,417	2,296	494
Insurance, Pensions and Investments	(70)	619	549	91	621	(72)
Other	76	57	133	28	196	(63)
Group	7,004	2,538	9,542	4,041	9,542	–
Reconciling items:						
Insurance grossing adjustment	7	(139)	(132)	–		
Market volatility and asset sales	(183)	117	(66)	(63)		
Amortisation of purchased intangibles	–	–	–	(35)		
Restructuring costs[3]	–	–	–	(25)		
Fair value unwind and other items	(30)	(8)	(38)	(48)		
Group – statutory	6,798	2,508	9,306	3,870		

1 Other income and total income, after net finance expense in respect of insurance and investment contracts.

2 Total income, after net finance expense does not include operating lease depreciation which, on a statutory basis, is included within operating costs.

3 Restructuring costs related to merger, acquisition and integration costs.

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

Note 3: Segmental analysis (continued)

Half-year to 31 December 2023	Net interest income £m	Other income, after net finance expense[1] £m	Total income, after net finance expense[1,2] £m	Profit before tax £m	External income £m	Inter-segment income (expense) £m
Underlying basis						
Retail	4,583	1,153	5,736	1,538	6,374	(638)
Commercial Banking	1,865	835	2,700	1,802	2,274	426
Insurance, Pensions and Investments	(62)	590	528	99	600	(72)
Other	375	7	382	329	98	284
Group	6,761	2,585	9,346	3,768	9,346	–
Reconciling items:						
Insurance grossing adjustment	5	(100)	(95)	–		
Market volatility and asset sales	(240)	334	94	98		
Amortisation of purchased intangibles	–	–	–	(45)		
Restructuring costs[3]	–	–	–	(129)		
Fair value unwind and other items	(26)	4	(22)	(59)		
Group – statutory	6,500	2,823	9,323	3,633		

1 Other income and total income, after net finance expense in respect of insurance and investment contracts.

2 Total income, after net finance expense does not include operating lease depreciation which, on a statutory basis, is included within operating costs.

3 Restructuring costs related to merger, acquisition and integration costs.

	Segment loans and advances to customers		**Segment external assets**	
	At 30 Jun 2024 £m	At 31 Dec 2023 £m	**At 30 Jun 2024 £m**	At 31 Dec 2023 £m
Retail	**365,055**	361,181	**380,919**	376,789
Commercial Banking	**88,069**	88,606	**148,736**	150,834
Insurance, Pensions and Investments	**–**	–	**191,796**	184,267
Other	**(716)**	(42)	**171,476**	169,563
Total Group	**452,408**	449,745	**892,927**	881,453

	Segment customer deposits		**Segment external liabilities**	
	At 30 Jun 2024 £m	At 31 Dec 2023 £m	**At 30 Jun 2024 £m**	At 31 Dec 2023 £m
Retail	**313,339**	308,441	**319,066**	313,244
Commercial Banking	**161,159**	162,752	**202,358**	204,815
Insurance, Pensions and Investments	**–**	–	**187,673**	179,962
Other	**195**	203	**138,713**	136,067
Total Group	**474,693**	471,396	**847,810**	834,088

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

Note 4: Net fee and commission income

	Half-year to 30 Jun 2024 £m	Half-year to 30 Jun 2023 £m	Half-year to 31 Dec 2023 £m
Fee and commission income:			
Current accounts	**314**	310	314
Credit and debit card fees	**631**	617	647
Commercial banking and treasury fees	**188**	166	168
Unit trust and insurance broking	**32**	34	35
Factoring	**35**	39	36
Other fees and commissions	**258**	260	300
Total fee and commission income	**1,458**	1,426	1,500
Fee and commission expense	**(568)**	(539)	(556)
Net fee and commission income	**890**	887	944

Current account and credit and debit card fees principally arise in Retail; commercial banking, treasury and factoring fees arise in Commercial Banking; and unit trust and insurance broking fees arise in Insurance, Pensions and Investments.

Note 5: Insurance business

	Half-year to 30 Jun 2024 £m	Half-year to 30 Jun 2023 £m	Half-year to 31 Dec 2023 £m
Life			
Amounts relating to the changes in liabilities for remaining coverage:			
Contractual service margin recognised for services provided	**216**	160	169
Change in risk adjustments for non-financial risk for risk expired	**27**	30	54
Expected incurred claims and other insurance services expenses	**977**	955	952
Charges to funds in respect of policyholder tax and other	**68**	20	67
	1,288	1,165	1,242
Recovery of insurance acquisition cash flows	**56**	40	47
Total life	**1,344**	1,205	1,289
Non-life			
Total non-life	**306**	245	269
Total insurance revenue	**1,650**	1,450	1,558
Life			
Incurred claims and other directly attributable expenses	**(961)**	(966)	(931)
Changes that relate to past service: adjustment to liabilities for incurred claims	**3**	(1)	1
Changes that relate to future service: losses and reversal of losses on onerous contracts	**(46)**	(26)	84
Amortisation of insurance acquisition cash flows	**(56)**	(40)	(48)
Net impairment loss on insurance acquisition assets	**(8)**	–	(7)
Total life	**(1,068)**	(1,033)	(901)
Non-life			
Total non-life	**(271)**	(205)	(275)
Total insurance service expense	**(1,339)**	(1,238)	(1,176)
Net (expense) income from reinsurance contracts held	**(23)**	11	(9)
Insurance service result	**288**	223	373

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

Note 5: Insurance business (continued)

	Half-year to 30 June 2024		
	Life £m	**Non-life £m**	**Total £m**
Net investment return on assets held to back insurance and participating investment contracts (memorandum item)[1]	**6,482**	**20**	**6,502**
Net finance expense from insurance and participating investment contracts	**(6,555)**	**(3)**	**(6,558)**
Net finance income from reinsurance contracts held	**81**	**–**	**81**
Net finance expense from insurance, participating investment and reinsurance contracts	**(6,474)**	**(3)**	**(6,477)**

	Half-year to 30 June 2023		
	Life £m	Non-life £m	Total £m
Net investment return on assets held to back insurance and participating investment contracts (memorandum item)[1]	3,542	28	3,570
Net finance expense from insurance and participating investment contracts	(3,732)	(39)	(3,771)
Net finance income from reinsurance contracts held	2	–	2
Net finance expense from insurance, participating investment and reinsurance contracts	(3,730)	(39)	(3,769)

	Half-year to 31 December 2023		
	Life £m	Non-life £m	Total £m
Net investment return on assets held to back insurance and participating investment contracts (memorandum item)[1]	8,214	7	8,221
Net finance (expense) income from insurance and participating investment contracts	(7,997)	33	(7,964)
Net finance income from reinsurance contracts held	49	–	49
Net finance (expense) income from insurance, participating investment and reinsurance contracts	(7,948)	33	(7,915)

[1] Net investment return on assets held to back insurance contracts and participating investment contracts is reported within net trading income on the face of the Group's income statement; includes income of £6,951 million (half-year to 30 June 2023: £3,781 million; half-year to 31 December 2023: £6,419 million) in respect of unit-linked and with-profit contracts measured applying the variable fee approach. The assets generating the investment return held to back insurance contracts and participating investment contracts are carried at fair value on the Group's balance sheet.

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

Note 5: Insurance business (continued)

At 30 June 2024	**Present value of future cash flows £m**	**Risk adjustment[1] £m**	**Contractual service margin[2] £m**	**Other £m**	**Total £m**
Insurance contract assets	**2**	**1**	**(2)**	**–**	**1**
Liabilities arising from insurance contracts and participating investment contracts[3,4]	**(119,421)**	**(1,139)**	**(4,467)**	**–**	**(125,027)**
Insurance acquisition assets	**–**	**–**	**–**	**20**	**20**
Net liabilities	**(119,419)**	**(1,138)**	**(4,469)**	**20**	**(125,006)**
At 31 December 2023					
Insurance contract assets	–	1	–	–	1
Liabilities arising from insurance contracts and participating investment contracts[3,4]	(114,555)	(1,178)	(4,415)	–	(120,148)
Insurance acquisition assets	–	–	–	24	24
Net liabilities	(114,555)	(1,177)	(4,415)	24	(120,123)

1 The movement in the risk adjustment during the half-year to 30 June 2024 included £34 million, net of reinsurance, arising on the initial recognition of contracts issued in the period (half-year to 30 June 2023: £42 million; half-year to 31 December 2023: £44 million).

2 The movement in the contractual service margin during the half-year to 30 June 2024 included £27 million, net of reinsurance, arising on the initial recognition of contracts issued in the period (half-year to 30 June 2023: £56 million; half-year to 31 December 2023: £31 million).

3 Liabilities arising from insurance and participating investment contracts substantially all relates to liability for remaining coverage.

4 Excluding insurance acquisition assets.

On 13 March 2024, the Group entered into a business transfer agreement with Rothesay Life plc for the sale of the Group's bulk annuity business and to pursue the transfer of associated business assets and assumed liabilities under Part VII of the Financial Services and Markets Act 2000. A reinsurance agreement between the Group and Rothesay Life plc was signed on 30 April 2024 to materially de-risk the Group's bulk annuity portfolio. The Part VII process is subject to approval by the High Court, through a process in which regulators and policyholders are given the opportunity to object. The Group currently expects the Part VII to take place in the second half of 2025.

Upon entering into the reinsurance agreement, the Group derecognised £5.3 billion of financial assets which represents the reinsurance premium paid and at 30 April 2024 recognised a reinsurance contract asset of £5.3 billion, of which £0.3 billion contractual service margin was recognised. The reinsurance contract asset is presented on the Group's balance sheet within other assets.

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

Note 6: Operating expenses

	Half-year to 30 Jun 2024 £m	Half-year to 30 Jun 2023 £m	Half-year to 31 Dec 2023 £m
Staff costs:			
Salaries and social security costs	**1,914**	1,695	1,956
Pensions and other post-retirement benefit schemes (note 7)	**276**	153	202
Restructuring and other staff costs	**214**	185	302
	2,404	2,033	2,460
Premises and equipment costs[1]	**196**	179	270
Depreciation and amortisation	**1,705**	1,333	1,572
UK bank levy	**–**	–	150
Regulatory and legal provisions (note 16)	**95**	70	605
Other	**1,365**	1,448	1,272
Operating expenses before adjustment for:	**5,765**	5,063	6,329
Amounts attributable to the acquisition of insurance and participating investment contracts	**(88)**	(82)	(101)
Amounts reported within insurance service expenses	**(225)**	(207)	(179)
Total operating expenses	**5,452**	4,774	6,049

[1] Net of profits on disposal of operating lease assets of £37 million (half-year to 30 June 2023: £67 million; half-year to 31 December 2023: £26 million).

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

Note 7: Retirement benefit obligations

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

	At 30 Jun 2024 £m	At 31 Dec 2023 £m
Defined benefit pension schemes:		
Present value of funded obligations	**(28,633)**	(30,201)
Fair value of scheme assets	**31,924**	33,733
Net pension scheme asset	**3,291**	3,532
Other post-retirement schemes	**(42)**	(44)
Total amounts recognised in the balance sheet	**3,249**	3,488
Recognised on the balance sheet as:		
Retirement benefit assets	**3,379**	3,624
Retirement benefit obligations	**(130)**	(136)
Total amounts recognised in the balance sheet	**3,249**	3,488

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

	£m
Asset at 1 January 2024	**3,488**
Income statement credit	**21**
Employer contributions	**91**
Remeasurement	**(351)**
Asset at 30 June 2024	**3,249**

The charge to the income statement in respect of pensions and other post-retirement benefit schemes is comprised as follows:

	Half-year to 30 Jun 2024 £m	Half-year to 30 Jun 2023 £m	Half-year to 31 Dec 2023 £m
Defined benefit schemes	**(21)**	(37)	(42)
Defined contribution schemes	**297**	190	244
Total charge to the income statement	**276**	153	202

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

	At 30 Jun 2024 %	At 31 Dec 2023 %
Discount rate	**5.18**	4.70
Rate of inflation:		
Retail Price Index (RPI)	**3.08**	2.96
Consumer Price Index (CPI)	**2.67**	2.47
Rate of salary increases	**0.00**	0.00
Weighted-average rate of increase for pensions in payment	**2.90**	2.73

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

Note 8: Impairment

	Half-year to 30 Jun 2024 £m	Half-year to 30 Jun 2023 £m	Half-year to 31 Dec 2023 £m
Loans and advances to banks	**(5)**	(3)	(4)
Loans and advances to customers	**161**	667	(346)
Debt securities	**(3)**	2	(1)
Financial assets held at amortised cost	**153**	666	(351)
Financial assets at fair value through other comprehensive income	**(2)**	(3)	1
Other assets	**(8)**	(2)	(8)
Loan commitments and financial guarantees	**(43)**	1	(1)
Total impairment charge (credit)	**100**	662	(359)

There was a £10 million charge in respect of residual value impairment and voluntary terminations within the Group's UK Motor Finance business in the current period (half-year to 30 June 2023: £27 million; half-year to 31 December 2023: £46 million).

Note 9: Tax

In accordance with IAS 34, the Group's income tax expense for the half-year to 30 June 2024 is based on the best estimate of the weighted-average annual income tax rate expected for the full financial year. The tax effects of one-off items are not included in the weighted-average annual income tax rate, but are recognised in the relevant period.

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

	Half-year to 30 Jun 2024 £m	Half-year to 30 Jun 2023 £m	Half-year to 31 Dec 2023 £m
Profit before tax	**3,324**	3,870	3,633
UK corporation tax thereon at 25.0 per cent (2023: 23.5 per cent)	**(831)**	(909)	(854)
Impact of surcharge on banking profits	**(83)**	(141)	(164)
Non-deductible costs: conduct charges	**4**	(2)	(27)
Non-deductible costs: bank levy	**–**	–	(35)
Other non-deductible costs	**(39)**	(80)	(26)
Non-taxable income	**27**	27	53
Tax relief on coupons on other equity instruments	**67**	60	64
Tax-exempt gains on disposals	**33**	27	8
Tax losses where no deferred tax recognised	**(2)**	–	(2)
Remeasurement of deferred tax due to rate changes	**3**	(8)	(6)
Differences in overseas tax rates	**–**	5	1
Policyholder tax	**(46)**	(37)	(24)
Deferred tax asset in respect of life assurance expenses	**–**	64	20
Adjustments in respect of prior years	**(12)**	(11)	11
Tax effect of share of results of joint ventures	**(1)**	(1)	2
Tax expense	**(880)**	(1,006)	(979)

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

Note 10: 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 21 to the Group's financial statements for the year ended 31 December 2023 details the definitions of the three levels in the fair value hierarchy.

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

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

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 2024				
Financial assets at fair value through profit or loss:				
Loans and advances to banks	–	3,405	–	3,405
Loans and advances to customers	–	3,152	6,301	9,453
Reverse repurchase agreements	–	19,816	–	19,816
Debt securities	10,589	24,999	2,286	37,874
Treasury and other bills	12	–	–	12
Contracts held with reinsurers	–	11,838	–	11,838
Equity shares	125,181	–	1,560	126,741
Total financial assets at fair value through profit or loss[1]	135,782	63,210	10,147	209,139
Financial assets at fair value through other comprehensive income:				
Debt securities	14,059	13,432	51	27,542
Equity shares	–	–	305	305
Total financial assets at fair value through other comprehensive income	14,059	13,432	356	27,847
Derivative financial instruments	28	18,603	352	18,983
Total financial assets carried at fair value	149,869	95,245	10,855	255,969

[1] Other financial assets mandatorily at fair value through profit or loss include assets backing insurance contracts and investment contracts of £178,559 million.

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

Note 10: Fair values of financial assets and liabilities (continued)

Financial assets	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 31 December 2023				
Financial assets at fair value through profit or loss:				
Loans and advances to banks	–	3,127	–	3,127
Loans and advances to customers	–	2,015	7,890	9,905
Reverse repurchase agreements	–	17,413	–	17,413
Debt securities	11,611	28,802	2,250	42,663
Treasury and other bills	51	–	–	51
Contracts held with reinsurers	–	11,424	–	11,424
Equity shares	117,194	–	1,541	118,735
Total financial assets at fair value through profit or loss[1]	128,856	62,781	11,681	203,318
Financial assets at fair value through other comprehensive income:				
Debt securities	15,049	12,259	52	27,360
Equity shares	–	–	232	232
Total financial assets at fair value through other comprehensive income	15,049	12,259	284	27,592
Derivative financial instruments	77	21,857	422	22,356
Total financial assets carried at fair value	143,982	96,897	12,387	253,266

[1] Other financial assets mandatorily at fair value through profit or loss include assets backing insurance contracts and investment contracts of £176,475 million.

Financial liabilities	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
At 30 June 2024				
Financial liabilities at fair value through profit or loss:				
Debt securities in issue	**–**	**4,897**	**23**	**4,920**
Liabilities in respect of securities sold under repurchase agreements	**–**	**20,167**	**–**	**20,167**
Short positions in securities	**1,920**	**9**	**–**	**1,929**
Other	**–**	**40**	**–**	**40**
Total financial liabilities at fair value through profit or loss	**1,920**	**25,113**	**23**	**27,056**
Derivative financial instruments	**28**	**16,246**	**373**	**16,647**
Liabilities arising from non-participating investment contracts	**–**	**48,280**	**–**	**48,280**
Total financial liabilities carried at fair value	**1,948**	**89,639**	**396**	**91,983**
At 31 December 2023				
Financial liabilities at fair value through profit or loss:				
Debt securities in issue	–	5,223	42	5,265
Liabilities in respect of securities sold under repurchase agreements	–	18,057	–	18,057
Short positions in securities	1,569	5	–	1,574
Other	–	18	–	18
Total financial liabilities at fair value through profit or loss	1,569	23,303	42	24,914
Derivative financial instruments	116	19,589	444	20,149
Liabilities arising from non-participating investment contracts	–	44,978	–	44,978
Total financial liabilities carried at fair value	1,685	87,870	486	90,041

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

Note 10: Fair values of financial assets and liabilities (continued)

Valuation control framework

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

Transfers into and out of level 3 portfolios

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

Valuation methodology

For level 2 and level 3 portfolios, there is no significant change to the valuation methodology (techniques and inputs) disclosed in the Group's financial statements for the year ended 31 December 2023 applied to these portfolios.

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 2024	**11,681**	**284**	**422**	**12,387**
Exchange and other adjustments	**2**	**(1)**	**–**	**1**
Gains (losses) recognised in the income statement within other income	**55**	**–**	**(54)**	**1**
Gains recognised in other comprehensive income within the revaluation reserve in respect of financial assets at fair value through other comprehensive income	**–**	**74**	**–**	**74**
Purchases/increases to customer loans	**335**	**–**	**6**	**341**
Sales/repayments of customer loans	**(1,923)**	**(1)**	**(22)**	**(1,946)**
Transfers into the level 3 portfolio	**32**	**–**	**–**	**32**
Transfers out of the level 3 portfolio	**(35)**	**–**	**–**	**(35)**
At 30 June 2024	**10,147**	**356**	**352**	**10,855**
Gains (losses) recognised in the income statement, within other income, relating to the change in fair value of those assets held at 30 June 2024	**54**	**–**	**(41)**	**13**
At 1 January 2023	11,304	342	553	12,199
Exchange and other adjustments	(1)	(2)	(13)	(16)
Gains (losses) recognised in the income statement within other income	104	4	(53)	55
Losses recognised in other comprehensive income within the revaluation reserve in respect of financial assets at fair value through other comprehensive income	–	(48)	–	(48)
Purchases/increases to customer loans	347	–	40	387
Sales/repayments of customer loans	(475)	(4)	(17)	(496)
Transfers into the level 3 portfolio	139	–	–	139
Transfers out of the level 3 portfolio	(4)	–	(3)	(7)
At 30 June 2023	11,414	292	507	12,213
Gains (losses) recognised in the income statement, within other income, relating to the change in fair value of those assets held at 30 June 2023	79	2	(58)	23

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

Note 10: 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 2024	**42**	**444**	**486**
Exchange and other adjustments	**–**	**–**	**–**
Losses (gains) recognised in the income statement within other income	**2**	**(43)**	**(41)**
Additions	**–**	**5**	**5**
Redemptions	**(2)**	**(33)**	**(35)**
Transfers into the level 3 portfolio	**–**	**–**	**–**
Transfers out of the level 3 portfolio	**(19)**	**–**	**(19)**
At 30 June 2024	**23**	**373**	**396**
Losses (gains) recognised in the income statement, within other income, relating to the change in fair value of those liabilities held at 30 June 2024	**2**	**(31)**	**(29)**
At 1 January 2023	45	608	653
Exchange and other adjustments	–	(8)	(8)
Losses (gains) recognised in the income statement within other income	1	(57)	(56)
Additions	–	31	31
Redemptions	(1)	(36)	(37)
Transfers into the level 3 portfolio	2	–	2
Transfers out of the level 3 portfolio	(1)	–	(1)
At 30 June 2023	46	538	584
Losses (gains) recognised in the income statement, within other income, relating to the change in fair value of those liabilities held at 30 June 2023	1	(58)	(57)

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

Note 10: Fair values of financial assets and liabilities (continued)

Sensitivity of level 3 valuations

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

				Effect of reasonably possible alternative assumptions[1]	
At 30 June 2024	**Valuation techniques**	**Significant unobservable inputs[2]**	**Carrying value £m**	**Favourable changes £m**	**Unfavourable changes £m**
Financial assets at fair value through profit or loss					
Loans and advances to customers	Discounted cash flows	Interest rate spreads (-127bps/+238bps)	**6,301**	**277**	**(245)**
Equity and venture capital investments	Market approach	Earnings multiple (1.6/17.8)	**2,293**	**163**	**(163)**
	Underlying asset/net asset value (incl. property prices)[3]	n/a	**853**	**80**	**(95)**
Unlisted equities, debt securities and property partnerships in the life funds	Underlying asset/net asset value (incl. property prices), broker quotes or discounted cash flows[3]	n/a	**297**	**2**	**(9)**
Other			**403**	**33**	**(33)**
			10,147		
Financial assets at fair value through other comprehensive income					
Asset-backed securities	Lead manager or broker quote/ consensus pricing	n/a	**51**	**2**	**(2)**
Equity and venture capital investments	Underlying asset/net asset value (incl. property prices)[3]	n/a	**305**	**29**	**(29)**
			356		
Derivative financial assets					
Interest rate derivatives	Option pricing model	Interest rate volatility (13%/200%)	**352**	**6**	**(3)**
Level 3 financial assets carried at fair value			**10,855**		
Financial liabilities at fair value through profit or loss			**23**	**1**	**(1)**
Derivative financial liabilities					
Interest rate derivatives	Option pricing model	Interest rate volatility (13%/200%)	**373**	**17**	**(18)**
Level 3 financial liabilities carried at fair value			**396**		

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

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

3 Underlying asset/net asset values represent fair value.

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

Note 10: Fair values of financial assets and liabilities (continued)

Sensitivity of level 3 valuations (continued)

				Effect of reasonably possible alternative assumptions[1]	
At 31 December 2023	Valuation techniques	Significant unobservable inputs[2]	Carrying value £m	Favourable changes £m	Unfavourable changes £m
Financial assets at fair value through profit or loss					
Loans and advances to customers	Discounted cash flows	Interest rate spreads (-50bps/+272bps)	7,890	369	(351)
Equity and venture capital investments	Market approach	Earnings multiple (1.6/17.8)	2,228	131	(131)
	Underlying asset/net asset value (incl. property prices)[3]	n/a	809	77	(99)
Unlisted equities, debt securities and property partnerships in the life funds	Underlying asset/net asset value (incl. property prices), broker quotes or discounted cash flows[3]	n/a	309	7	(6)
Other			445	39	(41)
			11,681		
Financial assets at fair value through other comprehensive income					
Asset-backed securities	Lead manager or broker quote/ consensus pricing	n/a	52	2	(2)
Equity and venture capital investments	Underlying asset/net asset value (incl. property prices)[3]	n/a	232	22	(22)
			284		
Derivative financial assets					
Interest rate derivatives	Option pricing model	Interest rate volatility (13%/200%)	422	6	(3)
Level 3 financial assets carried at fair value			12,387		
Financial liabilities at fair value through profit or loss			42	1	(1)
Derivative financial liabilities					
Interest rate derivatives	Option pricing model	Interest rate volatility (13%/200%)	444	10	(7)
Level 3 financial liabilities carried at fair value			486		

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

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

3 Underlying asset/net asset values represent fair value.

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 2023.

Reasonably possible alternative assumptions

Valuation techniques applied to many of the Group's level 3 instruments often involve the use of two or more inputs whose relationship is interdependent. The calculation of the effect of reasonably possible alternative assumptions included in the table above reflects such relationships and is unchanged from that described in note 21 to the Group's financial statements for the year ended 31 December 2023.

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

Note 10: Fair values of financial assets and liabilities (continued)

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

	At 30 June 2024		At 31 December 2023	
	Carrying value £m	**Fair value £m**	Carrying value £m	Fair value £m
Financial assets				
Loans and advances to banks	**8,454**	**8,454**	10,764	10,764
Loans and advances to customers	**452,408**	**445,987**	449,745	439,449
Reverse repurchase agreements	**49,404**	**49,404**	38,771	38,771
Debt securities	**15,432**	**14,753**	15,355	15,139
Financial assets at amortised cost	**525,698**	**518,598**	514,635	504,123
Financial liabilities				
Deposits from banks	**5,584**	**5,578**	6,153	6,153
Customer deposits	**474,693**	**475,358**	471,396	471,857
Repurchase agreements at amortised cost	**37,914**	**37,914**	37,703	37,703
Debt securities in issue	**74,760**	**75,226**	75,592	75,021
Subordinated liabilities	**10,448**	**10,988**	10,253	10,345

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, items in course of transmission to banks and notes in circulation.

Note 11: Derivative financial instruments

	At 30 June 2024		At 31 December 2023	
	Fair value of assets £m	**Fair value of liabilities £m**	Fair value of assets £m	Fair value of liabilities £m
Trading and other				
Exchange rate contracts	**5,118**	**4,580**	6,631	6,222
Interest rate contracts	**13,538**	**11,146**	15,116	12,724
Credit derivatives	**74**	**146**	51	118
Equity and other contracts	**228**	**334**	455	580
	18,958	**16,206**	22,253	19,644
Hedging				
Derivatives designated as fair value hedges	**4**	**422**	83	425
Derivatives designated as cash flow hedges	**21**	**19**	20	80
	25	**441**	103	505
Total recognised derivative assets/liabilities	**18,983**	**16,647**	22,356	20,149

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

Note 12: Loans and advances to customers

Half-year to 30 June 2024

	Gross carrying amount					Allowance for expected credit losses				
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**POCI £m**	**Total £m**	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**POCI £m**	**Total £m**
At 1 January 2024	**385,294**	**53,167**	**7,147**	**7,854**	**453,462**	**900**	**1,467**	**1,137**	**213**	**3,717**
Exchange and other adjustments[1]	**(1,219)**	**(12)**	**(17)**	**7**	**(1,241)**	**(6)**	**(6)**	**10**	**23**	**21**
Transfers to Stage 1	**16,778**	**(16,708)**	**(70)**		**–**	**276**	**(271)**	**(5)**		**–**
Transfers to Stage 2	**(11,068)**	**11,546**	**(478)**		**–**	**(56)**	**116**	**(60)**		**–**
Transfers to Stage 3	**(508)**	**(1,728)**	**2,236**		**–**	**(8)**	**(157)**	**165**		**–**
Net change in ECL due to transfers						**(185)**	**257**	**169**		**241**
						27	**(55)**	**269**		**241**
Impact of transfers between stages	**5,202**	**(6,890)**	**1,688**		**–**					
Other changes in credit quality[2]						**(139)**	**(50)**	**331**	**32**	**174**
Additions and repayments	**9,424**	**(3,150)**	**(828)**	**(418)**	**5,028**	**(9)**	**(101)**	**(115)**	**(29)**	**(254)**
Charge (credit) to the income statement						**(121)**	**(206)**	**485**	**3**	**161**
Disposals and derecognition[3]	**(449)**	**(206)**	**(88)**	**(219)**	**(962)**	**(1)**	**(4)**	**(7)**	**(8)**	**(20)**
Advances written off			**(618)**	**(6)**	**(624)**			**(618)**	**(6)**	**(624)**
Recoveries of advances written off in previous years			**69**	**–**	**69**			**69**	**–**	**69**
At 30 June 2024	**398,252**	**42,909**	**7,353**	**7,218**	**455,732**	**772**	**1,251**	**1,076**	**225**	**3,324**
Allowance for expected credit losses	**(772)**	**(1,251)**	**(1,076)**	**(225)**	**(3,324)**					
Net carrying amount	**397,480**	**41,658**	**6,277**	**6,993**	**452,408**					
Drawn ECL coverage[4]	**0.2%**	**2.9%**	**14.6%**	**3.1%**	**0.7%**					

1 Exchange and other adjustments includes the impact of movements in exchange rates, discount unwind, derecognising assets as a result of modifications and adjustments in respect of purchased or originated credit-impaired financial assets (POCI). Where a POCI asset's expected credit loss is less than its expected credit loss on purchase or origination, the increase in its carrying value is recognised within gross loans, rather than as a negative impairment allowance.

2 Includes a credit for methodology and model changes of £65 million, split by Stage as £26 million credit for Stage 1, £31 million credit for Stage 2, £4 million credit for Stage 3 and £4 million credit for POCI.

3 Relates to the securitisation of legacy Retail mortgages.

4 Allowance for expected credit losses on loans and advances to customers as a percentage of gross loans and advances to customers.

The total allowance for expected credit losses includes £185 million (31 December 2023: £187 million) in respect of residual value impairment and voluntary terminations within the Group's UK Motor Finance business.

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

Note 12: Loans and advances to customers (continued)

Year ended 31 December 2023

	Gross carrying amount					Allowance for expected credit losses				
	Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI £m	Total £m
At 1 January 2023	380,991	61,164	7,640	9,622	459,417	700	1,808	1,757	253	4,518
Exchange and other adjustments[1]	1,830	(24)	(6)	18	1,818	(7)	(1)	105	67	164
Transfers to Stage 1	18,991	(18,953)	(38)		–	401	(393)	(8)		–
Transfers to Stage 2	(18,010)	18,592	(582)		–	(53)	121	(68)		–
Transfers to Stage 3	(1,216)	(2,507)	3,723		–	(13)	(223)	236		–
Net change in ECL due to transfers						(260)	402	312		454
						75	(93)	472		454
Impact of transfers between stages	(235)	(2,868)	3,103		–					
Other changes in credit quality[2]						105	(103)	804	8	814
Additions and repayments	6,393	(4,213)	(2,353)	(1,043)	(1,216)	81	(85)	(862)	(81)	(947)
Charge (credit) to the income statement						261	(281)	414	(73)	321
Disposals and derecognition[3]	(3,685)	(892)	(122)	(743)	(5,442)	(54)	(59)	(24)	(34)	(171)
Advances written off			(1,231)	–	(1,231)			(1,231)	–	(1,231)
Recoveries of advances written off in previous years			116	–	116			116	–	116
At 31 December 2023	385,294	53,167	7,147	7,854	453,462	900	1,467	1,137	213	3,717
Allowance for expected credit losses	(900)	(1,467)	(1,137)	(213)	(3,717)					
Net carrying amount	384,394	51,700	6,010	7,641	449,745					
Drawn ECL coverage[4]	0.2%	2.8%	15.9%	2.7%	0.8%					

1 Exchange and other adjustments includes the impact of movements in exchange rates, discount unwind, derecognising assets as a result of modifications and adjustments in respect of purchased or originated credit-impaired financial assets (POCI). Where a POCI asset's expected credit loss is less than its expected credit loss on purchase or origination, the increase in its carrying value is recognised within gross loans, rather than as a negative impairment allowance.

2 Includes a charge for methodology and model changes of £60 million, split by Stage as £96 million charge for Stage 1, £33 million credit for Stage 2, £1 million credit for Stage 3 and £2 million credit for POCI.

3 Relates to the securitisations of legacy Retail mortgages and Retail unsecured loans.

4 Allowance for expected credit losses on loans and advances to customers as a percentage of gross loans and advances to customers.

The movement tables are compiled by comparing the position at the end of the period 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 end of the period. Purchased or originated credit-impaired are not transferable.

Additions and repayments comprise new loans originated and repayments of outstanding balances throughout the reporting period.

The Group's impairment charge comprises impact of transfers between stages, other changes in credit quality and additions and repayments.

Advances written off have first been transferred to Stage 3 and then acquired a full allowance through other changes in credit quality. Recoveries of advances written off in previous years are shown at the full recovered value, with a corresponding entry in repayments and release of allowance through other changes in credit quality.

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

Note 13: Credit quality of loans and advances to customers

	Gross drawn exposures					Allowance for expected credit losses				
At 30 June 2024	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**POCI £m**	**Total £m**	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**POCI £m**	**Total £m**
Retail – UK mortgages										
RMS 1–3	245,910	8,272	–	–	254,182	54	51	–	–	105
RMS 4–6	20,300	15,522	–	–	35,822	26	109	–	–	135
RMS 7–9	98	2,001	–	–	2,099	1	35	–	–	36
RMS 10	–	973	–	–	973	–	23	–	–	23
RMS 11–13	–	3,074	–	–	3,074	–	108	–	–	108
RMS 14	–	–	4,542	7,218	11,760	–	–	331	225	556
	266,308	29,842	4,542	7,218	307,910	81	326	331	225	963
Retail – credit cards										
RMS 1–3	4,665	3	–	–	4,668	9	–	–	–	9
RMS 4–6	7,357	1,185	–	–	8,542	85	56	–	–	141
RMS 7–9	1,303	918	–	–	2,221	52	116	–	–	168
RMS 10	4	166	–	–	170	–	35	–	–	35
RMS 11–13	–	329	–	–	329	–	117	–	–	117
RMS 14	–	–	290	–	290	–	–	133	–	133
	13,329	2,601	290	–	16,220	146	324	133	–	603
Retail – UK unsecured loans and overdrafts										
RMS 1–3	855	1	–	–	856	2	–	–	–	2
RMS 4–6	6,209	437	–	–	6,646	89	27	–	–	116
RMS 7–9	1,153	347	–	–	1,500	41	40	–	–	81
RMS 10	34	118	–	–	152	3	23	–	–	26
RMS 11–13	10	310	–	–	320	1	104	–	–	105
RMS 14	–	–	186	–	186	–	–	110	–	110
	8,261	1,213	186	–	9,660	136	194	110	–	440
Retail – UK Motor Finance										
RMS 1–3	9,978	646	–	–	10,624	132	14	–	–	146
RMS 4–6	3,747	1,092	–	–	4,839	46	34	–	–	80
RMS 7–9	458	272	–	–	730	4	16	–	–	20
RMS 10	–	91	–	–	91	–	11	–	–	11
RMS 11–13	2	187	–	–	189	–	37	–	–	37
RMS 14	–	–	117	–	117	–	–	67	–	67
	14,185	2,288	117	–	16,590	182	112	67	–	361
Retail – other										
RMS 1–3	14,153	250	–	–	14,403	3	4	–	–	7
RMS 4–6	2,200	167	–	–	2,367	10	10	–	–	20
RMS 7–9	–	90	–	–	90	–	5	–	–	5
RMS 10	–	5	–	–	5	–	–	–	–	–
RMS 11–13	81	10	–	–	91	–	–	–	–	–
RMS 14	–	–	163	–	163	–	–	45	–	45
	16,434	522	163	–	17,119	13	19	45	–	77
Total Retail	318,517	36,466	5,298	7,218	367,499	558	975	686	225	2,444

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

Note 13: Credit quality of loans and advances to customers (continued)

	Gross drawn exposures					Allowance for expected credit losses				
At 30 June 2024	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**POCI £m**	**Total £m**	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**POCI £m**	**Total £m**
Commercial Banking										
CMS 1–5	**23,261**	**6**	**–**	**–**	**23,267**	**3**	**–**	**–**	**–**	**3**
CMS 6–10	**20,029**	**63**	**–**	**–**	**20,092**	**14**	**–**	**–**	**–**	**14**
CMS 11–14	**32,843**	**2,133**	**–**	**–**	**34,976**	**127**	**29**	**–**	**–**	**156**
CMS 15–18	**4,286**	**3,610**	**–**	**–**	**7,896**	**70**	**190**	**–**	**–**	**260**
CMS 19	**32**	**631**	**–**	**–**	**663**	**–**	**57**	**–**	**–**	**57**
CMS 20–23	**–**	**–**	**2,055**	**–**	**2,055**	**–**	**–**	**390**	**–**	**390**
	80,451	**6,443**	**2,055**	**–**	**88,949**	**214**	**276**	**390**	**–**	**880**
Other[1]	**(716)**	**–**	**–**	**–**	**(716)**	**–**	**–**	**–**	**–**	**–**
Total loans and advances to customers	**398,252**	**42,909**	**7,353**	**7,218**	**455,732**	**772**	**1,251**	**1,076**	**225**	**3,324**

1 Gross drawn exposures include centralised fair value hedge accounting adjustments.

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

Note 13: Credit quality of loans and advances to customers (continued)

	Gross drawn exposures					Allowance for expected credit losses				
At 31 December 2023	Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI £m	Total £m
Retail – UK mortgages										
RMS 1–3	226,740	4,137	–	–	230,877	123	37	–	–	160
RMS 4–6	29,637	27,037	–	–	56,674	38	151	–	–	189
RMS 7–9	219	2,713	–	–	2,932	–	37	–	–	37
RMS 10	–	590	–	–	590	–	13	–	–	13
RMS 11–13	–	4,056	–	–	4,056	–	136	–	–	136
RMS 14	–	–	4,337	7,854	12,191	–	–	357	213	570
	256,596	38,533	4,337	7,854	307,320	161	374	357	213	1,105
Retail – credit cards										
RMS 1–3	3,906	5	–	–	3,911	9	–	–	–	9
RMS 4–6	7,159	1,248	–	–	8,407	91	65	–	–	156
RMS 7–9	1,548	1,069	–	–	2,617	67	145	–	–	212
RMS 10	12	220	–	–	232	1	50	–	–	51
RMS 11–13	–	366	–	–	366	–	141	–	–	141
RMS 14	–	–	284	–	284	–	–	130	–	130
	12,625	2,908	284	–	15,817	168	401	130	–	699
Retail – UK unsecured loans and overdrafts										
RMS 1–3	638	1	–	–	639	1	–	–	–	1
RMS 4–6	5,152	250	–	–	5,402	83	18	–	–	101
RMS 7–9	1,256	473	–	–	1,729	44	50	–	–	94
RMS 10	43	135	–	–	178	4	27	–	–	31
RMS 11–13	14	328	–	–	342	2	113	–	–	115
RMS 14	–	–	196	–	196	–	–	118	–	118
	7,103	1,187	196	–	8,486	134	208	118	–	460
Retail – UK Motor Finance										
RMS 1–3	9,979	569	–	–	10,548	142	12	–	–	154
RMS 4–6	2,791	998	–	–	3,789	41	29	–	–	70
RMS 7–9	769	228	–	–	997	3	13	–	–	16
RMS 10	–	63	–	–	63	–	7	–	–	7
RMS 11–13	2	169	–	–	171	–	30	–	–	30
RMS 14	–	–	112	–	112	–	–	63	–	63
	13,541	2,027	112	–	15,680	186	91	63	–	340
Retail – other										
RMS 1–3	13,613	240	–	–	13,853	3	4	–	–	7
RMS 4–6	2,197	186	–	–	2,383	16	13	–	–	29
RMS 7–9	–	86	–	–	86	–	4	–	–	4
RMS 10	–	6	–	–	6	–	–	–	–	–
RMS 11–13	88	7	–	–	95	–	–	–	–	–
RMS 14	–	–	144	–	144	–	–	47	–	47
	15,898	525	144	–	16,567	19	21	47	–	87
Total Retail	305,763	45,180	5,073	7,854	363,870	668	1,095	715	213	2,691

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

Note 13: Credit quality of loans and advances to customers (continued)

	Gross drawn exposures					Allowance for expected credit losses				
At 31 December 2023	Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI £m	Total £m
Commercial Banking										
CMS 1–5	14,100	7	–	–	14,107	2	–	–	–	2
CMS 6–10	30,534	124	–	–	30,658	32	–	–	–	32
CMS 11–14	31,210	2,927	–	–	34,137	133	59	–	–	192
CMS 15–18	3,719	4,115	–	–	7,834	65	232	–	–	297
CMS 19	11	814	–	–	825	–	81	–	–	81
CMS 20–23	–	–	2,068	–	2,068	–	–	418	–	418
	79,574	7,987	2,068	–	89,629	232	372	418	–	1,022
Other[1]	(43)	–	6	–	(37)	–	–	4	–	4
Total loans and advances to customers	385,294	53,167	7,147	7,854	453,462	900	1,467	1,137	213	3,717

1 Gross drawn exposures include centralised fair value hedge accounting adjustments.

Note 14: Allowance for expected credit losses

The calculation of the Group's allowance for expected credit loss allowances requires the Group to make a number of judgements, assumptions and estimates. These are set out in full in note 24 to the Group's financial statements for the year ended 31 December 2023, with the most significant set out below.

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 judgemental adjustments.

			Judgemental adjustments due to:		
At 30 June 2024	**Modelled ECL £m**	**Individually assessed £m**	**Inflationary and interest rate risk £m**	**Other £m**	**Total ECL £m**
UK mortgages	**806**	**–**	**23**	**142**	**971**
Credit cards	**679**	**–**	**6**	**15**	**700**
Other Retail	**878**	**–**	**6**	**58**	**942**
Commercial Banking	**992**	**322**	**–**	**(315)**	**999**
Other	**18**	**–**	**–**	**–**	**18**
Total	**3,373**	**322**	**35**	**(100)**	**3,630**
At 31 December 2023					
UK mortgages	991	–	61	63	1,115
Credit cards	703	–	92	15	810
Other Retail	866	–	33	46	945
Commercial Banking	1,124	340	–	(282)	1,182
Other	32	–	–	–	32
Total	3,716	340	186	(158)	4,084

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

Note 14: Allowance for expected credit losses (continued)

Application of judgement in adjustments to modelled ECL

Impairment models fall within the Group's model risk framework with model monitoring, periodic validation and back testing performed on model components, such as probability of default. Limitations in the Group's impairment models or data inputs may be identified through the ongoing assessment and validation of the output of the models. In these circumstances, management applies appropriate judgemental adjustments to the ECL to ensure that the overall provision adequately reflects all material risks. These adjustments are determined by considering the particular attributes of exposures which have not been adequately captured by the impairment models and range from changes to model inputs and parameters, at account level, through to more qualitative post-model adjustments.

During 2022 and 2023 the intensifying inflationary pressures, alongside rising interest rates created further risks not deemed to be fully captured by ECL models which required judgemental adjustments to be added. Through the first half of 2024 these risks have largely subsided with inflation back at two per cent and the UK Bank rate now believed to have peaked. The portfolio has proven resilient to higher rates and inflation. As a result, the judgements held in respect of inflationary and interest rate risks are significantly reduced to £35 million (31 December 2023: £186 million). Other judgements continue to be applied for broader data and model limitations, both increasing and decreasing ECL.

Judgemental adjustments due to inflationary and interest rate risk

UK mortgages: £23 million (31 December 2023: £61 million)

The Group's ECL models for UK mortgages use UK Bank Rate as a driver of predicted defaults and were largely believed to have captured the stretch on customers due to increased interest rates. However, the combination of inflationary pressures with sharp increases to interest rates over 2023 were believed to create further risk not potentially captured by ECL models. Modest increases in new to arrears and defaults emerged in 2023, mainly driven by variable rate customers, who experienced sudden material increases in their monthly payment. Given interest rates have stabilised, inflation has reduced and experience through the first half of 2024 has been benign, this risk has reduced. A lower judgemental uplift in ECL continues to be taken in segments of the mortgages portfolio, either where inflation is expected to present a more material risk, or where segments within the model do not recognise UK Bank Rate as a material driver of predicted defaults.

Credit cards: £6 million (31 December 2023: £92 million) and Other Retail: £6 million (31 December 2023: £33 million)

The Group's ECL models for credit cards and personal loan portfolios use predictions of wage growth to account for future affordability stress. As elevated inflation eroded nominal wage growth, adjustments were introduced to the econometric models to account for real, rather than nominal, income to produce adjusted predicted defaults. This impact is heavily reduced at 30 June 2024 given the model has moved into a period of low inflation, which naturally reduces the scale of adjustments in the period. Alongside these portfolio-wide in-model adjustments management had previously made an additional uplift to ECL for customers with lower income levels and higher indebtedness. This specific post-model adjustment has been released in the first half of 2024 given the improved environment and no evidence of greater deterioration in performance of this segment.

Other judgemental adjustments

UK mortgages: £142 million (31 December 2023: £63 million)

These adjustments principally comprise:

Increase in time to repossession: £98 million (31 December 2023: £106 million)

The UK mortgage portfolio currently contains a larger number of customers that have been in default for a longer period than would typically be expected following pauses in litigation activity both before and during COVID-19. There is a risk that the probability of possession (PPD), and therefore ECL on these accounts is understated given this component of the model may not reflect the full impact of customers remaining in default for an extended period. Adjustments for this risk have been in place for several years, although the approach has been refined in the first half of 2024. The updated approach continues to target accounts that have been in default for more than 24 months with an arrears balance increase in the last six months. These accounts now have their PPD increased to a level based on equivalent observed performance graduated by their time in default. The change in approach has resulted in a similar level of adjustment, but now provides a mechanism which will see the adjustment naturally release as this backlog reduces.

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

Note 14: Allowance for expected credit losses (continued)

Adjustment for single point of loss model limitation: £46 million (31 December 2023: £nil)

The current UK mortgages ECL model estimates customer level losses using a 'single point of loss' (SPOL) calculation, with predicted timings of defaults and subsequent repossession using average time periods. This simplification is continually assessed for any potential over or understatement of ECL compared to a more sophisticated 'multiple points of loss' (MPOL) modelling technique. To date, this has not shown any material difference for which an adjustment would be required. Management have been developing a new ECL model which will address this limitation, anticipated to be formally adopted later this year. However, the development activity is now suitably progressed to be leveraged in the ongoing assessment of the scale of the SPOL model simplification. This assessment indicated that the MES update in the second quarter of the year had increased the impact of the simplification up to a scale that required mitigation through a judgemental adjustment. This adjustment is expected to be released upon the final adoption of the new ECL model once it has completed appropriate internal model governance activities.

Credit cards: £15 million (31 December 2023: £15 million) and Other Retail: £58 million (31 December 2023: £46 million)

These adjustments principally comprise:

Lifetime extension on revolving products: Credit cards: £60 million (31 December 2023: £67 million) and Other Retail: £10 million (31 December 2023: £10 million)

An adjustment is required to extend the lifetime used for Stage 2 exposures on Retail revolving products from a three-year modelled lifetime, which reflected the outcome data available when the ECL models were developed, to a more representative lifetime. Incremental defaults beyond year three are calculated through the extrapolation of the default trajectory observed throughout the three years and beyond. The judgemental adjustment has reduced slightly for credit cards in the period following refinement to the discounting methodology applied.

Adjustments to loss given defaults (LGDs): Credit cards: £(50) million (31 December 2023: £(50) million) and Other Retail: £18 million (31 December 2023: £37 million)

A number of adjustments continue to be made to the loss given default assumptions used within unsecured and motor credit models. For unsecured portfolios, the adjustments reflect the impact of changes in collection debt sale strategy on the Group's LGD models, incorporating up to date customer performance and forward flow debt sale pricing. For UK Motor Finance, the adjustment captures the latest outlook on used car prices.

Commercial Banking: £(315) million (31 December 2023: £(282) million)

These adjustments principally comprise:

Commercial Real Estate (CRE) price reduction: £54 million (31 December 2023: £67 million)

The material fall in CRE prices seen in late 2022 moved out of the model assumptions used to assess ECL in 2023. Given the model uses future changes in the metric as a driver of defaults and loss rates there is a continued risk that the model benefit that arises does not reflect the residual risk caused by the sustained low level of prices still apparent. Management therefore considers it appropriate to judgementally reinstate the CRE price drop within the ECL model assumptions given the materially reduced level in CRE prices could still trigger additional defaults. Within this adjustment management has refined the potential impact on loss rates through capturing updated valuations as well as stressing valuations on specific sectors where evidence suggests valuations may lag achievable levels, notably in cases of stressed sale.

Corporate insolvency rates: £(304) million (31 December 2023: £(292) million)

The volume of UK corporate insolvencies has continued to remain well above December 2019 levels, revealing a marked misalignment between observed UK corporate insolvencies and the Group's credit performance which has been better than this. This dislocation gives rise to uncertainty over the drivers of observed trends and the appropriateness of the Group's Commercial Banking model response which uses observed UK corporate insolvencies data to anchor future loss estimates to. Given the Group's asset quality remains strong with low new defaults, a negative adjustment is applied by using the long-term average rate. The slightly greater negative adjustment in the period reflects the widening gap between the increasing industry level and the long-term average rate used.

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

Note 14: Allowance for expected credit losses (continued)

Adjustments for loss given defaults (LGDs): £(90) million (31 December 2023: £(105) million)

Following review and monitoring on the loss given default approach for commercial exposures, ECL requires an adjustment to mitigate limitations identified in the approach which are causing loss given defaults to be inflated. These include the benefit from amortisation of exposures relative to collateral values at default and a move to an exposure-weighted approach being adopted. These temporary adjustments will be addressed through future model development.

Base case and MES economic assumptions

The Group's base case economic scenario as at 30 June 2024 has been updated to reflect ongoing geopolitical and economic developments, as the slow reduction of inflationary pressures brings into view a shift to less restrictive monetary policies globally. The Group's updated base case scenario has three conditioning assumptions: first, the wars in Ukraine and the Middle East remain geographically contained; second, the UK's post-election economic policies retain the framework of the inflation target and fiscal rules, while allowing for an increase in both current and capital public spending; and third, the outcome of the US election broadly maintains economic policy continuity, including an unchanged position for the Federal Reserve.

Based on these assumptions and incorporating the economic data published in the second quarter of 2024, the Group's base case scenario is for a gradual expansion of economic activity and a slight rise in the unemployment rate, alongside modest changes in residential and commercial property prices. Following a gradual reduction in inflationary pressures, UK Bank Rate is expected to be lowered twice during 2024. Risks around this base case economic view lie in both directions and are largely captured by the generation of alternative economic scenarios.

The Group has taken into account the latest available information at the reporting date in defining its base case scenario and generating alternative economic scenarios. The scenarios include forecasts for key variables in the second quarter of 2024, for which actuals may have since emerged prior to publication. The Group's base case economic scenario predated the results of the UK General Election and, as such, information that has become available since the election has not been included.

The Group's approach to generating alternative economic scenarios is set out in detail in note 24 to the financial statements for the year ended 31 December 2023. 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. A small refinement was made to the Group's approach during the first half of 2024, with alternative economic scenarios now dispersing from the base case after the balance sheet date. This is one quarter later than previously adopted reflecting the use of a base case that is now set closer to the reporting date than at the onset of IFRS 9. As a result, all scenarios include the same forecasted level for key variables in the second quarter of 2024, for which actuals may have since emerged prior to publication.

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

Scenarios by year

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

Annual assumptions

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

Five-year average

The five-year average reflects the average annual growth rate, or level, over the five-year period. It includes movements within the current reporting year, such that the position as of 30 June 2024 covers the five years 2024 to 2028. The inclusion of the reporting year within the five-year period reflects the need to predict variables which remain unpublished at the reporting date and recognises that credit models utilise both level and annual changes. The use of calendar years maintains a comparability between the annual assumptions presented.

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

Note 14: Allowance for expected credit losses (continued)

At 30 June 2024	2024 %	2025 %	2026 %	2027 %	2028 %	2024 to 2028 average %
Upside						
Gross domestic product growth	1.1	2.3	1.7	1.5	1.4	1.6
Unemployment rate	4.1	3.2	3.0	2.9	2.9	3.2
House price growth	2.2	5.0	7.3	6.0	5.2	5.1
Commercial real estate price growth	2.2	8.7	2.4	2.8	1.2	3.4
UK Bank Rate	5.17	5.30	5.17	5.33	5.55	5.31
CPI inflation	2.5	2.5	2.4	2.7	2.9	2.6
Base case						
Gross domestic product growth	0.8	1.2	1.6	1.6	1.6	1.3
Unemployment rate	4.5	4.8	4.8	4.6	4.6	4.7
House price growth	1.2	1.4	1.0	1.4	2.4	1.5
Commercial real estate price growth	(1.6)	1.2	0.0	1.9	1.0	0.5
UK Bank Rate	5.06	4.19	3.63	3.50	3.50	3.98
CPI inflation	2.5	2.5	2.1	2.1	2.2	2.3
Downside						
Gross domestic product growth	0.6	(0.5)	0.8	1.5	1.6	0.8
Unemployment rate	4.9	6.9	7.5	7.4	7.2	6.7
House price growth	0.6	(1.8)	(6.5)	(5.4)	(2.3)	(3.1)
Commercial real estate price growth	(4.7)	(6.7)	(4.1)	(0.8)	(1.3)	(3.5)
UK Bank Rate	4.97	2.77	1.38	0.89	0.63	2.13
CPI inflation	2.5	2.4	1.8	1.4	1.2	1.9
Severe downside						
Gross domestic product growth	0.1	(2.2)	0.4	1.2	1.5	0.2
Unemployment rate	5.5	9.4	10.2	10.1	9.8	9.0
House price growth	(0.7)	(4.8)	(13.9)	(11.8)	(7.6)	(7.9)
Commercial real estate price growth	(9.1)	(15.1)	(8.6)	(5.3)	(4.7)	(8.6)
UK Bank Rate – modelled	4.81	1.12	0.16	0.05	0.02	1.23
UK Bank Rate – adjusted[1]	5.09	3.22	2.33	2.02	1.79	2.89
CPI inflation – modelled	2.6	2.4	1.3	0.5	0.1	1.4
CPI inflation – adjusted[1]	2.9	3.2	1.6	0.9	1.0	1.9
Probability-weighted						
Gross domestic product growth	0.8	0.7	1.3	1.5	1.5	1.2
Unemployment rate	4.6	5.4	5.6	5.5	5.4	5.3
House price growth	1.1	0.9	(0.9)	(0.6)	0.8	0.3
Commercial real estate price growth	(2.1)	(0.5)	(1.3)	0.6	(0.2)	(0.7)
UK Bank Rate – modelled	5.04	3.79	3.07	2.92	2.90	3.55
UK Bank Rate – adjusted[1]	5.07	4.00	3.29	3.12	3.08	3.71
CPI inflation – modelled	2.5	2.5	2.1	1.9	1.9	2.2
CPI inflation – adjusted[1]	2.6	2.6	2.1	1.9	2.0	2.2

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

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

Note 14: Allowance for expected credit losses (continued)

At 31 December 2023	2023 %	2024 %	2025 %	2026 %	2027 %	2023 to 2027 average %
Upside						
Gross domestic product growth	0.3	1.5	1.7	1.7	1.9	1.4
Unemployment rate	4.0	3.3	3.1	3.1	3.1	3.3
House price growth	1.9	0.8	6.9	7.2	6.8	4.7
Commercial real estate price growth	(3.9)	9.0	3.8	1.3	1.3	2.2
UK Bank Rate	4.94	5.72	5.61	5.38	5.18	5.37
CPI inflation	7.3	2.7	3.1	3.2	3.1	3.9
Base case						
Gross domestic product growth	0.3	0.5	1.2	1.7	1.9	1.1
Unemployment rate	4.2	4.9	5.2	5.2	5.0	4.9
House price growth	1.4	(2.2)	0.5	1.6	3.5	1.0
Commercial real estate price growth	(5.1)	(0.2)	0.1	0.0	0.8	(0.9)
UK Bank Rate	4.94	4.88	4.00	3.50	3.06	4.08
CPI inflation	7.3	2.7	2.9	2.5	2.2	3.5
Downside						
Gross domestic product growth	0.2	(1.0)	(0.1)	1.5	2.0	0.5
Unemployment rate	4.3	6.5	7.8	7.9	7.6	6.8
House price growth	1.3	(4.5)	(6.0)	(5.6)	(1.7)	(3.4)
Commercial real estate price growth	(6.0)	(8.7)	(4.0)	(2.1)	(1.2)	(4.4)
UK Bank Rate	4.94	3.95	1.96	1.13	0.55	2.51
CPI inflation	7.3	2.8	2.7	1.8	1.1	3.2
Severe downside						
Gross domestic product growth	0.1	(2.3)	(0.5)	1.3	1.8	0.1
Unemployment rate	4.5	8.7	10.4	10.5	10.1	8.8
House price growth	0.6	(7.6)	(13.3)	(12.7)	(7.5)	(8.2)
Commercial real estate price growth	(7.7)	(19.5)	(10.6)	(7.7)	(5.2)	(10.3)
UK Bank Rate – modelled	4.94	2.75	0.49	0.13	0.03	1.67
UK Bank Rate – adjusted[1]	4.94	6.56	4.56	3.63	3.13	4.56
CPI inflation – modelled	7.3	2.7	2.2	0.9	(0.2)	2.6
CPI inflation – adjusted[1]	7.6	7.5	3.5	1.3	1.0	4.2
Probability-weighted						
Gross domestic product growth	0.3	0.1	0.8	1.6	1.9	0.9
Unemployment rate	4.2	5.3	5.9	5.9	5.7	5.4
House price growth	1.4	(2.5)	(0.9)	(0.3)	1.8	(0.1)
Commercial real estate price growth	(5.3)	(1.9)	(1.1)	(1.0)	(0.2)	(1.9)
UK Bank Rate – modelled	4.94	4.64	3.52	3.02	2.64	3.75
UK Bank Rate – adjusted[1]	4.94	5.02	3.93	3.37	2.95	4.04
CPI inflation – modelled	7.3	2.7	2.8	2.3	1.9	3.4
CPI inflation – adjusted[1]	7.4	3.2	3.0	2.4	2.0	3.6

[1] The adjustment to UK Bank Rate and CPI inflation in the severe downside was considered to better reflect the risks to the Group's base case view in an economic environment where supply shocks were the principal concern.

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

Note 14: Allowance for expected credit losses (continued)

Base case scenario by quarter

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

At 30 June 2024	**First quarter 2024 %**	**Second quarter 2024 %**	**Third quarter 2024 %**	**Fourth quarter 2024 %**	**First quarter 2025 %**	**Second quarter 2025 %**	**Third quarter 2025 %**	**Fourth quarter 2025 %**
Gross domestic product growth	**0.6**	**0.4**	**0.3**	**0.2**	**0.3**	**0.3**	**0.4**	**0.4**
Unemployment rate	**4.3**	**4.5**	**4.6**	**4.7**	**4.8**	**4.9**	**4.9**	**4.8**
House price growth	**0.4**	**1.0**	**3.8**	**1.2**	**0.9**	**1.3**	**1.3**	**1.4**
Commercial real estate price growth	**(5.3)**	**(5.3)**	**(3.5)**	**(1.6)**	**(0.9)**	**0.2**	**(0.2)**	**1.2**
UK Bank Rate	**5.25**	**5.25**	**5.00**	**4.75**	**4.50**	**4.25**	**4.00**	**4.00**
CPI inflation	**3.5**	**2.1**	**2.0**	**2.5**	**2.2**	**2.7**	**2.6**	**2.4**

At 31 December 2023	First quarter 2023 %	Second quarter 2023 %	Third quarter 2023 %	Fourth quarter 2023 %	First quarter 2024 %	Second quarter 2024 %	Third quarter 2024 %	Fourth quarter 2024 %
Gross domestic product growth	0.3	0.0	(0.1)	0.0	0.1	0.2	0.3	0.3
Unemployment rate	3.9	4.2	4.2	4.3	4.5	4.8	5.0	5.2
House price growth	1.6	(2.6)	(4.5)	1.4	(1.1)	(1.5)	0.5	(2.2)
Commercial real estate price growth	(18.8)	(21.2)	(18.2)	(5.1)	(4.1)	(3.8)	(2.2)	(0.2)
UK Bank Rate	4.25	5.00	5.25	5.25	5.25	5.00	4.75	4.50
CPI inflation	10.2	8.4	6.7	4.0	3.8	2.1	2.3	2.8

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

Note 14: Allowance for expected credit losses (continued)

ECL sensitivity to economic assumptions

The table below shows the Group's ECL for the probability-weighted, upside, base case, downside and severe downside scenarios, with the severe downside scenario incorporating adjustments made to CPI inflation and UK Bank Rate paths. The stage allocation for an asset is based on the overall scenario probability-weighted PD and hence the staging of assets is constant across all the scenarios. In each economic scenario the ECL for individual assessments is held constant reflecting the basis on which they are evaluated. Judgemental adjustments applied through changes to model inputs or parameters, or more qualitative post model adjustments, are apportioned across the scenarios in proportion to modelled ECL where this better reflects the sensitivity of these adjustments to each scenario. The probability-weighted view shows the extent to which a higher ECL allowance has been recognised to take account of multiple economic scenarios relative to the base case; the uplift being £468 million compared to £678 million at 31 December 2023.

At 30 June 2024	**Probability-weighted £m**	**Upside £m**	**Base case £m**	**Downside £m**	**Severe downside £m**
UK mortgages	**971**	**387**	**658**	**1,190**	**3,004**
Credit cards	**700**	**583**	**676**	**772**	**903**
Other Retail	**942**	**855**	**915**	**990**	**1,139**
Commercial Banking	**999**	**746**	**895**	**1,143**	**1,641**
Other	**18**	**16**	**18**	**19**	**21**
ECL allowance	**3,630**	**2,587**	**3,162**	**4,114**	**6,708**
At 31 December 2023					
UK mortgages	1,115	395	670	1,155	4,485
Credit cards	810	600	771	918	1,235
Other Retail	945	850	920	981	1,200
Commercial Banking	1,182	793	1,013	1,383	2,250
Other	32	32	32	32	32
ECL allowance	4,084	2,670	3,406	4,469	9,202

The sensitivity of ECL to isolated changes in the UK unemployment rate and House Price Index (HPI) has been assessed on a univariate basis. Although such changes would not be observed in isolation, as economic indicators tend to be correlated in a coherent scenario, this gives insight into the sensitivity of the Group's ECL to gradual changes in these two critical economic factors. The assessment has been made against the base case with staging held flat to the reported probability-weighted view and is assessed through the direct impact on modelled ECL and therefore only includes judgemental adjustments applied within the model.

The table below shows the impact on the Group's ECL resulting from a 1 percentage point (pp) increase or decrease in the UK unemployment rate. The increase or decrease is presented based on the adjustment phased evenly over the first 10 quarters of the base case scenario. A more immediate increase or decrease would drive a more material ECL impact as it would be fully reflected in both 12-month and lifetime probability of defaults.

	At 30 June 2024		At 31 December 2023	
	1pp increase in unemployment £m	**1pp decrease in unemployment £m**	1pp increase in unemployment £m	1pp decrease in unemployment £m
UK mortgages	**22**	**(17)**	33	(32)
Credit cards	**34**	**(34)**	38	(38)
Other Retail	**16**	**(16)**	19	(19)
Commercial Banking	**73**	**(67)**	88	(83)
ECL impact	**145**	**(134)**	178	(172)

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

Note 14: Allowance for expected credit losses (continued)

The table below shows the impact on the Group's ECL in respect of UK mortgages resulting from an increase or decrease in loss given default for a 10 percentage point (pp) increase or decrease in the UK HPI. The increase or decrease is presented based on the adjustment phased evenly over the first 10 quarters of the base case scenario.

	At 30 June 2024		At 31 December 2023	
	10pp increase in HPI £m	**10pp decrease in HPI £m**	10pp increase in HPI £m	10pp decrease in HPI £m
ECL impact	**(164)**	**245**	(201)	305

Note 15: Debt securities in issue

	At 30 June 2024			At 31 December 2023		
	At fair value through profit or loss £m	**At amortised cost £m**	**Total £m**	At fair value through profit or loss £m	At amortised cost £m	Total £m
Senior unsecured notes issued	**4,897**	**40,380**	**45,277**	5,242	37,038	42,280
Covered bonds	**–**	**11,804**	**11,804**	–	14,243	14,243
Commercial paper	**–**	**10,555**	**10,555**	–	12,041	12,041
Certificates of deposit issued	**–**	**7,056**	**7,056**	–	8,059	8,059
Securitisation notes	**23**	**4,965**	**4,988**	23	4,211	4,234
	4,920	**74,760**	**79,680**	5,265	75,592	80,857

Covered bonds and securitisation programmes

At 30 June 2024, the bonds held by external parties and those held internally, were secured on certain loans and advances to customers amounting to £28,529 million (31 December 2023: £27,019 million) which have been assigned to bankruptcy remote limited liability partnerships to provide security for issues of covered bonds by the Group. The Group retains all of the risks and rewards associated with these loans and the partnerships are consolidated fully with the loans retained on the Group's balance sheet and the related covered bonds in issue included within debt securities in issue at amortised cost.

At 30 June 2024, the Group's securitisation notes in issue held by external parties includes £23 million at fair value through profit or loss (31 December 2023: £23 million). Those notes held internally, are secured on loans and advances to customers amounting to £28,454 million (31 December 2023: £30,716 million), the majority of which have been sold by subsidiary companies to bankruptcy remote structured entities. As the structured entities are funded by the issue of debt on terms whereby the majority of the risks and rewards of the portfolio are retained by the subsidiary, the structured entities are consolidated fully and all of these loans are retained on the Group's balance sheet, with the related notes in issue included within debt securities in issue at amortised cost.

Cash deposits of £4,067 million (31 December 2023: £3,794 million) which support the debt securities issued by the structured entities, the term advances related to covered bonds and other legal obligations, are held by the Group.

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

Note 16: Provisions

	Provisions for financial commitments and guarantees £m[1]	Regulatory and legal provisions £m	Other £m	Total £m
At 1 January 2024	**322**	**1,105**	**650**	**2,077**
Exchange and other adjustments	**–**	**(2)**	**(2)**	**(4)**
Provisions applied	**–**	**(216)**	**(263)**	**(479)**
(Credit) charge for the period	**(43)**	**95**	**142**	**194**
At 30 June 2024	**279**	**982**	**527**	**1,788**

1 In respect of loans and advances to customers.

Regulatory and legal provisions

In the course of its business, the Group is engaged on a regular basis in discussions with UK and overseas regulators and other governmental authorities on a range of matters, including legal and regulatory reviews and, from time to time, enforcement investigations (including in relation to compliance with applicable laws and regulations, such as those relating to prudential regulation, consumer protection, investment advice, business conduct, systems and controls, environmental, competition/anti-trust, tax, anti-bribery, anti-money laundering and sanctions). Any matters discussed or identified during such discussions and inquiries may result in, among other things, further inquiry or investigation, other action being taken by governmental and/or regulatory authorities, increased costs being incurred by the Group, remediation of systems and controls, public or private censure, restriction of the Group's business activities and/or fines. The Group also receives complaints in connection with its past conduct and claims brought by or on behalf of current and former employees, customers (including their appointed representatives), investors and other third parties and is subject to legal proceedings and other legal actions from time to time. Any events or circumstances disclosed could have a material adverse effect on the Group's financial position, operations or cash flows. Provisions are held where the Group can reliably estimate a probable outflow of economic resources. The ultimate liability of the Group may be significantly more, or less, than the amount of any provision recognised. If the Group is unable to determine a reliable estimate, a contingent liability is disclosed. The recognition of a provision does not amount to an admission of liability or wrongdoing on the part of the Group. During the half-year to 30 June 2024 the Group charged a further £95 million in respect of legal actions and other regulatory matters and the unutilised balance at 30 June 2024 was £982 million (31 December 2023: £1,105 million). The most significant items are outlined below.

Motor commission review

The Group recognised a £450 million provision in the fourth quarter of 2023 for the potential impact of the FCA review into historical motor finance commission arrangements and sales announced in January 2024.

As disclosed in previous periods, the Group continues to receive a number of court claims and complaints in respect of motor finance commissions and is actively engaging with the FOS in its assessment of these complaints. On 10 January 2024, the FOS issued its Final Decision on a complaint relating to the Group, as well as decisions relating to other industry participants. On 11 January 2024, the FCA announced a section 166 review of historical motor finance commission arrangements and sales and plans to communicate a decision on next steps in the third quarter of 2024 on the basis of the evidence collated in the review. The FCA has indicated that such steps could include establishing an industry-wide consumer redress scheme and/or applying to the Financial Markets Test Case Scheme, to help resolve any contested legal issues of general importance.

Following the FCA Motor Market Review in March 2019, the FCA issued a policy statement in July 2020 prohibiting the use of discretionary commission models from 28 January 2021, which the Group adhered to. The Group continues to believe that its historical practices were compliant with the law and regulations in place at that time.

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

Note 16: Provisions (continued)

As noted above, in response to both the FOS decisions and the FCA announcement the Group recognised a charge of £450 million in the fourth quarter of 2023. This includes estimates for operational and legal costs, including litigation costs, together with estimates for potential awards, based on various scenarios using a range of assumptions, including for example, commission models, commission rates, applicable time periods (between 2007 and 2021), response rates and uphold rates. Costs and awards could arise in the event that the FCA concludes there has been misconduct and customer loss that requires remediation, or from adverse litigation decisions. However, while the FCA review is progressing there is significant uncertainty as to the extent of misconduct and customer loss, if any, the nature and extent of any remediation action, if required, and its timing. The ultimate financial impact could therefore materially differ from the amount provided, both higher or lower. The Group welcomes the FCA intervention through an independent section 166 review and is engaging with the FCA as part of the review.

HBOS Reading – review

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

In June 2022, the Foskett Panel announced an alternative option, in the form of a fixed sum award which could be accepted as an alternative to participation in the full re-review process, to support earlier resolution of claims for those deemed by the Foskett Panel to be victims of the fraud. Over 95 per cent of the population have now had decisions via this new process. The provision is unchanged in the first half of 2024. Notwithstanding the settled claims and the increase in outcomes which builds confidence in the full estimated cost, uncertainties remain and the final outcome could be different from the current provision once the re-review is concluded by the Foskett Panel. There is no confirmed timeline for the completion of the Foskett Panel re-review process nor the review by Dame Linda Dobbs. The Group is committed to implementing Sir Ross Cranston's recommendations in full.

Payment protection insurance (PPI)

The Group has incurred costs for PPI over a number of years totalling £21,960 million. The Group continues to challenge PPI litigation cases, with mainly legal fees and operational costs associated with litigation activity recognised within regulatory and legal provisions.

Customer claims in relation to insurance branch business in Germany

The Group continues to receive claims from customers in Germany relating to policies issued by Clerical Medical Investment Group Limited (subsequently renamed Scottish Widows Limited), with smaller numbers of claims received from customers in Austria and Italy. The total provision made to 30 June 2024, was £709 million (31 December 2023: £709 million) with £5 million utilisation of the provision during the period, leaving an unutilised provision at 30 June 2024 of £69 million. The ultimate financial effect, which could be significantly different from the current provision, will be known only once all relevant claims have been resolved.

Other

The Group carries provisions of £146 million (31 December 2023: £137 million) in respect of dilapidations, rent reviews and other property-related matters.

Provisions are also made for staff and other costs related to Group restructuring initiatives at the point at which the Group becomes committed to the expenditure; at 30 June 2024 provisions of £204 million (31 December 2023: £245 million) were held.

The Group carries provisions of £33 million (31 December 2023: £46 million) for indemnities and other matters relating to legacy business disposals in prior years. Whilst there remains significant uncertainty as to the timing of the utilisation of the provisions, the Group expects the majority of the remaining provisions to have been utilised by 31 December 2028.

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

Note 17: Earnings per share

	Half-year to 30 Jun 2024 £m	Half-year to 30 Jun 2023 £m	Half-year to 31 Dec 2023 £m
Profit attributable to ordinary shareholders – basic and diluted	**2,145**	2,572	2,361

	Half-year to 30 Jun 2024 million	Half-year to 30 Jun 2023 million	Half-year to 31 Dec 2023 million
Weighted average number of ordinary shares in issue – basic	**63,453**	66,226	63,718
Adjustment for share options and awards	**600**	882	716
Weighted average number of ordinary shares in issue – diluted	**64,053**	67,108	64,434
Basic earnings per share	**3.4p**	3.9p	3.7p
Diluted earnings per share	**3.3p**	3.8p	3.7p

Note 18: Dividends on ordinary shares and share buyback

An interim dividend for 2024 of 1.06 pence per ordinary share (half-year to 30 June 2023: 0.92 pence per ordinary share) will be paid on 10 September 2024. The total amount of this dividend is £662 million, before the impact of any further cancellations of shares purchased under the Group's buyback programme (half-year to 30 June 2023: £592 million, following cancellations of shares under the Group's buyback programme up to the record date, was paid to shareholders).

On 21 May 2024, a final dividend in respect of 2023 of 1.84 pence per ordinary share, totalling £1,169 million, following cancellations of shares under the Group's buyback programme up to the record date, was paid to shareholders.

Shareholders who have joined the dividend reinvestment plan will automatically receive ordinary shares instead of the cash dividend. Key dates for the payment of the recommended dividend are outlined on page 101.

On 23 February 2024 the Group commenced an ordinary share buyback programme to purchase outstanding ordinary shares. As at 30 June 2024, the Group has purchased c.1.8 billion ordinary shares under the programme, for a total consideration of £918 million.

Note 19: Contingent liabilities, commitments and guarantees

Contingent liabilities, commitments and guarantees arising from the banking business

At 30 June 2024 contingent liabilities, such as performance bonds and letters of credit, arising from the banking business were £2,696 million (31 December 2023: £2,849 million).

The contingent liabilities of the Group arise in the normal course of its banking business and it is not practicable to quantify their future financial effect. Total commitments and guarantees were £150,396 million (31 December 2023: £143,319 million), of which in respect of undrawn formal standby facilities, credit lines and other commitments to lend, £81,041 million (31 December 2023: £75,080 million) was irrevocable.

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

Note 19: Contingent liabilities, commitments and guarantees (continued)

Interchange fees

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

- Litigation brought by or on behalf of retailers against both Visa and Mastercard in the English Courts, in which retailers are seeking damages on grounds that Visa and Mastercard's MIFs breached competition law (this includes a judgment of the Supreme Court in June 2020 upholding the Court of Appeal's finding in 2018 that certain historic interchange arrangements of Mastercard and Visa infringed competition law)
- Litigation brought on behalf of UK consumers in the English Courts against Mastercard

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

LIBOR and other trading rates

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

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

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

Tax authorities

The Group has an open matter in relation to a claim for group relief of losses incurred in its former Irish banking subsidiary, which ceased trading on 31 December 2010. In 2013, HMRC informed the Group that its interpretation of the UK rules means that the group relief is not available. In 2020, HMRC concluded its enquiry into the matter and issued a closure notice. The Group's interpretation of the UK rules has not changed and hence it appealed to the First Tier Tax Tribunal, with a hearing having taken place in May 2023. If the final determination of the matter by the judicial process is that HMRC's position is correct, management believes that this would result in an increase in current tax liabilities of approximately £950 million (including interest) and a reduction in the Group's deferred tax asset of approximately £275 million. The Group, following conclusion of the hearing and having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due.

There are a number of other open matters on which the Group is in discussions with HMRC (including the tax treatment of certain costs arising from the divestment of TSB Banking Group plc), none of which is expected to have a material impact on the financial position of the Group.

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

Note 19: Contingent liabilities, commitments and guarantees (continued)

FCA investigation into the Group's anti-money laundering control framework

As previously disclosed, the FCA has opened an investigation into the Group's compliance with domestic UK money laundering regulations and the FCA's rules and Principles for Businesses, with a focus on aspects of its anti-money laundering control framework. The Group continues to co-operate with the investigation. It is not currently possible to estimate the potential financial impact to the Group.

Arena litigation claims

The Group is facing claims alleging breach of duty and/or mandate in the context of an underlying external fraud matter involving Arena Television. The Group intends to contest the claims. It is not possible to estimate with certainty the potential financial impact (if any) to the Group.

Other legal actions and regulatory matters

In addition, in the course of its business the Group is subject to other complaints and threatened or actual legal proceedings (including class or group action claims) brought by or on behalf of current or former employees, customers (including their appointed representatives), investors or other third parties, as well as legal and regulatory reviews, enquiries and examinations, requests for information, audits, challenges, investigations and enforcement actions, which could relate to a number of issues. This includes matters in relation to compliance with applicable laws and regulations, such as those relating to prudential regulation, consumer protection, investment advice, business conduct, systems and controls, environmental, competition/anti-trust, tax, anti-bribery, anti-money laundering and sanctions, some of which may be beyond the Group's control, both in the UK and overseas. Where material, such matters are periodically reassessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of the Group incurring a liability. The Group does not currently expect the final outcome of any such case to have a material adverse effect on its financial position, operations or cash flows. Where there is a contingent liability related to an existing provision the relevant disclosures are included within note 16.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors listed below (being all the directors of Lloyds Banking Group 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 2024 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 2024 and any material changes in the related party transactions described in the last annual report.

Signed on behalf of the Board by

Charlie Nunn
Group Chief Executive
24 July 2024

Lloyds Banking Group plc Board of Directors:

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

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

INDEPENDENT REVIEW REPORT TO LLOYDS BANKING GROUP PLC

Conclusion

We have been engaged by Lloyds Banking Group plc and its subsidiaries (the Group) to review the condensed consolidated set of financial statements in the half-yearly financial report for the six months ended 30 June 2024 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated balance sheet, the condensed consolidated statement of changes in equity, the condensed consolidated cash flow statement and related notes 1 to 19.

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated set of financial statements in the half-yearly financial report for the six months ended 30 June 2024 is not prepared, in all material respects, in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority and United Kingdom adopted International Accounting Standard (IAS) 34.

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 (ISRE (UK) 2410). 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 consolidated set of financial statements included in this half-yearly financial report have been prepared in accordance with United Kingdom adopted IAS 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 ISRE (UK) 2410, however future events or conditions may cause the Group 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 company 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 statements 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 ISRE (UK) 2410. 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
Statutory Auditor
London, England
24 July 2024

KEY DATES

Shares quoted ex-dividend for 2024 interim dividend	1 August 2024
Record date for 2024 interim dividend	2 August 2024
Final date for joining or leaving the interim 2024 dividend reinvestment plan	19 August 2024
Interim 2024 dividend paid	10 September 2024
Q3 2024 Interim Management Statement	23 October 2024

BASIS OF PRESENTATION

This release covers the results of Lloyds Banking Group plc together with its subsidiaries (the Group) for the six months ended 30 June 2024. Unless otherwise stated, income statement commentaries throughout this document compare the six months ended 30 June 2024 to the six months ended 30 June 2023 and the balance sheet analysis compares the Group balance sheet as at 30 June 2024 to the Group balance sheet as at 31 December 2023. The Group uses a number of alternative performance measures, including underlying profit, in the discussion of its business performance and financial position. These measures are labelled with a superscript 'A' throughout this document. Further information on these measures is set out on page 26. Unless otherwise stated, commentary on pages 1 to 2 and pages 7 to 8 is given on an underlying basis. The Group will publish a condensed set of half-year Pillar 3 disclosures in the second half of August. A copy of the disclosures will be available to view at: www.lloydsbankinggroup.com/investors/financial-downloads.html.

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

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