

HBOS plc
Report and Accounts 2024

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Strategic report

Principal activities

HBOS plc (the Company) and its subsidiaries (together, the Group) provide a wide range of banking and financial services.

The Group's revenue is earned through interest and fees on a broad range of financial services products including current and savings accounts, personal loans, credit cards and mortgages within the retail market and loans and other products to commercial and corporate customers.

Business review

Income statement

The Group's profit before tax for 2024 was £1,098 million (2023: £691 million). This was driven by higher total income partly offset by a higher impairment charge. Profit after tax was £853 million (2023: £644 million).

Total income for 2024 was £4,516 million, an increase of 24 per cent (2023: £3,643 million). Within this, net interest income of £4,050 million increased 38 per cent (2023: £2,935 million), with the effect of the mortgage book refinancing onto higher rates partially offset by the impact of higher deposit and funding costs.

Other income of £466 million was 34 per cent lower (2023: £708 million), driven by decreases in both net fee and commission income and other operating income. Net fee and commission income for the year was £285 million (2023: £377 million), reflecting the impact of changes to commission arrangements with Scottish Widows. Other operating income of £98 million was down £278 million (2023: £376 million) with the prior year including a gain from the sale of Halifax Share Dealing Limited to a fellow Lloyds Banking Group undertaking. These movements were partly offset by an increase in net trading income to £83 million (2023: expense of £45 million) as a result of market movements.

Operating expenses of £3,326 million were 2 per cent higher (2023: £3,268 million), reflecting inflationary pressures, business growth costs and ongoing strategic investment. It also includes the impact of the sector-wide change in the charging approach for the Bank of England Levy during the first quarter. The Group recognised remediation costs of £116 million (2023: £89 million). The Group has maintained its cost discipline with cost efficiencies partly offsetting these items.

Impairment was a charge of £92 million, compared to a credit of £316 million in 2023 (which benefitted from a significant write-back following the full repayment of debt from a single name client). The charge in 2024 includes a credit from an improved economic outlook, notably house price growth and changes in the first half of the year to the severe downside scenario methodology. The charge also benefitted from strong portfolio performance and the release of judgemental adjustments for inflation and interest rate risks in 2024, as well as a release in Commercial Banking from loss rates used in the model in the first half of the year and a debt sale write back in the third quarter. Asset quality remains strong with improved credit performance in the year.

The Group recognised a tax expense of £245 million in the year, compared to £47 million in 2023.

The Group's post-tax return on average total assets increased to 0.26 per cent compared to 0.19 per cent in the year ended 31 December 2023.

Balance sheet

Total assets of £329,920 million increased by £8,381 million (31 December 2023: £321,539 million). This was predominantly due to higher financial assets at amortised cost, which increased by £8,063 million to £317,274 million (31 December 2023: £309,211 million). This included an increase in loans and advances to customers of £8,319 million, from growth in mortgages offset by the securitisation of £1.9 billion of primarily legacy mortgage loans during the year.

Total liabilities of £312,707 million increased by £8,969 million (31 December 2023: £303,738 million). This included a £14,784 million increase in balances due to fellow Lloyds Banking Group undertakings and an increase of £3,107 million in customer deposits driven by inflows to limited withdrawal and fixed term savings products, partly offset by a reduction in current account balances. These increases were partially offset by a £8,229 million reduction in repurchase agreements and a £921 million reduction in derivative financial instruments.

Total equity decreased by £588 million to £17,213 million (31 December 2023: £17,801 million), with attributable profit for the year more than offset by dividends paid.

Capital

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

Future developments

Information about future developments is provided within the principal risks and uncertainties section below.

Section 172(1) Statement

This section (**pages 1 to 3**) is our Section 172(1) statement for the purposes of the Companies Act 2006 (the Act), describing how the directors have had regard to the matters set out in section 172(1) (a) to (f) of the Act when performing their duty to promote the success of the Company under section 172. Further detail on key stakeholder interaction is also contained within the directors' report on **pages 6 to 10**.

The directors remain mindful in all their deliberations of the long-term consequences of their decisions, as well as the importance of the Company maintaining a reputation for high standards of business conduct and the Board engaging with, and taking account of the views of, key stakeholders.

Stakeholder Engagement

The Board recognises the vital importance of engaging with all its stakeholders. The Closer to Customers, Clients and Colleagues Programme is a key method by which non-executive directors hear directly from key stakeholders.

The programme was designed to help the directors better understand the important issues for our customers, clients and colleagues, the role the Company plays in supporting them and how the Company is performing in this respect, helping to inform the directors' decision making.

A number of activities took place under the programme, which included meetings with customers and clients and conversations with colleagues. The non-executive directors continue to find these sessions beneficial, providing valuable insight which helps in their consideration of the proposals reviewed by the Board during the year.

Below is a description of how the Board engages with all its stakeholders and examples of decision making by the Board which had particular stakeholder relevance can be found on **page 3**.

Our Stakeholders

Customers and clients

The Company's customer-centric approach means the Board has an ongoing commitment to understanding and addressing customer and client needs, which remains central to achieving the Company's strategic ambitions.

Strategic report continued

Relevant engagement included:

- Non-executive directors attended events to provide deeper insight into the issues which customers and clients have faced during the year.
- In 2024, Board members actively participated in customer sessions to gain a deeper understanding of the daily challenges the Company's customers encounter. These sessions covered a wide range of topics, including the financial resilience of customers, family finances, the challenges of starting out in life, managing home finances, planning for later life and the challenges of running a small business in the current climate
- The Board took the opportunity to meet with clients when visiting sites in Leeds and Birmingham
- Dedicated updates to the Board from across the organisation, which identified areas of customer and client concern and covered a range of internal and external performance measures; in addition, concerns relevant to customers and clients were identified for consideration in wider proposals put to the Board
- Regular updates to the Board giving insight into the Company's performance in delivering on its customer and client-related objectives and commitments, which assisted in determining where further action was required to meet these objectives.
- The Chair and the Group Chief Executive attended customer and client engagement events across various regions of the UK, providing an important opportunity for customers and clients to raise their concerns directly with these Board members

Shareholders

The Company is a wholly owned subsidiary within the Lloyds Banking Group group of companies. The directors ensure that the strategy, priorities, processes and practices of the Company are fully aligned where required to those of Lloyds Banking Group, ensuring that the interests of Lloyds Banking Group plc as the Company's ultimate shareholder are duly acknowledged. Further information in respect of the relationship of Lloyds Banking Group plc with its shareholders is included within the Lloyds Banking Group plc Annual Report and Accounts for 2024, available on the Lloyds Banking Group website.

Colleagues

Colleagues remain central to the delivery of the Company's strategic ambitions and the Board continues to recognise this in its engagement activity. Engagement this year included a variety of sessions across the Company to discuss topical issues relating to challenges both at and outside of work. As in 2023, the Board's Responsible Business Committee has been the designated body for workforce engagement, providing focus, but with the Board retaining a commitment for individual Board members to engage with colleagues directly throughout the year. The Responsible Business Committee reports regularly to the Board on all of its activities, including on its colleague engagement agenda. The Board considers these arrangements to be effective as they enable a broader range of colleague engagement activities, as described in this section. In continuing to consider its arrangements for engaging with the Company's workforce, the Board approved in 2024 a new approach to colleague engagement, to be implemented during 2025. This new approach builds on existing colleague listening activity and will introduce three forums to better represent colleagues particularly at grades where trade union membership is low. The forums will include the People Forum, the People Consultation Forum, and the Management Advisory Forum.

Relevant engagement included:

- Review by the Responsible Business Committee of the findings of surveys of colleague sentiment, including annual and ad hoc surveys. Regular review by the Responsible Business Committee of other workforce engagement reports, covering key issues raised, trends on people matters and updates on colleague sentiment
- Reports summarising colleague engagement activity, including key themes and issues which colleagues have raised during the year
- Non-executive directors attended a number of colleague focus groups, allowing colleagues to share their perspective on matters on the Board's agenda and discuss the Company's progress against its strategic objectives
- Members of the Board visited a number of the Company's sites, including Leeds and Birmingham, where they met with colleagues, and visited to a number of branches
- Sessions were hosted by both the Chair and the Group Chief Executive, complemented by engagement sessions led by other senior leaders with feedback shared with the wider Board
- Board members attended a range of other events held for the Company's senior leaders and other colleague network events

During the year Lloyds Banking Group communicated directly with colleagues detailing Company performance, changes in the economic and financial environment and updates on key strategic initiatives. Meetings were held throughout the year with our recognised unions.

For 2024, the Remuneration Committee approved Group Performance Share awards for colleagues, and colleagues are eligible to participate in HMRC approved share plans which promote share ownership by giving employees an opportunity to invest in Lloyds Banking Group plc shares. The vast majority of colleagues hold shares in Lloyds Banking Group plc.

Communities and environment

The Board places great importance on engagement and action to help the communities in which the Company operates prosper, while helping to build a more sustainable and inclusive future.

Relevant engagement included:

- Updates on climate, environmental and social matters, covering aspects of the Company's business, where the Board reviewed progress made against its stated ambitions in these areas and agreed any further action it considered was required
- The Board continues to be supported in environmental matters by its Responsible Business Committee. The Committee considers stakeholder views on all matters relating to the Company's ambition to be a trusted, sustainable, inclusive and responsible business

Regulators and government

The Board continues to maintain strong and open relationships with the Company's regulators and with government authorities, including key stakeholders such as the Financial Conduct Authority (FCA), the Prudential Regulation Authority (PRA), HM Treasury and HMRC.

Relevant engagement included:

- The Chair and individual directors, including Chairs of the Board's Committees, held continuing discussions with the FCA and PRA on a number of aspects relevant to the regulatory agenda
- The Board reviewed updates on wider Company regulatory interaction, providing a view of key areas of focus and also progress made in addressing key regulatory priorities
- At a meeting of the July Board, the outcomes and progress of action relevant to the PRA's Periodic Summary Meeting letter and the FCA's Firm Evaluation Letter were discussed with the PRA and FCA respectively
- The Chair and individual directors had a number of meetings with the regulators to discuss the Board's oversight of the Company, key risks and strategic priorities

Strategic report continued

Suppliers

The Company has a number of partners it relies on for important aspects of our operations and customer service provision and the Board recognises the importance of these supplier relationships in achieving the Company's wider ambitions.

Relevant engagement included:

- The Board's Audit Committee considered reports from Sourcing and Finance teams on the efficiency of supplier payment practices, including those relating to the Company's key suppliers, ensuring our approach continued to meet wider industry standards
- The Board continued to oversee resilience in the supply chain, ensuring our most important supplier relationships were not impacted by potential material events

Key Decisions

Stakeholder engagement takes place at all levels within the Company and is an important part of how we are delivering on our purpose of Helping Britain Prosper. Read more about the engagement of Board members with stakeholders on **pages 1 to 3**.

The Board recognises that engaging with its stakeholders is key to achieving the strategy and long-term objectives of the Company. Managing and understanding their interests forms a key part of the Board's ongoing activities and training and the Board delegates day-to-day engagement with stakeholders to senior management as part of running the business.

The Board considers its stakeholders when making decisions. To gain an understanding of their perspectives, the Board receives feedback from stakeholders through engagement both inside and outside of the board room. Senior management supports Board decision making by addressing stakeholder implications in proposals submitted to the Board and routinely provides the Board with details of stakeholder interactions.

The three key Board decisions outlined below (Customer-focused Strategy, Consumer Duty and Operational Resilience) illustrate how the Board is engaged in key decisions.

Customer-focused Strategy

Customers & Clients, Communities & Environment, Shareholders, Suppliers, Colleagues

The Board has an ongoing commitment to understanding and addressing customer needs which is central to achieving the Company's strategic ambitions.

In February, the Board approved targets for an enhanced Group Customer Dashboard (GCD) which reflects the Company's strategy, consists of a set of measures to evaluate and monitor customer experience, and includes increasing focus on the customer view of the Company, customer experience and customer insights. The Board supported steps taken by the executive to simplify customer journeys including in connection with its digital transformation. In May, the Board considered the Company's focus to deepen customer relationships.

The Board will continue to put the customer at the heart of its decision-making and remain focussed on how the Company can best support its customers and enhance the customer experience.

Consumer Duty

Customers & Clients, Shareholder, Regulators & Government

In 2024 the Board and its Responsible Business Committee considered the Company's progressive approach to implementation of the FCA's Consumer Duty (the Duty) requirements to deliver good outcomes for customers in line with the Company's customer-centric strategy.

The Board and its Responsible Business Committee received updates during 2024 regarding the Company's approach to the second implementation period regarding closed products and services and on the transition to embedding the Duty further into the Company's culture. In June the Board approved an assessment that the Company is delivering good outcomes for its customers consistent with the Duty as well as a tripartite approach to oversight of the Duty as between the Board, its Board Risk Committee and its Responsible Business Committee.

The Board is aware that the Company's approach to Consumer Duty compliance will evolve over time and the Board will continue to be updated on progress in 2025. Regular engagement with customers will continue to be a priority for the Board.

Operational Resilience

Customers & Clients, Communities & Environment, Shareholders, Suppliers, Colleagues, Regulators & Government

The Board considers operational resilience and sound risk management to be fundamental to the strength of the Company and to its long-term success. In 2024 the Board approved significant investment in the Company's operational resilience including new investment relating to people, processes, data and technology.

In March deep dives on operational resilience were undertaken by the Information Technology and Cyber Advisory Forum, and the Board Risk Committee. In September the Board considered a review of the Board Risk Appetite Metrics (BRAMs) relating to operational resilience and approved the inclusion of ten operational resilience BRAMs in the Q1 2025 BRAMs refresh.

The Board will continue to monitor operational resilience capabilities in 2025 and will maintain focus on response, recovery and remediation plans until 2027.

Strategic report continued

Principal risks and uncertainties

The significant risks faced by the Group are detailed below.

The Group is committed to maintaining support for its customers during continued economic uncertainties in both global and domestic markets.

The Group's credit performance improved in the year. The Group's loan portfolio continues to be well positioned and is closely monitored to identify signs of stress.

As part of the Group's strategy, there will be continued investment in technology and infrastructure. The Group's operational risks continue to be a key area of focus, particularly relating to information, cyber and physical security risk and supply chain management.

The management of financial crime risks and consumer fraud remains a key priority for the Group. The economic crime prevention strategy has been reviewed, with funding allocated to deliver improved systems and controls.

Model risk and the use of artificial intelligence are also areas of significant internal and external focus.

The Group's principal risks and uncertainties are reviewed and reported regularly to the Board of Lloyds Banking Group in alignment with Lloyds Banking Group's enterprise risk management framework.

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 Group.

Climate risk

The Group defines climate risk as the risk from the impacts of climate change and the transition to net zero ('inbound risk'), or a result of the Group's response to tackling climate change and supporting the transition to net zero ('outbound risk').

Compliance risk

The risk of financial penalties, regulatory censure, criminal or civil enforcement action or customer detriment as a result of failure to identify, assess, correctly interpret, comply with, or manage regulatory and/or legal requirements.

Conduct risk

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

Credit risk

Credit risk is defined as the risk that parties with whom the Group has contracted fail to meet their financial obligations (both on and off-balance sheet).

Economic crime risk

Economic crime risk is defined as 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.

Liquidity risk

Liquidity risk is 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.

Market risk

Market risk is defined as the risk that the Group's capital or earnings profile are adversely affected by changes in market rates or prices, including, but not limited to, interest rates, foreign exchange, equity prices and credit spreads.

Model risk

Model risk is 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

Operational risk is defined as 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.

Strategic report continued

Financial risk management objectives and policies

Information regarding the financial risk management objectives and policies of the Group, in relation to the use of financial instruments, is given in notes 14, 15 and 37 to the accounts. The Group's approach to risk management including risk policies, risk appetite, measurement bases and sensitivities, in particular for credit risk, market risk and liquidity risk, is aligned to those of Lloyds Banking Group plc, the Company's ultimate parent. Further information can be found in the Lloyds Banking Group plc Annual Report and Accounts.

The Group maintains risk management systems and internal controls relating to the financial reporting processes designed to:

- ensure that accounting policies are appropriately and consistently applied;
- enable the calculation, preparation and reporting of financial outcomes in line with applicable standards; and
- ensure that disclosures are made on a timely basis in accordance with statutory and regulatory requirements.

The 2024 Strategic report has been approved by the Board of Directors.

On behalf of the Board



Sir Robin Budenberg

Chair
HBOS plc
27 February 2025

Directors' report

Results

The consolidated income statement on **page 22** shows a statutory profit before tax for the year ended 31 December 2024 of £1,098 million (year ended 31 December 2023: £691 million).

Dividends

During the year the Company paid cumulative interim dividends of £1,050 million (2023: £nil). The directors have not recommended a final dividend for the year ended 31 December 2024 (2023: £nil). In February 2025, the directors approved the payment of an interim dividend of £250 million, which was paid on 25 February 2025.

Post balance sheet events

There were no material post balance sheet events.

Going concern

The going concern of the Company and the Group is dependent on successfully funding their respective balance sheets and maintaining adequate levels of capital.

In order to satisfy themselves that the Company and the Group have adequate resources to continue to operate for the foreseeable future, the directors have reviewed the Company and the Group's operating plan and its funding and capital positions, including a consideration of the implications of climate change. The directors have also taken into account the impact of further stress scenarios.

Accordingly, the directors conclude that the Company and the Group have adequate resources to continue in operational existence for a period of at least 12 months from the date of the approval of the financial statements and therefore it is appropriate to continue to adopt the going concern basis in preparing the accounts.

Corporate Governance Statement

In accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended by the Companies (Miscellaneous Reporting) Regulations 2018) (the Regulations), for the year ended 31 December 2024, the Company has in its corporate governance arrangements applied the Wates Corporate Governance Principles for Large Private Companies (the Principles), which are available at www.frc.org.uk. The following section explains the Company's approach to corporate governance, and its application of the Principles.

High standards of corporate governance are central to achieving the strategy which has been set for the Company. To this end a Corporate Governance Framework is in place for Lloyds Banking Group plc, the Company, Lloyds Bank plc and Bank of Scotland plc, with all four companies sharing a common approach to governance. The framework is designed to meet the specific needs of each company, setting the approach and standards in respect of the Company's corporate governance practices, including addressing the matters set out in the Principles.

This includes the matters reserved to the Board, and the matters the Board has chosen to delegate to management. Governance arrangements, including the Corporate Governance Framework, are reviewed periodically to ensure they remain fit for purpose, with the current review, which is nearing completion, aiming to deliver a more proportionate and user friendly governance approach. The Board delegates further responsibilities to the Group Chief Executive, who is supported by the Group Executive Committee, the composition of which is detailed on **page 81** of the Lloyds Banking Group plc Annual Report and Accounts for 2024. The Corporate Governance Framework of the Company further addresses the requirements of the Principles as discussed on **pages 6 to 7**.

Principle One – Purpose and Leadership

The Board is collectively responsible for the long term success of the Company. It achieves this by agreeing the Company's strategy, within the wider strategy of Lloyds Banking Group, and overseeing delivery against it. The Company's strategy is discussed further in the Strategic Report on **pages 1 to 5**. The Board also assumes responsibility for the management of the culture, values and wider standards of the Company, within the equivalent standards set by Lloyds Banking Group. The Board's understanding of stakeholders' interests is central to these responsibilities and informs key aspects of Board decision making, as discussed within the statement on **pages 1 to 3**.

Acknowledging the needs of all stakeholders is fundamental to the way the Company operates, as is maintaining the highest standards of business conduct, which is a vital part of the corporate culture. The Company's approach is further influenced by our ambition to provide not only outstanding service to our customers, but also responding to the UK's social and economic issues. To this end, the Board plays a lead role in establishing, promoting, and monitoring the Company's corporate culture and values, with the Corporate Governance Framework ensuring such matters receive the level of prominence in Board and Executive decision making which they require. The Company's corporate culture and values align to those of Lloyds Banking Group, which are discussed in more detail within the Strategic and Directors' Reports of the Lloyds Banking Group plc Annual Report and Accounts for 2024.

Principle Two – Board Composition

The Company is led by a Board comprising a non-executive Chair, independent non-executive directors and executive directors, further details of the directors can be found on **page 10**. The Board reviews its size and composition regularly and is committed to ensuring it has the right balance of skills and experience. The Board considers its current size and composition is appropriate to the Company's circumstances. New appointments are made on merit, taking account of the specific skills and experience, independence and knowledge needed to ensure a rounded board and the diversity benefits each candidate can bring overall.

The Board is supported by its committees, the operation of which are discussed below, which make recommendations to the Board on matters delegated to them. Each committee has written terms of reference setting out its delegated responsibilities. Each committee comprises non-executive directors with appropriate skills and experience and is chaired by an experienced chair. The committee Chairs report to the Board at the next Board meeting. The Board undertakes an annual review of its effectiveness, which provides an opportunity to consider ways of identifying greater efficiencies, ways to maximise strengths and highlights areas of further development. An internally facilitated evaluation of the Board's effectiveness was undertaken during the course of the year, which concluded that the Board is continuing to operate effectively. Further information on conclusions of the evaluation can be found on **pages 93 to 94** of the Lloyds Banking Group plc Annual Report and Accounts for 2024.

Directors' report continued

Principle Three – Director Responsibilities

The directors assume ultimate responsibility for all matters, and along with senior management are committed to maintaining a robust control framework as the foundation for the delivery of good governance, including the effective management of delegation through the Corporate Governance Framework. Policies are also in place in relation to potential conflicts of interest which may arise. All directors have access to the services of the Company Secretary, and independent professional advice is available to the directors at the expense of Lloyds Banking Group, where they judge it necessary to discharge their duties as directors.

The Board is supported by its committees which make recommendations on matters delegated to them under the Corporate Governance Framework. The management of all committees is in keeping with the basis on which meetings of the Board are managed, with open debate, and adequate time for members to consider proposals which are put forward. The Chair of the Board and each Board committee assumes responsibility with support from the Company Secretary for the provision to each meeting of accurate and timely information.

Principle Four – Opportunity and Risk

The Board oversees the development and implementation of the Company's strategy, within the context of the wider strategy of Lloyds Banking Group, which includes consideration of all strategic opportunities. The Board is also responsible for the long term sustainable success of the Company, generating value for its shareholder and ensuring a positive contribution to society. The Board agrees the Company's culture, purpose, values and strategy, within that of Lloyds Banking Group, and agrees the related standards of the Company, again within the relevant standards of Lloyds Banking Group. Further specific aims and objectives of the Board are formalised within the Corporate Governance Framework, which also sets out the matters reserved for the Board.

Strong risk management is central to the strategy of the Company, which along with a robust risk control framework acts as the foundation for the delivery of effective management of risk. The Board agrees the Company's risk appetite and ensures the Company manages risk effectively, delegating related authorities to individuals through the Corporate Governance Framework and the further management hierarchy. Board level engagement coupled with the direct involvement of senior management in risk issues ensures that escalated issues are promptly addressed, and remediation plans are initiated where required. The Company's risk appetite, principles, policies, procedures, controls and reporting are managed in conjunction with those of Lloyds Banking Group, and as such are regularly reviewed to ensure they remain fully in line with regulations, law, corporate governance and industry best practice. The Company's principal risks are discussed further on **page 4**.

Principle Five – Remuneration

The Remuneration Committee of the Board, in conjunction with the Remuneration Committee of Lloyds Banking Group (the Remuneration Committees), assume responsibility for the Company's approach to remuneration. This includes reviewing and making recommendations on remuneration policy as relevant to the Company, ranging from the remuneration of directors and members of the Executive to that of all other colleagues employed by the Company. This includes colleagues where the regulators require the Company to implement a specific approach to their remuneration, such as Senior Managers and other material risk takers. The activities of the Remuneration Committees extend to matters of remuneration relevant to subsidiaries of the Company, where such subsidiary does not have its own remuneration committee.

Principle Six – Stakeholders

The Company as part of Lloyds Banking Group operates under Lloyds Banking Group's wider approach to responsible business, which acknowledges that the Company has a responsibility to help address the economic, social and environmental challenges which the UK faces, and as part of this understand the needs of the Company's external stakeholders, including in the development and implementation of strategy.

Central to this is Lloyds Banking Group's and the Company's purpose of Helping Britain Prosper. During the year the directors took a number of decisions with the Company's purpose and specific stakeholder interest in mind, which are discussed further on **page 3**.

In 2024 the Responsible Business Committee provided further oversight and support of Lloyds Banking Group's and the Company's plans for embedding responsible business in the Company's core purpose. The approach of the Board in respect of its key stakeholders is described further in a separate statement made in compliance with the Regulations on **pages 1 to 3**.

Directors

The names of the current directors are shown on **page 10**. Changes to the composition of the Board since 1 January 2024 up to the date of this report are shown in the table below.

	Joined the Board	Left the Board
Alan Dickinson		16 May 2024
Lord Lupton		16 May 2024
Nathan Bostock	1 August 2024	

Directors' indemnities

The directors of the Company have entered into individual deeds of indemnity with Lloyds Banking Group which constitute 'qualifying third party indemnity provisions' for the purposes of the Companies Act 2006. The deeds indemnify the directors to the maximum extent permitted by law and remain in force. The deeds were in force during the whole of the financial year. In addition, Lloyds Banking Group had appropriate Directors' and Officers' liability insurance cover in place throughout 2024. Deeds for existing directors are available for inspection at the Company's registered office.

Lloyds Banking Group has also granted deeds of indemnity by deed poll and by way of entering into individual deeds, which constitute 'qualifying third party indemnity provisions' to the directors of the Group's subsidiary companies, including former directors who retired during the year, and to colleagues subject to the provisions of the Senior Managers and Certification Regime. Such deeds were in force during the financial year ended 31 December 2024 and remain in force as at the date of this report. Qualifying pension scheme indemnities have also been granted to the Trustees of Lloyds Banking Group's Pension Schemes, including those schemes relevant to the Company, which were in force for the whole of the financial year and remain in force as at the date of this report.

Directors' report continued

Information required under DTR 7.2

Certain information is incorporated into this report by reference. Information about internal control and risk management systems relating to the financial reporting process can be found on **page 5**.

Information about share capital is shown in note 28 on **page 78**. The Company is a wholly owned subsidiary of Lloyds Bank plc, which holds all of the Company's issued ordinary share capital.

The directors manage the business of the Company under the powers set out in the Companies Act 2006 and the Company's articles of association, these powers include those in relation to the issue or buy back of the Company's shares.

The appointment and retirement of directors is governed by the Company's articles of association and the Companies Act 2006. The Company's articles of association may only be amended by a special resolution of the shareholders in a general meeting.

Conflicts of interest

The Board has a comprehensive procedure for reviewing, and as permitted by the Companies Act 2006 and the Company's articles of association, approving actual and potential conflicts of interest. Directors have a duty to notify the Chair and Company Secretary as soon as they become aware of actual or potential conflict situations. Changes to commitments of all directors are reported to the Board and a register of directors' interests is regularly reviewed and authorised by the Board to ensure the authorisation status remains appropriate.

Future developments and financial risk management objectives and policies

Information regarding future developments and financial risk management objectives and policies of the Group in relation to the use of financial instruments that would otherwise be required to be disclosed in the directors' report, and which is incorporated into this report by reference, can be found in the strategic report.

Share capital

Information about share capital is shown in note 28 on **page 78**. This information is incorporated into this report by reference. The Company did not repurchase any of its shares during 2024 (2023: none). There are no restrictions on the transfer of shares in the Company other than as set out in the articles of association and certain restrictions which may from time to time be imposed by law and regulations.

Change of control

The Company is not party to any significant agreements which take effect, alter or terminate upon a change of control of the Company following a takeover bid. There are no agreements between the Company and its directors or employees providing compensation for loss of office or employment that occurs because of a takeover bid.

Research and development activities

During the ordinary course of business the Company develops new products and services within the business units.

Supporting disability

In April 2023, Lloyds Banking Group set a public goal to double the representation of senior management colleagues with disabilities to 12 per cent by 2025. Alongside this goal there was a commitment to improve the working environment and experience for colleagues with disabilities, including making recruitment processes more accessible and inclusive; supporting career development; improving the accessibility of workspaces and technology; upskilling colleagues to reduce stigma; and taking work beyond our own organisation to champion the disability community. As of the end of 2024, 16.1 per cent of senior management colleagues shared that they had a disability, meaning the original target was exceeded earlier than anticipated. Since launching this goal, there has been significant uplift in the number of colleagues sharing their disability data – rising from 24.7 per cent in March 2023 to 60.5 per cent at the end of 2024. Aspiration is for 80 per cent of colleagues to have shared their data by the end of 2025.

Information incorporated by reference

The following additional information forms part of the directors' report, and is incorporated by reference.

Content		Pages
Disclosures required under the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008	Statement of employee engagement	1 to 3
	Statement of other stakeholder engagement	1 to 3

Significant contracts

Details of related party transactions are set out in note 33 on **pages 80 to 81**.

Streamlined Energy and Carbon Reporting

The Company has taken advantage of the exemption from Streamlined Energy and Carbon Reporting (SECR) reporting requirements in its own directors' report as it is covered by the Lloyds Banking Group SECR report given in the Lloyds Banking Group plc 2024 Annual Report and Accounts, available at www.lloydsbankinggroup.com/investors/financial-downloads.html.

Directors' report continued

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report 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 are required to prepare the Company's and the Group'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 the Group, and of the profit or loss of the Company and the Group for that period. In preparing these financial statements, the directors are required to properly select and apply accounting policies; present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; provide additional disclosures when compliance with the specific requirements in international accounting standards in conformity with the requirements of the Companies Act 2006 are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and make an assessment of the Company's ability to continue as a going concern.

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 the Group, 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 the Group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. A copy of the financial statements is placed on the website www.lloydsbankinggroup.com/investors/financial-downloads.html. The directors are responsible for the maintenance and integrity of all information relating to the Company on that website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the current directors who are in office as at the date of this report, and whose names and functions are listed on **page 10** of this annual report, confirm that, to the best of his or her knowledge:

- The Company's and the Group's financial statements, which have been prepared in accordance with 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 profit or loss of the Company and the Group
- The management report contained in the strategic report and the directors' report includes a fair review of the development and performance of the business and the position of the Company and the Group together with a description of the principal risks and uncertainties they face
- The Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's and the Group's position, performance, business model and strategy. The directors have also separately reviewed and approved the strategic report

Independent auditor and audit information

Each person who is a director at the date of approval of this report confirms that, so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware and each director has taken all the steps that he or she ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of the Companies Act 2006.

On behalf of the Board



Kate Cheetham
Company Secretary
27 February 2025

HBOS plc
Registered in Scotland
Company Number SC218813

Current directors

Executive directors:

Charlie Nunn, Group Chief Executive

William Chalmers, Chief Financial Officer

Non-executive directors:

Sir Robin Budenberg CBE, Chair

Nathan Bostock

Sarah Legg

Amanda Mackenzie LVO OBE

Harmeen Mehta

Cathy Turner

Scott Wheway

Catherine Woods

Forward-looking statements

This document contains certain forward-looking statements within the meaning of Section 21E of the US Securities Exchange Act of 1934, as amended, and section 27A of the US Securities Act of 1933, as amended, with respect to the business, strategy, plans and/or results of HBOS plc together with its subsidiaries (the Group) and its current goals and expectations. Statements that are not historical or current facts, including statements about the Group's or its directors' and/or management's beliefs and expectations, are forward-looking statements. Words such as, without limitation, 'believes', 'achieves', 'anticipates', 'estimates', 'expects', 'targets', 'should', 'intends', 'aims', 'projects', 'plans', 'potential', 'will', 'would', 'could', 'considered', 'likely', 'may', 'seek', 'estimate', 'probability', 'goal', 'objective', 'deliver', 'endeavour', 'prospects', 'optimistic' and similar expressions or variations on these expressions are intended to identify forward-looking statements. These statements concern or may affect future matters, including but not limited to: projections or expectations of the Group's future financial position, including profit attributable to shareholders, provisions, economic profit, dividends, capital structure, portfolios, net interest margin, capital ratios, liquidity, risk-weighted assets (RWAs), expenditures or any other financial items or ratios; litigation, regulatory and governmental investigations; the Group's future financial performance; the level and extent of future impairments and write-downs; the Group's ESG targets and/or commitments; statements of plans, objectives or goals of the Group or its management and other statements that are not historical fact and statements of assumptions underlying such statements. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend upon circumstances that will or may occur in the future. Factors that could cause actual business, strategy, targets, plans and/or results (including but not limited to the payment of dividends) to differ materially from forward-looking statements include, but are not limited to: general economic and business conditions in the UK and internationally (including in relation to tariffs); 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; natural pandemic and other disasters; risks concerning borrower and counterparty credit quality; risks affecting defined benefit pension schemes; changes in laws, regulations, practices and accounting standards or taxation; changes to regulatory capital or liquidity requirements and similar contingencies; the policies and actions of governmental or regulatory authorities or courts together with any resulting impact on the future structure of the Group; risks associated with the Group's compliance with a wide range of laws and regulations; assessment related to resolution planning requirements; risks related to regulatory actions which may be taken in the event of a bank or Group failure; exposure to legal, regulatory or competition proceedings, investigations or complaints; failure to comply with anti-money laundering, counter terrorist financing, anti-bribery and sanctions regulations; failure to prevent or detect any illegal or improper activities; operational risks including risks as a result of the failure of third party suppliers; conduct risk; technological changes and risks to the security of IT and operational infrastructure, systems, data and information resulting from increased threat of cyber and other attacks; technological failure; inadequate or failed internal or external processes or systems; risks relating to ESG matters, such as climate change (and achieving climate change ambitions) and decarbonisation, including the Group's ability along with the government and other stakeholders to measure, manage and mitigate the impacts of climate change effectively, and human rights issues; the impact of competitive conditions; failure to attract, retain and develop high calibre talent; the ability to achieve strategic objectives; the ability to derive cost savings and other benefits including, but without limitation, as a result of any acquisitions, disposals and other strategic transactions; inability to capture accurately the expected value from acquisitions; and assumptions and estimates that form the basis of the Group's financial statements. A number of these influences and factors are beyond the Group's control. Please refer to the latest Annual Report on Form 20-F filed by Lloyds Banking Group plc with the US Securities and Exchange Commission (the SEC), which is available on the SEC's website at www.sec.gov, for a discussion of certain factors and risks. Lloyds Banking Group plc may also make or disclose written and/or oral forward-looking statements in other written materials and in oral statements made by the directors, officers or employees of Lloyds Banking Group plc to third parties, including financial analysts. Except as required by any applicable law or regulation, the forward-looking statements contained in this document are made as of today's date, and the Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained in this document whether as a result of new information, future events or otherwise. The information, statements and opinions contained in this document do not constitute a public offer under any applicable law or an offer to sell any securities or financial instruments or any advice or recommendation with respect to such securities or financial instruments.

Independent auditors' report

Independent auditors' report to the members of the HBOS plc

Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of HBOS plc (the 'Parent company') and its subsidiaries (the 'Group' or 'HBOS') give a true and fair view of the state of the Group's and of the Parent company's affairs as at 31 December 2024 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and IFRS Accounting Standards as issued by the International Accounting Standards Board (IASB);
- the Parent company financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise the:

Group	Parent company
<ul style="list-style-type: none">• Consolidated balance sheet as at 31 December 2024;• Consolidated income statement for the year then ended;• Consolidated statement of comprehensive income for the year then ended;• Consolidated statement of changes in equity for the year then ended;• Consolidated cash flow statement for the year then ended; and• Notes 1 to 39 to the financial statements, which include the accounting principles and policies.	<ul style="list-style-type: none">• Balance sheet as at 31 December 2024;• Statement of changes in equity for the year then ended;• Cash flow statement for the year then ended; and• Notes 1 to 39 to the financial statements, which include the accounting principles and policies.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom adopted international accounting standards, and as regards the Parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

2. 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 auditors' responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Parent 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 as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Group and the Parent company for the year are disclosed in note 11 to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the Group or the Parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	<p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none">• Expected credit losses ('ECL') (Group)• Regulatory and litigation matters (Group)• IT systems that impact financial reporting (Group and Parent company)• Defined benefit obligations (Group and Parent company) <p>Our assessment of the level of risk for each of these areas has remained consistent with the prior year.</p>
Materiality	<p>Overall materiality used for the Group consolidated financial statements was £170 million, which was determined on the basis of net assets.</p> <p>Overall materiality used for the Parent company financial statements was £170 million, which was determined on the basis of net assets and capped at Group materiality.</p>
Scoping	<p>Our audit scope covers 98 per cent of the Group's total assets, 99 per cent of the Group's total liabilities, 99 per cent of the Group's income and 99 per cent of the Group's expenses.</p>

Our audit approach

We structured our approach to the audit to reflect how the Group is organised as well as ensuring it was both effective and risk focused. It can be summarised into the following key activities that we used to obtain sufficient audit evidence required to form our opinion on the Group and the Parent company's financial statements:

Audit planning and risk assessment

Our audit planning procedures considered the impact of internal and external factors affecting the Group's profitability and operations, key audit matters most relevant to the users of the financial statements, the appropriate scope of audit work performed as well as the expectations and requirements of the Group's investors and regulators.

In performing our audit risk assessments, we considered the impact of macroeconomic factors on the Group's key accounting judgements and sources of estimation uncertainty. The key factors considered in our risk assessments were:

- the impact of uncertainty in the current economic climate and ongoing geopolitical tensions on the Group's ECL; and
- changes to the regulatory and litigation environment affecting the Group's financial reporting.

We obtained the knowledge and information required to inform our audit planning and risk assessment decision making through regular meetings with Group and Divisional Finance and the extensive use of data and technology.

Independent auditors' report continued

Audit procedures undertaken at both Group and Parent company level

We performed audit procedures over the Group and Parent company financial statements including the consolidation of the Group's results, the preparation of the financial statements, litigation provisions and exposures in addition to the Group's entity level and oversight controls relevant to financial reporting. The areas not covered by our audit scope are subject to analytical procedures to confirm our conclusion that there were no significant risks of material misstatement in the aggregated financial information;

Internal controls testing approach

Our internal controls testing approach was informed by our scoping and risk assessment activities. We have assessed the Group's end-to-end financial reporting processes supporting all in-scope financial statement balances and identified relevant controls to test for these balances. This included the testing of general IT controls, process level controls and entity level controls at the Group level; and

The impact of climate change on our audit

In planning our audit, we have considered the impact of climate change on the Group's operations and any subsequent impact on its financial statements. The Group sets out its assessment of the potential impact on **page 4** of the Strategic report of the Annual Report.

In conjunction with our climate risk specialists, we have held discussions with the Group to understand their:

- process for identifying affected operations including the governance and controls over this process, and the subsequent effect on the financial reporting for the Group; and
- long-term strategy to respond to climate change risks and how this is factored into the Group's forecasts, considering publicly announced climate change commitments and any costs associated with the Group's net zero targets.

Our audit work has involved:

- evaluating climate as a factor in risk assessments for potentially affected balances;
- challenging the completeness of the physical and transition risks identified and considered in the Group's climate risk assessment and the conclusion that there continues to be no material impact of climate change risk on financial reporting;
- reviewing the Group's qualitative loan portfolio analysis, and challenging the key assumptions used by the Group with reference to our own understanding of the portfolios and publicly available documentation; and
- assessing disclosures in the Annual Report and challenging the consistency between the financial statements and the remainder of the Annual Report.

As part of our audit procedures we are required to read and consider these disclosures to consider whether they are materially inconsistent with the financial statements or knowledge obtained in the audit and we did not identify any material inconsistencies as a result of these procedures.

4. 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.

Our evaluation of the directors' assessment of the Group's and the Parent company's ability to continue to adopt the going concern basis of accounting included:

- using our knowledge of the Group and Parent company, the financial services industry, the financial services regulatory environment and the general economic environment including, macroeconomic pressures affecting the Group's operations, to identify inherent risks in the business model and how such risks might affect the financial resources or ability to continue operations over the going concern period;
- evaluating the Group's strategic plans in light of the changing macroeconomic environment, short and longer term financial budgets, funding, liquidity and capital adequacy plans including internal stress tests;
- considering the Group's operational resilience;
- reading analyst reports, industry data, Bank of England reports and other external information to determine if it provided corroborative or contradictory evidence in relation to the Group's assumptions;
- reviewing correspondence and meeting with prudential and conduct regulators to assess whether there are any matters that may impact the going concern assessment;
- testing the underlying data generated to prepare the forecast scenarios and determining whether there was adequate support for the assumptions underlying the forecasts; and
- evaluating the Group's disclosures on going concern against the requirements of IAS 1.

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 Group's and the Parent 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.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent auditors' report continued

Expected credit losses (Group)

Key audit matter description

How the scope of our audit responded to the key audit matter

Refer to notes 2, 12, 17, 18 and 37 in the financial statements

The Group has recognised £1.9 billion of expected credit losses ('ECL') as at 31 December 2024. The valuation and allocation of ECL consists of a number of assumptions that are inherently uncertain and require a high degree of complex and subjective auditor judgement, specialised skills and knowledge, and complex impairment modelling. The increasing economic uncertainty resulting from geopolitical risks and recent changes in government policy in the United Kingdom ('UK') has further heightened the levels of judgement required, especially in the development of the base case economic scenario and alternative economic scenarios. As a consequence, we have determined ECL as a key audit matter.

The key areas we identified as having the most significant level of management judgement were in respect of:

- Multiple economic scenarios;
- Collectively assessed ECL;
- Individually assessed ECL; and
- ECL model adjustments.

Multiple economic scenarios

The Group's economics team develops the future economic scenarios by developing a base case forecast based on a set of conditioning assumptions, with the three outer economic scenarios (upside, downside and severe downside) derived using a Monte Carlo simulation around the base case. The modelled severe downside scenario is then adjusted to capture supply-side risks not contemplated by the Monte Carlo model. The upside, the base case and the downside scenarios are weighted at a 30 per cent probability and the severe downside at a 10 per cent probability. The development of the base case scenario, including the conditioning assumptions, is inherently highly complex and requires significant judgement.

We performed the following procedures:

- tested the controls over the generation of the multiple economic scenarios including those over the Group's governance processes to approve the base case, different scenarios and the weightings applied to each scenario;
- working with our internal economic specialists:
 - challenged and evaluated economic forecasts in the base scenario such as the unemployment rate, House Price Index, Commercial Real Estate prices, inflation and forecasted interest rates, and Gross Domestic Product through comparison to independent economic outlooks, other external analyses and market data;
 - challenged and evaluated the appropriateness of changes in assumptions and/or the model including changes to the non-modelled severe downside approach;
 - challenged and evaluated the appropriateness of the methodology applied to generate alternative macroeconomic scenarios, including associated weightings and assumptions within the model; and
 - independently replicated the multiple economic scenario model and compared the outputs of our independent model to the Group's output to test scenario generation;
- tested the completeness and accuracy of the data used by the model;
- performed a stand back assessment of the appropriateness of the weightings applied to each of the scenarios based on publicly available data; and
- evaluated the appropriateness of disclosures in respect of significant judgements and sources of estimation uncertainty including macroeconomic scenarios.

Independent auditors' report continued

Key audit matter description	How the scope of our audit responded to the key audit matter
<p>Collectively assessed ECL</p> <p>The ECL for the Retail and Commercial Banking divisions, except for individually assessed stage 3 commercial loans, is determined on a collective basis using impairment models. These models use a number of significant judgements to calculate a probability weighted estimate by applying a probability of default, exposure at default and a loss given default, taking account of collateral held or other loss mitigants, discounted using the effective interest rate.</p> <p>The key judgements and estimates in determining the ECL include:</p> <ul style="list-style-type: none">• modelling approach, modelling simplifications and judgements, and selection of modelling data;• behavioural lives of products in the Retail division;• credit risk ratings for the Commercial Banking division, which are performed on a counterparty basis for larger exposures by a credit officer; and• the appropriate allocation of assets into the correct staging taking into account any significant deterioration in credit risk since inception of the loan.	<p>We tested controls across the process to estimate the ECL provisions including:</p> <ul style="list-style-type: none">• model governance including model validation and monitoring;• model assumptions;• allocation of assets into stages, including those to determine the credit risk rating in the Commercial Banking division; and• completeness and accuracy of the data used by the model. <p>Working with our internal modelling specialists our audit procedures over the key areas of estimation in the valuation and allocation of the ECL covered the following:</p> <ul style="list-style-type: none">• Model estimations, where we:<ul style="list-style-type: none">– evaluated the appropriateness of the modelling approach and assumptions used;– independently replicated a sample of the models for all in-scope portfolios and compared the outputs of our independent models to the Group's outputs;– assessed model performance by evaluating variations between observed data and model predictions;– developed an understanding of model limitations and assessed these and remedial actions; and– tested the completeness and accuracy of the data used in model execution and calibration.• Allocation of assets into stages, where we:<ul style="list-style-type: none">– evaluated the appropriateness of quantitative and qualitative criteria used for allocation into IFRS 9 stages, including independently assessing the credit rating of a sample of loans in the Commercial Banking division;– tested the appropriateness of the stage allocation for a sample of exposures; and– tested the data used by models in assigning IFRS 9 stages and evaluated the appropriateness of the model logic used.
<p>Individually assessed ECL</p> <p>For individual provision assessments of larger exposures in stage 3 in the Commercial Banking division, complex and subjective auditor judgement including specialised knowledge is required in evaluating the methodology, models and inputs that are inherently uncertain in determining the ECL. The significant judgements in estimating provisions are the:</p> <ul style="list-style-type: none">• completeness and appropriateness of the potential workout scenarios identified;• probability of default assigned to each identified potential workout scenario; and• valuation assumptions used in determining the expected recovery strategies.	<p>For expected credit losses assessed individually we have:</p> <ul style="list-style-type: none">• selected senior team members with extensive IFRS 9 knowledge and expertise to design and lead the execution of the audit of ECL;• tested the controls over individually assessed provisions including assumptions and inputs into workout and recovery scenarios, as well as valuation assumptions used; and• evaluated the appropriateness of workout and recovery scenarios identified, including the judgements to determine the timing and value of associated cash flows as well as consideration of climate risk.

Independent auditors' report continued

Key audit matter description	How the scope of our audit responded to the key audit matter
<p>ECL model adjustments</p> <p>Where impairment models do not incorporate all factors relevant to estimating the ECL, adjustments are made to address known model limitations and data limitations, emerging or non-modelled risks and the impact of economic uncertainty on different industry sectors. The identification of model limitations is highly judgemental and inherently uncertain. The adjustments made to address these limitations require specialist auditor judgement when evaluating the:</p> <ul style="list-style-type: none">• completeness of adjustments; and• methodology, assumptions, models and inputs.	<p>In respect of the adjustments to models, we performed the following procedures in conjunction with our specialists:</p> <ul style="list-style-type: none">• tested the controls over the valuation of in-model and post-model adjustments, including methodology, calculation, assumptions and the completeness and accuracy of data used;• evaluated the methodology, rationale and assumptions in developing the adjustments, and evaluated the Group's selection of approaches;• tested the completeness and accuracy of the data used in formulating the judgements;• performed a recalculation of adjustments;• evaluated the completeness of adjustments based on our understanding of both model and data limitations; and• assessed the appropriateness of the disclosures and whether the disclosures appropriately address the uncertainty which exists in determining the ECL.
<p>Key observations communicated to the Audit Committee</p> <p>We are satisfied that the ECL provisions are reasonable and recognised in accordance with the requirements of IFRS 9. Calculations of the multiple economic scenarios, in-model adjustments and post-model adjustments are made using appropriate methodologies and reasonable modelled assumptions. Overall ECL levels are reasonable compared to peer benchmarking information.</p>	
<p>Regulatory and litigation matters (Group)</p>	
Key audit matter description	How the scope of our audit responded to the key audit matter
<p>Refer to notes 2 and 26 in the financial statements</p> <p>The Group operates in an environment where it is subject to regulatory investigations, litigation and customer remediation including allegations of fraud and misconduct. The Group is currently exposed to a number of regulatory and litigation matters. The Group's provision for these matters is £0.3 billion as at 31 December 2024.</p> <p>Significant judgement is required by the Group in determining whether, under IAS 37 Provisions, Contingent Liabilities and Contingent Assets:</p> <ul style="list-style-type: none">• The amount recorded is representative of the Group's best estimate to settle the obligation based on the information available to the Group; and• Any contingent liabilities and underlying significant estimation uncertainties are adequately disclosed.	<p>We performed the following audit procedures:</p> <ul style="list-style-type: none">• tested the Group's controls over the completeness of provisions, the review of the assessment of the provision against the requirements of IAS 37, the review of the appropriateness of judgements used to determine a best estimate and the completeness and accuracy of data used in the process;• evaluated the assessment of the provisions, associated probabilities, and potential outcomes in accordance with IAS 37;• verified and evaluated whether the methodology, data and significant judgements and assumptions used in the valuation of the provisions are appropriate in the context of the applicable financial reporting framework;• inspected correspondence and, where appropriate, made direct inquiry with the Group's regulators and internal and external legal counsel;• critically evaluated the Group's conclusion in the context of the requirements of IAS 37 where no provision was made; and• evaluated whether the disclosures made in the financial statements appropriately reflect the facts and key sources of estimation uncertainty.
<p>Key observations communicated to the Audit Committee</p> <p>While there is significant judgement required in estimating the timing and value of future settlements, we are satisfied that the approach to the recognition, estimation and disclosures of these provisions and contingent liabilities is consistent with the requirements of IFRS Accounting Standards.</p>	

Independent auditors' report continued

IT systems that impact financial reporting (Group and Parent company)

Key audit matter description

The Group's IT environment is inherently complex due to the number of systems it operates and its reliance on automated and IT dependent manual controls. Together, these support a broad range of banking and insurance products as well as the processing of the Group's significant volume of transactions, which impact all account balances.

As such, IT systems within the Group form a critical component of the Group's financial reporting activities. Due to the significant reliance on IT systems, effective General IT Controls ('GITCs') are critical to allow reliance to be placed on the completeness and accuracy of financial data and the integrity of automated system functionality, such as system calculations.

We identified the IT systems that impact financial reporting as a key audit matter because of the:

- Pervasive reliance on complex technology that is integral to the operation of key business processes and financial reporting;
- Reliance on technology which continues to develop in line with the business strategy, such as the increase in the use of automation across the Group and increasing reliance on third parties; and
- Importance of the IT controls in maintaining an effective control environment. A key interdependency exists between the ability to rely on IT controls and the ability to rely on financial data, system configured automated controls and system reports.

IT controls, in the context of our audit scope, primarily relate to privileged access at the infrastructure level, user access security at the application level and change control.

How the scope of our audit responded to the key audit matter

Our IT audit scope covered the Group's IT controls over information systems deemed relevant to the audit based on the financial data, system configured automated controls and/or key financial reports that reside within it.

We used IT specialists to support our evaluation of the risks associated with IT in the following areas:

- General IT Controls, including user access and change management controls;
- Key financial reports and system configured automated controls; and
- Cyber security risk assessment.

Where deficiencies in the IT control environment were identified, our risk assessment procedures included an assessment of those deficiencies to determine the impact on our audit plan. Where relevant, the audit plan was adjusted to mitigate the unaddressed IT risk.

Where we were able to identify and test appropriate mitigating controls over affected financial statement line items, our testing approach remained unchanged.

In a limited number of areas, we adopted a non-controls reliance approach and we therefore performed additional substantive procedures.

Key observations communicated to the Audit Committee

We are satisfied that the Group's overall IT control environment appropriately supports the financial reporting process and control deficiencies identified in respect of privileged user access to IT infrastructure and in application user access management were mitigated by compensating business controls.

Defined benefit obligations (Group and Parent company)

Key audit matter description

Refer to notes 2 and 10 in the financial statements

The Group operates a number of defined benefit retirement schemes, the obligations for which totalled £9.3 billion as at 31 December 2024. Their valuation is determined with reference to key actuarial assumptions including mortality assumptions, discount rates and inflation rates. Due to the size of these schemes, small changes in these assumptions can have a material impact on the value of the defined benefit obligation and therefore, the determination of these assumptions requires significant auditor judgement.

How the scope of our audit responded to the key audit matter

We performed the following audit procedures:

- tested the Group's controls over the valuation of the defined benefit obligations, including controls over the assumptions setting process; and
- challenged and evaluated the key actuarial assumptions against the compiled expected ranges, determined by our internal actuarial experts, based on observable market indices and market experience.

Key observations communicated to the Audit Committee

We are satisfied that the Group's judgements in relation to the defined benefit obligations are reasonable.

Independent auditors' report continued

6. Our application of materiality

6.1 Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£170 million (2023: £178 million)	£170 million (2023: £178 million)
Basis for determining materiality	We have determined net assets to be the most relevant benchmark to the users of the financial statements. The determined materiality represents 1.0 per cent of net assets.	The Parent company materiality represents 0.7 per cent of net assets and is capped at Group materiality.
Rationale for the benchmark applied	Given the importance of this measures to investors and users of the financial statements, we have used net assets as the benchmark for our determination of materiality given the volatility of income statement items in recent years.	

6.2 Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Parent company financial statements
Performance materiality	70 per cent of Group materiality – £110 million (2023: 70 per cent at £124 million)	70 per cent of Parent company materiality – £110 million (2023: 70 per cent at £124 million)
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the following factors: a. The quality of the control environment and whether we were able to rely on controls; b. The degree of centralisation and commonality of controls and processes; c. The uncertain economic environment; d. The nature, volume and size of uncorrected misstatements arising in the previous audit; and e. The nature, volume and size of uncorrected misstatements that remain uncorrected in the current period.	

6.3 Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £8 million (2023: £8 million), as well as any differences below this threshold, which in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

Independent auditors' report continued

7. Other information

The other information comprises the information included in the Annual Report, other than the financial statements and our auditors' 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.

We have nothing to report in this regard.

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 summarise below our work in relation to areas of the other information including those areas upon which we are specifically required to report:

	Our responsibility	Our report
Matters we are specifically required to report		
Strategic report and directors' report	<p>Report whether they are consistent with the audited financial statements and are prepared in accordance with applicable legal requirements.</p> <p>Report if we have identified any material misstatements in either report in the light of the knowledge and understanding of the Group and of the Parent company and their environment obtained in the course of the audit.</p>	<p>As set out in the section '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 in these reports is consistent with the audited financial statements and has been prepared in accordance with applicable legal requirements.</p>
Principal risks within the strategic report	<p>Review the confirmation and description in the light of the knowledge gathered during the audit, such as through considering the directors' processes to support the statements made, challenging the Group's key judgements and estimates, consideration of historical forecasting accuracy and evaluating macro-economic assumptions.</p>	<p>We have nothing material to report, add or draw attention to in respect of these matters.</p>

8. 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 Group's and the Parent 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 Group or the Parent company or to cease operations, or have no realistic alternative but to do so.

9. Auditors' 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 auditors' 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 auditors' report.

Independent auditors' report continued

10. 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.

Identifying and assessing potential risks related to irregularities

In identifying and assessing the risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- the Group's own assessment of the risks that irregularities may occur either as a result of fraud or error that was discussed by the Audit Committee including on 18 February 2025;
- results of our inquiries of management, in-house legal counsel, internal audit and the Audit Committee, about their own identification and assessment of the risk of irregularities, including those that are specific to the financial services sector, and review of supporting documentation, concerning the Group's policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
 - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- the discussion among the audit engagement team including relevant internal specialists, including tax, valuations, pensions, IT and industry specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud; and
- obtaining an understanding of the legal and regulatory frameworks that the Group operates in, focusing on those laws and regulations that had a direct effect on the financial statements, such as provisions of the UK Companies Act, pensions legislation and tax legislation or that had a fundamental effect on the operations of the Group, including regulation and supervisory requirements of the Prudential Regulation Authority, Financial Reporting Council and Financial Conduct Authority.

Audit response to risks identified

As a result of performing the above, we identified the Group's determination of 'Expected credit losses' as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures in response to this key audit matter. 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 addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- inquiring of management, the Audit Committee and in-house and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and correspondence with regulators;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and
- evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including specialists and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Independent auditors' report continued

Report on other legal and regulatory requirements

11. 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 strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

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

12. Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- We have not received all the information and explanations we require for our audit; or
- Adequate accounting records have not been kept by the Parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- The Parent company's financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

13. Other matters which we are required to address

Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by shareholders at its annual general meeting on 16 May 2024 to audit the financial statements of Lloyds Banking Group plc, including HBOS plc for the year ended 31 December 2024 and subsequent financial periods. The period of total uninterrupted engagement of the firm is four years.

Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

14. Use of our report

This report is made solely to the Parent 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 Parent company's members those matters we are required to state to them in an auditors' 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 Parent company and the Parent company's members as a body, for our audit work, for this report, or for the opinions we have formed.

As required by the Financial Conduct Authority (FCA) Disclosure Guidance and Transparency Rule (DTR) 4.1.15R – DTR 4.1.18R, these financial statements will form part of the Electronic Format Annual Financial Report filed on the National Storage Mechanism of the FCA in accordance with DTR 4.1.15R – DTR 4.1.18R. This auditors' report provides no assurance over whether the Electronic Format Annual Financial Report has been prepared in compliance with DTR 4.1.15R – DTR 4.1.18R.



Michael Lloyd (Senior Statutory Auditor)

For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
27 February 2025

Consolidated income statement

for the year ended 31 December

	Note	2024 £m	2023 £m
Interest income		14,258	11,687
Interest expense		(10,208)	(8,752)
Net interest income	4	4,050	2,935
Fee and commission income		690	705
Fee and commission expense		(405)	(328)
Net fee and commission income	5	285	377
Net trading income (losses)	6	83	(45)
Other operating income	7	98	376
Other income		466	708
Total income		4,516	3,643
Operating expenses	8	(3,326)	(3,268)
Impairment (charge) credit	12	(92)	316
Profit before tax		1,098	691
Tax expense	13	(245)	(47)
Profit for the year		853	644
Profit attributable to ordinary shareholders		647	458
Profit attributable to non-controlling interests		206	186
Profit for the year		853	644

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated statement of comprehensive income

for the year ended 31 December

	2024 £m	2023 £m
Profit for the year	853	644
Other comprehensive income		
Items that will not subsequently be reclassified to profit or loss:		
Post-retirement defined benefit scheme remeasurements:		
Remeasurements before tax	(337)	(633)
Current tax	16	96
Deferred tax	68	56
	(253)	(481)
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	(5)	(3)
Current tax	2	1
	(3)	(2)
Movements in cash flow hedging reserve:		
Effective portion of changes in fair value taken to other comprehensive income	3	(7)
Net income statement transfers	(6)	(8)
Deferred tax	1	4
	(2)	(11)
Movements in foreign currency translation reserve:		
Transfers to income statement (tax: £nil)	-	22
Total other comprehensive loss for the year, net of tax	(258)	(472)
Total comprehensive income for the year	595	172
Total comprehensive (loss) income attributable to ordinary shareholders	389	(14)
Total comprehensive income attributable to non-controlling interests	206	186
Total comprehensive income for the year	595	172

The accompanying notes are an integral part of the consolidated financial statements.

Balance sheets

at 31 December

	Note	The Group		The Company	
		2024 £m	2023 £m	2024 £m	2023 £m
Assets					
Cash and balances at central banks		2,853	3,009	–	–
Financial assets at fair value through profit or loss	15	278	266	–	–
Derivative financial instruments	16	3,337	2,850	13	17
Loans and advances to banks		111	214	–	–
Loans and advances to customers	17	300,789	292,470	–	–
Debt securities		1,350	1,696	–	–
Due from fellow Lloyds Banking Group undertakings		15,024	14,831	3,141	3,055
Financial assets at amortised cost		317,274	309,211	3,141	3,055
Financial assets at fair value through other comprehensive income	15	103	108	–	–
Goodwill	20	452	452	–	–
Current tax recoverable		1,272	1,087	–	64
Deferred tax assets	13	1,577	1,537	7	–
Investment in subsidiary undertakings	21	–	–	22,687	22,664
Retirement benefit assets	10	1,018	1,296	966	1,247
Other assets	22	1,756	1,723	–	–
Total assets		329,920	321,539	26,814	27,047
Liabilities					
Deposits from banks		179	179	–	–
Customer deposits		165,053	161,946	–	–
Repurchase agreements		22,168	30,397	–	–
Due to fellow Lloyds Banking Group undertakings		106,931	92,147	2,326	2,308
Financial liabilities at fair value through profit or loss	15	22	23	–	–
Derivative financial instruments	16	3,490	4,411	–	–
Notes in circulation		2,121	1,392	–	–
Debt securities in issue at amortised cost	24	8,654	8,610	–	–
Other liabilities	25	1,321	1,626	4	5
Retirement benefit obligations	10	74	82	74	82
Current tax liabilities		–	–	3	–
Deferred tax liabilities	13	–	–	228	290
Provisions	26	511	720	–	–
Subordinated liabilities	27	2,183	2,205	628	638
Total liabilities		312,707	303,738	3,263	3,323
Equity					
Share capital	28	3,778	3,778	3,778	3,778
Share premium account	29	585	585	585	585
Other reserves	30	11,177	11,182	9,678	9,678
Retained profits ¹	31	(950)	(317)	9,510	9,683
Ordinary shareholders' equity		14,590	15,228	23,551	23,724
Non-controlling interests		2,623	2,573	–	–
Total equity		17,213	17,801	23,551	23,724
Total equity and liabilities		329,920	321,539	26,814	27,047

¹ The Company recorded a profit after tax for the year of £1,107 million (2023: £423 million).

No income statement or statement of comprehensive income has been shown for the parent company, as permitted by section 408 of the Companies Act 2006.

The accompanying notes are an integral part of the consolidated financial statements.

The directors approved the financial statements on 27 February 2025.



Sir Robin Budenberg
Chair



Charlie Nunn
Group Chief Executive



William Chalmers
Chief Financial Officer

Statements of changes in equity

for the year ended 31 December

The Group	Attributable to ordinary shareholders				Non-controlling interests £m	Total £m
	Share capital and premium £m	Other reserves £m	Retained profits £m	Total £m		
At 1 January 2023	4,363	11,173	(337)	15,199	2,223	17,422
Comprehensive income						
Profit for the year	–	–	458	458	186	644
Other comprehensive income						
Post-retirement defined benefit scheme remeasurements, net of tax	–	–	(481)	(481)	–	(481)
Movements in revaluation reserve in respect of debt securities held at fair value through other comprehensive income, net of tax	–	(2)	–	(2)	–	(2)
Movements in cash flow hedging reserve, net of tax	–	(11)	–	(11)	–	(11)
Movements in foreign currency translation reserve, net of tax	–	22	–	22	–	22
Total other comprehensive loss	–	9	(481)	(472)	–	(472)
Total comprehensive income (loss)¹	–	9	(23)	(14)	186	172
Transactions with owners						
Distributions to non-controlling interests	–	–	–	–	(186)	(186)
Change in non-controlling interests	–	–	–	–	350	350
Capital contributions received	–	–	43	43	–	43
Total transactions with owners	–	–	43	43	164	207
At 31 December 2023	4,363	11,182	(317)	15,228	2,573	17,801
Comprehensive income						
Profit for the year	–	–	647	647	206	853
Other comprehensive income						
Post-retirement defined benefit scheme remeasurements, net of tax	–	–	(253)	(253)	–	(253)
Movements in revaluation reserve in respect of debt securities held at fair value through other comprehensive income, net of tax	–	(3)	–	(3)	–	(3)
Movements in cash flow hedging reserve, net of tax	–	(2)	–	(2)	–	(2)
Total other comprehensive income (loss)	–	(5)	(253)	(258)	–	(258)
Total comprehensive income (loss)¹	–	(5)	394	389	206	595
Transactions with owners						
Dividends (note 32)	–	–	(1,050)	(1,050)	–	(1,050)
Distributions to non-controlling interests	–	–	–	–	(206)	(206)
Change in non-controlling interests	–	–	–	–	50	50
Capital contributions received	–	–	23	23	–	23
Total transactions with owners	–	–	(1,027)	(1,027)	(156)	(1,183)
At 31 December 2024	4,363	11,177	(950)	14,590	2,623	17,213

¹ Total comprehensive income attributable to owners of the parent was a surplus of £389 million (2023: loss of £14 million).

Further details of movements in the Group's share capital and reserves are provided in notes 28 to 31.

The accompanying notes are an integral part of the consolidated financial statements.

Statements of changes in equity continued

for the year ended 31 December

The Company	Attributable to ordinary shareholders			Total £m
	Share capital and premium £m	Other reserves £m	Retained profits £m	
At 1 January 2023	4,363	9,678	9,699	23,740
Comprehensive income				
Profit for the year	–	–	423	423
Other comprehensive income				
Post-retirement defined benefit scheme remeasurements, net of tax	–	–	(482)	(482)
Total comprehensive income (loss)^{1,2}	–	–	(59)	(59)
Transactions with owners				
Capital contributions received	–	–	43	43
Total transactions with owners	–	–	43	43
At 31 December 2023	4,363	9,678	9,683	23,724
Comprehensive income				
Profit for the year	–	–	1,107	1,107
Other comprehensive income				
Post-retirement defined benefit scheme remeasurements, net of tax	–	–	(253)	(253)
Total comprehensive income (loss)^{1,2}	–	–	854	854
Transactions with owners				
Dividends (note 32)	–	–	(1,050)	(1,050)
Capital contributions received	–	–	23	23
Total transactions with owners	–	–	(1,027)	(1,027)
At 31 December 2024	4,363	9,678	9,510	23,551

1 No income statement or statement of comprehensive income has been shown for the Company, as permitted by section 408 of the Companies Act 2006.

2 Total comprehensive income attributable to owners of the parent was a surplus of £854 million (2023: loss of £59 million).

Further details of movements in the Company's share capital and reserves are provided in notes 28 to 31.

The accompanying notes are an integral part of the consolidated financial statements.

Cash flow statements

for the year ended 31 December

	Note	The Group		The Company	
		2024 £m	2023 £m	2024 £m	2023 £m
Cash flows provided by (used in) operating activities					
Profit before tax		1,098	691	1,126	454
Adjustments for:					
Change in operating assets	38(A)	(7,319)	(839)	–	9
Change in operating liabilities	38(B)	9,185	2,089	17	(192)
Non-cash and other items	38(C)	(233)	(1,022)	(1,093)	(462)
Tax paid ¹		(1,418)	(611)	–	–
Tax refunded ¹		1,034	152	64	152
Net cash provided by (used in) operating activities		2,347	460	114	(39)
Cash flows (used in) provided by investing activities					
Purchase of financial assets		(3)	(9)	–	–
Dividends received from subsidiaries		–	–	1,050	81
Purchase of fixed assets ¹		(197)	(132)	–	–
Purchase of other intangible assets ¹		(84)	(90)	–	–
Proceeds from sale of fixed assets ¹		38	11	–	–
Proceeds from sale of goodwill and other intangible assets ¹		2	–	–	–
Net cash (used in) provided by investing activities		(244)	(220)	1,050	81
Cash flows used in financing activities					
Dividends paid to ordinary shareholders	32	(1,050)	–	(1,050)	–
Distributions to non-controlling interests		(206)	(186)	–	–
Interest paid on subordinated liabilities		(140)	(148)	(31)	(43)
Repayment of subordinated liabilities		–	(217)	–	(154)
Proceeds from change in non-controlling interests		50	350	–	–
Net cash used in financing activities		(1,346)	(201)	(1,081)	(197)
Effect of exchange rate changes on cash and cash equivalents		–	–	–	–
Change in cash and cash equivalents		757	39	83	(155)
Cash and cash equivalents at beginning of year		2,126	2,087	2,980	3,135
Cash and cash equivalents at end of year	38(D)	2,883	2,126	3,063	2,980

¹ Previously presented in aggregate.

The accompanying notes are an integral part of the consolidated financial statements.

Notes to the financial statements

for the year ended 31 December

Note 1: Basis of preparation

The consolidated financial statements of HBOS plc (the Company) together with its subsidiary undertakings (the Group) have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. The financial statements have also been prepared in accordance with IFRS[®] Accounting Standards as issued by the International Accounting Standards Board (IASB).

The financial information has been prepared under the historical cost convention, as modified by the revaluation of financial assets measured at fair value through other comprehensive income, trading securities and certain other financial assets and liabilities at fair value through profit or loss and all derivative contracts. The directors consider that it is appropriate to continue to adopt the going concern basis in preparing the financial statements. In reaching this assessment, the directors have considered the Group's capital and funding position, the impact of climate change upon the Group's future performance and the results from stress testing scenarios.

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 the IFRS Accounting Standards 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 do not have a significant impact on the Group.

Future accounting developments

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

The IASB has issued its annual improvements and a number of amendments to the IFRS Accounting Standards effective on or after 1 January 2025, including Amendments to IFRS 9 Financial Instruments (effective 1 January 2026) and Amendments to IFRS 7 Financial Instruments Disclosure (effective 1 January 2026) and IAS 21 The Effects of Changes in Foreign Exchange Rates (effective 1 January 2025). These improvements and amendments are not expected to have a significant impact on the Group.

Note 2: Accounting policies

The accounting policies are set out below. These accounting policies have been applied consistently.

(A) Consolidation

The assets, liabilities and results of Group undertakings (including structured entities) are included in the financial statements on the basis of accounts made up to the reporting date. Group undertakings include subsidiaries, associates and joint ventures. Details of the Group's subsidiaries and related undertakings are given on **pages 92 to 95**.

Subsidiaries are entities controlled by the Group. The Group controls an entity when it has power over the entity, is exposed to, or has rights to, variable returns from its involvement with the entity, and has the ability to affect those returns through the exercise of its power. This generally accompanies a shareholding of more than one half of the voting rights although in certain circumstances a holding of less than one half of the voting rights may still result in the ability of the Group to exercise control. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group reassesses whether or not it controls an entity if facts and circumstances indicate that there have been changes to any of the above elements. Subsidiaries are fully consolidated from the date on which control is transferred to the Group; they are deconsolidated from the date that control ceases.

Structured entities are entities that are designed so that their activities are not governed by way of voting rights. In assessing whether the Group has power over such entities in which it has an interest, the Group considers factors such as the purpose and design of the entity; its practical ability to direct the relevant activities of the entity; the nature of the relationship with the entity; and the size of its exposure to the variability of returns of the entity.

The treatment of transactions with non-controlling interests depends on whether, as a result of the transaction, the Group loses control of the subsidiary. Changes in the parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions; any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the parent entity. Where the Group loses control of the subsidiary, at the date when control is lost the amount of any non-controlling interest in that former subsidiary is derecognised and any investment retained in the former subsidiary is remeasured to its fair value; the gain or loss that is recognised in profit or loss on the partial disposal of the subsidiary includes the gain or loss on the remeasurement of the retained interest.

Intercompany transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated.

The acquisition method of accounting is used to account for business combinations by the Group. The consideration for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred except those relating to the issuance of debt instruments (see (E)(4) below) or share capital (see (O) below). Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair value at the acquisition date.

Notes to the financial statements continued

for the year ended 31 December

Note 2: Accounting policies continued

(B) Goodwill

Goodwill arises on business combinations and represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired. Where the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities of the acquired entity is greater than the cost of acquisition, the excess is recognised immediately in the income statement.

Goodwill is recognised as an asset at cost and is tested at least annually for impairment. For impairment testing, goodwill is allocated to the cash-generating unit (CGU) or groups of CGUs that are expected to benefit from the business combination. An impairment loss is recognised if the carrying amount of a CGU is determined to be greater than its recoverable amount. The recoverable amount of a CGU is the higher of its fair value less costs to sell and its value in use. If an impairment is identified the carrying value of the goodwill is written down immediately through the income statement and this is not subsequently reversed. At the date of disposal of a subsidiary, the carrying value of attributable goodwill is included in the calculation of the profit or loss on disposal.

(C) Other intangible assets

Intangible assets which have been determined to have a finite useful life are amortised on a straight-line basis over their estimated useful life as follows: up to 7 years for capitalised software; 10 to 15 years for brands and other intangible assets.

Intangible assets with finite useful lives are reviewed at each reporting date to assess whether there is any indication that they are impaired. If any such indication exists the recoverable amount of the asset is determined and in the event that the asset's carrying amount is greater than its recoverable amount, it is written down immediately.

(D) Revenue recognition

(1) Net interest income

Interest income and expense are recognised in the income statement using the effective interest method for all interest-bearing financial instruments, except for those classified at fair value through profit or loss. The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the expected life of the financial instrument. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument to the gross carrying amount of the financial asset (before adjusting for expected credit losses) or to the amortised cost of the financial liability, including early redemption fees, other fees, and premiums and discounts that are an integral part of the overall return. In the case of financial assets that are purchased or originated credit-impaired, the effective interest rate is the rate that discounts the estimated future cash flows to the amortised cost of the instrument. Direct incremental transaction costs related to the acquisition, issue or disposal of a financial instrument are also taken into account. Interest income from non-credit-impaired financial assets is recognised by applying the effective interest rate to the gross carrying amount of the asset; for credit-impaired financial assets, the effective interest rate is applied to the net carrying amount after deducting the allowance for expected credit losses. Impairment policies are set out in (H) below.

(2) Fee and commission income and expense

Fees and commissions receivable which are not an integral part of the effective interest rate are recognised as income as the Group fulfils its performance obligations. The Group's principal performance obligations arising from contracts with customers are in respect of value added current accounts, credit cards and debit cards. These fees are received, and the Group provides the service monthly; the fees are recognised in income on this basis. The Group also receives certain fees in respect of its asset finance business where the performance obligations are typically fulfilled towards the end of the customer contract; these fees are recognised in income on this basis. Where it is unlikely that the loan commitments will be drawn, loan commitment fees are recognised in fee and commission income over the life of the facility, rather than as an adjustment to the effective interest rate for the lending expected to be drawn. Incremental costs incurred to generate fee and commission income are charged to fee and commission expense as they are incurred.

(3) Other

Dividend income is recognised when the right to receive payment is established.

Revenue recognition policies specific to trading income are set out in (E)(3) below and those relating to leases are set out in (J)(1) below.

Notes to the financial statements continued

for the year ended 31 December

Note 2: Accounting policies continued

(E) Financial assets and liabilities

On initial recognition, financial assets are classified as measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss, depending on the Group's business model for managing those financial assets and whether the resultant cash flows represent solely payments of principal and interest on principal outstanding. The Group 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. Financial assets with embedded derivatives are considered in their entirety when considering their cash flow characteristics. The Group reclassifies financial assets only when its business model for managing those assets changes. A reclassification will only take place when the change is significant to the Group's operations and will occur at a portfolio level and not for individual instruments; reclassifications are expected to be rare.

The Group initially recognises loans and advances, deposits, debt securities in issue and subordinated liabilities when the Group becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of securities and other financial assets and trading liabilities are recognised on trade date, being the date that the Group is committed to purchase or sell an asset.

Financial assets are derecognised when the contractual right to receive cash flows from those assets has expired or when the Group 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 Group 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.

(1) Financial instruments measured at amortised cost

Financial assets that are held to collect contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. 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. Financial assets measured at amortised cost are predominantly loans and advances to customers and banks, reverse repurchase agreements and certain debt securities used by the Group to manage its liquidity. Loans and advances and reverse repurchase agreements are initially recognised when cash is advanced to the borrower at fair value inclusive of transaction costs. Interest income is accounted for using the effective interest method (see (D) above).

Financial liabilities are measured at amortised cost, except for trading liabilities and other financial liabilities designated at fair value through profit or loss on initial recognition which are held at fair value.

(2) Financial assets measured at fair value through other comprehensive income

Financial assets that are held to collect contractual cash flows and for subsequent sale where those cash flows represent solely payments of principal and interest are recognised in the balance sheet at their fair value, inclusive of transaction costs. Interest calculated using the effective interest method and foreign exchange gains and losses on assets denominated in foreign currencies are recognised in the income statement. All other gains and losses arising from changes in fair value are recognised directly in other comprehensive income, until the financial asset is either sold or matures, at which time, other than in respect of equity shares, the cumulative gain or loss previously recognised in other comprehensive income is recognised in the income statement. The cumulative revaluation amount in respect of equity shares is transferred directly to retained profits. The Group recognises a charge for expected credit losses in the income statement (see (H) below). As the asset is measured at fair value, the charge does not adjust the carrying value of the asset, and this is reflected in other comprehensive income.

(3) Financial instruments measured at fair value through profit or loss

Financial assets are classified at fair value through profit or loss where they do not meet the criteria to be measured at amortised cost or fair value through other comprehensive income or where they are designated at fair value through profit or loss to reduce an accounting mismatch. All derivatives are carried at fair value through profit or loss, other than those in effective cash flow hedging relationships. Derivatives are carried on the balance sheet as assets when their fair value is positive and as liabilities when their fair value is negative. Refer to note 15 (Fair values of financial assets and liabilities) for details of valuation techniques and significant inputs to valuation models.

Derivatives embedded in a financial asset are not considered separately; the financial asset is considered in its entirety when determining whether its cash flows are solely payments of principal and interest. Derivatives embedded in financial liabilities are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

Trading securities, which are debt securities and equity shares acquired principally for the purpose of selling in the short term or which are part of a portfolio which is managed for short-term gains, do not meet these criteria and are also measured at fair value through profit or loss. Financial assets measured at fair value through profit or loss are recognised in the balance sheet at their fair value. Fair value gains and losses together with interest coupons and dividend income are recognised in the income statement within net trading income.

Financial liabilities are measured at fair value through profit or loss where they are trading liabilities or where they are designated at fair value through profit or loss in order to reduce an accounting mismatch; where the liabilities are part of a group of liabilities (or assets and liabilities) which is managed, and its performance evaluated, on a fair value basis; or where the liabilities contain one or more embedded derivatives that significantly modify the cash flows arising under the contract and would otherwise need to be separately accounted for. Financial liabilities measured at fair value through profit or loss are recognised in the balance sheet at their fair value. Fair value gains and losses are recognised in the income statement within net trading income in the period in which they occur.

The fair values of assets and liabilities traded in active markets are based on current bid and offer prices, respectively, which include the expected effects of potential changes to laws and regulations, risks associated with climate change and other factors. If the market is not active the Group establishes a fair value by using valuation techniques. The fair values of derivative financial instruments are adjusted where appropriate to reflect credit risk (via credit valuation adjustments (CVAs), debit valuation adjustments (DVAs) and funding valuation adjustments (FVAs)), market liquidity and other risks.

Notes to the financial statements continued

for the year ended 31 December

Note 2: Accounting policies continued

(4) Borrowings

Borrowings (which include deposits from banks, customer deposits, repurchase agreements, debt securities in issue and subordinated liabilities) are recognised initially at fair value, being their issue proceeds net of transaction costs incurred. These instruments are subsequently stated at amortised cost using the effective interest method.

Preference shares and other instruments which carry a mandatory coupon or are redeemable on a specific date are classified as financial liabilities. The coupon on these instruments is recognised in the income statement as interest expense. Securities which carry a discretionary coupon and have no fixed maturity or redemption date are classified as other equity instruments. Interest payments on these securities are recognised as distributions from equity in the period in which they are paid.

An exchange of financial liabilities on substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The difference between the carrying amount of a financial liability extinguished and the new financial liability is recognised in profit or loss together with any related costs or fees incurred. When a financial liability is exchanged for an equity instrument, the new equity instrument is recognised at fair value and any difference between the carrying value of the liability and the fair value of the new equity instrument is recognised in profit or loss.

(5) Sale and repurchase agreements (including securities lending and borrowing)

Securities sold subject to repurchase agreements (repos) continue to be recognised on the balance sheet where substantially all of the risks and rewards are retained. Funds received for repos carried at fair value are included within trading liabilities.

Securities purchased under agreements to resell (reverse repos), where the Group does not acquire substantially all of the risks and rewards of ownership, are measured at amortised cost or at fair value. Those measured at fair value are recognised within trading securities. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

Securities borrowing and lending transactions are typically secured; collateral takes the form of securities or cash advanced or received. Securities lent to counterparties are retained on the balance sheet. Securities borrowed are not recognised on the balance sheet, unless these are sold to third parties, in which case the obligation to return them is recorded at fair value as a trading liability. Cash collateral given or received is treated as a loan and advance measured at amortised cost or customer deposit.

(F) Hedge accounting

As permitted by IFRS 9, the Group continues to apply the requirements of IAS 39 to its hedging relationships.

Changes in the fair value of all derivative instruments, other than those in effective cash flow and net investment hedging relationships, are recognised immediately in the income statement. As noted in (2) below, the change in fair value of a derivative in an effective cash flow hedging relationship is allocated between the income statement and other comprehensive income.

Hedge accounting allows one financial instrument, generally a derivative such as a swap, to be designated as a hedge of another financial instrument such as a loan or deposit or a portfolio of such instruments. At the inception of the hedge relationship, formal documentation is drawn up specifying the hedging strategy, the hedged item, the hedging instrument and the methodology that will be used to measure the effectiveness of the hedge relationship in offsetting changes in the fair value or cash flow of the hedged risk. The effectiveness of the hedging relationship is tested both at inception and throughout its life and if at any point it is concluded that it is no longer highly effective in achieving its documented objective, hedge accounting is discontinued. Note 16 provides details of the types of derivatives held by the Group and presents separately those designated in hedge relationships.

(1) Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk; this also applies if the hedged asset is classified as a financial asset at fair value through other comprehensive income. If the hedge no longer meets the criteria for hedge accounting, changes in the fair value of the hedged item attributable to the hedged risk are no longer recognised in the income statement. The cumulative adjustment that has been made to the carrying amount of the hedged item is amortised to the income statement using the effective interest method over the period to maturity.

(2) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income in the cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are reclassified to the income statement in the periods in which the hedged item affects profit or loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the income statement when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Notes to the financial statements continued

for the year ended 31 December

Note 2: Accounting policies continued

(G) Offset

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right of offset and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. Cash collateral on exchange traded derivative transactions is presented gross unless the collateral cash flows are always settled net with the derivative cash flows. In certain situations, even though master netting agreements exist, the lack of management intention to settle on a net basis results in the financial assets and liabilities being reported gross on the balance sheet.

(H) Impairment of financial assets

The impairment charge in the income statement reflects the change in expected credit losses, including those arising from fraud. Expected credit losses are recognised for loans and advances to customers and banks, other financial assets held at amortised cost, financial assets (other than equity investments) measured at fair value through other comprehensive income, and certain loan commitments and financial guarantee contracts. Expected credit losses are calculated as an unbiased and probability-weighted estimate using an appropriate probability of default, adjusted to take into account a range of possible future economic scenarios, and applying this to the estimated exposure of the Group at the point of default after taking into account the value of any collateral held, repayments, or other mitigants of loss and including the impact of discounting using the effective interest rate.

At initial recognition, allowance (or provision in the case of some loan commitments and financial guarantees) 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 since origination, allowance (or provision) 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 since initial recognition are in Stage 2; and financial assets which have defaulted or are otherwise considered to be credit-impaired are allocated to Stage 3. Some Stage 3 assets, are subject to individual rather than collective assessment. Such cases are subject to a risk-based impairment sanctioning process, and these are reviewed and updated at least quarterly, or more frequently if there is a significant change in the credit profile. The collective assessment of impairment aggregates financial instruments with similar risk characteristics, such as whether the facility is revolving in nature or secured and the type of security held against financial assets.

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. In determining whether there has been a significant increase in credit risk, the Group uses quantitative tests based on relative and absolute probability of default (PD) movements linked to internal credit ratings together with qualitative indicators such as watchlists and other indicators of historical delinquency, credit weakness or financial difficulty. The use of internal credit ratings and qualitative indicators ensures alignment between the assessment of staging and the Group's management of credit risk which utilises these internal metrics within distinct retail and commercial portfolio risk management practices. 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. The use of a payment holiday in and of itself has not been judged to indicate a significant increase in credit risk, with the underlying long-term credit risk deemed to be driven by economic conditions and captured through the use of forward-looking models. These portfolio-level models are capturing the anticipated volume of increased defaults and therefore an appropriate assessment of staging and expected credit loss. Where the credit risk subsequently improves such that it no longer represents a significant increase in credit risk since initial recognition, the asset is transferred back to Stage 1.

Assets are transferred to Stage 3 when they have defaulted or are otherwise considered to be credit-impaired. Default is considered to have occurred when there is evidence that the customer is experiencing financial difficulty which is likely to affect significantly the ability to repay the amount due. IFRS 9 contains a rebuttable presumption that default occurs no later than when a payment is 90 days past due which the Group uses for all its products. In addition, other indicators of mortgage default are added including end-of-term payments on past due interest-only accounts and loans considered non-performing due to recent arrears or forbearance. The use of payment holidays is not considered to be an automatic trigger of regulatory default and therefore does not automatically trigger Stage 3. Days past due will also not accumulate on any accounts that have taken a payment holiday including those already past due.

In certain circumstances, the Group will renegotiate the original terms of a customer's loan, either as part of an ongoing customer relationship or in response to adverse changes in the circumstances of the borrower. In the latter circumstances, the loan will remain classified as either Stage 2 or Stage 3 until the credit risk has improved such that it no longer represents a significant increase since origination (for a return to Stage 1), or the loan is no longer credit-impaired (for a return to Stage 2). On renegotiation the gross carrying amount of the loan is recalculated as the present value of the renegotiated or modified contractual cash flows, which are discounted at the original effective interest rate. Renegotiation may also lead to the loan and associated allowance being derecognised and a new loan being recognised initially at fair value.

A loan or advance 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. For both secured and unsecured retail balances, the write-off takes place only once an extensive set of collections processes has been completed, or the status of the account reaches a point where policy dictates that continuing attempts to recover are no longer appropriate. For commercial lending, a write-off occurs if the loan facility with the customer is restructured, the asset is under administration and the only monies that can be received are the amounts estimated by the administrator, the underlying assets are disposed and a decision is made that no further settlement monies will be received, or external evidence (for example, third party valuations) is available that there has been an irreversible decline in expected cash flows.

Notes to the financial statements continued

for the year ended 31 December

Note 2: Accounting policies continued

(I) Property, plant and equipment

Property, plant and equipment is included at cost less accumulated depreciation. The value of land (included in premises) is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate the difference between the cost and the residual value over their estimated useful lives, as follows: the shorter of 50 years and the remaining period of the lease for freehold/long and short leasehold premises; the shorter of 10 years and, if lease renewal is not likely, the remaining period of the lease for leasehold improvements; 10 to 20 years for fixtures and furnishings; and 2 to 8 years for other equipment and motor vehicles.

The assets' residual values and useful lives are reviewed and, if appropriate, revised at each balance sheet date.

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In assessing the recoverable amount of assets the Group considers the effects of potential or actual changes in legislation, customer behaviour, climate-related risks and other factors on the asset's cash-generating unit (CGU). In the event that an asset's CGU carrying amount is determined to be greater than its recoverable amount the asset is written down immediately.

(J) Leases

Under IFRS 16, a lessor is required to determine if a lease is a finance or operating lease. A lessee is not required to make this determination.

(1) As lessor

Assets leased to customers are classified as finance leases if the lease agreements transfer substantially all of the risks and rewards of ownership to the lessee but not necessarily legal title. All other leases are classified as operating leases. When assets are subject to finance leases, the present value of the lease payments, together with any unguaranteed residual value, is recognised as a receivable, net of allowances for expected credit losses and residual value impairment, within loans and advances to banks and customers. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance lease income. Finance lease income is recognised in interest income over the term of the lease using the net investment method (before tax) so as to give a constant rate of return on the net investment in the lease. Unguaranteed residual values are reviewed regularly to identify any impairment.

Operating lease assets are included within other assets at cost and depreciated over their estimated useful lives. The depreciation charge is based on the asset's residual value and the life of the lease. Operating lease rental income is recognised on a straight-line basis over the life of the lease.

The Group evaluates non-lease arrangements such as outsourcing and similar contracts to determine if they contain a lease which is then accounted for separately.

(2) As lessee

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Assets and liabilities arising from a lease are initially measured on a present value basis. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Group's incremental borrowing rate appropriate for the right-of-use asset arising from the lease, and the liability recognised within other liabilities.

Lease payments are allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

(K) Employee benefits

Short-term employee benefits, such as salaries, paid absences, performance-based cash awards and social security costs, are recognised over the period in which the employees provide the related services.

(1) Pension schemes

The Group operates a number of post-retirement benefit schemes for its employees including both defined benefit and defined contribution pension plans. A defined benefit scheme is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, dependent on one or more factors such as age, years of pensionable service and pensionable salary. A defined contribution plan is a pension plan into which the Group pays fixed contributions; there is no legal or constructive obligation to pay further contributions.

(i) Defined benefit schemes

Scheme assets are included at their fair value and scheme liabilities are measured on an actuarial basis using the projected unit credit method. The defined benefit scheme liabilities are discounted using rates equivalent to the market yields at the balance sheet date on high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability. The Group's income statement charge includes the current service cost of providing pension benefits, past service costs, net interest expense (income), and plan administration costs that are not deducted from the return on plan assets. Past service costs, which represents the change in the present value of the defined benefit obligation resulting from a plan amendment or curtailment, are recognised when the plan amendment or curtailment occurs. Net interest expense (income) is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset.

Notes to the financial statements continued

for the year ended 31 December

Note 2: Accounting policies continued

Remeasurements, comprising actuarial gains and losses, the return on plan assets (excluding amounts included in net interest expense (income) and net of the cost of managing the plan assets), and the effect of changes to the asset ceiling (if applicable) are reflected immediately in the balance sheet with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurements recognised in other comprehensive income are reflected immediately in retained profits and will not subsequently be reclassified to profit or loss.

The Group's balance sheet includes the net surplus or deficit, being the difference between the fair value of scheme assets and the discounted value of scheme liabilities at the balance sheet date. Surpluses are only recognised to the extent that they are recoverable through reduced contributions in the future or through refunds from the schemes. In assessing whether a surplus is recoverable, the Group considers (i) its current right to obtain a refund or a reduction in future contributions and (ii) the rights of other parties existing at the balance sheet date. In determining the rights of third parties existing at the balance sheet date, the Group does not anticipate any future acts by other parties.

(ii) Defined contribution schemes

The costs of the Group's defined contribution plans are charged to the income statement in the period in which they fall due.

(2) Share-based compensation

Lloyds Banking Group operates a number of equity-settled, share-based compensation plans in respect of services received from certain of its employees. The value of the employee services received in exchange for equity instruments granted under these plans is recognised as an expense over the vesting period of the instruments, with a corresponding increase in equity. This expense is determined by reference to the fair value of the number of equity instruments that are expected to vest. The fair value of equity instruments granted is based on market prices, if available, at the date of grant. In the absence of market prices, the fair value of the instruments at the date of grant is estimated using an appropriate valuation technique, such as a Black-Scholes option pricing model or a Monte Carlo simulation. The determination of fair values excludes the impact of any non-market vesting conditions, which are included in the assumptions used to estimate the number of options that are expected to vest. At each balance sheet date, this estimate is reassessed and if necessary revised. Any revision of the original estimate is recognised in the income statement, together with a corresponding adjustment to equity. Cancellations by employees of contributions to the Group's Save As You Earn plans are treated as non-vesting conditions and the Group recognises, in the year of cancellation, the amount of the expense that would have otherwise been recognised over the remainder of the vesting period. Modifications are assessed at the date of modification and any incremental charges are charged to the income statement.

(L) Taxation

Tax expense comprises current and deferred tax. Current and deferred tax are charged or credited in the income statement 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 income statement (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. The tax consequences of the Group's dividend payments (including distributions on other equity instruments), if any, are charged or credited to the statement in which the profit distributed originally arose.

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 remeasured as required to reflect current information.

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.

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, or where at the time of the transaction they give rise to equal taxable and deductible temporary differences. Deferred tax is not discounted.

The Group has applied the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar 2 income taxes currently required by IAS 12 Income Taxes.

Notes to the financial statements continued

for the year ended 31 December

Note 2: Accounting policies continued

(M) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). Foreign currency transactions are translated into the appropriate functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when recognised in other comprehensive income as qualifying cash flow hedges. Non-monetary assets that are measured at fair value are translated using the exchange rate at the date that the fair value was determined. Translation differences on equities and similar non-monetary items held at fair value through profit and loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets measured at fair value through other comprehensive income, such as equity shares, are included in the fair value reserve in equity unless the asset is a hedged item in a fair value hedge.

The results and financial position of all Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows: the assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on the acquisition of a foreign entity, are translated into sterling at foreign exchange rates ruling at the balance sheet date; and the income and expenses of foreign operations are translated into sterling at average exchange rates unless these do not approximate to the foreign exchange rates ruling at the dates of the transactions, in which case income and expenses are translated at the dates of the transactions.

Foreign exchange differences arising on the translation of a foreign operation are recognised in other comprehensive income and accumulated in a separate component of equity. On disposal or liquidation of a foreign operation, the cumulative amount of exchange differences relating to that foreign operation is reclassified from equity and included in determining the profit or loss arising on disposal or liquidation.

(N) Provisions and contingent liabilities

Provisions are recognised in respect of present obligations arising from past events where it is probable that outflows of resources will be required to settle the obligations and they can be reliably estimated.

Contingent liabilities are possible obligations whose existence depends on the outcome of uncertain future events or those present obligations where the outflows of resources are uncertain or cannot be measured reliably. Contingent liabilities are not recognised in the financial statements but are disclosed unless they are remote.

Provision is made for expected credit losses in respect of irrevocable undrawn loan commitments and financial guarantee contracts (see (H) above).

(O) Share capital

Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds. Dividends paid on the Group's ordinary shares are recognised as a reduction in equity in the period in which they are paid.

(P) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash and non-mandatory deposits held with central banks, mandatory deposits held with central banks in demand accounts and amounts due from banks with an original maturity of less than three months that are available to finance the Group's day-to-day operations.

(Q) Investment in subsidiaries

Investments in subsidiaries are carried at historical cost, less any provisions for impairment.

Note 3: Critical accounting judgements and key sources of estimation uncertainty

The preparation of the Group's financial statements in accordance with IFRS Accounting Standards 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 those estimates. Estimates, judgements and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. 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 significant judgements, apart from those involving estimation, made by management in applying the Group's accounting policies in these financial statements (critical judgements) and the key sources of estimation uncertainty that may have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year (key sources of estimation uncertainty), which together are considered critical to the Group's results and financial position, are as follows:

- Retirement benefit obligations (note 10)
- Uncertain tax positions (note 13)
- Fair value of financial instruments (note 15)
- Allowance for expected credit losses (note 18)
- Regulatory and legal provisions (note 26)

Notes to the financial statements continued

for the year ended 31 December

Note 4: Net interest income

	2024 £m	2023 £m
Interest income:		
Loans and advances to banks and customers	14,153	11,559
Debt securities	101	117
Financial assets held at amortised cost	14,254	11,676
Financial assets at fair value through other comprehensive income	4	11
Total interest income¹	14,258	11,687
Interest expense:		
Deposits from banks and customer deposits	(8,273)	(6,676)
Repurchase agreements	(1,521)	(1,404)
Debt securities in issue at amortised cost ²	(262)	(523)
Lease liabilities	(11)	(12)
Subordinated liabilities	(141)	(137)
Total interest expense	(10,208)	(8,752)
Net interest income	4,050	2,935

1 Includes £41 million (2023: £32 million) in respect of interest income on finance lease receivables.

2 The impact of the Group's hedging arrangements is included on this line.

Net interest income also includes a credit of £6 million (2023: credit of £8 million) transferred from the cash flow hedging reserve (see note 30).

Note 5: Net fee and commission income

	2024 £m	2023 £m
Fee and commission income:		
Current accounts	202	195
Credit and debit card fees	428	420
Other	60	90
Total fee and commission income	690	705
Fee and commission expense	(405)	(328)
Net fee and commission income	285	377

Fees and commissions which are an integral part of the effective interest rate form part of net interest income shown in note 4. Fees and commissions relating to instruments that are held at fair value through profit or loss are included within net trading income shown in note 6.

In determining the disaggregation of fees and commissions the Group has considered how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors, including those that are impacted by climate-related factors. It has determined that the above disaggregation by product type provides useful information that does not aggregate items that have substantially different characteristics.

At 31 December 2024, the Group held on its balance sheet £42 million (31 December 2023: £38 million) in respect of services provided to customers. There were no unsatisfied performance obligations at 31 December 2023 or 31 December 2024.

The most significant performance obligations undertaken by the Group are in respect of current accounts, the provision of other banking services for commercial customers and credit and debit card services.

In respect of current accounts, the Group receives fees for the provision of bank account and transaction services such as ATM services, fund transfers, overdraft facilities and other value-added offerings.

For commercial customers, alongside its provision of current accounts, the Group provides other corporate banking services including factoring and commitments to provide loan financing. Loan commitment fees are included in fees and commissions where the loan is not expected to be drawn down by the customer.

The Group receives interchange and merchant fees, together with fees for overseas use and cash advances, for provision of card services to cardholders and merchants.

Note 6: Net trading income (losses)

	2024 £m	2023 £m
Net gains (losses) on financial assets and liabilities at fair value through profit or loss:		
Net gains (losses) on financial instruments held for trading	54	(95)
Net gains on other financial instruments mandatorily held at fair value through profit or loss	14	8
	68	(87)
Foreign exchange and other	15	42
Net trading income (losses)	83	(45)

Notes to the financial statements continued

for the year ended 31 December

Note 7: Other operating income

	2024 £m	2023 £m
Liability management	–	100
Gain on disposal of business ¹	–	191
Intercompany recharges and other	98	85
Total other operating income	98	376

¹ On 1 November 2023 the Group sold Halifax Share Dealing Limited to a fellow Lloyds Banking Group undertaking.

Note 8: Operating expenses

	2024 £m	2023 £m
Staff costs:		
Salaries and social security costs ¹	886	894
Pensions and other retirement benefit schemes (note 10)	121	71
	1,007	965
Premises and equipment costs	189	200
Depreciation and amortisation ²	269	274
Regulatory and legal provisions (note 26)	116	89
Amounts payable to fellow Lloyds Banking Group undertakings and other	1,745	1,740
Total operating expenses	3,326	3,268

¹ Including social security costs of £90 million (2023: £84 million). Also includes amounts related to the Group's share-based payment schemes (see note 9).

² Including depreciation in respect of premises £37 million (2023: £44 million), equipment £26 million (2023: £29 million) and right-of-use assets £64 million (2023: £74 million).

Average headcount

The average number of persons on a headcount basis employed by the Group during the year was as follows:

	2024	2023
UK	20,293	21,918
Overseas	380	388
Total	20,673	22,306

Note 9: Share-based payments

During the year ended 31 December 2024 Lloyds Banking Group plc operated a number of share-based payment schemes for which employees of the HBOS Group were eligible and all of which are mainly equity settled. Details of all schemes operated by Lloyds Banking Group are set out below; these are managed and operated on a Lloyds Banking Group-wide basis. The amount charged to the Group's income statement in respect of Lloyds Banking Group share-based payment schemes, and which is included within staff costs (note 8), was £40 million (2023: £59 million).

During the year ended 31 December 2024 the Lloyds Banking Group operated the following share-based payment schemes, all of which are mainly equity settled.

Lloyds Banking Group Performance Share plan

The Lloyds Banking Group operates a Group Performance Share plan that is part equity settled. Bonuses in respect of employee service in 2024 have been recognised in the charge in line with the proportion of the deferral period completed.

Save-As-You-Earn schemes

Eligible employees may enter into contracts through the Save-As-You-Earn (SAYE) schemes to save up to £500 per month and, at the expiry of a fixed term of three years, have the option to use these savings within six months of the expiry of the fixed term to acquire shares in the Group at a discounted price of no less than 90 per cent of the market price at the start of the invitation period.

Notes to the financial statements continued

for the year ended 31 December

Note 9: Share-based payments continued

Movements in the number of share options outstanding under the SAYE schemes are set out below:

	2024		2023	
	Number of options	Weighted average exercise price (pence)	Number of options	Weighted average exercise price (pence)
Outstanding at 1 January	1,311,205,148	31.70	1,256,918,075	31.30
Granted	200,820,157	52.35	287,984,574	38.55
Exercised	(663,187,372)	24.60	(164,709,399)	38.55
Forfeited	(17,375,716)	39.01	(12,862,726)	31.78
Cancelled	(27,852,684)	40.70	(45,807,000)	37.65
Expired	(5,984,747)	35.40	(10,318,376)	38.25
Outstanding at 31 December	797,624,786	42.30	1,311,205,148	31.70
Exercisable at 31 December	955,281	24.25	410,368	39.87

The weighted average share price at the time that the options were exercised during 2024 was £0.47 (2023: £0.48). The weighted average remaining contractual life of options outstanding at the end of the year was 1.85 years (2023: 1.58 years).

The weighted average fair value of SAYE options granted during 2024 was £0.09 (2023: £0.09). The fair values of the SAYE options have been determined using a standard Black-Scholes model.

Other share option plans

Executive Share Plans – buyout and retention awards

Share options may be granted to senior employees under the Lloyds Banking Group Executive Share Plan 2003, Lloyds Banking Group Executive Group Ownership Share Plan and Deferred Bonus Scheme 2021 specifically to facilitate recruitment (to compensate new recruits for any lost share awards), and also to make grants to key individuals for retention purposes. In some instances, grants may be made subject to individual performance conditions.

Participants are not entitled to any dividends paid during the vesting period.

	2024		2023	
	Number of Options	Weighted average exercise price (pence)	Number of Options	Weighted average exercise price (pence)
Outstanding at 1 January	26,131,255	Nil	20,466,471	Nil
Granted	768,170	Nil	15,198,717	Nil
Exercised	(10,815,436)	Nil	(8,739,497)	Nil
Vested	–	Nil	(765,247)	Nil
Forfeited	(488,091)	Nil	(8,216)	Nil
Lapsed	(16,901)	Nil	(20,973)	Nil
Outstanding at 31 December	15,578,997	Nil	26,131,255	Nil
Exercisable at 31 December	988,243	Nil	1,148,770	Nil

The weighted average fair value of options granted in the year was £0.46 (2023: £0.41). The fair values of options granted have been determined using a standard Black-Scholes model. The weighted average share price at the time that the options were exercised during 2024 was £0.53 (2023: £0.46). The weighted average remaining contractual life of options outstanding at the end of the year was 6.2 years (2023: 6.3 years).

Included in the above are awards to the Group Chief Executive.

Notes to the financial statements continued

for the year ended 31 December

Note 9: Share-based payments continued

Charlie Nunn joined the Group on 16 August 2021 as Group Chief Executive. He was granted deferred share awards over 8,301,708 shares to replace unvested awards from his former employer, HSBC, that were forfeited as a result of him joining the Lloyds Banking Group.

	2024 Number of options	2023 Number of options
Outstanding at 1 January	5,337,899	6,585,447
Exercised	(1,368,990)	(1,247,548)
Outstanding at 31 December	3,968,909	5,337,899

Other share plans

Lloyds Banking Group Executive Group Ownership Share Plan

The plan, introduced in 2006, is aimed at delivering shareholder value by linking the receipt of shares to an improvement in the performance of the Lloyds Banking Group over a three-year period. Awards are made within limits set by the rules of the plan, with the limits determining the maximum number of shares that can be awarded equating to three times annual salary. In exceptional circumstances this may increase to four times annual salary.

The Executive Group Ownership awards were replaced by Long Term Share Plan awards in 2021.

	2024 Number of shares	2023 Number of shares
Outstanding at 1 January	39,804,293	202,394,509
Vested	(18,490,246)	(66,555,435)
Forfeited	(33,055)	(96,034,781)
Dividend award	842,202	–
Outstanding at 31 December	22,123,194	39,804,293

Lloyds Banking Group Long Term Share Plan

The plan, approved at the 2020 AGM and introduced in 2021, replaced the Lloyds Banking Group Executive Group Ownership Share Plan and is intended to provide alignment to the Group's aim of delivering sustainable returns to shareholders, supported by its values and behaviours.

The awards in respect of the 2022 grant are due to vest in 2025 at a rate of 100 per cent.

	2024 Number of shares	2023 Number of shares
Outstanding at 1 January	262,409,389	171,947,743
Granted	–	108,551,439
Vested	(53,608,504)	–
Forfeited	(12,921,590)	(18,089,793)
Outstanding at 31 December	195,879,295	262,409,389

The weighted average fair value of awards granted in the year was £nil (2023: £0.42).

Lloyds Banking Group Long Term Incentive Plan

The plan, approved at the 2023 AGM and introduced in 2024, replaced the Long Term Share Plan and is intended to deliver stronger alignment between variable reward outcomes and the creation of shareholder value through the delivery of our strategy and the deepening of our relationships with our customers.

The awards in respect of the 2024 grant are due to vest in 2027. Details in relation to the plan are provided in the directors' remuneration report.

	2024 Number of shares	2023 Number of shares
Outstanding at 1 January	–	–
Granted	75,063,395	–
Outstanding at 31 December	75,063,395	–

The weighted average fair value of awards granted in the year was £0.30 (2023: £nil).

Notes to the financial statements continued

for the year ended 31 December

Note 9: Share-based payments continued

Executive Share Plans – buyout and retention awards

Share awards in the form of conditional shares may be granted to senior employees under the Lloyds Banking Group Executive Group Ownership Share Plan and Deferred Bonus Scheme 2021 specifically to facilitate recruitment (to compensate new recruits for any lost share awards), and also to make grants to key individuals for retention purposes. In some instances, grants may be made subject to individual performance conditions.

Participants are not entitled to any dividends paid during the vesting period.

	2024	2023
	Number of Shares	Number of Shares
Outstanding at 1 January	–	–
Granted	3,593,397	–
Vested	(728,370)	–
Outstanding at 31 December	2,865,027	–

The weighted average fair value of awards granted in the year was £0.51 (2023: £nil).

Assumptions at 31 December 2024

The fair value calculations at 31 December 2024 for grants made in the year, using Black-Scholes models and Monte Carlo simulation, are based on the following assumptions:

	SAYE	Executive Option Plans	Executive Share Plans	Long Term Share Plan
Weighted average risk-free interest rate	3.58%	4.43%	4.35%	4.07%
Weighted average expected life	3.3 years	1.6 years	1.3 years	4.4 years
Weighted average expected volatility	25%	24%	23%	29%
Weighted average expected dividend yield	6.0%	7.0%	7.0%	7.0%
Weighted average share price	£0.58	£0.52	£0.56	£0.48
Weighted average exercise price	£0.52	Nil	Nil	Nil

Expected volatility is a measure of the amount by which the Lloyds Banking Group's shares are expected to fluctuate during the life of an option. The expected volatility is estimated based on the historical volatility of the closing daily share price over the most recent period that is commensurate with the expected life of the option. The historical volatility is compared to the implied volatility generated from market traded options in the Lloyds Banking Group's shares to assess the reasonableness of the historical volatility and adjustments made where appropriate.

Share Incentive Plans

Matching shares

The Lloyds Banking Group undertakes to match shares purchased by employees up to the value of £45 per month; these matching shares are held in trust for a mandatory period of three years on the employee's behalf, during which period the employee is entitled to any dividends paid on such shares. The award is subject to a non-market based condition: if an employee leaves within this three-year period for other than a 'good' reason, all of the matching shares are forfeited. Similarly, if the employees sell their purchased shares within three years, their matching shares are forfeited.

The number of shares awarded relating to matching shares in 2024 was 38,464,042 (2023: 43,945,238), with an average fair value of £0.53 (2023: £0.46), based on market prices at the date of award.

Fixed share awards

Fixed share awards were introduced in 2014 in order to ensure that total fixed remuneration is commensurate with role and to provide a competitive reward package for certain Lloyds Banking Group employees, with an appropriate balance of fixed and variable remuneration, in line with regulatory requirements. The fixed share awards are delivered in Lloyds Banking Group plc shares, and are released over three years with one third being released each year following the year of award. The number of shares purchased in relation to fixed share awards in 2024 was 1,541,751 (2023: 1,790,243) with an average fair value of £0.55 (2023: £0.46) based on market prices at the date of the award.

The fixed share award is not subject to any performance conditions, performance adjustment or clawback. On an employee leaving the Lloyds Banking Group, there is no change to the timeline for which shares will become unrestricted.

Since the beginning of 2023 the number of recipients of these awards has been reduced to the executive directors only.

Free shares

An award of shares may be made annually to employees up to a maximum of £3,600. The shares awarded are held in trust for a mandatory period of three years on the employee's behalf, during which period the employee is entitled to any dividends paid on such shares. The award is subject to a non-market based condition. If an employee leaves the Group within this three-year period for other than a 'good' reason, all of the shares awarded will be forfeited.

There have not been any awards made since 2021.

Notes to the financial statements continued

for the year ended 31 December

Note 10: Retirement benefit obligations

Critical accounting judgements and key sources of estimation uncertainty

Key sources of estimation uncertainty:	Discount rate applied to future cash flows
	Expected lifetime of the schemes' members
	Expected rate of future inflationary increases

The net asset recognised in the balance sheet at 31 December 2024 in respect of the Group's defined benefit pension scheme obligations was £961 million, comprising an asset of £1,018 million and a liability of £57 million (2023: a net asset of £1,233 million comprising an asset of £1,296 million and a liability of £63 million). The Group's accounting policy for its defined benefit pension scheme obligations is set out in note 2(K).

Income statement and balance sheet sensitivities to changes in the key sources of estimation uncertainty and other actuarial assumptions are provided in part (v).

	The Group	
	2024 £m	2023 £m
Charge (credit) to the income statement		
Defined benefit pension schemes	11	(22)
Other retirement benefit schemes	1	1
Total defined benefit schemes	12	(21)
Defined contribution pension schemes	109	92
Total charge to the income statement (note 8)	121	71

	The Group		The Company	
	2024 £m	2023 £m	2024 £m	2023 £m
Amounts recognised in the balance sheet				
Retirement benefit assets	1,018	1,296	966	1,247
Retirement benefit obligations	(74)	(82)	(74)	(82)
Total amounts recognised in the balance sheet	944	1,214	892	1,165

The total amounts recognised in the balance sheet relate to:

	The Group		The Company	
	2024 £m	2023 £m	2024 £m	2023 £m
Defined benefit pension schemes	961	1,233	909	1,184
Other retirement benefit schemes	(17)	(19)	(17)	(19)
Total amounts recognised in the balance sheet	944	1,214	892	1,165

Notes to the financial statements continued

for the year ended 31 December

Note 10: Retirement benefit obligations continued

Pension schemes

Defined benefit schemes

(i) Characteristics of and risks associated with the Group's schemes

The Group has established a number of defined benefit pension schemes in the UK and overseas, both funded and unfunded. All significant schemes are funded and based in the UK, with the most significant one being the HBOS Final Salary Pension Scheme. At 31 December 2024, this scheme represented 95 per cent of the Group's total gross defined benefit pension assets (2023: 95 per cent). These schemes provide retirement benefits calculated as a proportion of final pensionable salary depending upon the length of pensionable service.

All of the UK funded schemes are operated as separate legal entities under trust law, are in compliance with the Pensions Act 2004 and are managed by a Trustee Board (the Trustee) whose role is to ensure that their scheme is administered in accordance with the scheme rules and relevant legislation, and to safeguard the assets in the best interests of all members and beneficiaries.

A valuation to determine the funding status of each scheme is carried out at least every three years, whereby scheme assets are measured at market value and liabilities (technical provisions) are measured using prudent assumptions. If a deficit is identified a recovery plan is agreed between the employer and the scheme Trustee and sent to the Pensions Regulator for review. The Group does not provide for these deficit contributions as the future economic benefits arising from these contributions are expected to be available to the Group. The Group's overseas defined benefit pension schemes are subject to local regulatory arrangements.

The 31 December 2022 triennial valuation for the main defined benefit schemes was completed in 2023, and following the contributions paid in 2023, there will be no further deficit contributions for this triennial period (to 31 December 2025).

The Group pays regular contributions to meet benefits accruing over the year, and to cover the expenses of running the schemes. The Group expects to pay contributions of at least £50 million to its defined benefit schemes in 2025.

The Group provides additional security arrangements to the HBOS Final Salary Pension Scheme. The arrangements provide security for the Group's obligations to the scheme. At 31 December 2024, the security arrangement held assets of £1.3 billion. The security arrangement is fully consolidated in the Group's balance sheet.

The last funding valuations of other Group schemes were carried out on a number of different dates. In order to report the position under IAS 19 as at 31 December 2024, the most recent valuation results for all schemes have been updated by qualified independent actuaries. The funding valuations use a more prudent approach to setting the discount rate and more conservative longevity and inflation assumptions than the IAS 19 valuations.

In June 2023, the High Court handed down a decision (*Virgin Media Limited v NTL Pension Trustees II Limited and others*) which potentially has implications for the validity of amendments made by pension schemes, which were contracted-out on a salary-related basis between 6 April 1997 and the abolition of contracting-out in 2016. The High Court ruled that any amendments made to these pension schemes during the relevant period would be void unless the scheme actuary had confirmed that the pension scheme would continue to satisfy the statutory standard for contracted-out schemes. On 25 July 2024, the Court of Appeal upheld the original decision. The Group is carrying out a review of scheme amendments to decide whether any subsequent actions or amendments to IAS 19 liabilities are required. The Group has not made any allowance for the possible impact of the ruling as it is currently unclear whether any additional liabilities might arise, and if they were to arise, how they would be reliably measured. The Group will continue to monitor developments.

(ii) Amounts in the financial statements

	The Group		The Company	
	2024 £m	2023 £m	2024 £m	2023 £m
Amount included in the balance sheet				
Present value of funded obligations	(9,305)	(10,342)	(9,119)	(10,137)
Fair value of scheme assets	10,266	11,575	10,028	11,321
Net amount recognised in the balance sheet	961	1,233	909	1,184

Notes to the financial statements continued

for the year ended 31 December

Note 10: Retirement benefit obligations continued

	The Group		The Company	
	2024 £m	2023 £m	2024 £m	2023 £m
Net amount recognised in the balance sheet				
At 1 January	1,233	1,451	1,184	1,404
Net defined benefit pension (charge) credit	(11)	22	(12)	20
Actuarial gains (losses) on defined benefit obligation	1,071	(578)	1,066	(576)
Return on plan assets	(1,410)	(50)	(1,406)	(53)
Employer contributions	77	388	77	388
Exchange and other adjustments	1	–	–	1
At 31 December	961	1,233	909	1,184

	The Group		The Company	
	2024 £m	2023 £m	2024 £m	2023 £m
Movements in the defined benefit obligation				
At 1 January	(10,342)	(9,706)	(10,137)	(9,496)
Current service cost	(40)	(43)	(40)	(43)
Interest expense	(475)	(467)	(469)	(460)
Remeasurements:				
Actuarial gains – demographic assumptions	31	56	31	56
Actuarial gains (losses) – experience	1	(463)	8	(465)
Actuarial gains (losses) – financial assumptions	1,039	(171)	1,027	(167)
Benefits paid	488	451	479	441
Past service cost	(19)	(4)	(19)	(4)
Settlements	1	–	1	–
Exchange and other adjustments	11	5	–	1
At 31 December	(9,305)	(10,342)	(9,119)	(10,137)

	The Group		The Company	
	2024 £m	2023 £m	2024 £m	2023 £m
Analysis of the defined benefit obligation				
Active members	(1,070)	(1,285)	(1,070)	(1,285)
Deferred members	(2,753)	(3,170)	(2,691)	(3,098)
Dependants	(391)	(418)	(391)	(418)
Pensioners	(5,091)	(5,469)	(4,967)	(5,336)
At 31 December	(9,305)	(10,342)	(9,119)	(10,137)

	The Group		The Company	
	2024 £m	2023 £m	2024 £m	2023 £m
Changes in the fair value of scheme assets				
At 1 January	11,575	11,157	11,321	10,900
Return on plan assets excluding amounts included in interest income	(1,410)	(50)	(1,406)	(53)
Interest income	532	547	524	538
Employer contributions	77	388	77	388
Benefits paid	(488)	(451)	(479)	(441)
Settlements	(1)	–	(1)	–
Administrative costs paid	(9)	(11)	(8)	(11)
Exchange and other adjustments	(10)	(5)	–	–
At 31 December	10,266	11,575	10,028	11,321

Notes to the financial statements continued

for the year ended 31 December

Note 10: Retirement benefit obligations continued

The expense (credit) recognised in the income statement for the year ended 31 December comprises:

	The Group	
	2024 £m	2023 £m
Current service cost	40	43
Net interest amount	(57)	(80)
Past service cost – plan amendments	19	4
Plan administration costs incurred during the year	9	11
Total defined benefit pension expense (credit)	11	(22)

(iii) Composition of scheme assets

The Group	2024			2023		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Debt instruments ¹ :						
Fixed interest government bonds	2,935	–	2,935	2,253	–	2,253
Index-linked government bonds	6,111	–	6,111	6,534	–	6,534
Corporate and other debt securities	2,557	–	2,557	2,548	–	2,548
Asset-backed securities	–	–	–	4	–	4
	11,603	–	11,603	11,339	–	11,339
Pooled investment vehicles	187	2,476	2,663	160	2,661	2,821
Property	–	130	130	–	97	97
Equity instruments	5	23	28	4	21	25
Money market instruments, cash, derivatives and other assets and liabilities	297	(4,455)	(4,158)	421	(3,128)	(2,707)
At 31 December	12,092	(1,826)	10,266	11,924	(349)	11,575

¹ Of the total debt instruments, £10,815 million (2023: £10,578 million) were investment grade (credit ratings equal to or better than 'BBB').

The Company	2024			2023		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Debt instruments ¹ :						
Fixed interest government bonds	2,904	–	2,904	2,243	–	2,243
Index-linked government bonds	6,111	–	6,111	6,534	–	6,534
Corporate and other debt securities	2,475	–	2,475	2,469	–	2,469
	11,490	–	11,490	11,246	–	11,246
Pooled investment vehicles	187	2,364	2,551	160	2,509	2,669
Property	–	130	130	–	97	97
Equity instruments	5	23	28	4	21	25
Money market instruments, cash, derivatives and other assets and liabilities	297	(4,468)	(4,171)	421	(3,137)	(2,716)
At 31 December	11,979	(1,951)	10,028	11,831	(510)	11,321

¹ Of the total debt instruments, £10,704 million (2023: £10,489 million) were investment grade (credit ratings equal to or better than 'BBB').

The assets of all of the funded plans are held independently of the Group's assets in separate trustee-administered funds.

Notes to the financial statements continued

for the year ended 31 December

Note 10: Retirement benefit obligations continued

The pension schemes' pooled investment vehicles comprise:

	The Group		The Company	
	2024 £m	2023 £m	2024 £m	2023 £m
Alternative credit funds	634	680	560	648
Bond and debt funds	21	102	21	26
Equity funds	490	432	490	432
Hedge and mutual funds	244	279	244	279
Infrastructure funds	595	687	595	687
Liquidity funds	388	339	375	295
Property funds	266	302	266	302
Other	25	–	–	–
At 31 December	2,663	2,821	2,551	2,669

The Trustee's approach to investment is focused on acting in the members' best financial interests, with the integration of ESG (environmental, social and governance) considerations into investment management processes and practices. This policy is reviewed annually (or more frequently as required) and has been shared with the schemes' investment managers for implementation.

Climate change is one of the risks the schemes manage given its potential financial impact on valuation of assets.

(iv) Assumptions

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

	2024 %	2023 %
Discount rate	5.55	4.70
Rate of inflation:		
Retail Price Index (RPI)	2.85	2.84
Consumer Price Index (CPI)	2.53	2.46
Rate of salary increases	0.00	0.00
Weighted-average rate of increase for pensions in payment	2.85	2.90

To determine the RPI assumption a term-dependent inflation curve has been used adjusting for an assumed inflation risk premium. A gap of 100 basis points has been assumed between RPI and CPI from 2025 to 2030; thereafter a 20 basis point gap has been assumed.

	Men		Women	
	2024 Years	2023 Years	2024 Years	2023 Years
Life expectancy for average member aged 60, on the valuation date	26.4	26.7	28.5	28.7
Life expectancy for average member aged 60, 15 years after the valuation date	27.3	27.8	29.4	29.8

The mortality assumptions used in the UK scheme valuations are based on standard tables published by the Institute and Faculty of Actuaries which were adjusted in line with the actual experience of the relevant schemes. The Group uses the CMI mortality projections model to project future mortality improvements. In line with actuarial industry recommendations no weight is placed on 2020 and 2021 mortality experience and 15 per cent weight on 2022 and 2023 mortality experience.

Notes to the financial statements continued

for the year ended 31 December

Note 10: Retirement benefit obligations continued

(v) Amount, timing and uncertainty of future cash flows

Risk exposure of the defined benefit schemes

While the Group is not exposed to any unusual, entity-specific or scheme-specific risks in its defined benefit pension schemes, it is exposed to a number of significant risks, detailed below:

Inflation rate risk: The majority of the schemes' benefit obligations are linked to inflation both in deferment and once in payment. Higher inflation will lead to higher liabilities although this will be materially offset by holdings of inflation-linked gilts and, in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation.

Interest rate risk: The defined benefit obligation is determined using a discount rate derived from yields on AA-rated corporate bonds. A decrease in corporate bond yields will increase plan liabilities although this will be materially offset by an increase in the value of bond holdings and through the use of derivatives.

Longevity risk: The majority of the schemes' obligations are to provide benefits for the life of the members so increases in life expectancy will result in an increase in the schemes' liabilities.

Investment risk: Scheme assets are invested in a diversified portfolio of debt securities, equities and other return-seeking assets. If the assets underperform the discount rate used to calculate the defined benefit obligation, it will reduce the surplus or increase the deficit. Volatility in asset values and the discount rate will lead to volatility in the net pension asset on the Group's balance sheet and in other comprehensive income. To a lesser extent this will also lead to volatility in the pension expense in the Group's income statement.

In addition, the schemes themselves are exposed to liquidity risk with the need to ensure that liquid assets held are sufficient to meet benefit payments as they fall due and there is sufficient collateral available to support their hedging activity.

The ultimate cost of the defined benefit obligations to the Group will depend upon actual future events rather than the assumptions made. The assumptions made are unlikely to be borne out in practice and as such the cost may be higher or lower than expected.

Sensitivity analysis

The effect of changes in key assumptions on the Group's income statement and on the net defined benefit pension scheme asset from the change in value of scheme liabilities is set out below. The sensitivities provided assume that all other assumptions and the value of the schemes' assets remain unchanged. The calculations are approximate in nature and full detailed calculations could lead to a different result. It is unlikely that isolated changes to individual assumptions will be experienced in practice. Due to the correlation of assumptions, aggregating the effects of these isolated changes may not be a reasonable estimate of the actual effect of simultaneous changes in multiple assumptions.

	Effect of reasonably possible alternative assumptions on material schemes							
	The Group				The Company			
	Increase (decrease) in the income statement charge		(Increase) decrease in the net defined benefit pension scheme surplus		Increase (decrease) in the income statement charge		(Increase) decrease in the net defined benefit pension scheme surplus	
	2024	2023	2024	2023	2024	2023	2024	2023
	£m	£m	£m	£m	£m	£m	£m	£m
Inflation (including pension increases) ¹ :								
Increase of 0.25 per cent	10		163		10		163	
Decrease of 0.25 per cent	(10)		(158)		(10)		(158)	
Increase of 0.1 per cent		4		76		4		76
Decrease of 0.1 per cent		(4)		(80)		(4)		(80)
Discount rate ² :								
Increase of 0.25 per cent	(20)		(275)		(20)		(275)	
Decrease of 0.25 per cent	19		294		19		294	
Increase of 0.1 per cent		(8)		(134)		(8)		(134)
Decrease of 0.1 per cent		8		136		8		136
Expected life expectancy of members:								
Increase of one year	15	15	256	306	15	15	256	306
Decrease of one year	(15)	(16)	(263)	(312)	(15)	(16)	(263)	(312)

1 At 31 December 2024, the assumed rate of RPI inflation is 2.85 per cent and CPI inflation 2.53 per cent (2023: RPI 2.84 per cent and CPI 2.46 per cent).

2 At 31 December 2024, the assumed discount rate is 5.55 per cent (2023: 4.70 per cent).

Notes to the financial statements continued

for the year ended 31 December

Note 10: Retirement benefit obligations continued

Sensitivity analysis method and assumptions

The sensitivity analysis above reflects the impact on the liabilities of the Group's most material schemes. While differences in the underlying liability profiles for the remainder of the Group's pension arrangements mean that they may exhibit slightly different sensitivities to variations in these assumptions, the sensitivities provided above are indicative of the impact across the Group as a whole.

The inflation assumption sensitivity applies to the assumed rate of increase in both the Consumer Price Index (CPI) and the Retail Price Index (RPI), and includes the impact on the rate of increases to pensions, both before and after retirement. These pension increases are linked to inflation (either CPI or RPI) subject to certain minimum and maximum limits.

The sensitivity analysis (including the inflation sensitivity) does not include the impact of any change in the rate of salary increases as pensionable salaries have been frozen since 2 April 2014.

The life expectancy assumption has been applied by allowing for an increase/decrease in life expectation from age 60 of one year, based upon the approximate weighted average age for each scheme. While this is an approximate approach and will not give the same result as a one year increase in life expectancy at every age, it provides an appropriate indication of the potential impact on the schemes from changes in life expectancy.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from the prior year.

Asset-liability matching strategies

The main schemes' assets are invested in a diversified portfolio which are independently determined by the responsible governance body for each scheme and in consultation with the employer.

A significant goal of the asset strategies adopted by the schemes is to reduce volatility caused by changes in market expectations of interest rates and inflation. In the main schemes this is achieved by investing in liability-driven investment (LDI) strategies. The assets in these LDI strategies represented c.45 per cent of scheme assets at 31 December 2024.

The LDI strategies are actively managed to reflect both changing market conditions and changes to the liability profile. At 31 December 2024 the asset-liability matching strategy mitigated c.117 per cent of the liability sensitivity to interest rate movements and c.142 per cent of the liability sensitivity to inflation movements. In addition, a small amount of interest rate sensitivity arises through holdings of corporate and other debt securities. The higher level of hedging provides greater protection to the funding position of the schemes.

The main scheme holds a longevity insurance contract, hedging c.17 per cent of their longevity risk exposure at 31 December 2024. This arrangement forms part of the scheme's investment portfolio and provides income to the scheme in the event that pensions are paid out for longer than expected.

At 31 December 2024 the value of scheme assets included longevity swaps valued at £(37) million (after allowing for the impact of the revisions to the base mortality assumptions).

Maturity profile of defined benefit obligation

The following table provides information on the weighted average duration of the defined benefit pension obligation and the distribution and timing of benefit payments:

	The Group and Company	
	2024 Years	2023 Years
Duration of the defined benefit obligation	14	14

Maturity analysis of benefits expected to be paid:

	The Group		The Company	
	2024 £m	2023 £m	2024 £m	2023 £m
Within 12 months	506	464	498	456
Between 1 and 2 years	466	432	458	425
Between 2 and 5 years	1,541	1,444	1,517	1,422
Between 5 and 10 years	3,009	2,880	2,964	2,841
Between 10 and 15 years	3,211	3,168	3,161	3,128
Between 15 and 25 years	6,109	6,217	6,012	6,143
Between 25 and 35 years	4,672	4,963	4,605	4,914
Between 35 and 45 years	2,489	2,829	2,457	2,804
In more than 45 years	749	954	740	947

Notes to the financial statements continued

for the year ended 31 December

Note 10: Retirement benefit obligations continued

Maturity analysis method and assumptions

The projected benefit payments are based on the assumptions underlying the assessment of the obligations, including allowance for expected future inflation. They are shown in their undiscounted form and therefore appear large relative to the discounted assessment of the defined benefit obligations recognised in the Group's balance sheet. They are in respect of benefits that have been accrued prior to the respective year end date only and make no allowance for any benefits that may have been accrued subsequently.

Defined contribution schemes

The Group operates a number of defined contribution pension schemes in the UK and overseas, principally Your Tomorrow.

During the year ended 31 December 2024 the charge to the income statement in respect of defined contribution schemes was £109 million (2023: £92 million), representing the contributions payable by the employer in accordance with each scheme's rules.

Other retirement benefit schemes

The Group operates a number of schemes which provide post-retirement healthcare benefits to certain employees, retired employees and their dependants.

For the principal post-retirement healthcare scheme, the latest actuarial valuation of the liability was carried out at 31 December 2024 by qualified independent actuaries. The principal assumptions used were as set out above in section (iv), except that the rate of increase in healthcare premiums has been assumed at 10.00 per cent (2023: 10.00 per cent).

Movements in the other retirement benefits obligation:

	The Group and Company	
	2024 £m	2023 £m
At 1 January	(19)	(14)
Actuarial gains (losses)	2	(5)
Insurance premiums paid	1	1
Charge for the year	(1)	(1)
At 31 December	(17)	(19)

Note 11: Auditors' remuneration

Fees payable to the Company's auditors are included within other operating expenses and are as follows:

	2024 £m	2023 £m
Fees payable for the:		
– the audit of the Company's current year Annual Report	2.0	2.0
– the audits of the Company's subsidiaries	5.5	5.4
– total audit fees in respect of the statutory audit of Group entities ¹	7.5	7.4
– services normally provided in connection with statutory and regulatory filings or engagements	0.3	0.1
Total audit fees ²	7.8	7.5
Other audit-related fees ²	–	–
All other fees ²	0.4	0.4
Total non-audit services ³	0.4	0.4
Total fees payable to the Company's auditors by the Group	8.2	7.9

1 As defined by the Financial Reporting Council (FRC).

2 As defined by the Securities and Exchange Commission (SEC).

3 As defined by the SEC. Total non-audit services as defined by the FRC include all fees other than audit fees in respect of the statutory audit of Group entities. These fees totalled £0.7 million (2023: £0.5 million).

The following types of services are included in the categories listed above:

Audit fees: This category includes fees in respect of the audit of the Group's annual financial statements and other services in connection with regulatory filings.

Other audit-related fees: This category includes fees in respect of services for assurance and related services that are reasonably related to the performance of the audit or review of the financial statements, for example acting as reporting accountants in respect of debt prospectuses required by the Listing Rules.

All other fees: This category includes other assurance services not related to the performance of the audit or review of the financial statements, for example, the review of controls operated by the Group on behalf of a third party. The auditors are not engaged to provide tax services.

It is the Group's policy to use the auditors only on non-audit assignments in cases where their knowledge of the Group means that it is neither efficient nor cost effective to employ another firm of accountants.

The Group has procedures that are designed to ensure auditor independence, including prohibiting certain non-audit services. All audit and non-audit assignments must be pre-approved by the Lloyds Banking Group Audit Committee on an individual engagement basis; for certain types of non-audit engagements where the fee is 'de minimis' the Lloyds Banking Group Audit Committee has pre-approved all assignments subject to confirmation by management. On a quarterly basis, the Lloyds Banking Group Audit Committee receives and reviews a report detailing all pre-approved services and amounts paid to the auditors for such pre-approved services.

During the year the auditors also earned £0.1 million (2023: £0.1 million) payable by entities outside the consolidated HBOS Group in respect of audits of the Group pension schemes.

Notes to the financial statements continued

for the year ended 31 December

Note 12: Impairment

Year ended 31 December 2024	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
In respect of:				
Loans and advances to customers	(139)	(222)	470	109
Due from fellow Lloyds Banking Group undertakings	(3)	–	–	(3)
Financial assets at amortised cost	(142)	(222)	470	106
Loan commitments and financial guarantees	(10)	(4)	–	(14)
Total impairment (credit) charge	(152)	(226)	470	92

Year ended 31 December 2023	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
In respect of:				
Loans and advances to customers	101	(240)	(185)	(324)
Due from fellow Lloyds Banking Group undertakings	(5)	–	–	(5)
Financial assets at amortised cost	96	(240)	(185)	(329)
Loan commitments and financial guarantees	19	(5)	(1)	13
Total impairment charge (credit)	115	(245)	(186)	(316)

Note 13: Tax

Analysis of tax expense for the year

	2024 £m	2023 £m
UK corporation tax:		
Current tax on profit for the year	(207)	(42)
Adjustments in respect of prior years	(9)	20
Current tax expense	(216)	(22)
Deferred tax:		
Current year	(42)	(26)
Adjustments in respect of prior years	13	1
Deferred tax expense	(29)	(25)
Tax expense	(245)	(47)

Factors affecting the tax expense for the year

The UK corporation tax rate for the year was 25.0 per cent (2023: 23.5 per cent). The increase in applicable tax rate from 2023 relates to the change in statutory tax rate effective from 1 April 2023. An explanation of the relationship between tax expense and accounting profit is set out below.

	2024 £m	2023 £m
Profit before tax	1,098	691
UK corporation tax thereon	(275)	(162)
Impact of surcharge on banking profits	(21)	–
Non-deductible costs: conduct charges	5	(13)
Non-deductible costs: bank levy	(14)	(13)
Other non-deductible costs	(8)	(18)
Non-taxable income	8	23
Tax relief on coupons on other equity instruments	51	44
Tax-exempt gains on disposals	5	71
Adjustments in respect of prior years	4	21
Tax expense	(245)	(47)

On 11 July 2023, the Government enacted its legislation implementing the G20-OECD Inclusive Framework Pillar 2 rules in the UK, including a Qualified Domestic Minimum Top-Up Tax rule. This legislation seeks to ensure that UK-headquartered multinational enterprises pay a minimum tax rate of 15 per cent on UK and overseas profits arising after 31 December 2023. No provision for Pillar 2 current tax is included in tax expense for the period because Lloyds Banking Group plc, the Group's ultimate parent entity, will bear the cost of any Pillar 2 income taxes payable in respect of 2024 on behalf of its subsidiaries.

Notes to the financial statements continued

for the year ended 31 December

Note 13: Tax continued

Deferred tax

The Group's and the Company's deferred tax assets and liabilities are as follows:

	The Group		The Company	
	2024 £m	2023 £m	2024 £m	2023 £m
Statutory position				
Deferred tax assets	1,577	1,537	7	–
Deferred tax liabilities	–	–	(228)	(290)
Net deferred tax asset (liability) at 31 December	1,577	1,537	(221)	(290)
Tax disclosure				
Deferred tax assets	1,978	2,032	20	22
Deferred tax liabilities	(401)	(495)	(241)	(312)
Net deferred tax asset (liability) at 31 December	1,577	1,537	(221)	(290)

The statutory position reflects the deferred tax assets and liabilities as disclosed in the consolidated and the Company balance sheet and takes into account the ability of the Group and the Company to net assets and liabilities where there is a legally enforceable right of offset. The tax disclosure of deferred tax assets and liabilities ties to the amounts outlined in the tables below which splits the deferred tax assets and liabilities by type, before such netting.

Movements in deferred tax assets and liabilities (before taking into consideration the offsetting of balances within the same taxing jurisdiction) can be summarised as follows:

The Group	Tax losses £m	Property, plant and equipment £m	Provisions £m	Share-based payments £m	Derivatives £m	Pension liabilities £m	Other temporary differences £m	Total £m
Deferred tax assets								
At 1 January 2023	1,853	78	95	4	26	17	7	2,080
Credit (charge) to the income statement	4	(46)	(13)	1	–	3	(1)	(52)
Credit to other comprehensive income	–	–	–	–	4	–	–	4
At 31 December 2023	1,857	32	82	5	30	20	6	2,032
Credit (charge) to the income statement	5	(41)	(16)	–	–	(70)	(1)	(123)
Credit to other comprehensive income	–	–	–	–	1	68	–	69
At 31 December 2024	1,862	(9)	66	5	31	18	5	1,978

The Group	Capitalised software enhancements £m	Acquisition fair value £m	Pension assets £m	Other temporary differences £m	Total £m
Deferred tax liabilities					
At 1 January 2023	(12)	(76)	(370)	(121)	(579)
Credit to the income statement	4	16	(5)	12	27
Credit to other comprehensive income	–	–	56	–	56
Exchange and other adjustments	–	–	–	1	1
At 31 December 2023	(8)	(60)	(319)	(108)	(495)
Credit (charge) to the income statement	4	18	67	5	94
At 31 December 2024	(4)	(42)	(252)	(103)	(401)

Notes to the financial statements continued

for the year ended 31 December

Note 13: Tax continued

The Company Deferred tax assets	Pension liabilities £m
At 1 January 2023	19
Charge to the income statement	3
At 31 December 2023	22
Charge to the income statement	(2)
At 31 December 2024	20

The Company Deferred tax liabilities	Pension assets £m
At 1 January 2023	(367)
Credit to the income statement	(1)
Credit to other comprehensive income	56
At 31 December 2023	(312)
Credit to the income statement	2
Credit to other comprehensive income	68
Exchange and other adjustments	1
At 31 December 2024	(241)

At 31 December 2024 the Group carried deferred tax assets on its balance sheet of £1,577 million (2023: £1,537 million) principally relating to tax losses carried forward and the Company carried net deferred tax liabilities of £221 million (2023: £290 million) principally relating to pension assets.

Estimation of income taxes includes the assessment of recoverability of deferred tax assets. Deferred tax assets are only recognised to the extent that they are considered more likely than not to be recoverable based on existing tax laws and forecasts of future taxable profits against which the underlying tax deductions can be utilised. The Group has recognised a deferred tax asset of £1,862 million (2023: £1,857 million), in respect of trading losses carried forward. Substantially all of these losses have arisen in Bank of Scotland plc and they will be utilised as taxable profits arise in this legal entity in future periods.

The Group's expectations of future UK taxable profits require management judgement, and take into account the Group's long-term financial and strategic plans and anticipated future tax-adjusting items. In making this assessment, account is taken of business plans, the Board-approved operating plan and the expected future economic outlook as set out in the strategic report, as well as the risks associated with future regulatory, climate-related and other change, in order to produce a base case forecast of future UK taxable profits. Under current law there is no expiry date for UK trading losses not yet utilised, and given the forecast of future profitability and the Group's commitment to the UK market, in management's judgement it is more likely than not that the value of the losses will be recovered by the Group while still operating as a going concern. Banking tax losses that arose before 1 April 2015 can only be used against 25 per cent of taxable profits arising after 1 April 2016, and they cannot be used to reduce the surcharge on banking profits. These restrictions in utilisation mean that the value of the deferred tax asset in respect of tax losses is only expected to be fully recovered by 2033 (2023: 2034) in the base case forecast. It is possible that future tax law changes could materially affect the timing of recovery and the value of these losses ultimately realised by the Group.

Deferred tax not recognised

Deferred tax assets of £2 million (2023: £24 million) for the Group and the Company have not been recognised in respect of £9 million of UK tax losses and other temporary differences which can only be used to offset future capital gains. UK capital losses can be carried forward indefinitely.

No deferred tax has been recognised in respect of foreign trade losses of £31 million (2023: £33 million) for the Group which will expire if not used within 20 years, and £nil (2023: £2 million) relates to losses with no expiry date.

As a result of parent company exemptions on dividends from subsidiaries and on capital gains on disposal there are no significant taxable temporary differences associated with investments in subsidiaries, branches, associates and joint arrangements.

Critical accounting judgements and key sources of estimation uncertainty

Critical judgement:	The Group believes that its interpretation of the tax rules on group relief are correct
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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 intends to appeal the decision and does not consider this to be a case where an additional tax liability will ultimately fall due. If the final determination of the matter by the judicial process is that HMRC's position is correct, management believes that this would result in an increase in current tax liabilities of approximately £420 million (including interest).

Following the First Tier Tax Tribunal outcome, the tax will be paid and recognised as a current tax asset, given the Group's view that the tax liability will not ultimately fall due. It is unlikely that any appeal hearing will be held before 2026, and final conclusion of the judicial process may not be for several years

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

Notes to the financial statements continued

for the year ended 31 December

Note 14: Measurement basis of financial assets and liabilities

The accounting policies in note 2 describe how different classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of the financial assets and liabilities by category and by balance sheet heading.

The Group	Derivatives designated as hedging instruments £m	Mandatorily held at fair value through profit or loss		Designated at fair value through profit or loss £m	At fair value through other comprehensive income £m	Held at amortised cost £m	Total £m
		Held for trading £m	Other £m				
At 31 December 2024							
Financial assets							
Cash and balances at central banks	–	–	–	–	–	2,853	2,853
Financial assets at fair value through profit or loss	–	–	278	–	–	–	278
Derivative financial instruments	753	2,584	–	–	–	–	3,337
Loans and advances to banks	–	–	–	–	–	111	111
Loans and advances to customers	–	–	–	–	–	300,789	300,789
Debt securities	–	–	–	–	–	1,350	1,350
Due from fellow Lloyds Banking Group undertakings	–	–	–	–	–	15,024	15,024
Financial assets at amortised cost	–	–	–	–	–	317,274	317,274
Financial assets at fair value through other comprehensive income	–	–	–	–	103	–	103
Other	–	–	–	–	–	47	47
Total financial assets	753	2,584	278	–	103	320,174	323,892
Financial liabilities							
Deposits from banks	–	–	–	–	–	179	179
Customer deposits	–	–	–	–	–	165,053	165,053
Repurchase agreements	–	–	–	–	–	22,168	22,168
Due to fellow Lloyds Banking Group undertakings	–	–	–	–	–	106,931	106,931
Financial liabilities at fair value through profit or loss	–	–	–	22	–	–	22
Derivative financial instruments	139	3,351	–	–	–	–	3,490
Notes in circulation	–	–	–	–	–	2,121	2,121
Debt securities in issue at amortised cost	–	–	–	–	–	8,654	8,654
Other	–	–	–	–	–	488	488
Subordinated liabilities	–	–	–	–	–	2,183	2,183
Total financial liabilities	139	3,351	–	22	–	307,777	311,289

Offsetting of financial assets and liabilities

	Gross amounts of assets and liabilities £m	Amount offset in the balance sheet ² £m	Net amounts presented in the balance sheet £m	Related amounts where set off in the balance sheet not permitted ¹			Potential net amounts if offset of related amounts permitted £m
				Cash collateral (received)/pledged £m	Non-cash collateral (received)/pledged £m	Master netting and similar agreements £m	
At 31 December 2024							
Derivative assets	3,337	–	3,337	(172)	(2)	(2,224)	939
Derivative liabilities	(3,490)	–	(3,490)	190	25	2,224	(1,051)
Net position	(153)	–	(153)	18	23	–	(112)
Non-trading reverse repurchase agreements	–	–	–	–	–	–	–
Non-trading repurchase agreements	(22,168)	–	(22,168)	–	22,168	–	–
Net position	(22,168)	–	(22,168)	–	22,168	–	–

¹ The Group enters into derivatives and repurchase and reverse repurchase agreements with various counterparties which are governed by industry standard master netting agreements. The Group holds and provides cash and securities collateral in respect of derivative transactions covered by these agreements. The right to set off balances under these master netting agreements or to set off cash and securities collateral only arises in the event of non-payment or default and, as a result, these arrangements do not qualify for offsetting under IAS 32.

² The amounts offset in the balance sheet as shown above meet the criteria for offsetting under IAS 32.

The format of the table above has been updated to give a clearer view of the net exposures of the Group.

Notes to the financial statements continued

for the year ended 31 December

Note 14: Measurement basis of financial assets and liabilities continued

The Group	Derivatives designated as hedging instruments £m	Mandatorily held at fair value through profit or loss		Designated at fair value through profit or loss £m	At fair value through other comprehensive income £m	Held at amortised cost £m	Total £m
		Held for trading £m	Other £m				
At 31 December 2023							
Financial assets							
Cash and balances at central banks	–	–	–	–	–	3,009	3,009
Financial assets at fair value through profit or loss	–	–	266	–	–	–	266
Derivative financial instruments	48	2,802	–	–	–	–	2,850
Loans and advances to banks	–	–	–	–	–	214	214
Loans and advances to customers	–	–	–	–	–	292,470	292,470
Debt securities	–	–	–	–	–	1,696	1,696
Due from fellow Lloyds Banking Group undertakings	–	–	–	–	–	14,831	14,831
Financial assets at amortised cost	–	–	–	–	–	309,211	309,211
Financial assets at fair value through other comprehensive income	–	–	–	–	108	–	108
Other	–	–	–	–	–	51	51
Total financial assets	48	2,802	266	–	108	312,271	315,495
Financial liabilities							
Deposits from banks	–	–	–	–	–	179	179
Customer deposits	–	–	–	–	–	161,946	161,946
Repurchase agreements	–	–	–	–	–	30,397	30,397
Due to fellow Lloyds Banking Group undertakings	–	–	–	–	–	92,147	92,147
Financial liabilities at fair value through profit or loss	–	–	–	23	–	–	23
Derivative financial instruments	644	3,767	–	–	–	–	4,411
Notes in circulation	–	–	–	–	–	1,392	1,392
Debt securities in issue at amortised cost	–	–	–	–	–	8,610	8,610
Other	–	–	–	–	–	554	554
Subordinated liabilities	–	–	–	–	–	2,205	2,205
Total financial liabilities	644	3,767	–	23	–	297,430	301,864

Offsetting of financial assets and liabilities

	Gross amounts of assets and liabilities £m	Amount offset in the balance sheet ² £m	Net amounts presented in the balance sheet £m	Related amounts where set off in the balance sheet not permitted ¹			Potential net amounts if offset of related amounts permitted £m
				Cash collateral (received)/pledged £m	Non-cash collateral (received)/pledged £m	Master netting and similar agreements £m	
At 31 December 2023							
Derivative assets	2,850	–	2,850	(171)	–	(2,422)	257
Derivative liabilities	(4,411)	–	(4,411)	1,763	65	2,422	(161)
Net position	(1,561)	–	(1,561)	1,592	65	–	96
Non-trading reverse repurchase agreements	–	–	–	–	–	–	–
Non-trading repurchase agreements	(30,397)	–	(30,397)	–	30,397	–	–
Net position	(30,397)	–	(30,397)	–	30,397	–	–

1 The Group enters into derivatives and repurchase and reverse repurchase agreements with various counterparties which are governed by industry standard master netting agreements. The Group holds and provides cash and securities collateral in respect of derivative transactions covered by these agreements. The right to set off balances under these master netting agreements or to set off cash and securities collateral only arises in the event of non-payment or default and, as a result, these arrangements do not qualify for offsetting under IAS 32.

2 The amounts offset in the balance sheet as shown above meet the criteria for offsetting under IAS 32.

The format of the table above has been updated to give a clearer view of the net exposures of the Group.

Notes to the financial statements continued

for the year ended 31 December

Note 14: Measurement basis of financial assets and liabilities continued

The Company	Derivatives designated as hedging instruments £m	Held at amortised cost £m	Total £m
At 31 December 2024			
Financial assets			
Derivative financial instruments	13	–	13
Due from fellow Lloyds Banking Group undertakings	–	3,141	3,141
Total financial assets	13	3,141	3,154
Financial liabilities			
Due to fellow Lloyds Banking Group undertakings	–	2,326	2,326
Subordinated liabilities	–	628	628
Total financial liabilities	–	2,954	2,954
At 31 December 2023			
Financial assets			
Derivative financial instruments	17	–	17
Due from fellow Lloyds Banking Group undertakings	–	3,055	3,055
Total financial assets	17	3,055	3,072
Financial liabilities			
Due to fellow Lloyds Banking Group undertakings	–	2,308	2,308
Subordinated liabilities	–	638	638
Total financial liabilities	–	2,946	2,946

Notes to the financial statements continued

for the year ended 31 December

Note 15: Fair values of financial assets and liabilities

At 31 December 2024, the carrying value of the Group's financial instrument assets held at fair value was £3,718 million (2023:£3,224 million), and its financial instrument liabilities held at fair value was £3,512 million (2023: £4,434 million).

(1) Fair value measurement

Fair value is the price that would be received on sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is a measure as at a specific date and may be significantly different from the amount which will actually be paid or received on maturity or settlement date.

Wherever possible, fair values have been calculated using unadjusted quoted market prices in active markets for identical instruments to those held by the Group. Where quoted market prices are not available, or are unreliable because of poor liquidity, fair values have been determined using valuation techniques which, to the extent possible, use market observable inputs, but in some cases use non-market observable inputs. Valuation techniques used include discounted cash flow analysis and pricing models and, where appropriate, comparison to instruments with characteristics similar to those of the instruments held by the Group. The Group measures valuation adjustments for its derivative exposures on the same basis as the derivatives are managed.

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.

Because a variety of estimation techniques are employed and significant estimates made, comparisons of fair values between financial institutions may not be meaningful. Readers of these financial statements are thus advised to use caution when using this data to evaluate the Group's financial position.

Fair value information is not provided for items that are not financial instruments or for other assets and liabilities which are not carried at fair value in the Group's consolidated balance sheet. These items include intangible assets, property, plant and equipment, and shareholders' equity. These items are material and accordingly the Group believes that any fair value information presented would not represent the underlying value of the Group.

Valuation control framework

The key elements of the control framework for the valuation of financial instruments include model validation, product implementation review and independent price verification. These functions are carried out by appropriately skilled risk and finance teams, independent of the business area responsible for the products.

Model validation covers both qualitative and quantitative elements relating to new models. In respect of new products, a product implementation review is conducted pre and post-trading. Pre-trade testing ensures that the new model is integrated into the Group's systems and that the profit and loss and risk reporting are consistent throughout the trade lifecycle. Post-trade testing examines the explanatory power of the implemented model, actively monitoring model parameters and comparing in-house pricing to external sources. Independent price verification procedures cover financial instruments carried at fair value and are performed at a minimum on a monthly basis. Valuation differences in breach of established thresholds are escalated to senior management. The results from independent pricing and valuation reserves are reviewed monthly by senior management.

Formal committees, consisting of senior risk, finance and business management, meet at least quarterly to discuss and approve valuations in more judgemental areas, in particular for structured credit, derivatives and the credit valuation adjustment (CVA), funding valuation adjustment (FVA) and other valuation adjustments.

Valuation of financial assets and liabilities

Assets and liabilities carried at fair value or for which fair values are disclosed have been classified into three levels according to the quality and reliability of information used to determine the fair values.

Level 1

Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 predominantly comprise government securities.

Level 2

Level 2 valuations are those where quoted market prices are not available, for example where the instrument is traded in a market that is not considered to be active or valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data. Examples of such financial instruments include most over-the-counter derivatives, financial institution issued securities, certificates of deposit and certain asset-backed securities.

Level 3

Level 3 portfolios are those where at least one input which could have a significant effect on the instrument's valuation is not based on observable market data. Certain of the Group's loans and advances recognised at fair value and derivatives are also classified as level 3.

Transfers in or out of the level 3 portfolio arise when inputs that could have a significant impact on the instrument's valuation become unobservable or observable, or where an unobservable input becomes significant or insignificant to an instrument's value.

Notes to the financial statements continued

for the year ended 31 December

Note 15: Fair values of financial assets and liabilities continued

(2) Financial assets and liabilities carried at fair value

(A) Financial assets (excluding derivatives)

Valuation hierarchy

At 31 December 2024, the Group's financial assets (excluding derivatives) carried at fair value totalled £381 million (2023: £374 million). The table below analyses these financial assets by balance sheet classification, asset type and valuation methodology (level 1, 2 or 3, as described above). The fair value measurement approach is recurring in nature. There were no significant transfers between level 1 and 2 during the year.

The Group	2024				2023			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Loans and advances to customers classified as financial assets at fair value through profit or loss	–	–	278	278	–	–	266	266
Debt securities classified as financial assets at fair value through other comprehensive income	103	–	–	103	108	–	–	108
Total financial assets at fair value (excluding derivatives)	103	–	278	381	108	–	266	374

Movements in level 3 portfolio

The table below analyses movements in level 3 financial assets (excluding derivatives) at fair value, recurring basis.

The Group	2024 £m	2023 £m
At 1 January	266	291
Gains/Losses recognised in the income statement within other income	41	(1)
Purchases/increases to customer loans	4	–
Sales/repayments of customer loans	(33)	(24)
At 31 December	278	266
Losses recognised in the income statement, within other income, relating to the change in fair value of those assets held at 31 December	36	–

Valuation methodology for financial assets (excluding derivatives)

Loans and advances to customers

The fair value of these assets is determined using discounted cash flow techniques. The discount rates are derived from market observable interest rates, a risk margin that reflects loan credit ratings and an incremental illiquidity premium based on historical spreads at origination on similar loans.

Debt securities

Where there is limited trading activity in debt securities, the Group uses valuation models, consensus pricing information from third party pricing services and broker or lead manager quotes to determine an appropriate valuation. Debt securities are classified as level 3 if there is a significant valuation input that cannot be corroborated through market sources or where there are materially inconsistent values for an input.

(B) Financial liabilities (excluding derivatives)

Valuation hierarchy

At 31 December 2024, the Group's financial liabilities (excluding derivatives) carried at fair value, comprised its financial liabilities at fair value through profit or loss and totalled £22 million (2023: £23 million). The table below analyses these financial liabilities by balance sheet classification and valuation methodology (level 1, 2 or 3, as described on page 55). The fair value measurement approach is recurring in nature. There were no significant transfers between level 1 and 2 during the year.

The Group	2024				2023			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Debt securities in issue designated at fair value through profit or loss	–	–	22	22	–	–	23	23

Movements in level 3 portfolio

The table below analyses movements in the level 3 financial liabilities (excluding derivatives) at fair value portfolio.

The Group	2024 £m	2023 £m
At 1 January	23	26
Gains recognised in the income statement within other income	3	(1)
Redemptions	(4)	(2)
At 31 December	22	23
Gains recognised in the income statement, within other income, relating to the change in fair value of those liabilities held at 31 December	3	(1)

Notes to the financial statements continued

for the year ended 31 December

Note 15: Fair values of financial assets and liabilities continued

(C) Derivatives

Valuation hierarchy

All of the Group's derivative assets and liabilities are carried at fair value. At 31 December 2024, such assets totalled £3,337 million (2023: £2,850 million) and liabilities totalled £3,490 million (2023: £4,411 million). The table below analyses these derivative balances by valuation methodology (level 1, 2 or 3, as described on page 55). The fair value measurement approach is recurring in nature. There were no significant transfers between level 1 and level 2 during the year.

The Group	2024				2023			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Derivative assets	–	3,337	–	3,337	–	2,850	–	2,850
Derivative liabilities	–	(3,351)	(139)	(3,490)	–	(4,279)	(132)	(4,411)

Movements in level 3 portfolio

The table below analyses movements in level 3 derivative assets and liabilities carried at fair value.

The Group	2024		2023	
	Derivative assets £m	Derivative liabilities £m	Derivative assets £m	Derivative liabilities £m
At 1 January	–	(132)	–	(150)
Losses (gains) recognised in the income statement within other income	–	(32)	–	3
Redemptions	–	25	–	15
At 31 December	–	(139)	–	(132)
Gains losses recognised in the income statement, within other income, relating to the change in fair value of those assets or liabilities held at 31 December	–	(27)	–	2

Valuation methodology for derivatives

The Group's derivatives are valued using techniques including discounted cash flow and options pricing models, as appropriate. The types of derivatives classified as level 2 and the valuation techniques used include:

- Interest rate swaps which are valued using discounted cash flow models; the most significant inputs into those models are interest rate yield curves which are developed from publicly quoted rates
- Foreign exchange derivatives that do not contain options which are priced using rates available from publicly quoted sources
- Credit derivatives are valued using standard models with observable inputs, including publicly available yield and credit default swap (CDS) curves
- Less complex interest rate and foreign exchange option products which are valued using volatility surfaces developed from publicly available interest rate cap, interest rate swaption and other option volatilities; option volatility skew information is derived from a market standard consensus pricing service

Complex interest rate products where inputs to the valuation are significant and unobservable are classified as level 3.

Derivatives where the counterparty becomes distressed from a credit perspective are generally reclassified to level 3 given limited observability in all traded levels.

Notes to the financial statements continued

for the year ended 31 December

Note 15: Fair values of financial assets and liabilities continued

(D) Sensitivity of level 3 valuations

Critical accounting judgements and key sources of estimation uncertainty

Key sources of estimation uncertainty:	Interest rate spreads, credit spreads, and interest rate volatility
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The Group's valuation control framework and a description of level 1, 2 and 3 financial assets and liabilities is set out in section (1) above. The valuation techniques for level 3 financial instruments involve management judgement and estimates, the extent of which depends on the complexity of the instrument and the availability of market observable information. In addition, in line with market practice, the Group applies credit, debit and funding valuation adjustments in determining the fair value of its uncollateralised derivative positions. A description of these adjustments is set out in section (C) above.

Valuation techniques	Significant unobservable inputs ²	2024			2023			
		Carrying value £m	Effect of reasonably possible alternative assumptions ¹		Carrying value £m	Effect of reasonably possible alternative assumptions ¹		
			Favourable changes £m	Unfavourable changes £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 (bps) (+/- 50bps) ³	278	19	(18)	266	21	(19)
Level 3 financial assets carried at fair value			278			266		
Financial liabilities at fair value through profit or loss								
Securitisation notes	Discounted cash flows	Interest rate spreads (+/- 50bps) ³	22	1	(1)	23	1	(1)
Derivative financial liabilities								
Shared appreciation right	Market values – property valuation	HPI (+/- 1%) ⁴	139	12	(11)	132	13	(12)
Level 3 financial liabilities carried at fair value			161			155		

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 2023: +/- 50bps.

4 2023: +/- 1%.

Unobservable inputs

Significant unobservable inputs affecting the valuation of debt securities and derivatives are as follows:

- Volatility parameters represent key attributes of option behaviour; higher volatilities typically denote a wider range of possible outcomes

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.

Notes to the financial statements continued

for the year ended 31 December

Note 15: Fair values of financial assets and liabilities continued

(3) Financial assets and liabilities carried at amortised cost

(A) Financial assets

Valuation hierarchy

The table below analyses the fair values of those financial assets of the Group which are carried at amortised cost by valuation methodology (level 1, 2 or 3, as described on **page 55**). Financial assets carried at amortised cost are mainly classified as level 3 due to significant unobservable inputs used in the valuation models. Where inputs are observable, debt securities are classified as level 1 or 2.

The Group	Carrying value £m	Fair value £m	Valuation hierarchy		
			Level 1 £m	Level 2 £m	Level 3 £m
At 31 December 2024					
Loans and advances to banks	111	111	–	–	111
Loans and advances to customers	300,789	298,373	–	–	298,373
Debt securities	1,350	1,343	–	–	1,343
Due from fellow Lloyds Banking Group undertakings	15,024	15,024	–	–	15,024
At 31 December 2023					
Loans and advances to banks	214	214	–	–	214
Loans and advances to customers	292,470	284,115	–	–	284,115
Debt securities	1,696	1,794	–	–	1,794
Due from fellow Lloyds Banking Group undertakings	14,831	14,831	–	–	14,831

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.

Valuation methodology

Loans and advances to banks

The carrying value of short-dated loans and advances to banks is assumed to be their fair value. The fair value of other loans and advances to banks is estimated by discounting the anticipated cash flows at a market discount rate adjusted for the credit spread of the obligor or, where not observable, the credit spread of borrowers of similar credit quality.

Loans and advances to customers

The Group provides loans and advances to commercial, corporate and personal customers at both fixed and variable rates.

To determine the fair value of loans and advances to customers, loans are segregated into portfolios of similar characteristics. A number of techniques are used to estimate the fair value of fixed rate lending: these take account of expected credit losses based on historic trends, prevailing market interest rates and expected future cash flows. For retail exposures, fair value is usually estimated by discounting anticipated cash flows (including interest at contractual rates) at market rates for similar loans offered by the Group and other financial institutions. Certain loans secured on residential properties are made at a fixed rate for a limited period, typically two to five years, after which the loans revert to the relevant variable rate. The fair value of such loans is estimated by reference to market rates for similar loans of maturity equal to the remaining fixed interest rate period. The fair value of commercial loans is estimated by discounting anticipated cash flows at a rate which reflects the effects of interest rate changes, adjusted for changes in credit risk.

Debt securities

The fair values of debt securities are determined predominantly from lead manager quotes and, where these are not available, by alternative techniques including reference to credit spreads on similar assets with the same obligor, market standard consensus pricing services, broker quotes and other research data.

Notes to the financial statements continued

for the year ended 31 December

Note 15: Fair values of financial assets and liabilities continued

(B) Financial liabilities

Valuation hierarchy

The table below analyses the fair values of those financial liabilities of the Group which are carried at amortised cost by valuation methodology (level 1, 2 or 3, as described on [page 55](#)).

The Group	Carrying value £m	Fair value £m	Valuation hierarchy		
			Level 1 £m	Level 2 £m	Level 3 £m
At 31 December 2024					
Deposits from banks	179	179	–	179	–
Customer deposits	165,053	165,478	–	165,478	–
Repurchase agreements	22,168	22,168	–	22,168	–
Due to fellow Lloyds Banking Group undertakings	106,931	106,931	–	106,931	–
Debt securities in issue at amortised cost	8,654	8,705	–	8,705	–
Subordinated liabilities	2,183	2,200	–	2,200	–
At 31 December 2023					
Deposits from banks	179	179	–	179	–
Customer deposits	161,946	162,115	–	162,115	–
Repurchase agreements	30,397	30,397	–	30,397	–
Due to fellow Lloyds Banking Group undertakings	92,147	92,147	–	92,147	–
Debt securities in issue at amortised cost	8,610	8,633	–	8,633	–
Subordinated liabilities	2,205	2,249	–	2,249	–

Valuation methodology

Deposits from banks and customer deposits

The fair value of bank and customer deposits repayable on demand is assumed to be equal to their carrying value.

The fair value for all other deposits is estimated using discounted cash flows applying either market rates, where applicable, or current rates for deposits of similar remaining maturities.

Repurchase agreements

The carrying amount is deemed a reasonable approximation of fair value given the short-term nature of these instruments.

Debt securities in issue at amortised cost

The fair value of short-term debt securities in issue is approximately equal to their carrying value. Fair value for other debt securities in issue is calculated based on quoted market prices where available. Where quoted market prices are not available, fair value is estimated using discounted cash flow techniques at a rate which reflects market rates of interest and the Lloyds Banking Group's own credit spread.

Subordinated liabilities

The fair value of subordinated liabilities is determined by reference to quoted market prices where available or by reference to quoted market prices of similar instruments. Subordinated liabilities are classified as level 2, since the inputs used to determine their fair value are largely observable.

(4) Reclassifications of financial assets

There have been no reclassifications of financial assets in 2023 or 2024.

Notes to the financial statements continued

for the year ended 31 December

Note 16: Derivative financial instruments

The fair values and notional amounts of derivative instruments are set out in the following table:

The Group	2024				2023			
	Contract/ notional amount £m	Fair value		Changes in fair value used for calculating hedge ineffectiveness £m	Contract/ notional amount £m	Fair value		Changes in fair value used for calculating hedge ineffectiveness £m
		Assets £m	Liabilities £m			Assets £m	Liabilities £m	
Trading and other								
Exchange rate contracts	8,323	129	264		9,106	98	237	
Interest rate contracts	43,919	2,452	2,945		50,424	2,688	3,402	
Credit derivatives	1,380	2	12		1,305	7	5	
Equity and other contracts	64	1	130		65	9	123	
Total derivative assets/liabilities – trading and other	53,686	2,584	3,351		60,900	2,802	3,767	
Hedging								
Derivatives designated as fair value hedges	83,131	753	139	631	55,614	48	644	(680)
Total derivative assets/liabilities – hedging	83,131	753	139	631	55,614	48	644	(680)
Total recognised derivative assets/liabilities	136,817	3,337	3,490		116,514	2,850	4,411	

The notional amount of the contract does not represent the Group's exposure to credit risk, which is limited to the current cost of replacing contracts with a positive value to the Group should the counterparty default. To reduce credit risk the Group uses a variety of credit enhancement techniques such as netting and collateralisation, where security is provided against the exposure; a large proportion of the Group's derivatives are held through exchanges such as London Clearing House and are collateralised through those exchanges. Further details are provided in note 37 Credit risk.

The Group holds derivatives as part of the following strategies:

- Customer driven, where derivatives are held as part of the provision of risk management products to Group customers
- To manage and hedge the Group's interest rate and foreign exchange risk arising from normal banking business. The hedge accounting strategy adopted by the Group is to utilise a combination of fair value and cash flow hedge approaches as described in note 37

The principal derivatives used by the Group are as follows:

- Interest rate related contracts include interest rate swaps, forward rate agreements and options. An interest rate swap is an agreement between two parties to exchange fixed and floating interest payments, based upon interest rates defined in the contract, without the exchange of the underlying principal amounts. Forward rate agreements are contracts for the payment of the difference between a specified rate of interest and a reference rate, applied to a notional principal amount at a specific date in the future. An interest rate option gives the buyer, on payment of a premium, the right, but not the obligation, to fix the rate of interest on a future loan or deposit, for a specified period and commencing on a specified future date
- Exchange rate related contracts include forward foreign exchange contracts, currency swaps and options. A forward foreign exchange contract is an agreement to buy or sell a specified amount of foreign currency on a specified future date at an agreed rate. Currency swaps generally involve the exchange of interest payment obligations denominated in different currencies; the exchange of principal can be notional or actual. A currency option gives the buyer, on payment of a premium, the right, but not the obligation, to sell specified amounts of currency at agreed rates of exchange on or before a specified future date
- Credit derivatives, principally credit default swaps, are used by the Group as part of its trading activity and to manage its own exposure to credit risk. A credit default swap is a swap in which one counterparty receives a premium at pre-set intervals in consideration for guaranteeing to make a specific payment should a negative credit event take place
- Equity, commodity and other contracts include commodity swaps and options

Notes to the financial statements continued

for the year ended 31 December

Note 16: Derivative financial instruments continued

Details of the Group's hedging instruments are set out below:

The Group At 31 December 2024	Maturity					Total £m
	Up to 1 month £m	1 to 3 months £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	
Fair value hedges						
Interest rate						
Interest rate swap						
Notional	–	366	36,500	44,650	1,615	83,131
Average fixed interest rate	–	4.57%	4.71%	4.29%	4.15%	
At 31 December 2023						
Fair value hedges						
Interest rate						
Interest rate swap						
Notional	–	–	8,595	46,783	236	55,614
Average fixed interest rate	–	–	5.09%	4.60%	6.00%	

The carrying amounts of the Group's hedging instruments are as follows:

The Group At 31 December 2024	Carrying amount of the hedging instrument				Changes in fair value used for calculating hedge ineffectiveness £m
	Contract/ notional amount £m	Assets £m	Liabilities £m		
Fair value hedges					
Interest rate					
Interest rate swaps	83,131	753	139		631
At 31 December 2023					
Fair value hedges					
Interest rate					
Interest rate swaps	55,614	48	644		(680)

All amounts are held within derivative financial instruments.

Notes to the financial statements continued

for the year ended 31 December

Note 16: Derivative financial instruments continued

The Group's hedged items are as follows:

The Group At 31 December 2024	Carrying amount of the hedged item		Accumulated amount of fair value adjustment on the hedged item		Change in fair value of hedged item for ineffectiveness assessment £m	Cash flow hedging reserve	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m		Continuing hedges £m	Discontinued hedges £m
Fair value hedges							
Interest rate							
Fixed rate issuance ¹	-	716	-	23	16		
Fixed rate mortgages ²	83,280	-	25		(634)		
Cash flow hedges							
Interest rate							
Customer loans ²					-	-	(131)
Customer deposits ³					-	-	23
At 31 December 2023							
Fair value hedges							
Interest rate							
Fixed rate issuance ¹	-	1,213	-	32	7		
Fixed rate mortgages ²	55,145	-	645	-	645		
Cash flow hedges							
Interest rate							
Customer loans ²					-	-	(129)
Customer deposits ³					-	-	23

1 Included within debt securities in issue at amortised cost.

2 Included within loans and advances to customers.

3 Included within customer deposits.

The accumulated amount of fair value hedge adjustments remaining in the balance sheet for hedged items that have ceased to be adjusted for hedging gains and losses is a liability of £37 million (2023: liability of £32 million).

Gains and losses arising from hedge accounting are summarised as follows:

The Group At 31 December 2024	Gain (loss) recognised in other comprehensive income £m	Hedge ineffectiveness recognised in the income statement ¹ £m	Amounts reclassified from reserves to income statement as:	
			Hedged item affected income statement £m	Income statement line item that includes reclassified amount
Fair value hedges				
Interest rate				
Fixed rate mortgages		13		
Cash flow hedges				
Interest rate				
Customer loans	4	-	(7)	Interest income
Customer deposits	(1)	-	1	Interest expense
At 31 December 2023				
Fair value hedges				
Interest rate				
Fixed rate mortgages		(28)		
Cash flow hedges				
Interest rate				
Customer loans	(5)	-	(10)	Interest income
Customer deposits	(2)	-	2	Interest expense

1 Hedge ineffectiveness is included in the income statement within net trading income.

Notes to the financial statements continued

for the year ended 31 December

Note 16: Derivative financial instruments continued

There were no amounts reclassified from the cash flow hedging reserve in 2023 or 2024 for which hedge accounting had previously been used but for which the hedged future cash flows are no longer expected to occur.

At 31 December 2024 £2,894 million of total recognised derivative assets of the Group and £3,199 million of total recognised derivative liabilities of the Group (2023: £2,750 million of assets and £4,309 million of liabilities) had a contractual residual maturity of greater than one year.

	2024				2023			
	Contract/ notional amount £m	Fair value		Changes in fair value used for calculating hedge ineffectiveness £m	Contract/ notional amount £m	Fair value		Changes in fair value used for calculating hedge ineffectiveness £m
		Assets £m	Liabilities £m			Assets £m	Liabilities £m	
The Company								
Trading and other								
Interest rate contracts	9	–	–		9	–	–	
Hedging								
Derivatives designated as fair value hedges	366	13	–	(3)	383	17	–	(3)
Total recognised derivative assets/liabilities	375	13	–	(3)	392	17	–	(3)

Details of the Company's hedging instruments are set out below:

The Company At 31 December 2024	Maturity					Total £m
	Up to 1 month £m	1 to 3 months £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	
Fair value hedges						
Interest rate						
Interest rate swap						
Notional	–	366	–	–	–	366
Average fixed interest rate	–	4.50%	–	–	–	
At 31 December 2023						
Fair value hedges						
Interest rate						
Interest rate swap						
Notional	–	–	–	383	–	383
Average fixed interest rate	–	–	–	4.50%	–	

Notes to the financial statements continued

for the year ended 31 December

Note 16: Derivative financial instruments continued

The Company's hedged items are as follows:

	Carrying amount of the hedged item		Accumulated amount of fair value adjustment on the hedged item		Change in fair value of hedged item for ineffectiveness assessment £m
	Assets £m	Liabilities £m	Assets £m	Liabilities £m	
Fair value hedges					
Interest rate					
Fixed rate issuance ¹	–	375	–	–	3
At 31 December 2023					
Fair value hedges					
Interest rate					
Fixed rate issuance ¹	–	374	–	4	3

¹ Included within subordinated liabilities.

The accumulated amount of fair value hedge adjustments remaining in the balance sheet for hedged items that have ceased to be adjusted for hedging gains and losses is a liability of £nil (2023: liability of £1 million).

There was no hedge ineffectiveness on fair value hedges recognised in the income statement in either 2023 or 2024.

There were no amounts reclassified from the cash flow hedging reserve in 2023 or 2024 for which hedge accounting had previously been used but for which the hedged future cash flows are no longer expected to occur.

At 31 December 2024 £nil of total recognised derivative assets of the Company and £nil of total recognised derivative liabilities of the Company (2023: £17 million of assets and £nil of liabilities) had a contractual residual maturity of greater than one year.

Notes to the financial statements continued

for the year ended 31 December

Note 17: Loans and advances to customers

The Group	Gross carrying amount				Allowance for expected credit losses			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
At 1 January 2024	247,818	40,066	6,855	294,739	383	857	1,029	2,269
Exchange and other adjustments	(628)	–	–	(628)	–	(4)	27	23
Transfers to Stage 1	20,940	(20,904)	(36)	–	262	(257)	(5)	–
Transfers to Stage 2	(18,641)	19,147	(506)	–	(25)	73	(48)	–
Transfers to Stage 3	(553)	(1,684)	2,237	–	(7)	(113)	120	–
Net change in ECL due to transfers					(195)	193	164	162
Impact of transfers between stages	1,746	(3,441)	1,695	–	35	(104)	231	162
Other changes in credit quality					(125)	(59)	405	221
Additions and repayments	15,889	(3,754)	(1,133)	11,002	(49)	(59)	(166)	(274)
Charge (credit) to the income statement					(139)	(222)	470	109
Disposals and derecognition ¹	(539)	(625)	(840)	(2,004)	(1)	(13)	(67)	(81)
Advances written off			(688)	(688)			(688)	(688)
Recoveries of amounts previously written off			134	134			134	134
At 31 December 2024	264,286	32,246	6,023	302,555	243	618	905	1,766
Allowance for impairment losses	(243)	(618)	(905)	(1,766)				
Net carrying amount	264,043	31,628	5,118	300,789				
Drawn ECL coverage ² (%)	0.1	1.9	15.0	0.6				

1 Relates to the securitisations of primarily legacy Retail mortgages.

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

The Group	Gross carrying amount				Allowance for expected credit losses			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
At 1 January 2023	243,873	44,226	7,514	295,613	284	1,132	1,781	3,197
Exchange and other adjustments	640	–	–	640	(1)	–	114	113
Transfers to Stage 1	12,921	(12,909)	(12)	–	217	(213)	(4)	–
Transfers to Stage 2	(12,594)	13,209	(615)	–	(23)	79	(56)	–
Transfers to Stage 3	(702)	(2,252)	2,954	–	(7)	(160)	167	–
Net change in ECL due to transfers					(138)	211	241	314
Impact of transfers between stages	(375)	(1,952)	2,327	–	49	(83)	348	314
Other changes in credit quality					44	(113)	353	284
Additions and repayments	4,993	(1,320)	(1,943)	1,730	8	(44)	(886)	(922)
(Credit) charge to the income statement					101	(240)	(185)	(324)
Disposals and recognition ¹	(1,313)	(888)	(447)	(2,648)	(1)	(35)	(85)	(121)
Advances written off			(684)	(684)			(684)	(684)
Recoveries of amounts previously written off			88	88			88	88
At 31 December 2023	247,818	40,066	6,855	294,739	383	857	1,029	2,269
Allowance for impairment losses	(383)	(857)	(1,029)	(2,269)				
Net carrying amount	247,435	39,209	5,826	292,470				
Drawn ECL coverage ² (%)	0.2	2.1	15.0	0.8				

1 Relates to the securitisations of primarily legacy Retail mortgages.

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

At 31 December 2024 £285,180 million (2023: £277,133 million) of loans and advances to customers of the Group had a contractual residual maturity of greater than one year.

The movement tables above 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.

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 amounts previously written off 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 financial statements continued

for the year ended 31 December

Note 18: Allowance for expected credit losses

The Group recognises an allowance for expected credit losses (ECLs) for loans and advances to customers, debt securities held at amortised cost, amounts due from fellow Lloyds Banking Group undertakings and certain loan commitment and financial guarantee contracts. At 31 December 2024, the Group's expected credit loss allowance was £1,882 million (2023: £2,403 million), of which £1,769 million (2023: £2,275 million) was in respect of drawn balances.

The Group's total impairment allowances were as follows:

	At 31 December 2024				At 31 December 2023			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
In respect of:								
Loans and advances to customers	243	618	905	1,766	383	857	1,029	2,269
Debt securities	–	–	1	1	–	–	1	1
Due from fellow Lloyds Banking Group undertakings	2	–	–	2	5	–	–	5
Drawn balances	245	618	906	1,769	388	857	1,030	2,275
Provisions in relation to loan commitments and financial guarantees	61	51	1	113	72	55	1	128
Total	306	669	907	1,882	460	912	1,031	2,403

The calculation of the Group's expected credit loss allowances and provisions against loan commitments and guarantees, which are set out above, requires the Group to make a number of judgements, assumptions and estimates. The most significant are set out below:

Critical accounting judgements and key sources of estimation uncertainty

Critical judgements:	Determining an appropriate definition of default against which a probability of default, exposure at default and loss given default parameter can be evaluated
	Establishing the criteria for a significant increase in credit risk (SICR)
	The individual assessment of material cases and the use of judgemental adjustments made to impairment modelling processes that adjust inputs, parameters and outputs to reflect risks not captured by models
Key source of estimation uncertainty:	Base case and multiple economic scenarios (MES) assumptions, including the rate of unemployment and the rate of change of house prices, required for creation of MES scenarios and forward-looking credit parameters

Definition of default

The probability of default (PD) of an exposure, both over a 12-month period and over its lifetime, is a key input to the measurement of the ECL allowance. Default has occurred when there is evidence that the customer is experiencing significant financial difficulty which is likely to affect the ability to repay amounts due. The definition of default adopted by the Group is described in note 2(H) Impairment of financial assets. A Stage 3 asset that is no longer credit-impaired is transferred back to Stage 2 as no general probation period is applied to assets in Stage 3. UK mortgages is an exception to this rule where a probation period is enforced for non-performing forborne and defaulted exposures in accordance with prudential regulation.

Significant increase in credit risk

An ECL allowance equivalent to 12 months' expected losses is established against assets in Stage 1; assets classified as Stage 2 carry an ECL allowance equivalent to lifetime expected losses. Assets are transferred from Stage 1 to Stage 2 when there has been a significant increase in credit risk (SICR) since initial recognition. Credit-impaired assets are transferred to Stage 3 with a lifetime expected losses allowance. If an exposure that is classified as Stage 2 no longer meets the SICR criteria, which in some cases capture customer behaviour in previous periods, it is moved back to Stage 1.

The Group uses both quantitative and qualitative indicators to determine whether there has been a SICR for an asset. The setting of precise trigger points combined with risk indicators requires judgement and the use of different trigger points may have a material impact upon the ECL allowance. The Group monitors the effectiveness of SICR criteria on an ongoing basis.

For UK mortgages a reassessment of the SICR criteria was performed following redevelopment of the ECL model in the period, in order to maintain SICR effectiveness. At 31 December 2024 a doubling of PD since origination was set as a quantitative SICR trigger. All originations post IFRS 9 adoption incorporate forward looking information, and for recent Interest Only accounts the likelihood of default occurring at the end of term. This is supplemented by qualitative triggers including where customers have surpassed their original contractual term through use of term extensions, where fraud is evident, or where an account is in arrears.

For credit cards, loans and overdrafts an increase of three PD grades since origination on the retail master scale (RMS) shown below is set as a quantitative SICR trigger. Assets are also assumed to have suffered a SICR if they have either been in arrears on three occasions, or in default once, in the past 12 months.

RMS grade	1	2	3	4	5	6	7	8	9	10	11	12	13	14
PD boundary ¹ (%)	0.10	0.40	0.80	1.20	2.50	4.50	7.50	10.00	14.00	20.00	30.00	45.00	99.99	100.00

¹ Probability-weighted annualised lifetime probability of default.

For Commercial Banking a doubling of PD with a minimum increase in PD of 1 per cent since origination is treated as a SICR. This is complemented with the use of internal credit risk classifications and ratings as qualitative indicators to identify a SICR.

The Group does not use the low credit risk exemption in its staging assessments, though more simplistic SICR criteria are applied for portfolios not listed above. All financial assets are assumed to have suffered a SICR if they are more than 30 days past due.

Notes to the financial statements continued

for the year ended 31 December

Note 18: Allowance for expected credit losses continued

Individual assessments and application of judgement in adjustments to modelled ECL

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

	Modelled ECL £m	Individually assessed £m	Judgements due to:		Total ECL £m
			Inflationary and interest rate risk £m	Other £m	
At 31 December 2024	1,634	146	–	102	1,882
At 31 December 2023	2,059	167	144	33	2,403

Individually assessed ECL

The Stage 3 ECL relating to commercial clients largely assessed on an individual basis by the Business Support Unit using bespoke assessment of loss for each specific client based on potential recovery strategies. While these assessments are based on the Group's latest economic view, the use of Group-wide multiple economic scenarios and weightings is not considered appropriate for these cases due to their individual characteristics. In place of this, a range of case-specific outcomes are considered with any alternative better or worse outcomes that carry a 25 per cent likelihood taken into account in establishing a probability-weighted ECL.

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 models or data inputs may be identified through these assessments and review of model outputs, which may require appropriate judgemental adjustments to the ECL. 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 (in-model adjustments), through to more qualitative post-model adjustments.

Judgements due to inflationary and interest rate risk

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 meant judgemental adjustments were required. Throughout 2024 these risks subsided with inflation back at around 2 per cent, base rates reducing and credit performance proving resilient. As a result, the judgements held in respect of inflationary and interest rate risks have been removed (2023: £144 million). Other judgements continue to be applied for broader data and model limitations, both increasing and decreasing ECL where deemed necessary.

Other judgements

These adjustments principally comprise:

Repossession risk¹: £114 million (2023: £126 million)

The Group's repossession activity and respective data associated with the UK mortgage portfolio has been distorted for a number of years following pauses in litigation activity both before and during COVID-19. This has seen a larger number of customers in default for a longer period than would typically be expected resulting in a risk that ECL calculated on these accounts is understated. Judgemental adjustments to mitigate this risk have been in place for several years, although the approach has been revisited in 2024. An assessment of recent cure trends indicated that the overall possession rates used in the model appeared adequate; however, the assessment identified a potential recovery risk on specific subsets of long-term defaulted cases (greater than five years), as well as a continued risk from a longer duration between default and repossession than model assumptions used on existing and future defaults.

¹ Previously reported as Increase in time to repossession.

Lifetime extension on revolving products: £40 million (2023: £53 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. Incremental defaults beyond year three are calculated through the extrapolation of the default trajectory observed throughout the three years and beyond. The Credit cards judgement has reduced slightly in the period reflecting portfolio movement.

Adjustment for specific segments: £14 million (2023: £24 million)

The Group monitors risks across specific segments of its portfolios which may not be fully captured through collective models. The judgement for fire safety and cladding uncertainty reduced in the period following methodology refinement. Though experience remains limited the risk is considered sufficiently material to address, given evidence of cases having defective cladding, or other fire safety issues.

Adjustments to loss given defaults: £(52) million (2023: £(64) million)

A number of adjustments have been made to the loss given default (LGD) assumptions used within unsecured credit models. 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.

Following a review of the loss given default approach for commercial exposures, management continues to judge that ECL should be adjusted 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.

Corporate insolvency rates: £(35) million (2023: £(47) million)

The volume of UK corporate insolvencies continues to exhibit an elevated trend beyond December 2019 levels, revealing a marked misalignment between observed UK corporate insolvencies and the Group's equivalent credit performance. This dislocation gives rise to uncertainty over the drivers of the observed trends in the metric and the appropriateness of the Group's Commercial Banking model response which uses observed UK corporate insolvencies data to anchor future loss estimates to. Given the Group's asset quality remains strong with low defaults, a negative adjustment is applied by reverting judgementally to the long-term average of the insolvency rate.

Notes to the financial statements continued

for the year ended 31 December

Note 18: Allowance for expected credit losses continued

Generation of multiple economic scenarios

The estimate of expected credit losses is required to be based on an unbiased expectation of future economic scenarios. The approach used to generate the range of future economic scenarios depends on the methodology and judgements adopted. The Group's approach is to start from a defined base case scenario, used for planning purposes, and to generate alternative economic scenarios around this base case. The base case scenario is a conditional forecast underpinned by a number of conditioning assumptions that reflect the Group's best view of key future developments. If circumstances appear likely to materially deviate from the conditioning assumptions, then the base case scenario is updated.

The base case scenario is central to a range of future economic scenarios generated by simulation of an economic model, for which the same conditioning assumptions apply as in the base case scenario. These scenarios are ranked by using estimated relationships with industry-wide historical loss data. With the base case already pre-defined, three other scenarios are identified as averages of constituent scenarios located around the 15th, 75th and 95th percentiles of the distribution. The full distribution is therefore summarised by a practical number of scenarios to run through ECL models representing an upside, the base case, and a downside scenario weighted at 30 per cent each, together with a severe downside scenario weighted at 10 per cent. The scenario weights represent the distribution of economic scenarios and not subjective views on likelihood. The inclusion of a severe downside scenario with a smaller weighting ensures that the non-linearity of losses in the tail of the distribution is adequately captured. Macroeconomic projections may employ reversionary techniques to adjust the paths of economic drivers towards long-run equilibria after a reasonable forecast horizon. The Group does not use such techniques to force the MES scenarios to revert to the base case planning view. Utilising such techniques would be expected to be immaterial for expected credit losses since loss sensitivity is minimal after the initial five years of the projections.

A forum under the chairmanship of the Chief Economist meets at least quarterly to review and, if appropriate, recommend changes to the method by which economic scenarios are generated, for approval by the Chief Financial Officer and Chief Risk Officer. The Group continues to judge it appropriate to include a non-modelled severe downside scenario for Group ECL calculations. The scenario is 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.

Base case and MES economic assumptions

The Group's base case economic scenario has been updated to reflect ongoing geopolitical developments and changes in domestic economic policy. The Group's updated base case scenario has three conditioning assumptions. First, cross-border conflicts do not lead to major disruptions in commodity prices or global trade. Second, the US pursues a more isolationist economic agenda, with policies including trade tariffs; immigration cuts; and unfunded tax cuts. China, EU and UK are assumed to retaliate to US tariffs imposed on them. Third, UK Budget public investment plans are assumed to have a small but positive impact on trend productivity growth, subject to further review as more specific policy detail emerges.

Based on these assumptions and incorporating the economic data published in the fourth quarter, the Group's base case scenario is for a slow expansion in GDP and a rise in the unemployment rate alongside modest changes in residential and commercial property prices. Against a backdrop of some persistence in inflationary pressures, UK Bank Rate is expected to be lowered gradually during 2025. 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 accommodated 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 fourth quarter of 2024, for which actuals may have since emerged prior to publication.

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 at 31 December 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.

Five-year start to peak and trough

The peak or trough for any metric may occur intra year and therefore not be identifiable from the annual assumptions, so they are also disclosed. For GDP, house price growth and commercial real estate price growth, the peak, or trough, reflects the highest, or lowest cumulative quarterly position reached relative to the start of the five-year period, which as at 31 December 2024 is 1 January 2024. Given these metrics may exhibit increases followed by greater falls, the start to trough movements quoted may be smaller than the equivalent 'peak to trough' movement (and vice versa for start to peak). Unemployment, UK Bank Rate and CPI inflation reflect the highest, or lowest, quarterly level reached in the five-year period.

Notes to the financial statements continued

for the year ended 31 December

Note 18: Allowance for expected credit losses continued

At 31 December 2024	2024 %	2025 %	2026 %	2027 %	2028 %	2024 to 2028 average %	Start to peak %	Start to trough %
Upside								
Gross domestic product growth	0.8	1.9	2.2	1.5	1.4	1.6	8.9	0.7
Unemployment rate	4.3	3.5	2.8	2.7	2.8	3.2	4.4	2.7
House price growth	3.4	3.7	6.5	6.6	5.4	5.1	28.2	0.4
Commercial real estate price growth	0.7	7.8	6.7	3.2	0.5	3.7	20.0	(0.8)
UK Bank Rate	5.06	4.71	5.02	5.19	5.42	5.08	5.50	4.50
CPI inflation	2.6	2.8	2.6	2.9	3.0	2.8	3.5	2.0
Base case								
Gross domestic product growth	0.8	1.0	1.4	1.5	1.5	1.2	7.0	0.7
Unemployment rate	4.3	4.7	4.7	4.5	4.5	4.5	4.8	4.2
House price growth	3.4	2.1	1.0	1.4	2.4	2.0	10.5	0.4
Commercial real estate price growth	0.7	0.3	2.5	1.9	0.0	1.1	5.4	(0.8)
UK Bank Rate	5.06	4.19	3.63	3.50	3.50	3.98	5.25	3.50
CPI inflation	2.6	2.8	2.4	2.4	2.2	2.5	3.5	2.0
Downside								
Gross domestic product growth	0.8	(0.5)	(0.4)	1.0	1.5	0.5	3.2	0.0
Unemployment rate	4.3	6.0	7.4	7.4	7.1	6.4	7.5	4.2
House price growth	3.4	0.6	(5.5)	(6.6)	(3.4)	(2.4)	4.0	(11.4)
Commercial real estate price growth	0.7	(7.8)	(3.1)	(0.9)	(2.3)	(2.7)	0.7	(12.9)
UK Bank Rate	5.06	3.53	1.56	0.96	0.68	2.36	5.25	0.59
CPI inflation	2.6	2.8	2.3	1.8	1.2	2.1	3.5	0.9
Severe downside								
Gross domestic product growth	0.8	(1.9)	(1.5)	0.7	1.3	(0.1)	1.2	(2.4)
Unemployment rate	4.3	7.7	10.0	10.0	9.7	8.4	10.2	4.2
House price growth	3.4	(0.8)	(12.4)	(13.6)	(8.8)	(6.7)	3.4	(29.2)
Commercial real estate price growth	0.7	(17.4)	(8.5)	(5.5)	(5.7)	(7.5)	0.7	(32.3)
UK Bank Rate – modelled	5.06	2.68	0.28	0.08	0.02	1.62	5.25	0.02
UK Bank Rate – adjusted ¹	5.06	4.03	2.70	2.23	1.95	3.19	5.25	1.88
CPI inflation – modelled	2.6	2.8	1.9	1.0	0.1	1.7	3.5	(0.2)
CPI inflation – adjusted ¹	2.6	3.6	2.1	1.4	0.8	2.1	3.9	0.7
Probability-weighted								
Gross domestic product growth	0.8	0.5	0.8	1.2	1.4	1.0	5.7	0.7
Unemployment rate	4.3	5.0	5.5	5.4	5.3	5.1	5.5	4.2
House price growth	3.4	1.8	(0.7)	(1.0)	0.4	0.8	5.3	0.4
Commercial real estate price growth	0.7	(1.7)	1.0	0.7	(1.1)	(0.1)	0.7	(1.3)
UK Bank Rate – modelled	5.06	4.00	3.09	2.90	2.88	3.59	5.25	2.88
UK Bank Rate – adjusted ¹	5.06	4.13	3.33	3.12	3.08	3.74	5.25	3.06
CPI inflation – modelled	2.6	2.8	2.4	2.2	1.9	2.4	3.5	1.8
CPI inflation – adjusted ¹	2.6	2.9	2.4	2.3	2.0	2.4	3.5	1.9

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

Base case scenario by quarter ¹ At 31 December 2024	First quarter 2024 %	Second quarter 2024 %	Third quarter 2024 %	Fourth quarter 2024 %	First quarter 2025 %	Second quarter 2025 %	Third quarter 2025 %	Fourth quarter 2025 %
Gross domestic product growth	0.7	0.4	0.0	0.1	0.2	0.3	0.3	0.3
Unemployment rate	4.3	4.2	4.3	4.4	4.5	4.6	4.7	4.8
House price growth	0.4	1.8	4.6	3.4	3.6	4.0	3.0	2.1
Commercial real estate price growth	(5.3)	(4.7)	(2.8)	0.7	1.8	1.4	0.9	0.3
UK Bank Rate	5.25	5.25	5.00	4.75	4.50	4.25	4.00	4.00
CPI inflation	3.5	2.1	2.0	2.5	2.4	3.0	2.9	2.7

¹ Gross domestic product growth is presented quarter-on-quarter. House price growth, commercial real estate 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.

Notes to the financial statements continued

for the year ended 31 December

Note 18: Allowance for expected credit losses continued

At 31 December 2023	2023 %	2024 %	2025 %	2026 %	2027 %	2023 to 2027 average %	Start to peak %	Start to trough %
Upside								
Gross domestic product	0.3	1.5	1.7	1.7	1.9	1.4	8.1	0.2
Unemployment rate	4.0	3.3	3.1	3.1	3.1	3.3	4.2	3.0
House price growth	1.9	0.8	6.9	7.2	6.8	4.7	25.7	(1.2)
Commercial real estate price growth	(3.9)	9.0	3.8	1.3	1.3	2.2	11.5	(3.9)
UK Bank Rate	4.94	5.72	5.61	5.38	5.18	5.37	5.79	4.25
CPI inflation	7.3	2.7	3.1	3.2	3.1	3.9	10.2	2.1
Base case								
Gross domestic product	0.3	0.5	1.2	1.7	1.9	1.1	6.4	0.2
Unemployment rate	4.2	4.9	5.2	5.2	5.0	4.9	5.2	3.9
House price growth	1.4	(2.2)	0.5	1.6	3.5	1.0	4.8	(1.2)
Commercial real estate price growth	(5.1)	(0.2)	0.1	0.0	0.8	(0.9)	(1.2)	(5.3)
UK Bank Rate	4.94	4.88	4.00	3.50	3.06	4.08	5.25	3.00
CPI inflation	7.3	2.7	2.9	2.5	2.2	3.5	10.2	2.1
Downside								
Gross domestic product	0.2	(1.0)	(0.1)	1.5	2.0	0.5	3.4	(1.2)
Unemployment rate	4.3	6.5	7.8	7.9	7.6	6.8	8.0	3.9
House price growth	1.3	(4.5)	(6.0)	(5.6)	(1.7)	(3.4)	2.0	(15.7)
Commercial real estate price growth	(6.0)	(8.7)	(4.0)	(2.1)	(1.2)	(4.4)	(1.2)	(20.4)
UK Bank Rate	4.94	3.95	1.96	1.13	0.55	2.51	5.25	0.43
CPI inflation	7.3	2.8	2.7	1.8	1.1	3.2	10.2	1.0
Severe downside								
Gross domestic product	0.1	(2.3)	(0.5)	1.3	1.8	0.1	1.0	(2.9)
Unemployment rate	4.5	8.7	10.4	10.5	10.1	8.8	10.5	3.9
House price growth	0.6	(7.6)	(13.3)	(12.7)	(7.5)	(8.2)	2.0	(35.0)
Commercial real estate price growth	(7.7)	(19.5)	(10.6)	(7.7)	(5.2)	(10.3)	(1.2)	(41.8)
UK Bank Rate – modelled	4.94	2.75	0.49	0.13	0.03	1.67	5.25	0.02
UK Bank Rate – adjusted ¹	4.94	6.56	4.56	3.63	3.13	4.56	6.75	3.00
CPI inflation – modelled	7.3	2.7	2.2	0.9	(0.2)	2.6	10.2	(0.3)
CPI inflation – adjusted ¹	7.6	7.5	3.5	1.3	1.0	4.2	10.2	0.9
Probability-weighted								
Gross domestic product	0.3	0.1	0.8	1.6	1.9	0.9	5.4	0.1
Unemployment rate	4.2	5.3	5.9	5.9	5.7	5.4	6.0	3.9
House price growth	1.4	(2.5)	(0.9)	(0.3)	1.8	(0.1)	2.0	(2.8)
Commercial real estate price growth	(5.3)	(1.9)	(1.1)	(1.0)	(0.2)	(1.9)	(1.2)	(9.9)
UK Bank Rate – modelled	4.94	4.64	3.52	3.02	2.64	3.75	5.25	2.59
UK Bank Rate – adjusted ¹	4.94	5.02	3.93	3.37	2.95	4.04	5.42	2.89
CPI inflation – modelled	7.3	2.7	2.8	2.3	1.9	3.4	10.2	1.9
CPI inflation – adjusted ¹	7.4	3.2	3.0	2.4	2.0	3.6	10.2	2.0

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

Base case scenario by quarter ¹ 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

¹ Gross domestic product growth is presented quarter-on-quarter. House price growth, commercial real estate 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.

Notes to the financial statements continued

for the year ended 31 December

Note 18: Allowance for expected credit losses continued

ECL sensitivity to economic assumptions

The following table 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 on a statutory basis being £287 million compared to £457 million at 31 December 2023.

	At 31 December 2024					At 31 December 2023				
	Probability-weighted £m	Upside £m	Base case £m	Downside £m	Severe downside £m	Probability-weighted £m	Upside £m	Base case £m	Downside £m	Severe downside £m
ECL allowance	1,882	1,265	1,595	2,174	3,721	2,403	1,513	1,946	2,551	6,007

The table below shows the Group's ECL for the upside, base case, downside and severe downside scenarios, with staging of assets based on each specific scenario probability of default. 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. A probability-weighted scenario is not shown as this view does not reflect the basis on which ECL is calculated. Comparing the probability-weighted ECL in the table above to the base case ECL with base case scenario specific staging, as shown in the table below, results in an uplift of £301 million compared to £524 million at 31 December 2023.

	At 31 December 2024				At 31 December 2023			
	Upside £m	Base case £m	Downside £m	Severe downside £m	Upside £m	Base case £m	Downside £m	Severe downside £m
ECL allowance	1,235	1,581	2,202	3,984	1,477	1,879	2,496	7,024

The impact of 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 impacts are assessed as changes to base case modelled ECL only (at 100 per cent weighting) with staging held flat to the reported view. The probability weighted ECL impact of applying the changes to all four scenarios, including the impact on staging and post model adjustments, would be greater.

The table below shows the impact on the Group's ECL resulting from a 1 percentage point 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 31 December 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
ECL impact	48	(49)	65	(64)

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

	At 31 December 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	(115)	163	(182)	275

Notes to the financial statements continued

for the year ended 31 December

Note 19: Finance lease receivables

The Group's finance lease receivables are classified as loans and advances to customers and accounted for at amortised cost. These balances are analysed as follows:

	The Group	
	2024 £m	2023 £m
Not later than 1 year	188	155
Later than 1 year and not later than 2 years	194	160
Later than 2 years and not later than 3 years	166	150
Later than 3 years and not later than 4 years	90	83
Later than 4 years and not later than 5 years	79	73
Later than 5 years	70	95
Gross investment	787	716
Unearned future finance income	(115)	(117)
Net investment	672	599

Equipment leased to customers under finance lease receivables relates to financing transactions to fund the purchase of motor vehicles, ships, sea freight transportation, and waste water treatment facilities. There was an allowance for uncollectable finance lease receivables included in the allowance for impairment losses for the Group of £9 million (2023: £9 million).

Note 20: Goodwill

	The Group	
	2024 £m	2023 £m
Cost	452	452
Accumulated impairment losses	–	–
At 1 January and 31 December	452	452

The goodwill held in the Group's balance sheet is tested at least annually for impairment. This compares the estimated recoverable amount, being the higher of a cash-generating unit's fair value less costs to sell and its value in use, with the carrying value. When this indicates that the carrying value is not recoverable it is written down through the income statement as goodwill impairment. For the purposes of impairment testing the goodwill is allocated to the appropriate cash generating unit; the entire balance of £452 million has been allocated to the Bank of Scotland cash generating unit.

The recoverable amount of goodwill carried at 31 December 2024 has been based on a value in use calculation using post-tax cash flow projections based on financial budgets and plans approved by management covering a four-year period and a discount rate (post tax) of 10.5 per cent, based on the Group's cost of equity. This is equivalent to a pre-tax rate of 14.0 per cent. The budgets and plans are based upon past experience and having regard to expected market conditions and competitor activity. The cash flows beyond the plan period are extrapolated using a growth rate of 3.5 per cent which does not exceed the long-term average for the markets in which Bank of Scotland participates. Management believes that any reasonably possible change in the key assumptions would not cause the recoverable amount to fall below the balance sheet carrying value.

Notes to the financial statements continued

for the year ended 31 December

Note 21: Investment in subsidiary undertakings of the Company

	2024 £m	2023 £m
At 1 January	22,664	22,634
Capital contributions	23	43
Disposals	–	(13)
At 31 December	22,687	22,664

Details of the subsidiaries and related undertakings are given on **pages 92 to 95** and are incorporated by reference.

Certain subsidiary companies currently have insufficient distributable reserves to make dividend payments, however, there were no further significant restrictions on any of the Company's subsidiaries in paying dividends or repaying loans and advances. Regulated banking subsidiaries are required to maintain capital at levels agreed with the regulators; this may impact those subsidiaries' ability to make distributions.

Note 22: Other assets

	The Group	
	2024 £m	2023 £m
Property, plant and equipment:		
Premises	490	389
Equipment	107	171
Right-of-use assets (note 23)	371	415
	968	975
Purchased credit card relationships	170	240
Capitalised software enhancements	276	266
Prepayments	171	164
Other assets ¹	171	78
Total other assets	1,756	1,723

¹ Settlement balances and items in the course of collection from banks, previously presented separately, are now included within other assets.

Note 23: Lessee disclosures

The table below sets out the movement in the Group's right-of-use assets, which are primarily in respect of premises, and are recognised within other assets (note 22).

The Group	2024 £m	2023 £m
At 1 January	415	488
Exchange and other adjustments	(3)	(1)
Additions	34	22
Disposals	(11)	(20)
Depreciation charge for the year	(64)	(74)
At 31 December	371	415

The Group's lease liabilities are recognised within other liabilities (note 25). The maturity analysis of the Group's lease liabilities on an undiscounted basis is set out in the liquidity risk section of note 37.

The total cash outflow for leases in the year ended 31 December 2024 was £90 million (2023: £96 million). The amount recognised within interest expense in respect of lease liabilities is disclosed in note 4.

Notes to the financial statements continued

for the year ended 31 December

Note 24: Debt securities in issue

	The Group					
	2024			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	–	5,899	5,899	–	6,022	6,022
Covered bonds	–	–	–	–	505	505
Securitisation notes	22	2,755	2,777	23	2,083	2,106
Total debt securities in issue	22	8,654	8,676	23	8,610	8,633

Covered bonds and securitisation programmes

The Group's covered bond programme repaid in December 2024 and the programme has been unwound.

The Group's securitisation vehicles issue notes that are held both externally and internally, and are secured on loans and advances to customers amounting to £25,738 million (2023: £29,649 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.

Certain loans and advances to customers have been assigned to bankruptcy remote limited liability partnerships.

Cash deposits of £1,020 million (2023: £1,277 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. Additionally, the Group has certain contractual arrangements to provide liquidity facilities to some of these structured entities. At 31 December 2024 these obligations had not been triggered; the maximum exposure under these facilities was £4 million (2023: £4 million).

The Group recognises the full liabilities associated with its securitisation and covered bond programmes within debt securities in issue, although the obligations of the Group in respect of its securitisation issuances are limited to the cash flows generated from the underlying assets. The Group could be required to provide additional support to a number of the securitisation programmes to support the credit ratings of the debt securities issued, in the form of increased cash reserves and the holding of subordinated notes. Further, certain programmes contain contractual obligations that require the Group to repurchase assets should they become credit-impaired or as otherwise required by the transaction documents. The Group has not provided financial or other support by voluntarily offering to repurchase assets from any of its public securitisation programmes during 2024 (2023: none).

At 31 December 2024 £7,220 million (2023: £7,987 million) of debt securities in issue at amortised cost of the Group had a contractual residual maturity of greater than one year.

Note 25: Other liabilities

	The Group		The Company	
	2024 £m	2023 £m	2024 £m	2023 £m
Lease liabilities	430	481	–	–
Other creditors and accruals ¹	891	1,145	4	5
Total other liabilities	1,321	1,626	4	5

¹ Settlement balances and items in the course of transmission to banks, previously presented separately, is now included within other creditors and accruals.

The maturity analysis of the Group's lease liabilities on an undiscounted basis is set out in the liquidity risk section of note 37.

At 31 December 2024 £359 million (2023: £407 million) of lease liabilities had a contractual residual maturity of greater than one year.

Notes to the financial statements continued

for the year ended 31 December

Note 26: Provisions

Critical accounting judgements and key sources of estimation uncertainty

Critical judgement:	Determining whether a present obligation exists and whether it is more likely than not that an outflow of resources will be required to settle that obligation
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Determining the amount of the provisions, which represent management's best estimate of the cost of settling these issues, requires the exercise of significant judgement and estimation. It will often be necessary to form a view on matters which are inherently uncertain, such as the scope of reviews required by regulators, and to estimate the number of future complaints, the extent to which they will be upheld, the average cost of redress and the impact of decisions reached by legal and other review processes that may be relevant to claims received. Consequently, the continued appropriateness of the underlying assumptions is reviewed on a regular basis against actual experience and other relevant evidence and adjustments made to the provisions where appropriate.

The Group	Provisions for financial commitments and guarantees £m	Regulatory and legal provisions £m	Other £m	Total £m
At 1 January 2024	128	426	166	720
Exchange and other adjustments	(1)	–	–	(1)
Provisions applied	–	(242)	(125)	(367)
Charge for the year	(14)	116	57	159
At 31 December 2024	113	300	98	511

Provisions for financial commitments and guarantees

Provisions are recognised for expected credit losses on undrawn loan commitments and financial guarantees.

Regulatory and legal provisions

In the course of its business, the Group is engaged on a regular basis in discussions with UK and overseas regulators and other governmental authorities on a range of matters, including legal and regulatory reviews and, from time to time, enforcement investigations (including in relation to compliance with applicable laws and regulations, such as those relating to prudential regulation, consumer protection, investment advice, employment, business conduct, systems and controls, environmental, sustainability, competition/anti-trust, tax, anti-bribery, anti-money laundering and sanctions). Any matters discussed or identified during such discussions and inquiries may result in, among other things, further inquiry or investigation, other action being taken by governmental and/or regulatory authorities, increased costs being incurred by the Group, remediation of systems and controls, public or private censure, restriction of the Group's business activities and/or fines. The Group also receives complaints in connection with its past conduct and claims brought by or on behalf of current and former employees, customers (including their appointed representatives), investors and other third parties and is subject to legal proceedings and other legal actions from time to time. Any events or circumstances disclosed could have a material adverse effect on the Group's financial position, operations or cash flows. Provisions are held where the Group can reliably estimate a probable outflow of economic resources. The ultimate liability of the Group may be significantly more, or less, than the amount of any provision recognised. If the Group is unable to determine a reliable estimate, a contingent liability is disclosed. The recognition of a provision does not amount to an admission of liability or wrongdoing on the part of the Group. During the year ended 31 December 2024 the Group charged a further £116 million in respect of legal actions and other regulatory matters and the unutilised balance at 31 December 2024 was £300 million (31 December 2023: £426 million). The most significant items are outlined below.

HBOS Reading – review

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

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

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

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

Payment protection insurance (PPI)

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

Other

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 31 December 2024 provisions of £25 million (31 December 2023: £48 million) were held.

Notes to the financial statements continued

for the year ended 31 December

Note 27: Subordinated liabilities

The movement in subordinated liabilities during the year was as follows:

	The Group				The Company			
	Preferred securities £m	Undated £m	Dated £m	Total £m	Preferred securities £m	Undated £m	Dated £m	Total £m
At 1 January 2023	–	104	2,352	2,456	–	8	811	819
Repurchases and redemptions during the year¹:								
7.375% Subordinated Undated Instruments (£150 million)	–	(58)	–	(58)	–	–	–	–
7.07% Subordinated Fixed Rate Notes 2023 (£175 million)	–	–	(155)	(155)	–	–	(155)	(155)
8.75% Perpetual Subordinated Bonds (£100 million)	–	(5)	–	(5)	–	–	–	–
	–	(63)	(155)	(218)	–	–	(155)	(155)
Foreign exchange movements	–	–	(24)	(24)	–	–	(22)	(22)
Other movements (cash and non-cash) ²	–	(4)	(5)	(9)	–	–	(4)	(4)
At 31 December 2023	–	37	2,168	2,205	–	8	630	638
Foreign exchange movements	–	–	(13)	(13)	–	–	(14)	(14)
Other movements (cash and non-cash) ²	–	–	(9)	(9)	–	–	4	4
At 31 December 2024	–	37	2,146	2,183	–	8	620	628

1 The repurchases and redemptions in the year resulted in cash outflows of £nil for the Group and £nil for the Company (2023: £217 million for the Group and £154 million for the Company)

2 Other movements include hedge accounting movements and cash payments in respect of interest on subordinated liabilities in the year amounting to £140 million for the Group and £31 million for the Company (2023: £148 million for the Group and £43 million for the Company) offset by the interest expense in respect of subordinated liabilities of £141 million for the Group and £31 million for the Company (2023: £137 million for the Group and £35 million for the Company).

At 31 December 2024 £1,796 million of the subordinated liabilities of the Group and £241 million of the Company (2023: £2,190 million and £638 million) had a contractual residual maturity of greater than one year.

These securities will, in the event of the winding-up of the issuer, be subordinated to the claims of depositors and all other creditors of the issuer, other than creditors whose claims rank equally with, or are junior to, the claims of the holders of the subordinated liabilities. The subordination of specific subordinated liabilities is determined in respect of the issuer and any guarantors of that liability. The claims of holders of preference shares and preferred securities are generally junior to those of the holders of undated subordinated liabilities, which in turn are junior to the claims of holders of the dated subordinated liabilities.

The Company has in issue preference shares which are all classified as liabilities under accounting standards. The rights and obligations attaching to these shares are set out in the Company's articles of association, a copy of which can be obtained from Companies House, and in the form SH01 uploaded by Companies House on 22 January 2010.

Notes to the financial statements continued

for the year ended 31 December

Note 28: Share capital

(1) Authorised share capital

As permitted by the Companies Act 2006, the Company has removed references to authorised share capital from its articles of association.

(2) Issued and fully paid share capital

	The Group and the Company			
	2024 Number of shares ¹	2023 Number of shares	2024 £m	2023 £m
Issued and fully paid ordinary shares				
Ordinary shares of 25p each				
At 1 January and 31 December	15,113,262,841	15,113,262,841	3,778	3,778
Issued and fully paid preference shares				
Preference shares of £1 each				
At 1 January and 31 December	100	100	-	-
Issued and fully paid non-voting deferred shares				
Non-voting deferred shares of £0.25 each				
At 1 January and 31 December	1	1	-	-
Total share capital at 31 December			3,778	3,778

¹ Ordinary shares represent effectively 100% of total share capital in issue as the issued preference shares represent below 0.01%

(3) Share capital and control

There are no limitations on voting rights or restrictions on the transfer of shares in the Company other than as set out in the articles of association, and certain restrictions which may from time to time be imposed by law and regulations (for example, insider trading laws).

Ordinary shares

The holders of ordinary shares are entitled to receive the Company's report and accounts, attend, speak and vote at general meetings and appoint proxies to exercise voting rights. Holders of ordinary shares may also receive a dividend (subject to the provisions of the Company's articles of association) and in the event of a winding up, may share in the assets of the Company.

Preference shares

The Company has in issue preference shares which are all classified as liabilities under accounting standards and which are included in note 27.

Non-voting deferred shares

The Company has in issue one non-voting deferred share.

Note 29: Share premium account

	The Group and the Company	
	2024 £m	2023 £m
At 1 January and 31 December	585	585

Note 30: Other reserves

	The Group		The Company	
	2024 £m	2023 £m	2024 £m	2023 £m
Merger reserve and other reserves ¹	10,051	10,051	9,537	9,537
Capital redemption reserve ¹	141	141	141	141
Non-distributable capital contribution reserve ¹	1,054	1,054	-	-
Revaluation reserve in respect of debt securities held at fair value through other comprehensive income	9	12	-	-
Cash flow hedging reserve	(78)	(76)	-	-
At 31 December	11,177	11,182	9,678	9,678

¹ There have been no movements in these reserves in 2024 or 2023.

Notes to the financial statements continued

for the year ended 31 December

Note 30: Other reserves continued

Movements in other reserves were as follows:

	The Group	
	2024 £m	2023 £m
Revaluation reserve in respect of debt securities held at fair value through other comprehensive income		
At 1 January	12	14
Change in fair value	(5)	(3)
Deferred tax	–	–
Current tax	2	1
	(3)	(2)
At 31 December	9	12
Cash flow hedging reserve		
At 1 January	(76)	(65)
Change in fair value of hedging derivatives	3	(7)
Deferred tax	(1)	2
	2	(5)
Net income statement transfers	(6)	(8)
Deferred tax	2	2
	(4)	(6)
At 31 December	(78)	(76)
Foreign currency translation reserve		
At 1 January	–	(22)
Income statement transfers	–	22
At 31 December	–	–

Note 31: Retained profits

	The Group		The Company	
	2024 £m	2023 £m	2024 £m	2023 £m
At 1 January	(317)	(337)	9,683	9,699
Profit attributable to ordinary shareholders ¹	647	458	1,107	423
Post-retirement defined benefit scheme remeasurements	(253)	(481)	(253)	(482)
Dividends paid (note 32)	(1,050)	–	(1,050)	–
Capital contributions received	23	43	23	43
At 31 December	(950)	(317)	9,510	9,683

¹ No income statement has been shown for the Company, as permitted by Section 408 of the Companies Act 2006.

Note 32: Dividends on ordinary shares

Dividends paid during the year were as follows:

During the year the Company paid cumulative interim dividends of £1,050 million (2023: £nil). The directors have not recommended a final dividend for the year ended 31 December 2024 (2023: £nil).

	2024 £m	2023 £m
Interim dividends	1,050	–

In February 2025, the directors approved the payment of an interim dividend of £250 million, which was paid on 25 February 2025.

Notes to the financial statements continued

for the year ended 31 December

Note 33: Related party transactions

Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of an entity; the Group's key management personnel are the members of the Lloyds Banking Group plc Group Executive Committee together with its non-executive directors.

The table below details, on an aggregated basis, key management personnel compensation:

Compensation	2024 £m	2023 £m
Salaries and other short-term benefits	7	8
Share-based payments	9	8
Total compensation	16	16

The aggregate of the emoluments of the directors was £4.6 million (2023: £4.6 million).

There were no aggregate contributions in respect of key management personnel to defined contribution pension scheme (2023: £nil).

The total for the highest paid director (Charlie Nunn) was £2,483,000 (2023: Charlie Nunn: £2,580,000); this did not include any gain on exercise of Lloyds Banking Group plc shares in any year.

Share plans settled in Lloyds Banking Group plc shares	2024 million	2023 million
At 1 January	55	72
Granted, including certain adjustments (includes entitlements of appointed key management personnel)	69	27
Exercised/lapsed (includes entitlements of former key management personnel)	(10)	(44)
At 31 December	114	55

The tables below detail, on an aggregated basis, balances outstanding at the year end and related income and expense, together with information relating to other transactions between the Group and its key management personnel:

Loans	2024 £m	2023 £m
At 1 January	1	2
Advanced (includes loans to appointed key management personnel)	1	–
Repayments (includes loans to former key management personnel)	(1)	(1)
At 31 December	1	1

The loans are on both a secured and unsecured basis and are expected to be settled in cash. The loans attracted interest rates of between 2.03 per cent and 32.40 per cent in 2024 (2023: 1.09 per cent and 32.40 per cent).

No provisions have been recognised in respect of loans given to key management personnel (2023: £nil).

Deposits	2024 £m	2023 £m
At 1 January	14	10
Placed (includes deposits of appointed key management personnel)	31	45
Withdrawn (includes deposits of former key management personnel)	(37)	(41)
At 31 December	8	14

Deposits placed by key management personnel attracted interest rates of up to 6.25 per cent (2023: 6.3 per cent).

At 31 December 2024 the Group did not provide any guarantees in respect of key management personnel (2023: none).

At 31 December 2024, transactions, arrangements and agreements entered into by the Lloyds Banking Group and its banking subsidiaries with directors and connected persons included amounts outstanding in respect of loans and credit card transactions of £29.0 thousand with five directors and no connected persons (2023: £23.6 thousand with three directors and no connected persons).

Notes to the financial statements continued

for the year ended 31 December

Note 33: Related party transactions continued

Balances and transactions with fellow Lloyds Banking Group undertakings

Balances and transactions between members of the HBOS Group

In accordance with IFRS 10 Consolidated Financial Statements, transactions and balances between the Company and its subsidiary undertakings, and between those subsidiary undertakings, have all been eliminated on consolidation and thus are not reported as related party transactions of the Group.

The Company, as a result of its position as parent of a banking group, has a large number of transactions with various of its subsidiary undertakings; these are included on the balance sheet of the Company as follows:

	2024 £m	2023 £m
Assets, included within:		
Derivative financial instruments	13	17
Financial assets at amortised cost: due from fellow Lloyds Banking Group undertakings	3,139	3,055
Liabilities, included within:		
Due to fellow Lloyds Banking Group undertakings	2,324	2,308

Due to the size and volume of transactions passing through these accounts, it is neither practical nor meaningful to disclose information on gross inflows and outflows. During 2024 the Company earned interest income on the above asset balances of £144 million (2023: £147 million) and incurred interest expense on the above liability balances of £80 million (2023: £79 million).

Details of intercompany recharges recognised within other operating income are given in note 7.

Balances and transactions with Lloyds Banking Group plc and fellow subsidiaries of the Lloyds Banking Group

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

	The Group		The Company	
	2024 £m	2023 £m	2024 £m	2023 £m
Assets, included within:				
Derivative financial instruments	2,893	2,334	–	–
Financial assets at amortised cost: due from fellow Lloyds Banking Group undertakings	15,024	14,831	2	–
Liabilities, included within:				
Due to fellow Lloyds Banking Group undertakings	106,931	92,147	2	–
Derivative financial instruments	3,028	3,969	–	–
Debt securities in issue at amortised cost	5,363	5,371	–	–
Subordinated liabilities	1,504	1,503	–	–

Due to the size and volume of transactions passing through these accounts, it is neither practical nor meaningful to disclose information on gross inflows and outflows. During 2024 the Group earned £984 million and the Company earned £nil interest income on the above asset balances (2023: Group £581 million, Company £nil); the Group incurred £5,532 million and the Company incurred £nil interest expense on the above liability balances (2023: Group £4,995 million, Company £nil).

During the year, the Group recognised fee and commission expense of £78 million due to the impact of changes to commission arrangements with Scottish Widows.

Other related party transactions

Pension funds

At 31 December 2024, customer deposits of £20 million (2023: £19 million) related to the HBOS Group's pension funds.

Joint ventures and associates

At 31 December 2024 there were loans and advances to customers of £23 million (2023: £25 million) outstanding and balances within customer deposits of £1 million (2023: £1 million) relating to joint ventures and associates.

Notes to the financial statements continued

for the year ended 31 December

Note 34: Contingent liabilities, commitments and guarantees

Contingent liabilities, commitments and guarantees

At 31 December 2024 contingent liabilities, such as performance bonds and letters of credit, arising from the banking business were £98 million (31 December 2023: £109 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 £65,069 million (31 December 2023: £60,718 million), of which in respect of undrawn formal standby facilities, credit lines and other commitments to lend, £18,025 million (31 December 2023: £13,967 million) was irrevocable.

Capital commitments

There was no capital expenditure contracted but not provided for at 31 December 2024 (2023: £nil).

Interchange fees

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

- Litigation brought by or on behalf of retailers against both Visa and Mastercard in the English Courts, in which retailers are seeking damages on grounds that Visa and Mastercard's MIFs breached competition law (this includes a 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 Lloyds Banking Group) and Visa Inc, as part of Visa Inc's acquisition of Visa Europe in 2016. These arrangements cap the maximum amount of liability to which the Lloyds Banking Group may be subject and this cap is set at the cash consideration received by the Lloyds Banking Group for the sale of its stake in Visa Europe to Visa Inc in 2016. In 2016, the Lloyds Banking Group received Visa preference shares as part of the consideration for the sale of its shares in Visa Europe. A release assessment is carried out by Visa on certain anniversaries of the sale (in line with the Visa Europe sale documentation) and as a result, some Visa preference shares may be converted into Visa Inc Class A common stock from time to time. Any such release and any subsequent sale of Visa common stock does not impact the contingent liability.

LIBOR and other trading rates

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

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

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

Tax authorities

The Group has an open matter in relation to a claim for group relief of losses incurred in its former Irish banking subsidiary, which ceased trading on 31 December 2010. In 2020, HMRC concluded its enquiry into the matter and issued a closure notice denying the group relief claim. The Group appealed to the First Tier Tax Tribunal. The hearing took place in May 2023. In January 2025, the First Tier Tribunal concluded in favour of HMRC. The Group believes it has applied the rules correctly and that the claim for group relief is correct. Having reviewed the Tribunal's conclusions and having taken appropriate advice, the Group intends to appeal the decision and does not consider this to be a case where an additional tax liability will ultimately fall due. If the final determination of the matter by the judicial process is that HMRC's position is correct, management believes that this would result in an increase in current tax liabilities of approximately £420 million (including interest). Following the First Tier Tax Tribunal outcome, the tax will be paid and recognised as a current tax asset, given the Group's view that the tax liability will not ultimately fall due. It is unlikely that any appeal hearing will be held before 2026, and final conclusion of the judicial process may not be for several years.

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

Arena and Sentinel litigation claims

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

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

As previously disclosed, the FCA had opened an investigation into the Lloyds Banking 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. This investigation has now been closed by the FCA without any enforcement action taken.

Other legal actions and regulatory matters

In addition, in the course of its business the Group is subject to other complaints and threatened or actual legal proceedings (including class or group action claims) brought by or on behalf of current or former employees, customers (including their appointed representatives), investors or other third parties, as well as legal and regulatory reviews, enquiries and examinations, requests for information, audits, challenges, investigations and enforcement actions, which could relate to a number of issues. This includes matters in relation to compliance with applicable laws and regulations, such as those relating to prudential regulation, employment, consumer protection, investment advice, business conduct, systems and controls, environmental, sustainability, competition/anti-trust, tax, anti-bribery, anti-money laundering and sanctions, some of which may be beyond the Group's control, both in the UK and overseas. Where material, such matters are periodically reassessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of the Group incurring a liability. The Group does not currently expect the final outcome of any such case to have a material adverse effect on its financial position, operations or cash flows. Where there is a contingent liability related to an existing provision the relevant disclosures are included within note 26.

Notes to the financial statements continued

for the year ended 31 December

Note 35: Structured entities

The Group's interests in structured entities are both consolidated and unconsolidated. Details of the Group's interests in consolidated structured entities are set out in note 24 for securitisations and covered bond vehicles, and note 10 for structured entities associated with the Group's pension schemes. Details of the Group's interests in unconsolidated structured entities are included below.

Unconsolidated structured entities

The Group considers itself the sponsor of a structured entity where it is primarily involved in the design and establishment of the structured entity and further where the Group transfers assets to the structured entity, markets products associated with the structured entity in its own name and/or provides guarantees regarding the structured entity's performance.

The following table describes the types of structured entities that the Group does not consolidate but in which it holds an interest.

Type of entity	Nature and purpose of structured entities	Interest held by the Group	Total assets of structured entities	
			2024 £bn	2023 £bn
Securitisation vehicles	These vehicles issue asset-backed notes to investors and facilitate the management of the Group's balance sheet.	<ul style="list-style-type: none"> Interest in notes issued by the vehicles Fees for loan servicing 	4	2

The following table sets out an analysis of the carrying amount of interest held by the Group in the unconsolidated structured entities. The maximum exposure to loss is the carrying amounts of the assets held.

Carrying amount	Recognised within;	2024 £m	2023 £m
Notes held in securitisation vehicles	Financial assets at fair value through profit or loss; and Financial assets at amortised cost	1,408	1,696

During the year the Group has not provided any non-contractual financial or other support to these entities and has no current intention of providing any non-contractual financial or other support in the future.

The carrying amount of assets transferred to securitisation vehicles at the time of transfer was £2,004 million (2023: £2,626 million) and the Group recognised a gain of £11 million on transfer (2023: gain of £31 million).

Continuing involvement in financial assets that have been derecognised

The Group has derecognised financial assets in their entirety following transactions with securitisation vehicles, as noted above. The continuing involvement largely arises from funding provided to the vehicles through the purchase of issued notes. These notes are recognised as debt securities held at amortised cost. The carrying amount of these interests and the maximum exposure to loss is included in the table above. At 31 December 2024 the fair value of the retained notes was £1,400 million (2023: £1,707 million). The income from the Group's interest in these structures for the year ended 31 December 2024 was £108 million and cumulatively for the lifetime was £222 million.

Note 36: Transfers of financial assets

Transferred financial assets derecognised in their entirety with ongoing exposure

Through asset securitisations, the Group has transferred financial assets which were derecognised in their entirety, with some continuing involvement. Further details are available in note 35.

Transferred financial assets that continue to be recognised

Details of transferred financial assets that continue to be recognised in full are as follows.

The Group enters into repurchase and securities lending transactions in the normal course of business that do not result in derecognition of the financial assets as substantially all of the risks and rewards, including credit, interest rate, prepayment and other price risks are retained by the Group. In all cases, the transferee has the right to sell or repledge the assets concerned.

As set out in note 24, included within financial assets measured at amortised cost are loans transferred under the Group's securitisation and covered bond programmes. As the Group retains all or a majority of the risks and rewards associated with these loans, including credit, interest rate, prepayment and liquidity risk, they remain on the Group's balance sheet. Assets transferred into the Group's securitisation and covered bond programmes are not available to be used by the Group while the assets are within the programmes. However, the Group retains the right to remove loans from the covered bond programmes where they are in excess of the programme's requirements. In addition, where the Group has retained some of the notes issued by securitisation and covered bond programmes, the Group has the ability to sell or pledge these retained notes.

The table below sets out the carrying values of the transferred assets and the associated liabilities. For repurchase and securities lending transactions, the associated liabilities represent the Group's obligation to repurchase the transferred assets. For securitisation programmes, the associated liabilities represent the external notes in issue (note 24). The liabilities shown in the table below have recourse to the transferred assets.

The Group	2024		2023	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Repurchase and securities lending transactions				
Debt securities held at amortised cost	750	-	-	-
Securitisation programmes				
Financial assets at amortised cost:				
Loans and advances to customers ¹	25,738	2,777	29,649	2,106

¹ The carrying value of associated liabilities for the Group excludes securitisation notes held by the Group of £16,708 million (31 December 2023: £19,546 million).

Notes to the financial statements continued

for the year ended 31 December

Note 37: Financial risk management

Financial instruments are fundamental to the Group's activities and the associated risks represent a significant component of the overall risks faced by the Group.

The primary risks affecting the Group through its use of financial instruments are: market risk, credit risk, liquidity risk and capital risk. The following disclosures provide quantitative and qualitative information about the Group's exposure to these risks.

Market risk

(A) Interest rate

The Group's risk management policy is to optimise reward while managing its market risk exposures within the risk appetite defined by the Lloyds Banking Group Board. The Group's largest residual interest rate risk exposure arises from balances that are deemed to be insensitive to changes in market rates (including current accounts, a portion of variable rate deposits and investable equity). The risk is managed through the Lloyds Banking Group's structural hedge which consists of longer-term fixed rate assets and interest rate swaps. The notional balance and duration of the structural hedge is reviewed regularly by the Lloyds Banking Group Asset and Liability Committee.

The Lloyds Banking Group establishes hedge accounting relationships for interest rate risk components using cash flow hedges and fair value hedges. The Lloyds Banking Group is exposed to cash flow interest rate risk on its variable rate loans and deposits together with its floating rate subordinated debt. The derivatives used to manage the Lloyds Banking Group structural hedge may be designated into cash flow hedges to manage income statement volatility. The economic items related to the Lloyds Banking Group structural hedge, for example current accounts, are not eligible hedged items under IAS 39 for inclusion into accounting hedge relationships. The Lloyds Banking Group is exposed to fair value interest rate risk on its fixed rate customer loans, its fixed rate customer deposits and the majority of its subordinated debt. The Lloyds Banking Group applies netting between similar risks before applying hedge accounting.

Hedge ineffectiveness arises during the management of interest rate risk due to residual unhedged risk. Sources of ineffectiveness, which the Group may decide to not fully mitigate, can include basis differences, timing differences and notional amount differences. The effectiveness of accounting hedge relationships is assessed between the hedging derivatives and the documented hedged item, which can differ to the underlying economically hedged item.

(B) Foreign exchange

The Group's exposure to foreign exchange risk is not significant.

All non-structural foreign exchange exposures in the non-trading book are managed centrally within allocated exposure limits. Trading book exposures in the authorised trading centres are allocated exposure limits. The limits are monitored daily by the local centres and reported to the market and liquidity risk function in London.

The Group manages foreign currency accounting exposure via cash flow hedge accounting, utilising currency swaps and forward foreign exchange trades.

Risk arises from the Group's investments in its overseas operations. The Group's structural foreign currency exposure is represented by the net asset value of the foreign currency equity and subordinated debt investments in its subsidiaries and branches. Gains or losses on structural foreign currency exposures are taken to reserves. The Group's main overseas operations are in the Americas and Europe and do not represent a significant proportion of its overall portfolio.

Credit risk

The Group's credit risk exposure arises in respect of the instruments below and predominantly in the United Kingdom. Credit risk appetite is set at Board level and is described and reported through a suite of metrics devised from a combination of accounting and credit portfolio performance measures, which include the use of various credit risk rating systems as inputs and assess credit risk at a counterparty level using three components: (i) the probability of default by the counterparty on its contractual obligations; (ii) the current exposures to the counterparty and their likely future development, from which the Group derives the exposure at default; and (iii) the likely loss ratio on the defaulted obligations, the loss given default. The Group uses a range of approaches to mitigate credit risk, including internal control policies, obtaining collateral, using master netting agreements and other credit risk transfers, such as asset sales and credit derivatives based transactions.

(A) Maximum credit exposure

The maximum credit risk exposure of the Group in the event of other parties failing to perform their obligations is considered to be the balance sheet carrying amount or, for non-derivative off-balance sheet transactions and financial guarantees, their contractual nominal amounts (not taking into account any collateral held).

Further details can be seen in note 14 and note 34.

Notes to the financial statements continued

for the year ended 31 December

Note 37: Financial risk management continued

Concentrations of exposure

The Group's management of concentration risk includes portfolio controls on certain industries, sectors and products to reflect risk appetite as well as individual, customer and bank limit risk tolerances. Credit policies and appetite statements are aligned to the Lloyds Banking Group's risk appetite and restrict exposure to higher risk countries and potentially vulnerable sectors and asset classes. Exposures are monitored to prevent both an excessive concentration of risk and single name concentrations. The Group's largest credit limits are regularly monitored by the Lloyds Banking Group Board Risk Committee and reported in accordance with regulatory requirements. As part of its credit risk policy, the Group considers sustainability risk (which incorporates environmental (including climate), social and governance) in the assessment of commercial facilities.

At 31 December 2024 the most significant concentrations of exposure were in mortgages.

	The Group	
	2024 £m	2023 £m
Agriculture, forestry and fishing	509	567
Construction ¹	606	702
Energy and water supply	23	32
Financial, business and other services	601	720
Lease financing	672	599
Manufacturing	173	147
Mining and Quarrying ¹	5	16
Personal:		
Mortgages ²	279,702	271,242
Other	16,356	16,435
Postal and telecommunications	28	72
Property companies	2,795	3,068
Transport, distribution and hotels	1,085	1,139
Total loans and advances to customers before allowance for impairment losses	302,555	294,739
Allowance for impairment losses (note 18)	(1,766)	(2,269)
Total loans and advances to customers	300,789	292,470

¹ Mining and quarrying, previously included within construction, is now presented separately.

² Includes Wealth.

Credit quality of other financial assets (audited)

Cash and balances at central banks

Significantly all of the Group's cash and balances at central banks are due from the Bank of England.

Loans and advances to banks

All of the Group's loans and advances to banks are assessed as Stage 1.

Loans and advances to customers

The Group uses two credit ratings systems, according to the characteristics of exposures and the way that they are managed internally; these credit ratings are set out below. All probabilities of default (PDs) include forward-looking information and are based on 12-month values, with the exception of credit-impaired.

RMS		CMS	
Quality classification	IFRS 9 PD range	Quality classification	IFRS 9 PD range
RMS 1-3	0.00-0.80%	CMS 1-5	0.000-0.100%
RMS 4-6	0.81-4.50%	CMS 6-10	0.101-0.500%
RMS 7-9	4.51-14.00%	CMS 11-14	0.501-3.000%
RMS 10	14.01-20.00%	CMS 15-18	3.001-20.000%
RMS 11-13	20.01-99.99%	CMS 19	20.001-99.999%
RMS 14	100.00%	CMS 20-23	100.000%

Stage 3 assets include balances of £30 million (2023: £73 million) (with outstanding amounts due of £290 million (2023: £426 million)) which have been subject to a partial write-off and where the Group continues to enforce recovery action.

There were no (2023: £100 million) modifications of Stage 2 and Stage 3 assets during the year and no material gain or loss was recognised by the Group.

As at 31 December 2024 there were no (2023: £nil) significant assets that had been previously modified while classified as Stage 2 or Stage 3 and were classified as Stage 1.

Notes to the financial statements continued

for the year ended 31 December

Note 37: Financial risk management continued

The Group Gross drawn exposures and expected credit loss allowance	Drawn exposures				Allowance for expected credit losses			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
At 31 December 2024								
RMS 1-3	240,165	17,719	–	257,884	52	138	–	190
RMS 4-6	17,375	8,162	–	25,537	108	101	–	209
RMS 7-9	1,580	2,131	–	3,711	59	105	–	164
RMS 10	34	469	–	503	2	39	–	41
RMS 11-13	42	3,200	–	3,242	1	201	–	202
RMS 14	–	–	5,686	5,686	–	–	754	754
	259,196	31,681	5,686	296,563	222	584	754	1,560
CMS 1-5	990	–	–	990	–	–	–	–
CMS 6-10	1,098	7	–	1,105	1	–	–	1
CMS 11-14	2,307	74	–	2,381	12	1	–	13
CMS 15-18	631	383	–	1,014	8	21	–	29
CMS 19	–	101	–	101	–	12	–	12
CMS 20-23	–	–	337	337	–	–	151	151
	5,026	565	337	5,928	21	34	151	206
Other	64	–	–	64	–	–	–	–
Total loans and advances to customers	264,286	32,246	6,023	302,555	243	618	905	1,766
At 31 December 2023								
RMS 1-3	204,442	3,608	–	208,050	128	38	–	166
RMS 4-6	35,183	25,816	–	60,999	145	200	–	345
RMS 7-9	2,262	3,874	–	6,136	83	170	–	253
RMS 10	40	883	–	923	3	65	–	68
RMS 11-13	10	4,869	–	4,879	1	321	–	322
RMS 14	–	–	6,496	6,496	–	–	855	855
	241,937	39,050	6,496	287,483	360	794	855	2,009
CMS 1-5	1,079	–	–	1,079	–	–	–	–
CMS 6-10	1,167	5	–	1,172	1	–	–	1
CMS 11-14	2,485	286	–	2,771	12	7	–	19
CMS 15-18	463	581	–	1,044	10	37	–	47
CMS 19	1	144	–	145	–	19	–	19
CMS 20-23	–	–	359	359	–	–	174	174
	5,195	1,016	359	6,570	23	63	174	260
Other	686	–	–	686	–	–	–	–
Total loans and advances to customers	247,818	40,066	6,855	294,739	383	857	1,029	2,269

Debt securities held at amortised cost

At 31 December 2024 significantly all of the Group's debt securities held at amortised cost are investment grade.

Debt securities at fair value through other comprehensive income

At 31 December 2024 all of the Group's financial assets at fair value through other comprehensive income are investment grade.

Derivative assets

The Group reduces exposure to credit risk by using master netting agreements and by obtaining collateral in the form of cash or highly liquid securities.

Notes to the financial statements continued

for the year ended 31 December

Note 37: Financial risk management continued

The Group	2024			2023		
	Investment grade ¹ £m	Other £m	Total £m	Investment grade ¹ £m	Other £m	Total £m
Trading and other	401	43	444	377	139	516
Hedging	–	–	–	–	–	–
	401	43	444	377	139	516
Due from fellow Lloyds Banking Group undertakings			2,893			2,334
Total derivative financial instruments			3,337			2,850

¹ Credit ratings equal to or better than 'BBB'.

Financial guarantees and loan commitments

The Group's exposure to credit risk in respect of financial guarantees and loan commitments is not significant.

At 31 December 2024 £62,716 million were Stage 1 (2023: £57,981 million), £2,293 million were Stage 2 (2023: £2,665 million) and £61 million were Stage 3 (2023: £72 million). Against these exposures the Group held an allowance for expected credit losses of £113 million (2023: £128 million).

Further details can be seen in note 18.

Collateral held as security for other financial assets

The principal types of collateral accepted by the Group include: residential and commercial properties; charges over business assets such as premises, inventory and accounts receivable; financial instruments; cash; and guarantees from third parties. The Group holds collateral against loans and advances, reverse repurchase agreements, irrevocable loan commitments, financial assets at fair value through profit or loss and derivative assets.

The Group does not hold collateral against debt securities which are classified as financial assets held at amortised cost.

Loans and advances to customers

Retail lending

Mortgages

An analysis by loan-to-value ratio of the Group's residential mortgage lending is provided below. The value of collateral used in determining the loan-to-value ratios has been estimated based upon the last actual valuation, adjusted to take into account subsequent movements in house prices. The market takes into account many factors, including environmental considerations such as flood risk and energy efficient additions, in arriving at the value of a home.

In some circumstances, where the discounted value of the estimated net proceeds from the liquidation of collateral (i.e. net of costs, expected haircuts and anticipated changes in the value of the collateral to the point of sale) is greater than the estimated exposure at default, no credit losses are expected and no ECL allowance is recognised.

The Group	2024				2023			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Gross drawn exposures								
Less than 60 per cent	125,836	24,391	3,685	153,912	122,485	21,028	4,309	147,822
60 per cent to 70 per cent	46,795	2,780	818	50,393	44,613	5,733	944	51,290
70 per cent to 80 per cent	38,435	1,112	412	39,959	34,505	4,305	431	39,241
80 per cent to 90 per cent	29,101	904	189	30,194	20,243	2,728	171	23,142
90 per cent to 100 per cent	4,245	120	85	4,450	5,840	2,337	94	8,271
Greater than 100 per cent	30	22	163	215	18	87	186	291
Total	244,442	29,329	5,352	279,123	227,704	36,218	6,135	270,057

The Group's credit risk disclosures for unimpaired other retail lending show assets gross of collateral and therefore disclose the maximum loss exposure.

Commercial lending

Stage 1 and Stage 2 secured lending

For Stage 1 and Stage 2 secured commercial lending, the Group reports assets gross of collateral and therefore discloses the maximum loss exposure.

Stage 1 and Stage 2 secured commercial lending is predominantly managed on a cash flow basis. On occasion, it may include an assessment of underlying collateral, although, for Stage 3 lending, this will not always involve assessing it on a fair value basis. No aggregated collateral information for the entire unimpaired secured commercial lending portfolio is provided to key management personnel.

Stage 3 secured lending

The value of collateral is re-evaluated and its legal soundness reassessed if there is observable evidence of distress of the borrower; this evaluation is used to determine potential loss allowances and management's strategy to try to either repair the business or recover the debt.

At 31 December 2024, Stage 3 secured commercial lending amounted to £65 million, net of an impairment allowance of £32 million (2023: £38 million, net of an impairment allowance of £43 million). The fair value of the collateral held in respect of impaired secured commercial lending was £69 million (2023: £69 million). In determining the fair value of collateral, no specific amounts have been attributed to the costs of realisation. For the purposes of determining the total collateral held by the Group in respect of impaired secured commercial lending, the value of collateral for each loan has been limited to the principal amount of the outstanding advance in order to eliminate the effects of any over-collateralisation and to provide a clearer representation of the Group's exposure.

Notes to the financial statements continued

for the year ended 31 December

Note 37: Financial risk management continued

Derivative assets, after offsetting of amounts under master netting arrangements

The Group reduces exposure to credit risk by using master netting agreements and by obtaining collateral in the form of cash or highly liquid securities (see note 14).

Irrevocable loan commitments and other credit-related contingencies

The Group holds irrevocable loan commitments and other credit-related contingencies (see note 34). Collateral is held as security, in the event that lending is drawn down, on £16,275 million for the Group (2023: £12,181 million for the Group) of these balances.

Collateral repossessed

During the year, £256 million for the Group of collateral was repossessed (2023: £206 million for the Group), consisting primarily of residential property.

The Group generally does not take physical possession of properties or other assets held as collateral and uses external agents to realise the value as soon as practicable, generally at auction, to settle indebtedness. Any surplus funds are returned to the borrower or are otherwise dealt with in accordance with appropriate insolvency regulations. In certain circumstances the Group takes physical possession of assets held as collateral against commercial lending. In such cases, the assets are carried on the Group's balance sheet and are classified according to the Group's accounting policies.

Collateral pledged as security

The Group pledges assets primarily for repurchase agreements and securities lending transactions which are generally conducted under terms that are usual and customary for standard secured borrowing contracts.

Repurchase agreements

The Group enters into repurchase agreements which include amounts due under the Bank of England's Term Funding Scheme with additional incentives for SMEs (TFSME) (see note 14).

Securities lending transactions

Securities held as collateral in the form of stock borrowed amounted to £1,902 million for the Group (2023: £2,986 million for the Group). Of this amount, £212 million for the Group (2023: £233 million for the Group) had been resold or repledged as collateral for the Group's own transactions.

These transactions were generally conducted under terms that are usual and customary for standard secured lending activities.

Securitisations and covered bonds

In addition to the assets detailed above, the Group also holds assets that are encumbered through the Group's securitisation and covered bond programmes. Further details of these assets are provided in note 24.

Notes to the financial statements continued

for the year ended 31 December

Note 37: Financial risk management continued

Liquidity risk

Liquidity risk is defined as the risk that the Group has insufficient financial resources to meet its commitments as they fall due, or can only secure them at excessive cost. Liquidity risk is managed through a series of measures, tests and reports that are primarily based on contractual maturity. The Group carries out monthly stress testing of its liquidity position against a range of scenarios, including those prescribed by the PRA. The Group's liquidity risk appetite is also calibrated against a number of stressed liquidity metrics. The Group's assets and liabilities may be repaid or otherwise mature earlier or later than implied by their contractual terms.

The table below analyses financial instrument liabilities of the Group and Company on an undiscounted future cash flow basis according to contractual maturity, into relevant maturity groupings based on the remaining period at the balance sheet date; balances with no fixed maturity are included in the over 5 years category.

	Up to 1 month £m	1 to 3 months £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	Total £m
The Group						
At 31 December 2024						
Deposits from banks	8	–	–	172	–	180
Customer deposits	141,557	5,362	16,286	2,755	8	165,968
Repurchase agreements	268	–	13,617	9,322	–	23,207
Financial liabilities at fair value through profit or loss	–	–	–	22	–	22
Debt securities in issue at amortised cost	145	201	1,524	6,665	1,309	9,844
Lease liabilities	1	19	56	209	181	466
Subordinated liabilities	–	407	93	1,594	349	2,443
Total non-derivative financial liabilities	141,979	5,989	31,576	20,739	1,847	202,130
Derivative financial liabilities:						
Gross settled derivatives – outflows	215	396	595	1,628	3,139	5,973
Gross settled derivatives – inflows	(51)	(382)	(630)	(638)	(2,570)	(4,271)
Gross settled derivatives – net flows	164	14	(35)	990	569	1,702
Net settled derivative liabilities	2,959	–	–	31	–	2,990
Total derivative financial liabilities	3,123	14	(35)	1,021	569	4,692
At 31 December 2023						
Deposits from banks	10	–	–	169	–	179
Customer deposits	139,978	3,123	12,520	7,325	9	162,955
Repurchase agreements	397	–	1,056	31,398	–	32,851
Financial liabilities at fair value through profit or loss	–	–	–	23	–	23
Debt securities in issue at amortised cost	58	75	1,005	6,556	2,304	9,998
Lease liabilities	1	20	60	230	217	528
Subordinated liabilities	–	43	103	2,019	356	2,521
Total non-derivative financial liabilities	140,444	3,261	14,744	47,720	2,886	209,055
Derivative financial liabilities:						
Gross settled derivatives – outflows	55	810	187	2,233	3,380	6,665
Gross settled derivatives – inflows	25	(781)	(176)	(2,177)	(3,326)	(6,435)
Gross settled derivatives – net flows	80	29	11	56	54	230
Net settled derivative liabilities	3,416	–	–	34	–	3,450
Total derivative financial liabilities	3,496	29	11	90	54	3,680
The Company						
At 31 December 2024						
Subordinated liabilities	–	382	23	42	298	745
At 31 December 2023						
Subordinated liabilities	–	17	15	461	307	800

The principal amount for undated subordinated liabilities with no redemption option is included within the over 5 years column; interest of £4 million (2023: £4 million) for the Group per annum and £nil (2023: £nil) for the Company per annum which is payable in respect of those instruments for as long as they remain in issue is not included beyond 5 years.

Notes to the financial statements continued

for the year ended 31 December

Note 37: Financial risk management continued

The table below shows the contractual maturity of the Group's contingents, commitments and guarantees. Commitments are shown in the time band containing the earliest date the commitment can be drawn down. For financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

The Group	Within 1 year £m	1 to 3 years £m	3 to 5 years £m	Over 5 years £m	Total £m
At 31 December 2024					
Total contingent liabilities	23	13	1	61	98
Total commitments and guarantees	65,043	2	7	17	65,069
Total contingents, commitments and guarantees	65,066	15	8	78	65,167
At 31 December 2023					
Total contingent liabilities	23	10	1	75	109
Total commitments and guarantees	58,834	1,216	522	146	60,718
Total contingents, commitments and guarantees	58,857	1,226	523	221	60,827

Capital risk

Capital is actively managed on an ongoing basis for the Group's principal banking subsidiary, Bank of Scotland plc, with associated capital policies and procedures subject to regular review. Bank of Scotland plc assesses both its regulatory capital requirements and the quantity and quality of capital resources it holds to meet those requirements in accordance with the relevant provisions of the Capital Requirements Directive (CRD V) and Capital Requirements Regulation (UK CRR). This is supplemented through additional regulation set out under the PRA Rulebook and through associated statements of policy, supervisory statements and other regulatory guidance. Regulatory capital ratios are considered a key part of the budgeting and planning processes. Target capital levels take account of current and future regulatory requirements, capacity for growth and to cover uncertainties.

Note 38: Cash flow statements

(A) Change in operating assets

	The Group		The Company	
	2024 £m	2023 £m	2024 £m	2023 £m
Change in amounts due from fellow Lloyds Banking Group undertakings	(190)	(844)	(4)	(1)
Change in other financial assets held at amortised cost	(7,458)	(852)	–	–
Change in financial assets at fair value through profit or loss	(12)	25	–	–
Change in derivative financial instruments	(481)	621	4	10
Change in other operating assets	822	211	–	–
Change in operating assets	(7,319)	(839)	–	9

(B) Change in operating liabilities

	The Group		The Company	
	2024 £m	2023 £m	2024 £m	2023 £m
Change in deposits from banks	–	(16)	–	–
Change in customer deposits	3,107	(4,417)	–	–
Change in repurchase agreements	(8,229)	187	–	–
Change in amounts due to fellow Lloyds Banking Group undertakings	14,784	3,967	18	(194)
Change in financial liabilities at fair value through profit or loss	(1)	(3)	–	–
Change in derivative financial instruments	(921)	(133)	–	–
Change in debt securities in issue at amortised cost	44	2,487	–	–
Change in other operating liabilities ¹	401	17	(1)	2
Change in operating liabilities	9,185	2,089	17	(192)

¹ Includes £51 million (2023: £68 million) for the Group in respect of lease liabilities.

Notes to the financial statements continued

for the year ended 31 December

Note 38: Cash flow statements continued

(C) Non-cash and other items

	The Group		The Company	
	2024 £m	2023 £m	2024 £m	2023 £m
Interest expense on subordinated liabilities	141	136	31	35
Depreciation and amortisation	269	274	–	–
Net charge (credit) in respect of defined benefit schemes	12	(21)	13	(19)
Regulatory and legal provisions	116	89	–	–
Other provision movements	(68)	20	–	–
Allowance for loan losses	106	(329)	–	–
Write-off of allowance for loan losses, net of recoveries	(554)	(596)	–	–
Impairment (credit) charge relating to undrawn balances	(14)	13	–	–
Additional capital injections to subsidiaries	–	–	(23)	(43)
Dividends received from subsidiary undertakings	–	–	(1,050)	(81)
Foreign exchange impact on balance sheet ¹	32	117	(13)	(23)
Other non-cash items	47	43	27	45
Total non-cash items	87	(254)	(1,015)	(86)
Contributions to defined benefit schemes	(78)	(389)	(78)	(389)
Payments in respect of regulatory and legal provisions	(242)	(379)	–	–
Other	–	–	–	13
Total other items	(320)	(768)	(78)	(376)
Non-cash and other items	(233)	(1,022)	(1,093)	(462)

¹ When considering the movement on each line of the balance sheet, the impact of foreign exchange rate movements is removed in order to show the underlying cash impact.

(D) Analysis of cash and cash equivalents as shown in the balance sheet

	The Group		The Company	
	2024 £m	2023 £m	2024 £m	2023 £m
Cash and balances at central banks	2,853	3,009	–	–
Less mandatory reserve deposits ¹	–	(923)	–	–
	2,853	2,086	–	–
Loans and advances to banks	111	214	–	–
Less amounts with a maturity of three months or more	(81)	(174)	–	–
	30	40	–	–
Due from fellow Lloyds Banking Group Undertakings	–	–	3,063	2,980
Total cash and cash equivalents	2,883	2,126	3,063	2,980

¹ Mandatory reserve deposits are held with local central banks in accordance with statutory requirements. Where these deposits are not held in demand accounts and are not available to finance the Group's day-to-day operations they are excluded from cash and cash equivalents.

Note 39: Other information

HBOS plc is incorporated as a public limited company and registered in Scotland with the registered number SC218813. HBOS plc's registered office is The Mound, Edinburgh, EH1 1YZ, and its principal executive offices are located at 25 Gresham Street, London, EC2V 7HN.

HBOS plc and its subsidiaries form a leading UK-based financial services group, whose businesses provide a wide range of banking and financial services.

HBOS plc's immediate parent undertaking is Lloyds Bank plc and its ultimate parent undertaking and controlling party is Lloyds Banking Group plc which is incorporated in Scotland. Copies of the consolidated Annual Report and Accounts of Lloyds Banking Group plc may be obtained from Lloyds Banking Group's head office at 25 Gresham Street, London EC2V 7HN or downloaded via www.lloydsbankinggroup.com.

Subsidiaries and related undertakings

In compliance with section 409 of the Companies Act 2006, the following comprises a list of all related undertakings of the Group, as at 31 December 2024. The list includes each undertaking's registered office and the percentage of the class(es) of shares held by the Group. All shares held are ordinary shares unless indicated otherwise in the notes.

Subsidiary undertakings

The Group directly or indirectly holds 100 per cent of the share class or a majority of voting rights (including where the undertaking does not have share capital as indicated) in the following undertakings. All material subsidiary undertakings are consolidated by Lloyds Banking Group.

Name of undertaking	Notes
Anglo Scottish Utilities Partnership 1	+ *
Automobile Association Personal Finance Ltd	4 i
Bank of Scotland (B G S) Nominees Ltd	5 *
Bank of Scotland Edinburgh Nominees Ltd	5 *
Bank of Scotland Equipment Finance Ltd	9 i ‡
Bank of Scotland plc	5 i v
Bank of Scotland Structured Asset Finance Ltd	1 i
Bank of Scotland Transport Finance 1 Ltd	9 i ‡
Bank of Wales Ltd	8 i
Barents Leasing Ltd	1 i
BOS (Ireland) Property Services 2 Ltd	7 i ‡
BOS (Shared Appreciation Mortgages (Scotland)) Ltd	4 i
BOS (Shared Appreciation Mortgages (Scotland) No. 2) Ltd	4 i
BOS (Shared Appreciation Mortgages (Scotland) No. 3) Ltd	4 i
BOS (Shared Appreciation Mortgages) No. 1 plc	4 # i
BOS (Shared Appreciation Mortgages) No. 2 plc	4 # i
BOS (Shared Appreciation Mortgages) No. 3 plc	4 # i
BOS (Shared Appreciation Mortgages) No. 4 plc	4 # i
BOS (Shared Appreciation Mortgages) No. 5 plc	4 i
BOS (Shared Appreciation Mortgages) No. 6 plc	4 i
BOS Personal Lending Ltd	4 ii iii
BOSSAF Rail Ltd	1 i
British Linen Leasing (London) Ltd	5 i
British Linen Leasing Ltd	5 i
British Linen Shipping Ltd	5 i
Capital 1945 Ltd	9 i ‡
Capital Bank Leasing 12 Ltd	5 i
Capital Bank Leasing 3 Ltd	9 i ‡
Capital Bank Leasing 5 Ltd	8 i
Capital Bank Property Investments (3) Ltd	8 i
Capital Personal Finance Ltd	4 i
Cawley (Chester) Ltd	8 ii iii iv
CF Asset Finance Ltd	9 i ‡
First Retail Finance (Chester) Ltd	4 i
Forthright Finance Ltd	8 i
Halifax Group Ltd	9 i ‡
Halifax Leasing (March No.2) Ltd	1 i
Halifax Leasing (September) Ltd	1 i
Halifax Ltd	9 i ‡
Halifax Loans Ltd	4 i
Halifax Vehicle Leasing (1998) Ltd	4 i
HBOS Covered Bonds LLP	9 * ‡
HBOS Social Housing Covered Bonds LLP	8 *
HBOS UK Ltd	5 i
Home Shopping Personal Finance Ltd	4 i
IBOS Finance Ltd	9 i ‡
Lex Vehicle Leasing (Holdings) Ltd	9 ii iii vi ‡
Lex Vehicle Leasing Ltd	9 i ‡

Name of undertaking	Notes
Lloyds Secretaries Ltd	1 i
Loans.co.uk Ltd	8 i
MBNA Ltd	8 i
Membership Services Finance Ltd	4 i
NWS Trust Ltd	5 i
Pacific Leasing Ltd	9 i ‡
Seabreeze Leasing Ltd	9 i ‡
Seaspirit Leasing Ltd	1 i
Standard Property Investment (1987) Ltd	5 ii #
Sussex County Homes Ltd	4 i
The British Linen Company Ltd	5 i
The Mortgage Business plc	4 i
Thistle Leasing	+ *
Tower Hill Property Investments (7) Ltd	9 i # ‡
Tower Hill Property Investments (10) Ltd	9 i # ‡
Tranquility Leasing Ltd	1 i
Waymark Asset Investments Ltd	1 ii iii

Subsidiaries and related undertakings continued

Subsidiary undertakings continued

The Group has determined that it has the power to exercise control over the following entities without having the majority of the voting rights of the undertakings. Unless otherwise stated, the undertakings do not have share capital or the Group does not hold any shares.

Name of undertaking	Notes
Addison Social Housing Holdings Ltd	3
Elland RMBS 2018 plc	2
Elland RMBS Holdings Ltd	2
Molineux RMBS 2016-1 plc	2
Molineux RMBS Holdings Ltd	2
Penarth Asset Securitisation Holdings Ltd	2
Penarth Funding 1 Ltd	2
Penarth Funding 2 Ltd	2
Penarth Master Issuer plc	2
Penarth Receivables Trustee Ltd	2
Permanent Funding (No. 1) Ltd	2
Permanent Funding (No. 2) Ltd	2
Permanent Holdings Ltd	2
Permanent Master Issuer plc	2
Permanent Mortgages Trustee Ltd	2
Permanent PECO Holdings Ltd	2
Permanent PECO Ltd	2
Syon Securities 2019 DAC	6
Syon Securities 2020 DAC	6
Syon Securities 2020-2 DAC	6
Wilmington Cards 2021-1 plc	2
Wilmington Cards Holdings Ltd	2
Wilmington Receivables Trustee Ltd	2

Subsidiaries and related undertakings continued

Associated Undertaking

The Group has a participating interest in the following undertakings.

Name of undertaking	% of share class held by immediate parent company (or by the Group where this varies)	Registered office address	Notes
Addison Social Housing Ltd	20%	1 Bartholomew Lane, London, EC2N 2AX	i

Notes

- * The undertaking does not have share capital
- + The undertaking does not have a registered office
- # In relation to Subsidiary Undertakings, an undertaking external to the Group holds shares
- ‡ The undertaking is in Liquidation

- (i) Ordinary Shares
- (ii) A Ordinary Shares
- (iii) B Ordinary Shares
- (iv) C Ordinary Shares
- (v) Preference Shares
- (vi) Redeemable Preference Shares

Registered office addresses

- (1) 25 Gresham Street, London, EC2V 7HN
- (2) 1 Bartholomew Lane, London, EC2N 2AX
- (3) 44 Esplanade, St. Helier, Jersey, JE4 9WG, Jersey
- (4) Trinity Road, Halifax, West Yorkshire, HX1 2RG
- (5) The Mound, Edinburgh, EH1 1YZ
- (6) 5th Floor, The Exchange, George's Dock, IFSC, Dublin 1, Ireland
- (7) McStay Luby, Dargan House, 21-23 Fenian Street, Dublin 2, DO2 HC63, Ireland
- (8) Cawley House, Chester Business Park, Chester, CH4 9FB
- (9) 1 More London Place, London, SE1 2AF