03322151

HBOS FINANCIAL SERVICES LIMITED

ANNUAL REPORT

AND

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2025

Member of Lloyds Banking Group

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COMPANY INFORMATION

Board of Directors

J L Bezuidenhout
R A Messenger

Company Secretary

K J McKay

Independent Auditors

Deloitte LLP
1 New Street Square,
London
EC4A 3HQ

Registered Office

33 Old Broad Street
London
EC2N 1HZ

Company Registration Number

03322151

DIRECTORS' REPORT

Principal activities and review of the business

The Directors present the annual report and the audited financial statements of HBOS Financial Services Limited (the "Company"), a limited company domiciled and incorporated in the United Kingdom whose principal activity is that of a holding company.

The principal activity of the Company is that of a holding company of subsidiaries within Scottish Widows Group Limited (SWG). Its two direct subsidiaries are Halifax Financial Services (Holdings) Limited (HFS(H)L) and Clerical Medical Finance Limited (CMF).

The Company is a wholly owned subsidiary of Scottish Widows Financial Services Holdings and forms part of the Insurance, Pensions and Investments (IP&I) division of Lloyds Banking Group. The development, performance and position of the IP&I division are presented within Lloyds Banking Group plc's annual report, which does not form part of this report. The Company's ultimate parent company and ultimate controlling party is Lloyds Banking Group plc.

Results and dividend

The result of the Company for the year ended 31 December 2025 is a profit after tax of £28.7m (2024: profit after tax of £50.9m). The profit after tax is primarily driven by the dividend income from its wholly owned subsidiary of £43.0m (2024: £50.0m), partially offset by impairment charges on the valuation of subsidiaries. A dividend of £60.4m (2024:£50.0m) was paid to the parent, with £25.0m settled in cash, £18.0m settled by the transfer of a non-cash asset, and a further £17.3m was paid up to the holding company in respect of the closure of the Liquidity fund.

On 11th September 2025, the Company's indirect wholly owned subsidiary, HBOS Investment Fund Managers Limited (HIFML) was transferred to SWG, which is part of the IP&I Division of Lloyds Banking Group. Following the transfer, HIFML ceased to be part of the Company's group. The transfer formed part of a reorganisation undertaken to simplify the structure of the IP&I division. The transaction had no impact on the Company's profit or loss for the year.

The effect of the profit for the year, dividend paid and the structure simplification is that total net assets of the Company as at 31 December 2025 have decreased by £167.2m to £0.4m (2024: total net assets £167.6m).

No final dividend is proposed in respect of the year ended 31 December 2025 (2024: £nil).

Key Performance Indicators (KPIs)

Given the straightforward nature of the business, the Company's Directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business.

Climate Change

Lloyds Banking Group is committed to supporting the aims of the 2015 Paris Agreement in transitioning to a more sustainable, low carbon economy and recognises the importance of embedding climate-related risks and opportunities into business operations and strategy.

The Company is supportive of the Task Force on Climate-Related Financial Disclosures (TCFD) framework and related regulatory expectations and is aligned to best practice outlined by the Climate Financial Risk Forum (CFRF). The Company is included in the Lloyds Banking Group Sustainability Report. This report is available on the Lloyds Banking Group website at www.lloydsbankinggroup.com/investors/esg-information.

Post balance sheet events

There are no events after the reporting date up until the date of issuance requiring disclosure in these financial statements.

Directors

The names of the current Directors are listed on page 3. No changes have taken place between the beginning of the reporting period and the approval of the annual report and financial statements:

Particulars of the Directors' emoluments are set out in note 18.

DIRECTORS' REPORT (continued)

Directors' indemnities

Lloyds Banking Group plc has granted to the Directors of the Company a deed of indemnity which constitutes 'qualifying third party indemnity provisions' for the purposes of the Companies Act 2006. The deed was in force during the whole of the financial year and at the date of approval of the financial statements or from the date of appointment in respect of any Directors who joined the Board of the Company during the financial year. Directors no longer in office but who served on the Board of the Company at any time in the financial year had the benefit of this indemnity during that period of service.

The deed for existing Directors is available for inspection at the registered office of Lloyds Banking Group plc. In addition, the Company has in place appropriate Directors' and Officers' Liability Insurance cover which was in place throughout the financial year.

Disclosure of information to auditor

In accordance with Section 418 of the Companies Act 2006, in the case of each Director in office at the date the report is approved:

- So far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- The Director has taken all the steps that they ought to have taken as a director in order to make themself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Going concern

The going concern of the Company is dependent on successfully maintaining adequate levels of capital and liquidity. In order to satisfy themselves that the Company has adequate resources to continue to operate for the foreseeable future, the Directors have considered a number of key dependencies which are set out in the risk management section (note 16). Having consulted on these, the Directors conclude that it is appropriate to continue to adopt the going concern basis in preparing the accounts.

Principal Risks and Uncertainties

From the perspective of the Company, the principal risks and uncertainties are managed within the framework established for the Group and are not managed separately for the Company.

Financial risk management

Disclosures relating to financial risk management are included in note 17 to the financial statements and are therefore incorporated into this report by reference.

Future Outlook

The Directors consider that the Company's principal activities will continue to be unchanged in the foreseeable future.

Strategic Report

The Company has taken the exemption available under section 414B of the Companies Act 2006 (the "Act") not to prepare a Strategic report.

Directors' responsibilities statement

The Directors are responsible for preparing the Directors' and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Company's financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; and
- state whether for the Company, UK-adopted international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed, subject to any material departures disclosed and explained in the financial statements; and

DIRECTORS' REPORT (continued)

Directors' responsibilities statement (continued)

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Each of the Directors whose names are listed on page 3 confirms that, to the best of their knowledge:

- The Company financial statements which have been prepared in accordance with UK-adopted international accounting standards in conformity with the requirements of the Companies Act 2006, give a true and fair view of the assets, liabilities, financial position and financial performance of the Company;
- the Directors' Report on pages 4 to 6 include a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

Independent auditor

Pursuant to section 487 of the Companies Act 2006, auditors duly appointed by the members of the Company shall, subject to any resolution to the contrary, be deemed to be reappointed for the next financial year and Deloitte LLP will therefore continue in office.

The Directors have reviewed and approved the Financial Statements.

On behalf of the Board of Directors

R A Messenger
Director
10 June 2026

Independent auditor's report to the members of HBOS Financial Services Limited

Report on the audit of the financial statements

Opinion
In our opinion, the financial statements of HBOS Financial Services Limited (the 'company'):
- give a true and fair view of the state of the company's affairs as at 31 December 2025 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, which comprise:
- the statement of comprehensive income;
- the balance sheet;
- the statement of cash flows;
- the statement of changes in equity; and
- the related notes 1 to 21.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom adopted international accounting standards.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern
In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Independent auditor's report to the members of HBOS Financial Services Limited (Continued)

Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company'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 audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Independent auditor's report to the members of HBOS Financial Services Limited (Continued)

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management and the directors about their own identification and assessment of the risks of irregularities, including those that are specific to the company's business sector.

We obtained an understanding of the legal and regulatory framework that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act and UK tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance.

Independent auditor's report to the members of HBOS Financial Services Limited (Continued)

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to take advantage of the small companies' exemptions from the requirement to prepare a strategic report.

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's 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 company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

N Doig

Nikola Doig CA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Edinburgh, United Kingdom
11 June 2026

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2025

	Note	2025 £000	2024 £000
Income			
Income from shares in subsidiary undertaking	18	43,000	50,000
Investment income	3	625	845
Other income	4	68	372
Total income		43,693	51,217
Operating expenses	5	(252)	(8)
Impairment of investment in subsidiary undertaking	7	(14,463)	-
Profit before tax		28,978	51,209
Taxation charge	6	(229)	(304)
Profit and total comprehensive income for the year		28,749	50,905

During the year, the Company received dividends of £43.0m from its subsidiaries. Of this amount, £25.0m was settled in cash and £18.0m was settled by in-specie dividend.

There are no items of comprehensive income which have not already been presented in arriving at the profit for the financial year. Accordingly, the profit for the year is the same as the total comprehensive income for the year.

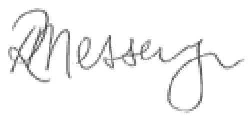
The notes set out on pages 15 to 26 are an integral part of these financial statements.

BALANCE SHEET AS AT 31 DECEMBER 2025

	Note	2025 £000	2024 £000
ASSETS			
Deferred tax asset	9	-	1,597
Investments in subsidiaries	7	224	150,256
Current tax receivable		-	46
Other financial assets	13	-	260
Amounts due from Group undertakings	10	204	8
Cash and cash equivalents	11	-	16,629
Total assets		428	168,796
EQUITY AND LIABILITIES			
Capital and reserves attributable to Company's equity shareholder			
Share capital	12	-	-
Retained earnings		428	167,634
Total equity		428	167,634
Liabilities			
Other financial liabilities	14	-	1,162
Total liabilities		-	1,162
Total equity and liabilities		428	168,796

The notes set out on pages 15 to 26 are an integral part of these financial statements.

The financial statements on pages 11 to 26 were approved by the Board of Directors on 10th June 2026 and signed on its behalf by:



R A Messenger
Director

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2025

	Note	2025 £000	2024 £000
Cash flows from operating activities			
Profit before tax		28,978	51,209
Adjusted for:			
Investment income	3	(625)	(845)
Income from shares in subsidiary undertakings		(43,000)	(50,000)
Tax received/(paid)		1,414	(1)
Impairment in investment in subsidiaries		14,463	-
Net movement in operating assets and liabilities	15	(1,098)	(493)
Net cash flows (used in)/generated from operating activities		132	(130)
Cash flows from investing activities			
Investment income	3	625	845
Dividends received		25,000	50,000
Net cash flows generated from investing activities		25,625	50,845
Cash flows used in financing activities			
Dividends paid		(25,000)	(50,000)
Distribution of assets to shareholders		(17,386)	-
Net cash flows used in financing activities		(42,386)	(50,000)
Net (decrease)/increase in cash and cash equivalents		(16,629)	715
Cash and cash equivalents at the beginning of the year		16,629	15,914
Cash and cash equivalents at the end of the year	11	-	16,629

During the year, the company received dividends of £43.0m from its subsidiaries. Of this amount, £25.0m was settled in cash and £18.0m was settled by the transfer of a non-cash asset.

During the year, the Company declared and settled dividends of £60.4m to its immediate parent company. Of this amount, £25.0m was settled in cash and £35.4m was settled through the transfer of a non-cash asset including an in-specie dividend of £18m. There was a further £17.3m paid up to holding company in respect of closure of the Liquidity fund.

The notes set out on pages 15 to 26 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2025

	Note	Share capital £000	Retained earnings £000	Total equity £000
Balance as at 1 January 2024		100,000	66,729	166,729
Profit for the year and total comprehensive income		-	50,905	50,905
Dividends paid	16	-	(50,000)	(50,000)
Capital reduction		(100,000)	100,000	-
Balance as at 31 December 2024		-	167,634	167,634
Profit for the year and total comprehensive income		-	28,749	28,749
Dividends paid	16	-	(60,386)	(60,386)
Distribution of non-cash assets to owners		-	(135,569)	(135,569)
Balance as at 31 December 2025		-	428	428

All of the above amounts are attributable to the equity holder of the Company.

The notes set out on pages 15 to 26 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

1. Accounting policies

The Company is a private Company limited by shares under the Companies Act 2006 and is registered in England and Wales. The registered office can be found on the front page and its principal activity is included in the Directors' Report.

The accounting policies adopted in the preparation of the financial statements, which have been consistently applied to all years presented in these financial statements unless stated otherwise, are set out below.

a) Basis of preparation

These financial statements have been prepared:

(1) The financial statements of the Company have been prepared in accordance with UK adopted international accounting standards in conformity with the requirements of the Companies Act 2006.

(2) Under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities at fair value through profit or loss as set out in the relevant accounting policies.

The Directors are satisfied that the Company has adequate resources to continue in business for the foreseeable future. Accordingly, the financial statements of the Company have been prepared on a going concern basis. Further details have been included in page 5 in the Directors' report.

In accordance with IAS 1 'Presentation of Financial Statements', assets and liabilities in the balance sheet are presented in accordance with management's estimated order of liquidity. Analysis of the assets and liabilities of the Company into amounts expected to be received or settled within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in the notes.

Standards and interpretations effective in 2025

There are no new standard and interpretations effective in 2025 that have been adopted by the Company.

b) Financial assets and financial liabilities

Management determines the classification of its financial assets and financial liabilities at initial recognition. Management policies for the recognition of specific financial assets and financial liabilities, as identified on the balance sheet, are set out under the relevant accounting policies.

On initial recognition, financial assets are classified as measured at amortised cost or fair value through profit or loss, depending on the Company's business model for managing the financial assets and whether the cash flows represent solely payments of principal and interest. The Company assesses its business models at a portfolio level based on its objectives for the relevant portfolio, how the performance of the portfolio is managed and reported, and the frequency of asset sales. The Company reclassifies financial assets when and only when its business model for managing those assets changes. A reclassification will only take place when the change is significant to the Company's operations and will occur at a portfolio level and not for individual instruments; reclassifications are expected to be rare.

Financial assets are derecognised when the contractual right to receive cash flows from those assets has expired or when the Company has transferred its contractual right to receive the cash flows from the assets and either: substantially all of the risks and rewards of ownership have been transferred; or the Company has neither retained nor transferred substantially all of the risks and rewards, but has transferred control.

Financial liabilities are derecognised when the obligation is discharged, cancelled or expires.

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts, both in the normal course of business and in the event of default, and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

1. Accounting policies (continued)

c) Revenue recognition

Dividend income
Dividend income is recognised in the Statement of Comprehensive Income as it accrues, within dividend income from subsidiary undertaking.

Investment income
Interest income for all interest-bearing financial instruments is recognised in the Statement of Comprehensive Income as it accrues, within investment income.

Other income
Other income consists of recharges to other group companies and other income received which is recognised in the period in which it accrues.

d) Investment in subsidiaries

The Company owns a number of subsidiaries, as set out in note 7. These subsidiaries are held initially at cost, being the fair value of the consideration given to acquire the holding, then subsequently at cost subject to impairment. Further information on the Company's impairment policy is set out at policy (h).

e) Expense recognition

Operating expenses are recognised in the Statement of Comprehensive Income in the period in which they accrue. Expenses incurred on behalf of other Lloyds Banking Group companies are then recharged.

f) Amounts due from Lloyds Banking Group undertakings

Amounts due from Lloyds Banking Group undertakings are financial assets, other than cash and cash equivalents that are held to collect contractual cash flows where those cash flows represent solely payments of principal and interest. A basic lending arrangement results in contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. Where the contractual cash flows introduce exposure to risks or volatility unrelated to a basic lending arrangement such as changes in equity prices or commodity prices, the payments do not comprise solely principal and interest.

Amounts due from Lloyds Banking Group undertakings are initially recognised at fair value less directly attributable transactions costs and subsequently measured at amortised cost, subject to impairment. Further information on the Company’s impairment policy is set out at policy (h).

g) Cash and cash equivalents

Cash and cash equivalents include investments in liquidity funds, which are short-term highly liquid investments (excluding such investments as otherwise meet this definition but which are held for investment purposes rather than for the purposes of meeting short-term cash commitments).

Holdings in liquidity funds are measured at fair value through profit or loss, with income received recognised in investment income. The fair value of holdings in liquidity funds is determined as the last published price applicable to the vehicle at the reporting date.

Holdings in liquidity funds are categorised as level 1 in the fair value hierarchy. These assets are valued using quoted prices in active markets for identical assets to those being valued. An active market is one in which similar arm’s length transactions in the instrument occur with both sufficient frequency and volume to provide pricing information on an on-going basis.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

1. Accounting policies (continued)

h) Impairment

Financial assets

The impairment charge in the statement of comprehensive income includes the change in expected credit losses for financial assets held at amortised cost. Expected credit losses are calculated by using an appropriate probability of default and applying this to the estimated exposure of the Company at the point of default after taking into account the value of any collateral held or other mitigants of loss.

At initial recognition, allowance is made for expected credit losses resulting from default events that are possible within the next 12 months (12-month expected credit losses). In the event of a significant increase in credit risk, allowance is made for expected credit losses resulting from all possible default events over the expected life of the financial instrument (lifetime expected credit losses). Financial assets where 12-month expected credit losses are recognised are considered to be Stage 1; financial assets which are considered to have experienced a significant increase in credit risk are in Stage 2; and financial assets which have defaulted or are otherwise considered to be credit impaired are allocated to Stage 3.

An assessment of whether credit risk has increased significantly since initial recognition considers the change in the risk of default occurring over the remaining expected life of the financial instrument. The assessment is unbiased, probability-weighted and uses forward-looking information consistent with that used in the measurement of expected credit losses.

In determining whether there has been a significant increase in credit risk, the Company uses quantitative tests based on relative and absolute probability of default (PD) movements linked to internal credit ratings and other indicators of historic delinquency. However, unless identified at an earlier stage, the credit risk of financial assets is deemed to have increased significantly when more than 30 days past due. Where the credit risk subsequently improves such that it no longer represents a significant increase in credit risk since origination, the asset is transferred back to Stage 1.

For financial instruments that are considered to have low credit risk, the credit risk is assumed to not have increased significantly since initial recognition. Financial instruments are considered to have low credit risk when the borrower is considered to have a low risk of default from a market perspective, such as external bank accounts.

A loan or receivable is normally written off, either partially or in full, against the related allowance when the proceeds from realising any available security have been received or there is no realistic prospect of recovery, and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses recorded in the income statement.

Non-financial assets

Assets that have an indefinite useful life, for example investments in subsidiaries, are not subject to depreciation or amortisation and are assessed annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its estimated recoverable amount. The recoverable amount is the higher of an asset’s fair value, less costs to sell and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

If there is objective evidence that an impairment loss has occurred, the amount of the loss is charged to the statement of comprehensive income in the period in which it occurs. Non-financial assets that suffer impairment are reviewed for possible reversal of the impairment at each reporting date.

i) Taxes

Tax expense comprises current and deferred tax. Current and deferred tax are charged or credited in the Statement of Comprehensive Income except to the extent that the tax arises from a transaction or event which is recognised, in the same or a different period, outside the Statement of Comprehensive Income (either in other comprehensive income, directly in equity, or through a business combination), in which case the tax appears in the same statement as the transaction that gave rise to it.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

1. Accounting policies (continued)

i) Taxes (continued)

Current tax

Current tax is the amount of corporate income taxes expected to be payable or recoverable based on the profit for the period as adjusted for items that are not taxable or not deductible, and is calculated using tax rates and laws that were enacted or substantively enacted at the balance sheet date.

Current tax includes amounts provided in respect of uncertain tax positions when management expects that, upon examination of the uncertainty by His Majesty's Revenue and Customs (HMRC) or other relevant tax authority, it is more likely than not that an economic outflow will occur. Provisions reflect management's best estimate of the ultimate liability based on their interpretation of tax law, precedent and guidance, informed by external tax advice as necessary. Changes in facts and circumstances underlying these provisions are reassessed at each balance sheet date, and the provisions are re-measured as required to reflect current information.

Deferred tax

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the balance sheet. Deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted at the balance sheet date, and which are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax liabilities are generally recognised for all taxable temporary differences but not recognised for taxable temporary differences arising on investments in subsidiaries where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future. Deferred tax liabilities are not recognised on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred tax assets are recognised to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilised, and are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. In certain cases where forecast profits are not expected to be sufficient to support the recognition of a deferred tax asset on a standalone entity basis, further consideration has been given to the availability of UK group relief with connected companies to support the recognition.

Deferred tax assets and liabilities are not recognised in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination. Deferred tax is not discounted.

The Company has applied the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar 2 income taxes currently required by IAS12 Income Taxes.

j) Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax.

k) Dividends payable

Dividends payable on ordinary shares are recognised in equity in the period in which they are approved.

l) Other financial liabilities

Other financial liabilities are initially recognised at fair value less directly attributable transaction costs and subsequently measured at amortised cost. In practice, the carrying value of these balances equates to the fair value due to the short-term nature of the amounts included within other financial liabilities.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

2. Critical accounting estimates and judgements in applying accounting policies

The Company's management makes estimates and judgements that affect the reported amount of assets and liabilities. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

There are no significant accounting estimates or judgements that have been used in the preparation of these financial statements.

3. Investment income

	2025 £000	2024 £000
Interest receivable on investments in a liquidity fund	625	845
Total	625	845

4. Other income

	2025 £000	2024 £000
Sundry income	68	372
Total	68	372

5. Operating expenses

	2025 £000	2024 £000
Other operating expenses	252	8
Total	252	8

In 2025 other operating expenses includes £245k of balances to be written off. The Company had no direct employees during the year (2024: nil).

6. Taxation charge

(a) Analysis of charge for the year

	2025 £000	2024 £000
UK corporation tax:		
Current tax on taxable profit for the year	1,368	46
Adjustments in respect of prior years	-	-
Current tax charge	1,368	46
UK deferred tax:		
Origination and reversal of timing differences	(1,597)	(350)
Deferred tax charge	(1,597)	(350)
Total tax charge	(229)	(304)

Corporation tax is calculated at a rate of 25% (2024: 25.0%) of the taxable profit for the year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

6. Taxation charge (continued)

(b) Factors affecting the tax charge for the year

A reconciliation of the charge that would result from applying the standard UK corporation tax rate to the profit before tax to the actual tax charge for the year is given below:

	2025 £000	2024 £000
Profit before tax	28,978	51,209
Tax at 25% (2024: 25.0%)	(7,245)	(12,802)
Effects of:		
Disallowed items	(3,679)	(2)
Non-taxable items	10,750	12,500
Other	(55)	-
Tax charge on profit	(229)	(304)
Effective rate	**(0.79%)**	**(0.59%)**

The Company has applied the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar 2 income taxes currently required by IAS12 Income Taxes. No provision for Pillar 2 current tax is required in respect of this period.

7. Investments in subsidiaries

Investments in subsidiary undertakings are as follows:

	2025 £000	2024 £000
Cost		
Brought forward	398,233	398,233
Distribution of non-cash assets to owners	(135,569)	-
Cost at 31 December	262,664	398,233
Provision for impairment		
Brought forward	(247,977)	(247,977)
Impairment of Investment in subsidiary undertakings	(14,463)	-
Provision for impairment at 31 December	(262,440)	(247,977)
Carrying value as at December	224	150,256

On 11th September 2025, the Company's indirect subsidiary, HBOS Investment Fund Managers Limited (HIFML) was transferred to the company from Halifax Financial Services (Holdings) Limited, therefore becoming a direct subsidiary. This investment was then distributed to Scottish Widows Financial Services Holdings Limited at net book value of £135.6m. Following the transfer, HIFML ceased to be part of the Company's group. The transfer formed part of a reorganisation undertaken to simplify the structure of the IP&I division. The transaction had no impact on the Company's profit or loss for the year.

An impairment charge of £14,463,016 has been recognised in the year, in respect of Halifax Financial Services (Holdings) Limited (2024: £nil).

The following are particulars of the Company's subsidiaries:

Name	Class of stock	2025 % held	2024 % held	Country of incorporation	Registered Address	Nature of business
Clerical Medical Finance Limited	Ordinary	100	100	England & Wales	33 Old Broad Street, London, EC2N 1HZ	Non-trading
Halifax Financial Services (Holdings) Limited	Ordinary	100	100	England & Wales	Trinity Road, Halifax, West Yorkshire, HX1 2RG	Intermediate Holding Company

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

7. Investments in subsidiaries (continued)

At the year-end date, CMF is being prepared for liquidation and will be liquidated once the outstanding contingent liability outlined in note 19 has been resolved. CMF has adequate net assets to cover the outstanding contingent liability and has an investment value of £0.2m.

The following are particulars of the Company's indirect subsidiaries:

Halifax Financial Brokers Limited (1)	Halifax Financial Services Limited (1)
Clerical Medical Investment Fund Managers Limited (1)	Legacy Renewal Company Limited (2)

(1) Subsidiaries incorporated in England & Wales and have the registered office address: Trinity Road, Halifax, West Yorkshire, HX1 2RG.

(2) Subsidiary incorporated in Scotland and has the registered office address: Bank Of Scotland, The Mound, Edinburgh, EH1 1YZ.

8. Auditors' remuneration

The fees payable in respect of the audit of the financial statements of the Company are £41k (2024: £40k). The Company received no non-audit services during the year (2024: none). Audit fees for 2025 and 2024 were borne by another company within Lloyds Banking Group and were not recharged to the Company.

9. Deferred tax asset

	2025 **£000**	**2024** **£000**
Deferred tax asset at 1 January	1,597	1,947
Utilisation in year	(1,597)	(350)
Charge to Statement of Comprehensive Income	(1,597)	(350)
Total deferred tax asset at 31 December	-	1,597

10. Amounts due from Group undertakings

	2025 **£000**	**2024** **£000**
Amounts due from Group undertakings (note 18)	204	8
Total	204	8

Amounts due from group undertakings are interest free and are expected to be settled less than one year after the reporting date.

Further information in respect of credit risk is given in note 17.

11. Cash and cash equivalents

Cash and cash equivalents for the purpose of the statement of cash flows include the following:

	2025 **£000**	**2024** **£000**
Investments in a liquidity fund	-	16,629
Total	-	16,629

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

12. Share capital

	2025 £000	2024 £000
Allotted, called up and fully paid share capital		
1 share of £1 each (2024: 1 share of £1 each)	-	-

13. Other financial assets

	2025 £000	2024 £000
Other receivables	-	260
Total	-	260

None of the above balances are interest-bearing. All trade and other receivables are expected to be settled less than one year after the reporting date.

14. Other financial liabilities

	2025 £000	2024 £000
Other payables	-	1,162
Total	-	1,162

15. Net movement in operating assets and liabilities

	2025 £000	2024 £000
(Increase)/ decrease in operating assets:		
Financial assets:		
Other financial assets	(260)	(195)
Amounts due from Lloyds Banking Group undertakings	196	(3)
Net decrease/(increase) in operating assets	64	(198)
Increase/ (decrease) in operating liabilities:		
Financial liabilities:		
Amounts due to Lloyds Banking Group undertakings	(1,162)	(338)
Other financial liabilities	-	43
Net (decrease) in operating liabilities	(1,162)	(295)
Net movement in operating assets and liabilities	(1,098)	(493)

16. Dividends paid

	2025 £000	2024 £000
Total dividends paid on equity shares	60,386	50,000
Total	60,386	50,000

The Company declared dividends of £60.4m during the year ended 31 December 2025 (2024: £50.0m) to the immediate parent company, Scottish Widows Financial Services Holdings. This comprised £25.0m cash payment and an in-specie distribution of a non-cash asset with a carrying value of £35.4m. The dividend payable in the year amounted to £60.4m per share (2024: £50.0m per share).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

17. Risk management

The principal activity of the Company is to act as a holding company. The Company is managed as part of the IP&I division within Lloyds Banking Group; as such risk is managed across all of the entities within the IP&I division.

This note summarises the financial risks and the way in which the Company manages them.

i) Financial risk

The Company is exposed to a range of financial risks.

The measurement of financial assets and financial liabilities is outlined in note 1(b). The summary of significant accounting policies (note 1) describes how the class of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised.

ii) Credit risk

The risk that counterparties with whom the Company contracted, fail to meet their financial obligations, resulting in loss to the Company.

Credit risk is managed in line the wider Lloyds Banking Group Credit Risk Policy which set out the principles of the credit control framework.

Credit risk to the Company arises primarily from exposure to trade debtors and financial assets at fair value through profit or loss. Exposure to trade debtors is assessed on a case-by-case basis, using a credit rating agency where appropriate.

The following table sets out details of financial assets that are neither past due nor impaired:

	2025 £000	2024 £000
Other financial assets	-	260
Amounts due from Lloyds Banking Group undertakings	204	8
Cash and cash equivalents	-	16,629
Total assets bearing credit risk	204	16,897

The tables below analyses financial assets subject to credit risk using Standard & Poor's rating or equivalent.

As at 31 December 2025

	Total £000	AAA £000	AA £000	A £000	BBB or lower £000	Not rated £000
Stage 1 assets						
Amounts due from Lloyds Banking Group undertakings	204	-	-	204	-	-
Other financial assets	-	-	-		-	-
Exposure to credit risk	204	-	-	204	-	-
Assets at fair value through profit or loss						
Cash and cash equivalents	-	-	-	-	-	-
Total	204	-	-	204	-	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

17. Risk management (continued)

(ii) Credit risk (continued)

As at 31 December 2024

	Total £000	AAA £000	AA £000	A £000	BBB or lower £000	Not rated £000
Stage 1 assets						
Amounts due from Lloyds Banking Group undertakings	8	-	-	8	-	-
Other financial assets	260	-	-	65	-	195
Exposure to credit risk	268	-	-	73	-	195
Assets at fair value through profit or loss						
Cash and cash equivalents	16,629	-	-	16,629	-	-
Total	16,897	-	-	16,702	-	195

Credit risk is not considered to be significant to the Company.

(iii) Credit concentration risk

Credit concentration risk relates to the inadequate diversification of credit risk. At 31 December 2025 and 31 December 2024, the Company did not have any significant concentration of credit risk with a single counterparty or group of counterparties where limits applied.

(iv) Liquidity risk

Liquidity risk is the risk that the Company does not have sufficient financial resources to meet its commitments as they fall due or can only secure them at excessive cost.

In order to measure liquidity risk exposure, the Company's liquidity is assessed in a stress scenario. Liquidity risk is actively managed and monitored to ensure that, even under stress conditions, the Company has sufficient liquidity to meet its obligations and remains within approved risk appetite. Liquidity risk appetite considers two time periods; three month stressed outflows are required to be covered by primary liquid assets; and one year stressed outflows are required to be covered by primary and secondary liquid assets. The Company holds primary liquid assets in the form of cash.

Liquidity risk is managed in line with the wider Lloyds Banking Group Funding and Liquidity Policy.

Liquidity risk has been analysed as arising from the settlement of balances owed to other Lloyds Banking Group undertakings of £204k (2024: £8k) and other financial liabilities of £nil (2024: £1,162k).

(v) Capital risk

Capital risk is defined as the risk that an insufficient quantity or quality of capital is held to meet regulatory requirements or to support business strategy, an inefficient level of capital is held or that capital is inefficiently deployed across the Company.

The Company's objectives when managing capital are to have sufficient capital to safeguard the Company's ability to continue as a going concern.

The capital management strategy is such that the integrated insurance business (comprising Lloyds Banking Group plc and its subsidiaries, including the Company) will hold capital in line with the stated risk appetite for the business, which is to be able to withstand a one in ten year stress event without breaching the capital requirements. At Lloyds Banking Group level it is intended that all surplus capital above that required to absorb a one in ten year stress event will be distributed to Lloyds Banking Group.

The Company's capital comprises all components of equity, movements in which are set out in the statement of changes in equity.

(vi) Market risk

Market risk is defined as the risk that our capital or earnings profile is affected by adverse market rates, in particular equity, credit default spreads, interest rates and inflation in Insurance business.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

17. Risk management (continued)

(vi) Market risk (continued)

The main investments of the Company are the holding of subsidiary companies, which are set out in note 7 and the risks associated with investments in subsidiaries are covered further in paragraph (vii) below.

Investments in liquidity fund are categorised as level 1 in the fair value hierarchy.

(vii) Interest rate risk

Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in interest rates and the shape of the yield curve.

Interest rate risk arises in respect of cash balances invested in a liquidity fund. The Company was exposed during the period, but at the end of 2025, this risk is no longer relevant.

18. Related party transactions

a) Ultimate parent and shareholding

The Company's immediate parent undertaking is Scottish Widows Financial Services Holdings, a company registered in England and Wales. Scottish Widows Financial Services Holdings has taken advantage of the provisions of the Companies Act 2006 and has not produced consolidated financial statements.

The ultimate parent undertaking and controlling party is Lloyds Banking Group plc, which is the parent undertaking of the only group to consolidate these financial statements. Once approved, copies of the consolidated annual report and financial statements of Lloyds Banking Group plc may be obtained from Lloyds Banking Group's head office at 33 Old Broad Street, London EC2N 1HZ or downloaded via www.lloydsbankinggroup.com.

b) Transactions and balances with related parties

Transactions between the Company and key management

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, which is determined to be the Company's Directors.

Key management compensation

The Directors consider that they receive no remuneration for their services to the Company (2024: £nil). Key management personnel provide services to other companies within Lloyds Banking Group and consider their services to the Company to be incidental to their other activities within Lloyds Banking Group.

Transactions between the Company and other Lloyds Banking Group companies

The Company has entered into transactions with related parties in the normal course of business during the year.

	2025		
	Income during year £000	**Receivable at year end £000**	**Dividend paid £000**
Relationship			
Parent	-	-	60,386
Subsidiary	43,000	-	-
Other related parties	-	204	-

	2024		
	Income during year £000	**Receivable at year end £000**	**Dividend paid £000**
Relationship			
Parent	-	-	50,000
Subsidiary	50,000	-	-
Other related parties	-	8	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

18. Related party transactions (continued)

b) Transactions and balances with related parties (continued)

All amounts payable and receivable from Lloyds Banking Group undertakings are non-interest bearing and are expected to be settled or recovered less than one year after reporting date.

In addition to the balances disclosed in the table, balances of £nil (2024: £16,629k) and income of £nil (2024: £845k) in funds controlled by the Group meet the definition of related parties.

19. Contingent liability

The Group has an open matter in relation to a claim for group relief of losses incurred in its former Irish banking subsidiary, which ceased trading on 31 December 2010. In 2020, HMRC concluded its enquiry into the matter and issued a closure notice denying the group relief claim. The Group appealed to the First Tier Tax Tribunal. The hearing took place in May 2023. In January 2025, the First Tier Tribunal concluded in favour of HMRC. The Group believes it has applied the rules correctly and that the claim for group relief is correct. Having reviewed the Tribunal's conclusions and having taken appropriate advice the Group has appealed to the Upper Tax Tribunal, and does not consider this to be a case where an additional tax liability will ultimately fall due. If the final determination of the matter by the judicial process is that HMRC's position is correct, management believes that this would result in an increase in the Company's current tax liabilities of approximately £2,054k (including interest). The appeal has been listed for hearing in March 2027, however final conclusion of the judicial process may not be for several years.

20. Future accounting developments

There are a number of new accounting pronouncements issued by the IASB with an effective date of 1 January 2027, including IFRS 18 Presentation and Disclosure in Financial Statements which replaces IAS 1 Presentation of Financial Statements. While many of the existing requirements of IAS 1 Presentation of Financial Statements are retained, IFRS 18 Presentation and Disclosure in Financial Statements introduces additional disclosure obligations in relation to the structure of the income statement, management-defined performance measures, and the aggregation and disaggregation of financial information. IFRS 18 will have no impact on the Company’s net profit as it impacts neither recognition nor measurement. The new standard will impact the presentation of the Company’s results as it requires that operating, investing and financing activities are presented separately. There will also be a change in the Group’s cash flow statement as IFRS 18 requires that the first line of the cash flow statement is operating profit rather than profit before tax.

IFRS 19 Subsidiaries without Public Accountability: Disclosures is being assessed and is not expected to have a significant impact on the Company. IFRS 19 has yet to be endorsed for use in the UK.

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

21. Post balance sheet events

There are no events after the reporting date up until the date of issuance requiring disclosures in these financial statements.