Bank of Scotland plc

2019 Half-Year Results

Member of the Lloyds Banking Group

FORWARD LOOKING STATEMENTS

This document contains certain forward looking statements with respect to the business, strategy, plans and / or results of the Bank of Scotland Group and its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about the Bank of Scotland Group's or its directors' and/or management's beliefs and expectations, are forward looking statements. By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend upon circumstances that will or may occur in the future. Factors that could cause actual business, strategy, plans and/or results (including but not limited to the payment of dividends) to differ materially from forward looking statements made by the Bank of Scotland Group or on its behalf include, but are not limited to: general economic and business conditions in the UK and internationally; market related trends and developments; fluctuations in interest rates, inflation, exchange rates, stock markets and currencies; any impact of the transition from IBORs to alternative reference rates; the ability to access sufficient sources of capital, liquidity and funding when required; changes to the Bank of Scotland Group's or Lloyds Banking Group plc's, or Lloyds Bank plc's or HBOS plc's credit ratings; the ability to derive cost savings and other benefits including, but without limitation as a result of any acquisitions, disposals and other strategic transactions; changing customer behaviour including consumer spending, saving and borrowing habits; changes to borrower or counterparty credit quality; instability in the global financial markets, including Eurozone instability, instability as a result of uncertainty surrounding the exit by the UK from the European Union (EU) and as a result of such exit and the potential for other countries to exit the EU or the Eurozone and the impact of any sovereign credit rating downgrade or other sovereign financial issues; political instability including as a result of any UK general election; technological changes and risks to the security of IT and operational infrastructure, systems, data and information resulting from increased threat of cyber and other attacks; natural, pandemic and other disasters, adverse weather and similar contingencies outside the Bank of Scotland Group's or Lloyds Banking Group plc's or Lloyds Bank plc's or HBOS plc's control; inadequate or failed internal or external processes or systems; acts of war, other acts of hostility, terrorist acts and responses to those acts, geopolitical, pandemic or other such events; changes in laws, regulations, practices and accounting standards or taxation, including as a result of the exit by the UK from the EU, or a further possible referendum on Scottish independence; changes to regulatory capital or liquidity requirements and similar contingencies outside the Bank of Scotland Group's or Lloyds Banking Group plc's or Lloyds Bank plc's or HBOS plc's control; the policies, decisions and actions of governmental or regulatory authorities or courts in the UK, the EU, the US or elsewhere including the implementation and interpretation of key legislation and regulation together with any resulting impact on the future structure of the Group; the ability to attract and retain senior management and other employees and meet its diversity objectives; actions or omissions by the Bank of Scotland Group's directors, management or employees including industrial action; the extent of any future impairment charges or write-downs caused by, but not limited to, depressed asset valuations, market disruptions and illiquid markets; the value and effectiveness of any credit protection purchased by the Bank of Scotland Group; the inability to hedge certain risks economically; the adequacy of loss reserves; the actions of competitors, including non-bank financial services, lending companies and digital innovators and disruptive technologies; and exposure to regulatory or competition scrutiny, legal, regulatory or competition proceedings, investigations or complaints. Please refer to the latest Annual Report on Form 20-F filed by Lloyds Banking Group plc with the US Securities and Exchange Commission for a discussion of certain factors and risks together with examples of forward looking statements.

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 Bank of Scotland Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statements contained in this document to reflect any change in the Bank of Scotland Group's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. The information, statements and opinions contained in this document do not constitute a public offer under any applicable law or an offer to sell any securities or financial instruments or any advice or recommendation with respect to such securities or financial instruments.

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FINANCIAL REVIEW

Principal activities

Bank of Scotland plc (the Bank) and its subsidiaries (together, the Group) provide a wide range of banking and financial services in the UK and overseas.

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; loans and other products to commercial, corporate and asset finance customers; and private banking.

Review of results

Income statement

During the half-year to 30 June 2019, the Group recorded a profit before tax of £962 million compared to £1,132 million during the same period in 2018.

Total income increased by £75 million, to £3,016 million in the half-year to 30 June 2019 compared with £2,941 million in the half-year to 30 June 2018, with a £139 million decrease in net interest income being more than offset by an increase of £214 million in other income.

Net interest income was £2,707 million in the half-year to 30 June 2019, down 5 per cent on the half-year to 30 June 2018 with increased interest payable on deposits from banks and amounts due to fellow Lloyds Banking Group undertakings more than offsetting lower costs on customer deposits.

Other income of £309 million in the half-year to 30 June 2019 was £214 million higher compared to £95 million in the half-year to 30 June 2018. Net fee and commission income was £39 million higher at £147 million in the half-year to 30 June 2019 compared to £108 million in the half-year to 30 June 2018, largely reflecting reductions in interbank agency fee expense and fees payable to fellow Lloyds Banking Group undertakings following the transfer out of certain activities as a consequence of the Lloyds Banking Group's ring-fencing programme; net trading income was a gain of £90 million compared to a gain in the first half of 2018 of £8 million. Other operating income was £93 million higher with a gain of £72 million in the half-year to 30 June 2019 compared to a loss of £21 million in the half-year to 30 June 2018, in part reflecting the £105 million loss on the sale of the Group's Irish mortgage portfolio in the first half of 2018.

Total operating expenses increased by £125 million to £1,841 million in period compared to £1,716 million in the half-year to 30 June 2018. There was an £87 million increase in regulatory provisions and a £38 million increase in other operating expenses. Regulatory provisions comprised £280 million in respect of payment protection insurance (PPI) compared to £175 million in the half-year to 30 June 2018 and £52 million in respect of other conduct issues. The additional PPI charge in the period is largely driven by expected higher total volume of complaints and associated administration costs given the significant increase in PPI information requests received in the second quarter of 2019. Other operating expenses were £38 million higher at £1,509 million in the half-year to 30 June 2019 compared to £1,471 million in the half-year to 30 June 2018 with decreases in staff costs, as the Lloyds Banking Group moves to employ its staff within Lloyds Bank plc, being offset by increases in expenditure recharged to the Group by fellow Lloyds Banking Group undertakings, again as more external costs for Lloyds Banking Group become paid by Lloyds Bank plc. Increases in depreciation charges were largely offset by the decrease in rent and rates as the Group adopted IFRS 16.

Impairment increased to £213 million in the half-year to 30 June 2019 compared with £93 million in the half-year to 30 June 2018 largely reflecting a single commercial exposure. Despite this underlying credit quality remains strong.

The tax expense for the period was £337 million (half-year to June 2018: £350 million) representing an effective tax rate of 35 per cent (half-year to June 2018: 31 per cent), the higher rate reflecting the impact of increased non-deductible costs including conduct charges.

FINANCIAL REVIEW (continued)

Balance sheet and capital

Total assets were £6,994 million higher at £345,742 million at the end of the period compared to £338,748 million at 31 December 2018 with increases in balances due from fellow Lloyds Banking Group undertakings more than offsetting reductions in the closed mortgage book and the impact of the transfer of the Bank's Netherlands branch to Lloyds Banking Group's European ring-fenced bank. Total liabilities were £6,865 million higher at £333,993 million at 30 June 2019 compared to £327,128 million at 31 December 2018 with increases in amounts due to fellow Lloyds Banking Group undertakings being partially offset by lower customer deposits.

Total equity has increased by £129 million from £11,620 million at 31 December 2018 to £11,749 million at 30 June 2019, with total comprehensive income for the period of £652 million more than offsetting dividends paid of £500 million.

The Group's common equity tier 1 capital ratio increased to 13.9 per cent (31 December 2018: 12.9 per cent) and the tier 1 capital ratio increased to 16.7 per cent (31 December 2018: 15.8 per cent), largely due to profits for the period. The total capital ratio was largely unchanged at 21.4 per cent (31 December 2018: 21.3 per cent) reflecting the increase in tier 1 capital, partially offset by a reduction in tier 2 capital, largely reflecting the movement in eligible provisions and other adjustments.

Risk-weighted assets reduced by £64 million, or 0.1 per cent, to £61,632 million at 30 June 2019 compared to £61,696 million at 31 December 2018, reflecting a reduction in market risk, offset by a net increase in credit risk, largely driven by the implementation of IFRS 16 and mortgage model changes.

FINANCIAL REVIEW (continued)

Capital position at 30 June 2019

The Group's capital position as at 30 June 2019, applying CRD IV transitional rules and IFRS 9 transitional arrangements, is set out in the following section.

Capital ratios

Capital resources (transitional)	At 30 June 2019 £m	At 31 Dec 2018 £m
Common equity tier 1		
Shareholders' equity per balance sheet	**10,241**	10,112
Adjustment to retained earnings for foreseeable dividends	**–**	(500)
Cash flow hedging reserve	**34**	70
Other adjustments	**261**	291
	10,536	9,973
Less: deductions from common equity tier 1		
Goodwill and other intangible assets	**(452)**	(445)
Prudent valuation adjustment	**(96)**	(88)
Excess of expected losses over impairment provisions and value adjustments	**–**	(1)
Deferred tax assets	**(1,420)**	(1,475)
Common equity tier 1 capital	**8,568**	7,964
Additional tier 1		
Additional tier 1 instruments	**1,713**	1,784
Total tier 1 capital	**10,281**	9,748
Tier 2		
Tier 2 instruments	**3,095**	3,205
Eligible provisions	**–**	165
Other adjustments	**(162)**	–
Total tier 2 capital	**2,933**	3,370
Total capital resources	**13,214**	13,118
Risk-weighted assets	**61,632**	61,696
Common equity tier 1 capital ratio[1]	**13.9%**	12.9%
Tier 1 capital ratio[1]	**16.7%**	15.8%
Total capital ratio[1]	**21.4%**	21.3%

[1] Reflecting the full impact of IFRS 9 at 30 June 2019, without the application of transitional arrangements, the Group's common equity tier 1 capital ratio would be 13.4 per cent, the tier 1 capital ratio would be 16.2 per cent and the total capital ratio would be 21.4 per cent.

FINANCIAL REVIEW (continued)

	At 30 June 2019 £m	At 31 Dec 2018 £m
Risk-weighted assets		
Foundation Internal Ratings Based (IRB) Approach	**5,062**	5,363
Retail IRB Approach	**36,799**	35,754
Other IRB Approach	**1,729**	1,093
IRB Approach	**43,590**	42,210
Standardised Approach	**5,974**	6,816
Credit risk	**49,564**	49,026
Counterparty credit risk	**612**	599
Credit valuation adjustment risk	**117**	115
Operational risk	**10,232**	10,232
Market risk	**616**	1,235
Underlying risk-weighted assets	**61,141**	61,207
Threshold risk-weighted assets	**491**	489
Total risk-weighted assets	**61,632**	61,696

PRINCIPAL RISKS AND UNCERTAINTIES

Our Principal risks and uncertainties are reviewed and reported regularly as advised in our 2018 Annual Report. Following a review of the Group's risk categories, change / execution risk, data risk and operational resilience were elevated from secondary to primary risk categories in the Group's Risk Management Framework.

The external risks faced by the Group may impact the success of delivering against the Group's long term strategic objectives. They include but are not limited to global macro-economic conditions, ongoing political uncertainty, regulatory developments and market liquidity.

These changes are being embedded during 2019 and are now reflected within the Group's principal risks as below:

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

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

Operational risk – Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

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

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

Funding and liquidity risk – Funding risk is the risk that we do not have sufficiently stable and diverse sources of funding. Liquidity risk is the risk that we have insufficient financial resources to meet our commitments as they fall due.

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

Market risk – The risk that the Group's capital or earnings profile is affected by adverse market rates. The principal market risks are interest rates and credit spreads in the banking business and equity, credit spreads and longevity risk in the Group's defined benefit pension schemes.

Model risk – The risk of financial loss, regulatory censure, reputational damage or customer detriment, as a result of deficiencies in the development, application and ongoing operation of models and rating systems.

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

Data risk – The risk of the Group failing to effectively govern, manage, and protect its data (or the data shared with Third Party Suppliers) impacting the Group's agility, accuracy, access and availability of data, ultimately leading to poor customer outcomes, loss of value to the Group and mistrust from regulators.

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

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

CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS
CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Note	**Half-year to 30 June 2019 £m**	Half-year to 30 June 2018[1] £m
Interest and similar income		**4,308**	4,305
Interest and similar expense		**(1,601)**	(1,459)
Net interest income		**2,707**	2,846
Fee and commission income		**293**	292
Fee and commission expense		**(146)**	(184)
Net fee and commission income	2	**147**	108
Net trading income		**90**	8
Other operating income		**72**	(21)
Other income		**309**	95
Total income		**3,016**	2,941
Regulatory provisions	10	**(332)**	(245)
Other operating expenses		**(1,509)**	(1,471)
Total operating expenses	3	**(1,841)**	(1,716)
Trading surplus		**1,175**	1,225
Impairment	4	**(213)**	(93)
Profit before tax		**962**	1,132
Tax expense	5	**(337)**	(350)
Profit for the period		**625**	782
Profit attributable to ordinary shareholders		**575**	732
Profit attributable to other equity holders		**50**	50
Profit for the period		**625**	782

[1] Restated, see note 1.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	Half-year to 30 June 2019 £m	Half-year to 30 June 2018[1] £m
Profit for the period	**625**	782
Other comprehensive income		
Items that will not subsequently be reclassified to profit or loss:		
Movement in revaluation reserve in respect of equity shares held at fair value through other comprehensive income:		
Change in fair value	**–**	11
Tax	**–**	–
	–	11
Items that may subsequently be reclassified to profit or loss:		
Movement in revaluation reserve in respect of debt securities held at fair value through other comprehensive income:		
Change in fair value	**6**	(7)
Tax	**(2)**	1
	4	(6)
Movement in cash flow hedging reserve:		
Effective portion of changes in fair value	**30**	(89)
Net income statement transfers	**19**	(11)
Tax	**(13)**	27
	36	(73)
Currency translation differences (tax: nil)	**(13)**	(1)
Other comprehensive income for the period, net of tax	**27**	(69)
Total comprehensive income for the period	**652**	713
Total comprehensive income attributable to ordinary shareholders	**602**	663
Total comprehensive income attributable to other equity shareholders	**50**	50
Total comprehensive income for the period	**652**	713

[1] Restated, see note 1.

CONSOLIDATED BALANCE SHEET

	Note	At 30 June 2019[1] (unaudited) £m	At 31 Dec 2018 (audited) £m
Assets			
Cash and balances at central banks		**2,261**	2,579
Items in course of collection from banks		**131**	181
Financial assets at fair value through profit or loss	6	**500**	509
Derivative financial instruments		**10,479**	9,361
Loans and advances to banks		**315**	471
Loans and advances to customers		**253,049**	262,324
Due from fellow Lloyds Banking Group undertakings		**72,877**	58,932
Financial assets at amortised cost	7	**326,241**	321,727
Financial assets at fair value through other comprehensive income		**2,047**	968
Goodwill		**325**	325
Other intangible assets		**127**	120
Property, plant and equipment		**1,495**	777
Current tax recoverable		**–**	7
Deferred tax assets		**1,718**	1,801
Other assets		**418**	393
Total assets		**345,742**	338,748

[1] Reflects the implementation of IFRS 16, see note 1.

CONSOLIDATED BALANCE SHEET (continued)

	Note	At 30 June 2019[1] (unaudited) £m	At 31 Dec 2018 (audited) £m
Equity and liabilities			
Liabilities			
Deposits from banks		**21,027**	20,908
Customer deposits		**154,132**	162,141
Due to fellow Lloyds Banking Group undertakings		**127,005**	111,769
Items in course of transmission to banks		**158**	274
Financial liabilities at fair value through profit or loss		**102**	103
Derivative financial instruments		**11,448**	10,208
Notes in circulation		**1,042**	1,104
Debt securities in issue	9	**10,152**	11,861
Other liabilities		**1,686**	956
Current tax liabilities		**102**	2
Deferred tax liabilities		**1**	–
Other provisions	10	**752**	1,027
Subordinated liabilities		**6,386**	6,775
Total liabilities		**333,993**	327,128
Equity			
Share capital		**5,847**	5,847
Other reserves		**1,919**	1,892
Retained profits		**2,475**	2,373
Shareholders' equity		**10,241**	10,112
Other equity instruments		**1,500**	1,500
Total equity excluding non-controlling interests		**11,741**	11,612
Non-controlling interests		**8**	8
Total equity		**11,749**	11,620
Total equity and liabilities		**345,742**	338,748

[1] Reflects the implementation of IFRS 16, see note 1.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Attributable to equity shareholders						
	Share capital £m	Other reserves £m	Retained profits £m	Total £m	Other equity instruments £m	Non-controlling interests £m	Total £m
Balance at 1 January 2019	**5,847**	**1,892**	**2,373**	**10,112**	**1,500**	**8**	**11,620**
Comprehensive income							
Profit for the period	–	–	625	625	–	–	625
Other comprehensive income							
Movements in revaluation reserve in respect of debt securities held at fair value through other comprehensive income, net of tax	–	4	–	4	–	–	4
Movements in cash flow hedging reserve, net of tax	–	36	–	36	–	–	36
Currency translation differences (tax: nil)	–	(13)	–	(13)	–	–	(13)
Total other comprehensive income	–	27	–	27	–	–	27
Total comprehensive income	–	27	625	652	–	–	652
Transactions with owners							
Dividends	–	–	(500)	(500)	–	–	(500)
Distributions on other equity instruments	–	–	(50)	(50)	–	–	(50)
Capital contribution received	–	–	27	27	–	–	27
Total transactions with owners	–	–	(523)	(523)	–	–	(523)
Balance at 30 June 2019	**5,847**	**1,919**	**2,475**	**10,241**	**1,500**	**8**	**11,749**

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

	Attributable to equity shareholders						
	Share capital £m	Other reserves £m	Retained profits £m	Total £m	Other equity instruments £m	Non-controlling interests £m	Total £m
Balance at 1 January 2018	5,847	1,989	3,827	11,663	1,500	8	13,171
Comprehensive income							
Profit for the period[1]	–	–	782	782	–	–	782
Other comprehensive income							
Movements in revaluation reserve in respect of financial assets held at fair value through other comprehensive income, net of tax:							
Debt securities	–	(6)	–	(6)	–	–	(6)
Equity shares	–	11	–	11	–	–	11
Movements in cash flow hedging reserve, net of tax	–	(73)	–	(73)	–	–	(73)
Currency translation differences (tax: nil)	–	(1)	–	(1)	–	–	(1)
Total other comprehensive income	–	(69)	–	(69)	–	–	(69)
Total comprehensive income	–	(69)	782	713	–	–	713
Transactions with owners							
Dividends	–	–	(1,500)	(1,500)	–	–	(1,500)
Distributions on other equity instruments[1]	–	–	(50)	(50)	–	–	(50)
Capital contribution received	–	–	37	37	–	–	37
Total transactions with owners	–	–	(1,513)	(1,513)	–	–	(1,513)
Realised gains and losses on equity shares held at fair value through other comprehensive income	–	(1)	1	–	–	–	–
Balance at 30 June 2018	5,847	1,919	3,097	10,863	1,500	8	12,371

[1] Restated, see note 1.

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

	Attributable to equity shareholders						
	Share capital £m	Other reserves £m	Retained profits £m	Total £m	Other equity instruments £m	Non-controlling interests £m	Total £m
Balance at 1 July 2018	5,847	1,919	3,097	10,863	1,500	8	12,371
Comprehensive income							
Profit for the period[1]	–	–	786	786	–	–	786
Other comprehensive income							
Movements in revaluation reserve in respect of financial assets held at fair value through other comprehensive income, net of tax:							
Debt securities	–	(6)	–	(6)	–	–	(6)
Equity shares	–	(1)	–	(1)	–	–	(1)
Movements in cash flow hedging reserve, net of tax	–	(20)	–	(20)	–	–	(20)
Currency translation differences (tax: nil)	–	5	–	5	–	–	5
Total other comprehensive income	–	(22)	–	(22)	–	–	(22)
Total comprehensive income	–	(22)	786	764	–	–	764
Transactions with owners							
Dividends	–	–	(1,500)	(1,500)	–	–	(1,500)
Distributions on other equity instruments[1]	–	–	(51)	(51)	–	–	(51)
Capital contribution received	–	–	36	36	–	–	36
Total transactions with owners	–	–	(1,515)	(1,515)	–	–	(1,515)
Realised gains and losses on equity shares held at fair value through other comprehensive income	–	(5)	5	–	–	–	–
Balance at 31 December 2018	5,847	1,892	2,373	10,112	1,500	8	11,620

[1] Restated, see note 1.

CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

	Half-year to 30 June 2019 £m	Half-year to 30 June 2018 £m
Profit before tax	**962**	1,132
Adjustments for:		
Change in operating assets	**(5,564)**	24,929
Change in operating liabilities	**6,680**	(23,816)
Non-cash and other items	**(214)**	(589)
Tax paid	**(159)**	(820)
Net cash provided by operating activities	**1,705**	836
Cash flows from investing activities		
Purchase of financial assets	**(1,171)**	(281)
Proceeds from sale and maturity of financial assets	**184**	297
Purchase of fixed assets	**(129)**	(90)
Proceeds from sale of fixed assets	**55**	50
Net cash used in investing activities	**(1,061)**	(24)
Cash flows from financing activities		
Dividends paid to ordinary shareholders	**(500)**	(1,500)
Distributions on other equity instruments	**(50)**	(50)
Interest paid on subordinated liabilities	**(116)**	(134)
Repayment of subordinated liabilities	**(328)**	(150)
Net cash used in financing activities	**(994)**	(1,834)
Effects of exchange rate changes on cash and cash equivalents	**–**	–
Change in cash and cash equivalents	**(350)**	(1,022)
Cash and cash equivalents at beginning of period	**1,003**	2,375
Cash and cash equivalents at end of period	**653**	1,353

Cash and cash equivalents comprise cash and balances at central banks (excluding mandatory deposits) and amounts due from banks with a maturity of less than three months.

NOTES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Accounting policies, presentation and estimates

These condensed consolidated half-year financial statements as at and for the period to 30 June 2019 have been prepared in accordance with the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority (FCA) and with International Accounting Standard 34 (IAS 34), *Interim Financial Reporting* as adopted by the European Union and comprise the results of Bank of Scotland plc (the Bank) together with its subsidiaries (the Group). They do not include all of the information required for full annual financial statements and should be read in conjunction with the Group's consolidated financial statements as at and for the year ended 31 December 2018 which were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. Copies of the 2018 Annual Report and Accounts are available on the Lloyds Banking Group's website and are available upon request from Investor Relations, Lloyds Banking Group plc, 25 Gresham Street, London EC2V 7HN.

The directors consider that it is appropriate to continue to adopt the going concern basis in preparing the condensed consolidated half-year financial statements. In reaching this assessment, the directors have considered projections for the Group's capital and funding position.

Except as noted below, the accounting policies are consistent with those applied by the Group in its 2018 Annual Report and Accounts.

Changes in accounting policy

The Group adopted IFRS 16 *Leases* from 1 January 2019. IFRS 16 replaces IAS 17 *Leases* and addresses the classification and measurement of all leases. The Group's accounting as a lessor under IFRS 16 is substantially unchanged from its approach under IAS 17; however for lessee accounting there is no longer a distinction between finance and operating leases.

As lessee, under IFRS 16, in respect of leased properties previously accounted for as operating leases the Group now recognises a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use. 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. 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 leases with a lease term of 12 months or less and leases of low-value assets are recognised as an expense in profit or loss on a straight-line basis.

Details of the impact of adoption of IFRS 16 are provided in note 15.

The Group has also implemented the amendments to IAS 12 *Income Taxes* with effect from 1 January 2019 and as a result tax relief on distributions on other equity instruments, previously taken directly to retained profits, is now reported within tax expense in the income statement. Comparatives have been restated. Adoption of these amendments to IAS 12 has resulted in a reduction in the tax expense and an increase in profit for the period in the half-year to 30 June 2019 of £14 million (half-year to 30 June 2018: £14 million). There is no impact on total shareholders' equity.

Future accounting developments

The IASB has issued a number of minor amendments to IFRSs effective 1 January 2020 (including IFRS 3 *Business Combinations* and IAS 1 *Presentation of Financial Statements*). These amendments are not expected to have a significant impact on the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1. Accounting policies, presentation and estimates (continued)

Critical accounting estimates and judgements

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that impact the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, actual results reported in future periods may include amounts which differ from those estimates. Estimates, judgements and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group's significant judgements, estimates and assumptions are unchanged, compared to those applied at 31 December 2018, except as detailed below.

Allowance for impairment losses

At 30 June 2019 the Group's allowance for expected credit losses (ECL) allowance was £2,170 million (31 December 2018: £2,189 million), of which £2,116 million (31 December 2018: £2,139 million) was in respect of drawn balances.

The measurement of expected credit losses is required to reflect an unbiased probability-weighted range of possible future outcomes. The approach to generating the economic scenarios used in the calculation of the Group's ECL allowances is little changed since 31 December 2018. The central scenario reflects the Group's updated base case assumptions used for medium-term planning purposes. Additional model-generated upside, downside and severe downside scenarios are identified to represent a typical scenario from specified points along an estimated loss distribution, with the scenario weightings unchanged since 31 December 2018. The key UK economic assumptions made by the Group as at 30 June 2019 averaged over a five year period are shown below.

Economic assumptions

	Base case %	Upside %	Downside %	Severe downside %
Scenario weighting	**30**	**30**	**30**	**10**
At 30 June 2019				
Bank of England base rate	**1.25**	**2.05**	**0.49**	**0.11**
Unemployment rate	**4.3**	**3.8**	**5.7**	**7.0**
House price growth	**1.5**	**5.2**	**(2.3)**	**(7.4)**
Commercial real estate price growth	**(0.2)**	**1.6**	**(4.9)**	**(9.5)**
At 31 December 2018				
Bank of England base rate	1.25	2.34	1.30	0.71
Unemployment rate	4.5	3.9	5.3	6.9
House price growth	2.5	6.1	(4.8)	(7.5)
Commercial real estate price growth	0.4	5.3	(4.7)	(6.4)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1. Accounting policies, presentation and estimates (continued)

Economic assumptions – start to peak

	Base case %	Upside %	Downside %	Severe downside %
At 30 June 2019				
Bank of England base rate	**1.75**	**2.70**	**0.75**	**0.75**
Unemployment rate	**4.7**	**4.5**	**7.0**	**8.1**
House price growth	**7.3**	**28.8**	**(1.6)**	**(2.2)**
Commercial real estate price growth	**(0.6)**	**8.4**	**(1.0)**	**(1.6)**
At 31 December 2018				
Bank of England base rate	1.75	4.00	1.75	1.25
Unemployment rate	4.8	4.3	6.3	8.6
House price growth	13.7	34.9	0.6	(1.6)
Commercial real estate price growth	0.1	26.9	(0.5)	(0.5)

Economic assumptions – start to trough

	Base case %	Upside %	Downside %	Severe downside %
At 30 June 2019				
Bank of England base rate	**0.75**	**0.75**	**0.31**	**0.01**
Unemployment rate	**3.8**	**3.4**	**3.8**	**3.9**
House price growth	**(1.1)**	**(0.5)**	**(12.0)**	**(33.2)**
Commercial real estate price growth	**(1.5)**	**0.0**	**(23.8)**	**(40.7)**
At 31 December 2018				
Bank of England base rate	0.75	0.75	0.75	0.25
Unemployment rate	4.1	3.5	4.3	4.2
House price growth	0.4	2.3	(26.5)	(33.5)
Commercial real estate price growth	(0.1)	0.0	(23.8)	(33.8)

The Group's base-case economic scenario has changed little over the year and reflects a broadly stable outlook for the economy. Although there remains considerable uncertainty about the economic consequences of the UK's planned exit from the European Union, the Group considers that at this stage the range of possible outcomes is adequately reflected in its choice and weighting of scenarios.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. Net fee and commission income

	Half-year to 30 June 2019 £m	Half-year to 30 June 2018 £m
Fee and commission income:		
Current accounts	**103**	96
Credit and debit card fees	**110**	114
Other	**80**	82
Total fee and commission income	**293**	292
Fee and commission expense	**(146)**	(184)
Net fee and commission income	**147**	108

3. Operating expenses

	Half-year to 30 June 2019 £m	Half-year to 30 June 2018 £m
Administrative expenses		
Staff costs	**641**	702
Premises and equipment	**87**	141
Other expenses	**663**	548
	1,391	1,391
Depreciation and amortisation	**118**	80
Total operating expenses, excluding regulatory provisions	**1,509**	1,471
Regulatory provisions:		
Payment protection insurance provision (note 10)	**280**	175
Other regulatory provisions (note 10)	**52**	70
	332	245
Total operating expenses	**1,841**	1,716

4. Impairment

	Half-year to 30 June 2019 £m	Half-year to 30 June 2018 £m
Impairment charge on drawn balances	**209**	108
Loan commitments and financial guarantees	**4**	(16)
Financial assets at fair value through other comprehensive income	**–**	1
Total impairment charge	**213**	93

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Taxation

In accordance with IAS 34, the Group's income tax expense for the half-year to 30 June 2019 is based on the best estimate of the weighted-average annual income tax rate expected for the full financial year. The tax effects of one-off items are not included in the weighted-average annual income tax rate, but are recognised in the relevant period.

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

	Half-year to 30 June 2019 £m	Half-year to 30 June 2018[1] £m
Profit before tax	**962**	1,132
UK corporation tax thereon at 19 per cent (2018: 19 per cent)	**(183)**	(215)
Impact of surcharge on banking profits	**(95)**	(95)
Non-deductible costs: conduct charges	**(54)**	(33)
Other non-deductible costs	**(16)**	(7)
Non-taxable income	**1**	7
Tax relief on coupons on other equity instruments	**10**	10
Tax-exempt gains on disposals	**–**	1
Recognition of losses that arose in prior years	**–**	(14)
Adjustments in respect of prior years	**–**	(4)
Tax expense	**(337)**	(350)

[1] Restated, see note 1.

6. Financial assets at fair value through profit or loss

	At 30 June 2019 £m	At 31 Dec 2018 £m
Loans and advances to customers	**500**	509

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. Financial assets at amortised cost

Half-year to 30 June 2019

(A) Loans and advances to customers

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
At 1 January 2019	**232,951**	**25,345**	**6,143**	**264,439**
Exchange and other adjustments	**76**	**(17)**	**(26)**	**33**
Additions (repayments)	**37**	**(1,515)**	**(544)**	**(2,022)**
Transfers to Stage 1	**3,030**	**(3,020)**	**(10)**	**–**
Transfers to Stage 2	**(5,957)**	**6,525**	**(568)**	**–**
Transfers to Stage 3	**(345)**	**(1,181)**	**1,526**	**–**
	(3,272)	**2,324**	**948**	**–**
Recoveries			**85**	**85**
Disposal of businesses	**(6,615)**	**(360)**	**(42)**	**(7,017)**
Financial assets that have been written off			**(371)**	**(371)**
At 30 June 2019	**223,177**	**25,777**	**6,193**	**255,147**
Allowance for impairment losses	**(154)**	**(816)**	**(1,128)**	**(2,098)**
Total loans and advances to customers	**223,023**	**24,961**	**5,065**	**253,049**

(B) Loans and advances to banks

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
At 1 January 2019	**471**	**–**	**–**	**471**
Additions (repayments)	**(156)**	**–**	**–**	**(156)**
At 30 June 2019	**315**	**–**	**–**	**315**
Allowance for impairment losses	**–**	**–**	**–**	**–**
Total loans and advances to banks	**315**	**–**	**–**	**315**

(C) Debt securities

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
At 1 January 2019	**–**	**–**	**13**	**13**
Financial assets that have been written off			**(12)**	**(12)**
At 30 June 2019	**–**	**–**	**1**	**1**
Allowance for impairment losses	**–**	**–**	**(1)**	**(1)**
Total debt securities	**–**	**–**	**–**	**–**
Due from fellow Lloyds Banking Group undertakings	**72,877**	**–**	**–**	**72,877**
Total financial assets at amortised cost	**296,215**	**24,961**	**5,065**	**326,241**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. Financial assets at amortised cost (continued)

Year ended 31 December 2018

(A) Loans and advances to customers

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
At 1 January 2018	226,533	37,768	6,039	270,340
Exchange and other adjustments	108	(20)	(2)	86
Additions (repayments)	2,903	(2,104)	(1,287)	(488)
Transfers to Stage 1	11,361	(11,350)	(11)	–
Transfers to Stage 2	(6,731)	7,470	(739)	–
Transfers to Stage 3	(680)	(2,395)	3,075	–
	3,950	(6,275)	2,325	–
Recoveries	–	–	218	218
Disposal of businesses	(543)	(4,024)	(553)	(5,120)
Financial assets that have been written off			(597)	(597)
At 31 December 2018	232,951	25,345	6,143	264,439
Allowance for impairment losses	(149)	(858)	(1,108)	(2,115)
Total loans and advances to customers	232,802	24,487	5,035	262,324

(B) Loans and advances to banks

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
At 1 January 2018	518	–	–	518
Exchange and other adjustments	1	–	–	1
Additions (repayments)	(48)	–	–	(48)
At 31 December 2018	471	–	–	471
Allowance for impairment losses	–	–	–	–
Total loans and advances to banks	471	–	–	471

(C) Debt securities

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
At 1 January 2018	–	–	30	30
Exchange and other movements	–	–	(10)	(10)
Financial assets that have been written off			(7)	(7)
At 31 December 2018	–	–	13	13
Allowance for impairment losses	–	–	(13)	(13)
Total debt securities	–	–	–	–
Due from fellow Lloyds Banking Group undertakings	58,932	–	–	58,932
Total financial assets at amortised cost	292,205	24,487	5,035	321,727

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. Financial assets at amortised cost (continued)

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 30 June 2019. Net increase and decrease in balances comprise new loans originated and repayments of outstanding balances throughout the reporting period. Loans which are written off in the period are first transferred to Stage 3 before write-off.

Loans and advances to customers include advances securitised under the Group's securitisation and covered bond programmes (see note 9).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. Allowance for impairment losses

Half-year to 30 June 2019

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
In respect of drawn balances				
At 1 January 2019	160	858	1,121	2,139
Exchange and other adjustments	(2)	(6)	109	101
Transfers to Stage 1	153	(149)	(4)	–
Transfers to Stage 2	(22)	87	(65)	–
Transfers to Stage 3	(5)	(98)	103	–
Impact of transfers between stages	(135)	168	85	118
	(9)	8	119	118
Other items charged to the income statement	28	(35)	98	91
Charge to the income statement (note 4)	19	(27)	217	209
Advances written off			(383)	(383)
Disposal of businesses	(6)	(9)	(14)	(29)
Recoveries of advances written off in previous years			85	85
Discount unwind			(6)	(6)
At 30 June 2019	171	816	1,129	2,116
In respect of undrawn balances				
At 1 January 2019	24	23	3	50
Transfers to Stage 1	3	(3)	–	–
Transfers to Stage 2	(1)	1	–	–
Transfers to Stage 3	–	(1)	1	–
Impact of transfers between stages	(3)	6	–	3
	(1)	3	1	3
Other items charged to the income statement	1	2	(2)	1
Charge to the income statement (note 4)	–	5	(1)	4
At 30 June 2019	24	28	2	54
Total allowance for impairment losses	195	844	1,131	2,170
In respect of:				
Loans and advances to customers	154	816	1,128	2,098
Debt securities	–	–	1	1
Other assets	17	–	–	17
Drawn balances	171	816	1,129	2,116
Provisions in relation to loan commitments and financial guarantees	24	28	2	54
Total allowance for impairment losses	195	844	1,131	2,170

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. Allowance for impairment losses (continued)

Year ended 31 December 2018

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
In respect of drawn balances				
At 1 January 2018	164	1,076	1,260	2,500
Exchange and other adjustments	18	(1)	41	58
Transfers to Stage 1	137	(134)	(3)	–
Transfers to Stage 2	(14)	92	(78)	–
Transfers to Stage 3	(8)	(111)	119	–
Impact of transfers between stages	(95)	120	152	177
	20	(33)	190	177
Other items charged to the income statement	(42)	(82)	179	55
Charge to the income statement (note 4)	(22)	(115)	369	232
Advances written off			(604)	(604)
Disposal of businesses	–	(102)	(162)	(264)
Recoveries of advances written off in previous years			218	218
Discount unwind			(1)	(1)
At 31 December 2018	160	858	1,121	2,139
In respect of undrawn balances				
At 1 January 2018	37	50	–	87
Exchange and other adjustments	–	(1)	2	1
Transfers to Stage 1	11	(11)	–	–
Transfers to Stage 2	(2)	2	–	–
Transfers to Stage 3	(1)	(2)	3	–
Impact of transfers between stages	(10)	7	(1)	(4)
	(2)	(4)	2	(4)
Other items charged to the income statement	(11)	(22)	(1)	(34)
Charge to the income statement	(13)	(26)	1	(38)
At 31 December 2018	24	23	3	50
Total allowance for impairment losses	184	881	1,124	2,189
In respect of:				
Loans and advances to banks	–	–	–	–
Loans and advances to customers	149	858	1,108	2,115
Debt securities	–	–	13	13
Other assets	11	–	–	11
Drawn balances	160	858	1,121	2,139
Provisions in relation to loan commitments and financial guarantees	24	23	3	50
Total allowance for impairment losses	184	881	1,124	2,189

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. Allowance for impairment losses (continued)

The Group's income statement charge comprises:

	Half-year to 30 June 2019 £m	Year ended 31 Dec 2018 £m
Drawn balances	**209**	232
Undrawn balances	**4**	(38)
Total	**213**	194

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 30 June 2019. As assets are transferred between stages, the resulting change in expected credit loss of £118 million for drawn balances, and £3 million for undrawn balances, is presented separately, in the stage in which the allowance is recognised at the end of the reporting period.

Net increase and decrease in balances comprise the movements in the expected credit loss as a result of new loans originated and repayments of outstanding balances throughout the reporting period. Loans which are written off in the period are first transferred to Stage 3 before write-off. Consequently, recoveries on assets previously written-off will also occur in Stage 3 only.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. Debt securities in issue

	30 June 2019			31 December 2018		
	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
Medium-term notes issued	**–**	**1,166**	**1,166**	–	1,168	1,168
Covered bonds	**–**	**4,811**	**4,811**	–	6,017	6,017
Securitisation notes	**52**	**4,175**	**4,227**	53	4,676	4,729
Total debt securities in issue	**52**	**10,152**	**10,204**	53	11,861	11,914

The notes issued by the Group's securitisation and covered bond programmes are held by external parties and by subsidiaries of the Group.

Securitisation programmes

At 30 June 2019, external parties held £4,227 million (31 December 2018: £4,729 million) and the Group's subsidiaries held £22,425 million (31 December 2018: £22,826 million) of total securitisation notes in issue of £26,652 million (31 December 2018: £27,555 million). The notes are secured on loans and advances to customers and debt securities classified at amortised cost amounting to £27,335 million (31 December 2018: £29,330 million), the majority of which have been sold by subsidiary companies to bankruptcy remote structured entities. The structured entities are consolidated fully and all of these loans are retained on the Group's balance sheet.

Covered bond programmes

At 30 June 2019, external parties held £4,811 million (31 December 2018: £6,017 million) and the Group's subsidiaries held £700 million (31 December 2018: £700 million) of total covered bonds in issue of £5,511 million (31 December 2018: £6,717 million). The bonds are secured on certain loans and advances to customers amounting to £7,355 million (31 December 2018: £9,034 million) that have been assigned to bankruptcy remote limited liability partnerships. These loans are retained on the Group's balance sheet.

Cash deposits of £1,691 million (31 December 2018: £1,843 million) which support the debt securities issued by the structured entities, the term advances related to covered bonds and other legal obligations are held by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. Provisions for liabilities and charges

	Provisions for commitments £m	Payment Protection Insurance £m	Other regulatory provisions £m	Other £m	Total £m
At 31 December 2018	50	392	442	143	1,027
Adjustment on implementation of IFRS 16	**–**	**–**	**–**	**(30)**	**(30)**
Provisions applied	**–**	**(323)**	**(220)**	**(44)**	**(587)**
Charge for the period	**4**	**280**	**52**	**6**	**342**
At 30 June 2019	**54**	**349**	**274**	**75**	**752**

Payment protection insurance

The Group increased the provision for PPI costs by a further £280 million in the half-year to 30 June 2019, of which £245 million was in the second quarter, bringing the total amount provided to £5,738 million.

The charge in the second quarter is largely driven by the significant increase in PPI information requests (PIRs) which is likely to lead to higher total complaints and associated administration costs.

At 30 June 2019, a provision of £349 million remained unutilised relating to complaints and associated administration costs. Total cash payments were £323 million during the six months to 30 June 2019.

The total amount provided for PPI represents the Group's best estimate of the likely future cost. A number of risks and uncertainties remain including with respect to future complaint volumes, however the potential impact of these risks has reduced due to the proximity of the industry deadline. The cost could differ from the Group's estimates and the assumptions underpinning them, and could result in a further provision being required. This may also be impacted by any further regulatory changes, the final stage of the Financial Conduct Authority (FCA) media campaign and Claims Management Company and customer activity, and potential additional remediation arising from the continuous improvement of the Group's operational practices.

Deloitte LLP has been appointed to assist the Official Receiver with the submission of PPI queries to providers to establish whether any mis-sold PPI redress is due to creditors of bankrupts' estates. The Group has not made any provision in relation to this matter, which will remain under review.

For every additional 1,000 reactive complaints per week from July 2019 through to the industry deadline of the end of August 2019, the Group would expect an additional charge of approximately £20 million.

Other provisions for legal actions and regulatory matters

In the course of its business, the Group is engaged in discussions with the PRA, FCA and other UK and overseas regulators and other governmental authorities on a range of matters. The Group also receives complaints in connection with its past conduct and claims brought by or on behalf of current and former employees, customers, investors and other third parties and is subject to legal proceedings and other legal actions. Where significant, provisions are held against the costs expected to be incurred in relation to these matters and matters arising from related internal reviews. During the six months to 30 June 2019 the Group charged a further £52 million in respect of legal actions and other regulatory matters, and the unutilised balance at 30 June 2019 was £274 million (31 December 2018: £442 million). The most significant items are as follows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. Provisions for liabilities and charges (continued)

Arrears handling related activities

The Group has provided an additional £26 million in the half-year to 30 June 2019 for the costs of identifying and rectifying certain arrears management fees and activities, taking the total provided to date to £480 million. The Group has put in place a number of actions to improve its handling of customers in these areas and has made good progress in reimbursing arrears fees to impacted customers.

Packaged bank accounts

The Group had provided a total of £204 million up to 31 December 2018 in respect of complaints relating to alleged mis-selling of packaged bank accounts, with no further amounts provided during the six months to 30 June 2019. A number of risks and uncertainties remain particularly with respect to future volumes.

HBOS Reading – customer review

The Group has now completed its compensation assessment for all 71 business customers within the customer review, with more than 98 per cent of these offers to individuals accepted. In total, more than £98 million has been offered of which £84 million has so far been accepted, in addition to £9 million for ex-gratia payments and £6 million for the re-imbursements of legal fees.

The review follows the conclusion of a criminal trial in which a number of individuals, including two former HBOS employees, were convicted of conspiracy to corrupt, fraudulent trading and associated money laundering offences which occurred prior to the acquisition of HBOS by Lloyds Banking Group in 2009. The Group had provided a further £15 million in the year ended 31 December 2018 for customer settlements, raising the total amount provided to £115 million and is now nearing the end of the process of paying compensation to the victims of the fraud, including ex-gratia payments and re-imbursements of legal fees.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. Contingent liabilities and commitments

Interchange fees

With respect to multi-lateral interchange fees (MIFs), the Group is not directly involved in the ongoing litigation (as described below) which involve card schemes such as Visa and Mastercard. However, the Group is a member / licensee of Visa and Mastercard and other card schemes:

- Litigation brought by retailers continues in the English Courts against both Visa and Mastercard.
- Litigation brought on behalf of UK consumers is also proceeding in the English Courts against Mastercard.
- Any ultimate impact on the Group of the litigation against Visa and Mastercard remains uncertain at this time

Visa Inc completed its acquisition of Visa Europe on 21 June 2016. As part of this transaction, the Group and certain other UK banks also entered into a Loss Sharing Agreement (LSA) with Visa Inc, which clarifies the allocation of liabilities between the parties should the litigation referred to above result in Visa Inc being liable for damages payable by Visa Europe. The maximum amount of liability to which the Group may be subject under the LSA is capped at the cash consideration which was received by the Group at completion. Visa Inc may also have recourse to a general indemnity, previously in place under Visa Europe's Operating Regulations, for damages claims concerning inter or intra-regional MIF setting activities.

LIBOR and other trading rates

In July 2014, Lloyds Banking Group announced that it had reached settlements totalling £217 million (at 30 June 2014 exchange rates) to resolve with UK and US federal authorities legacy issues regarding the manipulation several years ago of Lloyds Banking Group companies' submissions to the British Bankers' Association (BBA) London Interbank Offered Rate (LIBOR) and Sterling Repo Rate. The Swiss Competition Commission concluded its investigation against Lloyds in June 2019. Lloyds Banking Group continues to cooperate with various other government and regulatory authorities, including a number of US State Attorneys General, in conjunction with their investigations into submissions made by panel members to the bodies that set LIBOR and various other interbank offered rates.

Certain Lloyds Banking Group companies, together with other panel banks, have also been named as defendants in 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 LIBOR and the Australian BBSW Reference Rate. Certain of the plaintiffs' claims, have been dismissed by the US Federal Court for Southern District of New York (subject to appeals).

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 the claims against Lloyds Banking Group in relation to the alleged mis-sale of interest rate hedging products also include allegations of LIBOR manipulation.

It is currently not possible to predict the scope and ultimate outcome on the Group of the various outstanding regulatory investigations not encompassed by the settlements, any private lawsuits or any related challenges to the interpretation or validity of any of Lloyds Banking Group's contractual arrangements, including their timing and scale.

UK shareholder litigation

In August 2014, Lloyds Banking Group and a number of former directors were named as defendants in a claim by a number of claimants who held shares in Lloyds TSB Group plc (LTSB) prior to the acquisition of HBOS plc, alleging breaches of duties in relation to information provided to shareholders in connection with the acquisition and the recapitalisation of LTSB. The defendants refute all claims made. A trial commenced in the English High Court on 18 October 2017 and concluded on 5 March 2018 with judgment to follow. It is currently not possible to determine the ultimate impact on the Group (if any).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. Contingent liabilities and commitments (continued)

Tax authorities

Lloyds Banking Group has an open matter in relation to a claim for group relief of losses incurred in its former Irish banking subsidiary, which ceased trading on 31 December 2010. In 2013 HMRC informed Lloyds Banking Group that their interpretation of the UK rules which allow the offset of such losses denies the claim. If HMRC's position is found to be correct management estimate that this would result in an increase in Bank of Scotland Group's current tax liabilities of approximately £170 million (including interest). Lloyds Banking Group does not agree with HMRC's position and, having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due.

Mortgage arrears handling activities

On 26 May 2016, Lloyds Banking Group was informed that an enforcement team at the FCA had commenced an investigation in connection with the Group's mortgage arrears handling activities. This investigation is ongoing and Lloyds Banking Group continues to cooperate with the FCA. It is not currently possible to make a reliable assessment of any liability that may result from the investigation including any financial penalty or public censure.

HBOS Reading - FCA investigation

The FCA's investigation into the events surrounding the discovery of misconduct within the Reading-based Impaired Assets team of HBOS has concluded. The FCA issued a final notice on 21 June 2019 announcing that Lloyds Banking Group had agreed to settle the matter and pay a fine of £45.5 million.

Other legal actions and regulatory matters

In addition, during the ordinary course of 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, investors or other third parties, as well as legal and regulatory reviews, challenges, investigations and enforcement actions, both in the UK and overseas. All such material matters are periodically reassessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of the Group incurring a liability. In those instances where it is concluded that it is more likely than not that a payment will be made, a provision is established to management's best estimate of the amount required at the relevant balance sheet date. In some cases it will not be possible to form a view, for example because the facts are unclear or because further time is needed properly to assess the merits of the case, and no provisions are held in relation to such matters. In these circumstances, specific disclosure in relation to a contingent liability will be made where material. However the Group does not currently expect the final outcome of any such case to have a material adverse effect on its financial position, operations or cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. Contingent liabilities and commitments (continued)

Contingent liabilities and commitments arising from the banking business

	At 30 June 2019 £m	At 31 Dec 2018 £m
Contingent liabilities		
Acceptances and endorsements	**1**	1
Other:		
Other items serving as direct credit substitutes	**32**	36
Performance bonds and other transaction-related contingencies	**212**	192
	244	228
Total contingent liabilities	**245**	229
Commitments and guarantees		
Documentary credits and other short-term trade-related transactions	**1**	1
Forward asset purchases and forward deposits placed	**27**	47
Undrawn formal standby facilities, credit lines and other commitments to lend:		
Less than 1 year original maturity:		
Mortgage offers made	**13,075**	10,059
Other commitments and guarantees	**23,376**	23,024
	36,451	33,083
1 year or over original maturity	**3,008**	3,211
Total commitments and guarantees	**39,487**	36,342

Of the amounts shown above in respect of undrawn formal standby facilities, credit lines and other commitments to lend, £16,635 million (31 December 2018: £13,937 million) was irrevocable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. Fair values of financial assets and liabilities

The valuations of financial instruments have been classified into three levels according to the quality and reliability of information used to determine those fair values. Note 41 to the Group's 2018 financial statements describes the definitions of the three levels in the fair value hierarchy.

Valuation control framework

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

Transfers into and out of level 3 portfolios

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

Valuation methodology

For level 2 and level 3 portfolios, there is no significant change to the valuation methodology (techniques and inputs) disclosed in the Group's 2018 Annual Report and Accounts applied to these portfolios.

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

	30 June 2019		31 December 2018	
	Carrying value £m	**Fair value £m**	Carrying value £m	Fair value £m
Financial assets				
Financial assets at fair value through profit or loss	**500**	**500**	509	509
Derivative financial instruments	**10,479**	**10,479**	9,361	9,361
Loans and advances to banks	**315**	**315**	471	471
Loans and advances to customers	**253,049**	**256,387**	262,324	264,320
Due from fellow Lloyds Banking Group undertakings	**72,877**	**72,877**	58,932	58,932
Financial assets at amortised cost:	**326,241**	**329,579**	321,727	323,723
Financial assets at fair value through other comprehensive income	**2,047**	**2,047**	968	968
Financial liabilities				
Deposits from banks	**21,027**	**21,027**	20,908	20,908
Customer deposits	**154,132**	**153,939**	162,141	161,908
Due to fellow Lloyds Banking Group undertakings	**127,005**	**127,005**	111,769	111,769
Financial liabilities at fair value through profit or loss	**102**	**102**	103	103
Derivative financial instruments	**11,448**	**11,448**	10,208	10,208
Debt securities in issue	**10,152**	**10,178**	11,861	11,821
Subordinated liabilities	**6,386**	**6,401**	6,775	6,784

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. Fair values of financial assets and liabilities (**continued**)

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.

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

The following tables provide an analysis of the financial assets and liabilities of the Group that are carried at fair value in the Group's consolidated balance sheet, grouped into levels 1 to 3 based on the degree to which the fair value is observable.

Financial assets

	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**
At 30 June 2019				
Financial assets at fair value through profit or loss:				
Loans and advances to customers	**–**	**–**	**500**	**500**
Total financial assets at fair value through profit or loss	**–**	**–**	**500**	**500**
Financial assets at fair value through other comprehensive income:				
Debt securities	**–**	**2,047**	**–**	**2,047**
Total financial assets at fair value through other comprehensive income:	**–**	**2,047**	**–**	**2,047**
Derivative financial instruments	**–**	**10,466**	**13**	**10,479**
Total financial assets carried at fair value	**–**	**12,513**	**513**	**13,026**

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 31 December 2018				
Financial assets at fair value through profit or loss:				
Loans and advances to customers	–	399	110	509
Total financial assets at fair value through profit or loss	–	399	110	509
Financial assets at fair value through other comprehensive income:				
Debt securities	–	968	–	968
Total financial assets at fair value through other comprehensive income	–	968	–	968
Derivative financial instruments	–	9,361	–	9,361
Total financial assets carried at fair value	–	10,728	110	10,838

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. Fair values of financial assets and liabilities (**continued**)

Financial liabilities

	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**
At 30 June 2019				
Financial liabilities at fair value through profit or loss:				
Liabilities held at fair value through profit or loss	**–**	**–**	**52**	**52**
Trading liabilities	**–**	**50**	**–**	**50**
Total financial liabilities at fair value through profit or loss	**–**	**50**	**52**	**102**
Derivative financial instruments	**–**	**11,116**	**332**	**11,448**
Total financial liabilities carried at fair value	**–**	**11,166**	**384**	**11,550**

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 31 December 2018				
Financial liabilities at fair value through profit or loss:				
Liabilities held at fair value through profit or loss	–	53	–	53
Trading liabilities	–	50	–	50
Total financial liabilities at fair value through profit or loss	–	103	–	103
Derivative financial instruments	–	10,208	–	10,208
Total financial liabilities carried at fair value	–	10,311	–	10,311

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. Fair values of financial assets and liabilities (continued)

Movements in level 3 portfolio

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

	Financial assets at fair value through profit or loss £m	**Financial assets at fair value through other comprehensive income £m**	**Derivative assets £m**	**Total financial assets carried at fair value £m**
At 1 January 2019	110	–	–	110
Gains (losses) recognised in the income statement within other income	**(1)**	**–**	**1**	**–**
Additions	**–**	**–**	**1**	**1**
Sales	**(8)**	**–**	**–**	**(8)**
Transfers into the level 3 portfolio	**399**	**–**	**11**	**410**
At 30 June 2019	**500**	**–**	**13**	**513**
Gains (losses) recognised in the income statement within other income relating to those assets held at 30 June 2019	**–**	**–**	**–**	**–**

	Financial assets at fair value through profit or loss £m	Financial assets at fair value through other comprehensive income £m	Derivative assets £m	Total financial assets carried at fair value £m
At 1 January 2018	62	7	420	489
Exchange and other adjustments	1	–	–	1
Gains (losses) recognised in the income statement within other income	2	–	(2)	–
Sales	–	–	(418)	(418)
Transfers into the level 3 portfolio	–	128	–	128
Transfers out of the level 3 portfolio	–	–	–	–
At 30 June 2018	65	135	–	200
Gains (losses) recognised in the income statement within other income relating to those assets held at 30 June 2018	9	–	(2)	7

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. Fair values of financial assets and liabilities (continued)

Movements in level 3 portfolio

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

	Financial liabilities at fair value through profit or loss £m	**Derivative liabilities £m**	**Total financial liabilities carried at fair value £m**
At 1 January 2019	**–**	**–**	**–**
Redemptions	**(1)**	**(12)**	**(13)**
Transfers into the level 3 portfolio	**53**	**344**	**397**
At 30 June 2019	**52**	**332**	**384**
Gains recognised in the income statement within other income relating to those liabilities held at 30 June 2019	**–**	**–**	**–**

	Financial liabilities at fair value through profit or loss £m	Derivative liabilities £m	Total financial liabilities carried at fair value £m
At 1 January 2018	–	54	54
Redemptions	–	(54)	(54)
At 30 June 2018	–	–	–
Gains recognised in the income statement within other income relating to those liabilities held at 30 June 2018	–	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. Fair values of financial assets and liabilities (**continued**)

The tables below set out the effects of reasonably possible alternative assumptions for categories of level 3 financial assets and financial liabilities which have an aggregated carrying value greater than £500 million.

				At 30 June 2019		
					Effect of reasonably possible alternative assumptions[1]	
	Valuation technique(s)	**Significant unobservable inputs**	**Range[2]**	**Carrying value £m**	**Favourable changes £m**	**Unfavourable changes £m**
Financial assets at fair value through profit or loss:						
Loans and to customers	Discounted cash flows	Inferred spreads	**76bps/104bps**	**500**	**4**	**(4)**
Financial assets at fair value through other comprehensive income				**–**	**–**	**–**
Derivative financial assets				**13**	**–**	**–**
Financial assets carried at fair value				**513**		
Financial liabilities at fair value through profit or loss				**52**	**–**	**–**
Derivative financial liabilities				**332**	**–**	**–**
Financial liabilities carried at fair value				**384**		

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

[2] The range represents the highest and lowest inputs used in the level 3 valuations.

				At 31 December 2018		
					Effect of reasonably possible alternative assumptions[1]	
	Valuation technique(s)	Significant unobservable inputs	Range[2]	Carrying value £m	Favourable changes £m	Unfavourable changes £m
Financial assets at fair value through profit or loss:						
Loans and advances to customers	Discounted cash flows	Inferred spreads	99bps/101bps	110	1	(1)
Financial assets at fair value through other comprehensive income				–	–	–
Financial assets carried at fair value				110		

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

[2] The range represents the highest and lowest inputs used in the level 3 valuations.

Unobservable inputs

Significant unobservable inputs affecting the valuation of debt securities, unlisted equity investments and derivatives are unchanged from those described in the Group's 2018 financial statements.

Reasonably possible alternative assumptions

Valuation techniques applied to many of the Group's level 3 instruments often involve the use of two or more inputs whose relationship is interdependent. The calculation of the effect of reasonably possible alternative assumptions included in the table above reflects such relationships and are unchanged from those described in the Group's 2018 financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. Related party transactions

Balances and transactions with Lloyds Banking Group plc and fellow Lloyds Banking Group undertakings

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

	At 30 June 2019 £m	At 31 Dec 2018 £m
Assets		
Derivative financial instruments	**7,006**	6,201
Due from fellow Lloyds Banking Group undertakings	**72,877**	58,932
Liabilities		
Due to fellow Lloyds Banking Group undertakings	**127,005**	111,769
Derivative financial instruments	**9,136**	8,014
Debt securities in issue	**53**	61
Subordinated liabilities	**5,526**	5,534

During the half-year to 30 June 2019 the Group earned £274 million (half-year ended 30 June 2018: £207 million) of interest income and incurred £1,105 million (half-year ended 30 June 2018: £1,062 million) of interest expense on balances and transactions with Lloyds Banking Group plc and fellow Lloyds Banking Group undertakings.

In addition, during the half-year to 30 June 2019 the Group incurred expenditure of £28 million (half-year ended 30 June 2018: £37 million) on behalf of fellow Lloyds Banking Group undertakings which was recharged to those undertakings; and fellow Lloyds Banking Group undertakings incurred expenditure of £446 million (half-year ended 30 June 2018: £351 million) on behalf of the Group which has been recharged to the Group.

Other related party transactions

Other related party transactions for the half-year to 30 June 2019 are similar in nature to those for the year ended 31 December 2018.

14. Dividends on ordinary shares

No interim dividend has been proposed in respect of the current period.

The Bank paid a dividend of £500 million on 13 May 2019; the Bank paid dividends of £1,500 million on 16 May 2018 and £1,500 million on 19 September 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. Implementation of IFRS 16

The Group adopted IFRS 16 Leases from 1 January 2019 and elected to apply the standard retrospectively with the cumulative effect of initial application being recognised at that date; comparative information has therefore not been restated.

Lease liabilities amounting to £779 million in respect of leased properties previously accounted for as operating leases were recognised at 1 January 2019. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as at that date, adjusted to exclude short-term leases and leases of low-value assets. The weighted-average borrowing rate applied to these lease liabilities was 2.43 per cent. The corresponding right-of-use asset of £749 million was measured at an amount equal to the lease liabilities, adjusted for lease liabilities recognised at 31 December 2018 of £30 million. The right-of-use asset and lease liabilities are included within property, plant and equipment and other liabilities respectively. There was no impact on shareholders' equity.

In applying IFRS 16 for the first time, the Group has used a number of practical expedients permitted by the standard; the most significant of which were the use of a single discount rate to a portfolio of leases with reasonably similar characteristics; reliance on previous assessments of whether a lease is onerous and the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease. The Group has also elected not to apply IFRS 16 to contracts that were not identified as containing a lease under IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease*.

16. Ultimate parent undertaking

Bank of Scotland plc's ultimate parent undertaking and controlling party is Lloyds Banking Group plc which is incorporated in Scotland. Lloyds Banking Group plc has published consolidated accounts for the year ended 31 December 2018 and copies may be obtained from Investor Relations, Lloyds Banking Group, 25 Gresham Street, London EC2V 7HN and are available for download from www.lloydsbankinggroup.com

17. Other information

The financial information included in these condensed consolidated half-year financial statements does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2018 have been delivered to the Registrar of Companies. The auditors' report on those accounts was unqualified, did not include an emphasis of matter paragraph and did not include a statement under section 498 of the Companies Act 2006.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

- an indication of important events that have occurred during the six months ended 30 June 2019 and their impact on the condensed consolidated half-year financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related party transactions in the six months ended 30 June 2019 and any material changes in the related party transactions described in the last annual report.

Signed on behalf of the board by

António Horta-Osório
Group Chief Executive
30 July 2019

Bank of Scotland plc board of directors:
António Horta-Osório (Group Chief Executive)
George Culmer (Chief Financial Officer)
Juan Colombás (Chief Risk Officer)
Lord Blackwell (Chairman)
Anita Frew (Deputy Chairman)
Alan Dickinson
Simon Henry
Lord Lupton CBE
Amanda Mackenzie OBE
Nicholas Prettejohn
Stuart Sinclair
Sara Weller CBE
Nigel Hinshelwood (Senior Independent Director)
Sarah Bentley
Brendan Gilligan

INDEPENDENT REVIEW REPORT TO BANK OF SCOTLAND PLC

Report on the condensed consolidated half-year financial statements

Our conclusion

We have reviewed Bank of Scotland plc's condensed consolidated half-year financial statements (the 'interim financial statements') in the 2019 Half-Year Results of Bank of Scotland plc (the 'Company') for the six month period ended 30 June 2019. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

What we have reviewed

The interim financial statements comprise:

- the consolidated balance sheet as at 30 June 2019;
- the consolidated income statement and consolidated statement of comprehensive income for the period then ended;
- the consolidated cash flow statement for the period then ended;
- the consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the 2019 Half-Year Results have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

The 2019 Half-Year Results, including the interim financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the 2019 Half-Year Results in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the 2019 Half-Year Results based on our review. This report, including the conclusion, has been prepared for and only for the Company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What a review of interim financial statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, ‘Review of Interim Financial Information Performed by the Independent Auditor of the Entity’ issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the 2019 Half-Year Results and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants
London
30 July 2019

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Copies of this news release may be obtained from Investor Relations, Lloyds Banking Group plc, 25 Gresham Street, London EC2V 7HN. The full news release can also be found on the Group's website – www.lloydsbankinggroup.com.

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