# Bank of Scotland plc

## 2022 Half-Year Results

27 July 2022

Member of the Lloyds Banking Group

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## REVIEW OF PERFORMANCE

### Principal activities

Bank of Scotland plc (the Bank) 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.

### Income statement

The Group’s profit before tax for the half-year to 30 June 2022 was £1,157 million, whilst total profit for the period was £843 million, down against the prior period reflecting the non-repeat of the impairment and deferred tax credits in the first half of 2021.

Total income of £2,632 million was down 3 per cent on the first half of 2021, with reduced net interest income partly offset by higher other income.

Net interest income of £2,472 million was down 4 per cent compared to the first half of 2021, impacted by higher funding costs on intra-group borrowing which more than offset the effects of average interest-earning asset growth and benefits from the UK Bank Rate increases.

Other income of £160 million was 15 per cent higher than the first half of 2021, driven by increases in both net fee and commission income and other operating income. Net fee and commission income for the period was £143 million compared to £125 million in the first half of 2021, reflecting improved credit and debit card performance. Other operating income in the period of £29 million was up £11 million.

Operating expenses of £1,457 million were 6 per cent lower than in the first half of 2021, reflecting lower remediation costs and continued cost discipline. There have been no further charges relating to HBOS Reading since the year-end and the provision held continues to reflect the Group's best estimate of its full liability, albeit significant uncertainties remain.

Asset quality remains strong with sustained low levels of new to arrears, remaining below pre-pandemic levels. Impairment in the first half of the year was a net charge of £18 million, compared to a net credit of £252 million in the first half of 2021, reflecting a low observed performance charge alongside updates to the economic outlook. The updated outlook includes additional risks from a higher inflation and interest rate environment, partially offset by reductions in COVID-19 related risks. Overall the Group’s loan portfolio continues to be well-positioned, reflecting a prudent through-the-cycle approach to credit risk with high levels of security, also reflected in the strong recovery performance.

The Group’s IFRS 9 base case economic scenario used to calculate the expected credit loss (ECL) allowance assumes higher inflation and a more severe cost of living squeeze, set against continued low levels of unemployment and robust asset prices. The ECL allowance continues to reflect a probability-weighted view of future economic scenarios built out from the base case and its associated conditioning assumptions, with a 30 per cent weighting applied to base case, upside and downside scenarios and a 10 per cent weighting to the severe downside. The Group’s severe scenario has been adjusted to include a higher UK Bank Rate, and higher inflation path, to better reflect the present risks.

The Group’s operations are predominantly UK-based with no direct credit exposure to Russia or Ukraine. The Group does have credit exposure to businesses that are impacted, either directly or indirectly, by higher energy costs or commodity prices, or potential disruption within their supply chains. Such activity continues to be monitored through prudent risk management.

The Group recognised a tax expense of £314 million in the period, compared to a net credit of £55 million in the first six months of 2021 reflecting the non-repeat of a £433 million credit in the prior period as the result of a deferred tax uplift.

**REVIEW OF PERFORMANCE** (continued)

**Balance sheet**

The Group's balance sheet has grown during the year to date. Total assets of £315,353 million were up 2 per cent compared to £310,560 million at 31 December 2021 driven by an increase in loans and advances to customers. Loans and advances to customers were 1 per cent higher at £283,520 million compared to £279,409 million at 31 December 2021 driven by growth in the Group's mortgage book.

Total liabilities of £300,495 million were up 1 per cent compared to £296,517 million at 31 December 2021 driven by amounts due to fellow Lloyds Banking Group undertakings increasing by £6,231 million in the period. Customer deposits of £169,855 million were broadly stable compared to the end of 2021.

Total equity increased by £815 million from £14,043 million at 31 December 2021 to £14,858 million at 30 June 2022 with total comprehensive income for the period of £849 million and capital contributions received of £23 million, partially offset by distributions on other equity instruments of £57 million.

**Capital**

The Bank's common equity tier 1 (CET1) capital ratio reduced from 15.7 per cent at 31 December 2021 to 14.0 per cent at 30 June 2022. The reduction largely reflected the impact of regulatory changes on 1 January 2022, including an increase in risk-weighted assets as well as other related modelled impacts, in addition to the phased unwind of IFRS 9 transitional relief. This was partially offset by profits for the period and a reduction in risk-weighted assets subsequent to the initial increase on 1 January 2022. The tier 1 capital ratio reduced to 17.1 per cent (31 December 2021: 19.3 per cent) and the total capital ratio reduced to 19.4 per cent (31 December 2021: 21.8 per cent), largely reflecting the overall increase in risk weighted assets, partially offset by the increase in CET1 capital.

Risk-weighted assets increased by £10.9 billion to £71.7 billion at 30 June 2022 compared to £60.8 billion at 31 December 2021, largely reflecting the impact of the 1 January 2022 regulatory changes, including the anticipated impact of the implementation of new CRD IV models to meet revised regulatory standards for modelled outputs. The increase was partially offset during the period through reductions from retail models reflecting the benign credit performance, which offset the impact of the growth in balance sheet lending. The new CRD IV models remain subject to finalisation and approval by the PRA and therefore uncertainty over the final impact remains.

The Bank's UK leverage ratio of 4.1 per cent at 30 June 2022 has increased from 3.8 per cent at 31 December 2021.

**REVIEW OF PERFORMANCE** (continued)

**Capital position as at 30 June 2022**

The capital position of Bank of Scotland plc is presented on an unconsolidated basis. The Bank's capital position as at 30 June 2022, after applying IFRS 9 transitional arrangements, is set out in the following section.

**Capital resources of the Bank**

| | **At 30 Jun 2022 £m** | At 31 Dec 2021 £m |
|---|---|---|
| **Common equity tier 1** | | |
| Shareholders' equity per balance sheet | **12,321** | 11,426 |
| Cash flow hedging reserve | **61** | 63 |
| Other adjustments[1] | **70** | 379 |
| | **12,452** | 11,868 |
| **less: deductions from common equity tier 1** | | |
| Goodwill and other intangible assets | **(537)** | (444) |
| Prudent valuation adjustment | **(63)** | (78) |
| Removal of defined benefit pension surplus | **(49)** | (39) |
| Deferred tax assets | **(1,744)** | (1,767) |
| **Common equity tier 1 capital** | **10,059** | 9,540 |
| **Additional tier 1** | | |
| Additional tier 1 instruments | **2,200** | 2,222 |
| **Total tier 1 capital** | **12,259** | 11,762 |
| **Tier 2** | | |
| Tier 2 instruments | **1,500** | 1,500 |
| Other adjustments | **180** | (3) |
| **Total tier 2 capital** | **1,680** | 1,497 |
| **Total capital resources** | **13,939** | 13,259 |
| | | |
| **Risk-weighted assets of the Bank** | **71,730** | 60,807 |
| | | |
| **Capital ratios of the Bank** | | |
| Common equity tier 1 capital ratio[2] | **14.0%** | 15.7% |
| Tier 1 capital ratio[2] | **17.1%** | 19.3% |
| Total capital ratio[2] | **19.4%** | 21.8% |

1 Includes an adjustment applied to reserves to reflect the application of the IFRS 9 transitional arrangements for capital.

2 Reflecting the full impact of IFRS 9 at 30 June 2022, without the application of transitional arrangements, the Bank's common equity tier 1 capital ratio would be 13.9 per cent, the tier 1 capital ratio would be 17.0 per cent and the total capital ratio would be 19.4 per cent.

## REVIEW OF PERFORMANCE (continued)

### Risk-weighted assets of the Bank

| | At 30 Jun 2022 £m | At 31 Dec 2021 £m |
|---|---|---|
| Foundation Internal Ratings Based (IRB) Approach | **3,078** | 3,476 |
| Retail IRB Approach | **53,360** | 41,636 |
| Other IRB Approach[1] | **1,287** | 1,414 |
| **IRB Approach** | **57,725** | 46,526 |
| Standardised (STA) Approach[1] | **4,619** | 4,803 |
| **Credit risk** | **62,344** | 51,329 |
| Securitisation[1] | **394** | 357 |
| Counterparty credit risk | **339** | 333 |
| Credit valuation adjustment risk | **125** | 46 |
| Operational risk | **8,477** | 8,488 |
| Market risk | **51** | 254 |
| **Total risk-weighted assets** | **71,730** | 60,807 |
| Of which threshold risk-weighted assets[2] | **591** | 628 |

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

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

## PRINCIPAL RISKS AND UNCERTAINTIES

The significant risks faced by the Group are detailed below. There has been no change to the definition of these risks from those disclosed in the Group's 2021 Annual Report and Accounts.

The external risks faced by the Group may also impact the success of delivering against the Group's long-term strategic objectives. They include, but are not limited to supply chain and socio-economic pressures arising from the war between Russia and Ukraine and the coronavirus pandemic, which are contributing to cost of living increases and associated implications for UK consumers and businesses.

Heightened monitoring is in place across the Group's portfolios to identify signs of affordability stress. However, there has been no adverse performance to date and the Group's portfolios remain broadly stable.

Lloyds Banking Group participated in the Bank of England Biennial Exploratory Scenario on Climate (CBES), with industry level results published in May 2022. The exercise explored the financial risks posed by climate change, with projections of climate risks likely to create a drag on institutions' profitability. Lloyds Banking Group will continue to develop climate scenario analysis capabilities and improve its climate risk management.

The Group's principal risks and uncertainties are reviewed and reported regularly to the Board of the Lloyds Banking Group in alignment with the Lloyds Banking Group's Enterprise Risk Management Framework.

**Market risk –** The risk that the Group's capital or earnings profile is affected by adverse market rates or prices, in particular interest rates and credit spreads in the Banking business, interest rates, and credit spreads in the Group's defined benefit pension schemes.

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

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

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

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

**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.

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

**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.

**Operational resilience risk –** The risk that the Group fails to design resilience into business operations, underlying infrastructure and controls (people, process, technology) 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 and stakeholder expectations and needs when the continuity of operations is compromised.

**Operational risk –** The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

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

**PRINCIPAL RISKS AND UNCERTAINTIES** (continued)

**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.

**Strategic risk –** The risk which results from:

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

**Climate risk –** The risk that the Group experiences losses and/or reputational damage as a result of physical events, transition risk, or as a consequence of the responses to managing these changes, either directly or through the Group's customers.

## CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (UNAUDITED)


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## CONSOLIDATED INCOME STATEMENT (UNAUDITED)

| | Note | **Half-year to 30 Jun 2022 £m** | Half-year to 30 Jun 2021 £m |
|---|---|---|---|
| Interest income | | **3,734** | 3,530 |
| Interest expense | | **(1,262)** | (960) |
| **Net interest income** | | **2,472** | 2,570 |
| Fee and commission income | | **296** | 262 |
| Fee and commission expense | | **(153)** | (137) |
| Net fee and commission income | 3 | **143** | 125 |
| Net trading income | | **(12)** | (4) |
| Other operating income | | **29** | 18 |
| **Other income** | | **160** | 139 |
| **Total income** | | **2,632** | 2,709 |
| Operating expenses | 4 | **(1,457)** | (1,553) |
| Impairment (charge) credit | 5 | **(18)** | 252 |
| **Profit before tax** | | **1,157** | 1,408 |
| Tax (expense) credit | 6 | **(314)** | 55 |
| **Profit for the period** | | **843** | 1,463 |
| | | | |
| Profit attributable to ordinary shareholders | | **786** | 1,409 |
| Profit attributable to other equity holders | | **57** | 54 |
| **Profit for the period** | | **843** | 1,463 |

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

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

| | **Half-year to 30 Jun 2022 £m** | Half-year to 30 Jun 2021 £m |
|---|---|---|
| **Profit for the period** | **843** | 1,463 |
| **Other comprehensive income** | | |
| *Items that will not subsequently be reclassified to profit or loss:* | | |
| Post-retirement defined benefit scheme remeasurements | | |
| Remeasurements before tax | **9** | 1 |
| Tax | **—** | (5) |
| | **9** | (4) |
| *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 | **(8)** | 1 |
| Income statement transfers in respect of disposals | **—** | (1) |
| Tax | **3** | 11 |
| | **(5)** | 11 |
| Movements in cash flow hedging reserve: | | |
| Effective portion of changes in fair value taken to other comprehensive income | **12** | (16) |
| Net income statement transfers | **(5)** | 6 |
| Tax | **(5)** | 7 |
| | **2** | (3) |
| Movements in foreign currency translation reserve: | | |
| Currency translation differences (tax: £nil) | **—** | 5 |
| **Other comprehensive income for the period, net of tax** | **6** | 9 |
| **Total comprehensive income for the period** | **849** | 1,472 |
| | | |
| Total comprehensive income attributable to ordinary shareholders | **792** | 1,418 |
| Total comprehensive income attributable to other equity holders | **57** | 54 |
| **Total comprehensive income for the period** | **849** | 1,472 |

## CONSOLIDATED BALANCE SHEET (UNAUDITED)

| | Note | At 30 Jun 2022 £m | At 31 Dec 2021 £m |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances at central banks | | **2,904** | 3,201 |
| Items in the course of collection from banks | | **54** | 47 |
| Financial assets at fair value through profit or loss | | **350** | 362 |
| Derivative financial instruments | | **3,473** | 4,264 |
| Loans and advances to banks | | **105** | 51 |
| Loans and advances to customers | | **283,520** | 279,409 |
| Due from fellow Lloyds Banking Group undertakings | | **18,392** | 17,062 |
| Financial assets at amortised cost | 7 | **302,017** | 296,522 |
| Financial assets at fair value through other comprehensive income | | **2,377** | 2,047 |
| Goodwill | | **325** | 325 |
| Current tax recoverable | | **333** | 238 |
| Deferred tax assets | | **1,933** | 2,007 |
| Retirement benefit assets | | **68** | 58 |
| Other assets | | **1,519** | 1,489 |
| **Total assets** | | **315,353** | 310,560 |
| **Liabilities** | | | |
| Deposits from banks | | **280** | 597 |
| Customer deposits | | **169,855** | 170,777 |
| Repurchase agreements | | **30,066** | 30,028 |
| Due to fellow Lloyds Banking Group undertakings | | **84,070** | 77,839 |
| Items in course of transmission to banks | | **100** | 98 |
| Financial liabilities at fair value through profit or loss | | **29** | 33 |
| Derivative financial instruments | | **4,547** | 4,320 |
| Notes in circulation | | **1,269** | 1,321 |
| Debt securities in issue | 8 | **6,279** | 7,353 |
| Other liabilities | | **1,481** | 1,450 |
| Other provisions | 9 | **923** | 1,057 |
| Subordinated liabilities | | **1,596** | 1,644 |
| **Total liabilities** | | **300,495** | 296,517 |
| **Equity** | | | |
| Share capital | | **5,847** | 5,847 |
| Other reserves | | **2,010** | 2,013 |
| Retained profits | | **4,793** | 3,975 |
| **Ordinary shareholders' equity** | | **12,650** | 11,835 |
| Other equity instruments | | **2,200** | 2,200 |
| Total equity excluding non-controlling interests | | **14,850** | 14,035 |
| Non-controlling interests | | **8** | 8 |
| **Total equity** | | **14,858** | 14,043 |
| **Total equity and liabilities** | | **315,353** | 310,560 |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

| | Attributable to ordinary shareholders | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share capital £m | Other reserves £m | Retained profits £m | Total £m | Other equity instruments £m | Non-controlling interests £m | Total £m |
| At 1 January 2022 | **5,847** | **2,013** | **3,975** | **11,835** | **2,200** | **8** | **14,043** |
| **Comprehensive income** | | | | | | | |
| Profit for the period | **—** | **—** | **786** | **786** | **57** | **—** | **843** |
| *Other comprehensive income* | | | | | | | |
| Post-retirement defined benefit scheme remeasurements, net of tax | **—** | **—** | **9** | **9** | **—** | **—** | **9** |
| Movements in revaluation reserve in respect of debt securities held at fair value through other comprehensive income, net of tax | **—** | **(5)** | **—** | **(5)** | **—** | **—** | **(5)** |
| Movements in cash flow hedging reserve, net of tax | **—** | **2** | **—** | **2** | **—** | **—** | **2** |
| Movements in foreign currency translation reserve, net of tax | **—** | **—** | **—** | **—** | **—** | **—** | **—** |
| **Total other comprehensive income** | **—** | **(3)** | **9** | **6** | **—** | **—** | **6** |
| **Total comprehensive income[1]** | **—** | **(3)** | **795** | **792** | **57** | **—** | **849** |
| **Transactions with owners** | | | | | | | |
| Distributions on other equity instruments | **—** | **—** | **—** | **—** | **(57)** | **—** | **(57)** |
| Capital contributions received | **—** | **—** | **23** | **23** | **—** | **—** | **23** |
| **Total transactions with owners** | **—** | **—** | **23** | **23** | **(57)** | **—** | **(34)** |
| **At 30 June 2022[2]** | **5,847** | **2,010** | **4,793** | **12,650** | **2,200** | **8** | **14,858** |

1 Total comprehensive income attributable to owners of the parent was £849 million.

2 Total equity attributable to owners of the parent was £14,850 million.

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

| | Attributable to ordinary shareholders | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share capital £m | Other reserves £m | Retained profits £m | Total £m | Other equity instruments £m | Non-controlling interests £m | Total £m |
| At 1 January 2021 | 5,847 | 2,020 | 3,313 | 11,180 | 2,200 | 8 | 13,388 |
| Comprehensive income | | | | | | | |
| Profit for the period | — | — | 1,409 | 1,409 | 54 | — | 1,463 |
| *Other comprehensive income* | | | | | | | |
| Post-retirement defined benefit scheme remeasurements, net of tax | — | — | (4) | (4) | — | — | (4) |
| Movements in revaluation reserve in respect of debt securities held at fair value through other comprehensive income, net of tax | — | 11 | — | 11 | — | — | 11 |
| Movements in cash flow hedging reserve, net of tax | — | (3) | — | (3) | — | — | (3) |
| Movements in foreign currency translation reserve, net of tax | — | 5 | — | 5 | — | — | 5 |
| Total other comprehensive income | — | 13 | (4) | 9 | — | — | 9 |
| Total comprehensive income[1] | — | 13 | 1,405 | 1,418 | 54 | — | 1,472 |
| Transactions with owners | | | | | | | |
| Distributions on other equity instruments | — | — | — | — | (54) | — | (54) |
| Capital contributions received | — | — | 15 | 15 | — | — | 15 |
| Total transactions with owners | — | — | 15 | 15 | (54) | — | (39) |
| At 30 June 2021[2] | 5,847 | 2,033 | 4,733 | 12,613 | 2,200 | 8 | 14,821 |
| Comprehensive income | | | | | | | |
| Profit for the period | — | — | 429 | 429 | 55 | 1 | 485 |
| *Other comprehensive income* | | | | | | | |
| Post-retirement defined benefit scheme remeasurements, net of tax | — | — | (8) | (8) | — | — | (8) |
| Movements in revaluation reserve in respect of debt securities held at fair value through other comprehensive income, net of tax | — | (1) | — | (1) | — | — | (1) |
| Movements in cash flow hedging reserve, net of tax | — | (15) | — | (15) | — | — | (15) |
| Movements in foreign currency translation reserve, net of tax | — | (4) | — | (4) | — | — | (4) |
| Total other comprehensive income | — | (20) | (8) | (28) | — | — | (28) |
| Total comprehensive income[1] | — | (20) | 421 | 401 | 55 | 1 | 457 |
| Transactions with owners | | | | | | | |
| Dividends | — | — | (1,200) | (1,200) | — | (1) | (1,201) |
| Distributions on other equity instruments | — | — | — | — | (55) | — | (55) |
| Capital contributions received | — | — | 21 | 21 | — | — | 21 |
| Total transactions with owners | — | — | (1,179) | (1,179) | (55) | (1) | (1,235) |
| At 31 December 2021[2] | 5,847 | 2,013 | 3,975 | 11,835 | 2,200 | 8 | 14,043 |

[1] Total comprehensive income attributable to owners of the parent for the half-year to 30 June 2021 was £1,472 million (half-year to 31 December 2021: £456 million).

[2] Total equity attributable to owners of the parent at 30 June 2021 was £14,813 million (31 December 2021: £14,035 million).

## CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

| | **Half-year to 30 Jun 2022 £m** | Half-year to 30 Jun 2021[1] £m |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit before tax | **1,157** | 1,408 |
| Adjustments for: | | |
| Change in operating assets | **(4,486)** | (3,413) |
| Change in operating liabilities | **4,157** | 3,602 |
| Non-cash and other items | **(69)** | (218) |
| Tax paid (net) | **(333)** | (818) |
| **Net cash provided by operating activities** | **426** | 561 |
| **Cash flows from investing activities** | | |
| Purchase of financial assets | **(556)** | (72) |
| Proceeds from sale and maturity of financial assets | **179** | 241 |
| Purchase of fixed assets | **(68)** | (93) |
| Proceeds from sale of fixed assets | **—** | 17 |
| **Net cash (used in) provided by investing activities** | **(445)** | 93 |
| **Cash flows from financing activities** | | |
| Distributions on other equity instruments | **(57)** | (54) |
| Interest paid on subordinated liabilities | **(27)** | (81) |
| Repayment of subordinated liabilities | **(44)** | (333) |
| **Net cash used in financing activities** | **(128)** | (468) |
| Change in cash and cash equivalents | **(147)** | 186 |
| Cash and cash equivalents at beginning of period | **2,166** | 2,210 |
| **Cash and cash equivalents at end of period** | **2,019** | 2,396 |

[1] Restated, see page 14.

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

## NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS

### Note 1: Basis of preparation and accounting policies

These condensed consolidated half-year financial statements as at and for the period to 30 June 2022 have been prepared in accordance with the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority (FCA) and with International Accounting Standard 34 (IAS 34), *Interim Financial Reporting* as adopted by the United Kingdom and comprise the results of 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 2021 which complied with international accounting standards in conformity with the requirements of the Companies Act 2006 and were prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. Copies of the 2021 Annual Report and Accounts are available on the 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 taken into account the uncertainties affecting the UK economy and their potential effects upon the Group's performance and projected funding and capital position; the impact of further stress scenarios has also been considered. On this basis, the Directors are satisfied that the Group will maintain adequate levels of funding and capital for the foreseeable future.

*Changes in accounting policy*

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

Cash and cash equivalents: Following a decision by the IFRS Interpretations Committee in April 2022, the Group includes mandatory reserve deposits with central banks that are held in demand accounts within cash and cash equivalents disclosed in the cash flow statement, whereas these amounts were previously excluded from the amount presented in the cash flow statement. This change increased the Group's cash and cash equivalents at 31 December 2021 by £1,311 million (to £2,166 million) and at 30 June 2021 by £1,363 million (to £2,396 million).

*Future accounting developments*

The IASB has issued a number of minor amendments to IFRSs effective 1 January 2023 (including IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*). These amendments, which as at 26 July 2022 have not yet been endorsed for use in the United Kingdom, are not expected to have a significant impact on the Group.

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 to 31 December 2021 and copies may be obtained from Investor Relations, Lloyds Banking Group plc, 25 Gresham Street, London EC2V 7HN and are available for download from www.lloydsbankinggroup.com.

The financial information contained in this document does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006 (the Act). The statutory accounts for the year ended 31 December 2021 were approved by the Directors on 8 March 2022 and were delivered to the Registrar of Companies on 1 April 2022. The auditors' report on those accounts was unqualified and did not include a statement under sections 498(2) (accounting records or returns inadequate or accounts not agreeing with records and returns) or 498(3) (failure to obtain necessary information and explanations) of the Act.

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

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that impact the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, actual results reported in future periods may include amounts which differ from those estimates. Estimates, judgements and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group's significant judgements, estimates and assumptions are unchanged compared to those applied at 31 December 2021, except as detailed below.

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

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

**Allowance for expected credit losses**

The Group recognises an allowance for expected credit losses (ECLs) for loans and advances to customers and banks, other financial assets held at amortised cost, financial assets measured at fair value through other comprehensive income and certain loan commitment and financial guarantee contracts. At 30 June 2022 the Group's expected credit loss allowance was £2,563 million (31 December 2021: £2,639 million), of which £2,500 million (31 December 2021: £2,583 million) was in respect of drawn balances.

The calculation of the Group's expected credit loss allowances and provisions against loan commitments and guarantees under IFRS 9 requires the Group to make a number of judgements, assumptions and estimates. These are set out in detail in the Group's financial statements for the year ended 31 December 2021. The principal changes made in the half-year to 30 June 2022 are as follows:

*Base case and MES economic assumptions*

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

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

The Group has taken into account the latest available information at the reporting date in defining its base case scenario and generating alternative economic scenarios. The scenarios include forecasts for key variables in the second quarter of 2022, for which actuals may have since emerged prior to publication.

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

*Scenarios by year*

Key annual assumptions made by the Group are shown below. Gross domestic product and Consumer Price Index (CPI) inflation are presented as an annual change, house price growth and commercial real estate price growth are presented as the growth in the respective indices within the period. Unemployment rate and UK Bank Rate are averages for the period. For 31 December 2021, CPI numbers are translations of modelled Retail Price Index excluding mortgage interest payments (RPIX) estimates, except for the base case view.

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

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

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

| At 30 June 2022 | 2022 % | 2023 % | 2024 % | 2025 % | 2026 % | 2022 to 2026 average % |
|---|---|---|---|---|---|---|
| **Upside** | | | | | | |
| Gross domestic product | **3.5** | **1.2** | **1.8** | **1.7** | **1.7** | **2.0** |
| Unemployment rate | **3.1** | **2.7** | **2.9** | **3.2** | **3.4** | **3.1** |
| House price growth | **3.2** | **3.6** | **9.3** | **5.9** | **4.3** | **5.2** |
| Commercial real estate price growth | **9.2** | **1.8** | **0.9** | **(0.9)** | **(0.2)** | **2.1** |
| UK Bank Rate | **1.64** | **3.12** | **2.97** | **2.88** | **2.78** | **2.68** |
| CPI inflation | **8.6** | **5.5** | **2.5** | **1.9** | **2.2** | **4.1** |
| **Base case** | | | | | | |
| Gross domestic product | **3.3** | **0.6** | **1.5** | **1.6** | **1.7** | **1.7** |
| Unemployment rate | **3.8** | **4.2** | **4.4** | **4.5** | **4.5** | **4.3** |
| House price growth | **1.8** | **(1.4)** | **3.4** | **1.2** | **1.0** | **1.2** |
| Commercial real estate price growth | **1.8** | **(5.0)** | **(1.6)** | **(1.3)** | **0.8** | **(1.1)** |
| UK Bank Rate | **1.44** | **2.25** | **2.00** | **2.00** | **2.00** | **1.94** |
| CPI inflation | **8.6** | **5.5** | **2.2** | **1.3** | **1.5** | **3.8** |
| **Downside** | | | | | | |
| Gross domestic product | **3.0** | **(0.1)** | **1.1** | **1.4** | **1.7** | **1.4** |
| Unemployment rate | **4.5** | **6.0** | **6.3** | **6.1** | **5.9** | **5.8** |
| House price growth | **(0.1)** | **(7.6)** | **(4.6)** | **(5.1)** | **(3.5)** | **(4.2)** |
| Commercial real estate price growth | **(4.4)** | **(11.9)** | **(5.5)** | **(3.6)** | **(0.7)** | **(5.3)** |
| UK Bank Rate | **1.25** | **1.23** | **0.80** | **0.85** | **0.95** | **1.02** |
| CPI inflation | **8.7** | **5.5** | **1.8** | **0.6** | **0.7** | **3.5** |
| **Severe downside** | | | | | | |
| Gross domestic product | **1.6** | **(1.8)** | **1.0** | **1.4** | **1.6** | **0.8** |
| Unemployment rate | **5.8** | **8.7** | **8.7** | **8.3** | **7.7** | **7.8** |
| House price growth | **(1.6)** | **(14.0)** | **(12.3)** | **(10.5)** | **(6.4)** | **(9.1)** |
| Commercial real estate price growth | **(14.9)** | **(20.9)** | **(11.0)** | **(5.6)** | **1.0** | **(10.6)** |
| UK Bank Rate – modelled | **0.76** | **0.18** | **0.18** | **0.21** | **0.24** | **0.31** |
| UK Bank Rate – adjusted | **2.94** | **4.75** | **3.00** | **2.25** | **2.25** | **3.04** |
| CPI inflation – modelled | **8.6** | **5.1** | **0.9** | **(0.5)** | **(0.5)** | **2.7** |
| CPI inflation – adjusted | **9.8** | **13.7** | **4.1** | **1.7** | **0.1** | **5.9** |
| **Probability-weighted** | | | | | | |
| Gross domestic product | **3.1** | **0.3** | **1.5** | **1.5** | **1.7** | **1.6** |
| Unemployment rate | **4.0** | **4.7** | **5.0** | **5.0** | **4.9** | **4.7** |
| House price growth | **1.3** | **(3.0)** | **1.2** | **(0.5)** | **(0.1)** | **(0.2)** |
| Commercial real estate price growth | **0.5** | **(6.6)** | **(3.0)** | **(2.3)** | **0.1** | **(2.3)** |
| UK Bank Rate – modelled | **1.37** | **2.00** | **1.75** | **1.74** | **1.75** | **1.72** |
| UK Bank Rate – adjusted | **1.59** | **2.46** | **2.03** | **1.94** | **1.95** | **1.99** |
| CPI inflation – modelled | **8.6** | **5.5** | **2.0** | **1.1** | **1.3** | **3.7** |
| CPI inflation – adjusted | **8.8** | **6.3** | **2.3** | **1.3** | **1.3** | **4.0** |

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

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

| At 31 December 2021 | 2021 % | 2022 % | 2023 % | 2024 % | 2025 % | 2021 to 2025 average % |
|---|---|---|---|---|---|---|
| **Upside** | | | | | | |
| Gross domestic product | 7.1 | 4.0 | 1.4 | 1.3 | 1.4 | 3.0 |
| Unemployment rate | 4.4 | 3.3 | 3.4 | 3.5 | 3.7 | 3.7 |
| House price growth | 10.1 | 2.6 | 4.9 | 4.7 | 3.6 | 5.1 |
| Commercial real estate price growth | 12.4 | 5.8 | 0.7 | 1.0 | (0.6) | 3.7 |
| UK Bank Rate | 0.14 | 1.44 | 1.74 | 1.82 | 2.03 | 1.43 |
| CPI inflation | 2.6 | 5.9 | 3.3 | 2.6 | 3.3 | 3.5 |
| **Base case** | | | | | | |
| Gross domestic product | 7.1 | 3.7 | 1.5 | 1.3 | 1.3 | 2.9 |
| Unemployment rate | 4.5 | 4.3 | 4.4 | 4.4 | 4.5 | 4.4 |
| House price growth | 9.8 | 0.0 | 0.0 | 0.5 | 0.7 | 2.1 |
| Commercial real estate price growth | 10.2 | (2.2) | (1.9) | 0.1 | 0.6 | 1.2 |
| UK Bank Rate | 0.14 | 0.81 | 1.00 | 1.06 | 1.25 | 0.85 |
| CPI inflation | 2.6 | 5.9 | 3.0 | 1.6 | 2.0 | 3.0 |
| **Downside** | | | | | | |
| Gross domestic product | 7.1 | 3.4 | 1.3 | 1.1 | 1.2 | 2.8 |
| Unemployment rate | 4.7 | 5.6 | 5.9 | 5.8 | 5.7 | 5.6 |
| House price growth | 9.2 | (4.9) | (7.8) | (6.6) | (4.7) | (3.1) |
| Commercial real estate price growth | 8.6 | (10.1) | (7.0) | (3.4) | (0.3) | (2.6) |
| UK Bank Rate | 0.14 | 0.45 | 0.52 | 0.55 | 0.69 | 0.47 |
| CPI inflation | 2.6 | 5.8 | 2.8 | 1.3 | 1.6 | 2.8 |
| **Severe downside** | | | | | | |
| Gross domestic product | 6.8 | 0.9 | 0.4 | 1.0 | 1.4 | 2.1 |
| Unemployment rate | 4.9 | 7.7 | 8.5 | 8.1 | 7.6 | 7.3 |
| House price growth | 9.1 | (7.3) | (13.9) | (12.5) | (8.4) | (6.9) |
| Commercial real estate price growth | 5.8 | (19.6) | (12.1) | (5.3) | (0.5) | (6.8) |
| UK Bank Rate | 0.14 | 0.04 | 0.06 | 0.08 | 0.09 | 0.08 |
| CPI inflation | 2.6 | 5.8 | 2.3 | 0.5 | 0.9 | 2.4 |
| **Probability-weighted** | | | | | | |
| Gross domestic product | 7.0 | 3.4 | 1.3 | 1.2 | 1.3 | 2.8 |
| Unemployment rate | 4.6 | 4.7 | 5.0 | 5.0 | 4.9 | 4.8 |
| House price growth | 9.6 | (1.4) | (2.3) | (1.7) | (1.0) | 0.6 |
| Commercial real estate price growth | 9.9 | (3.9) | (3.7) | (1.2) | (0.1) | 0.1 |
| UK Bank Rate | 0.14 | 0.82 | 0.99 | 1.04 | 1.20 | 0.83 |
| CPI inflation | 2.6 | 5.9 | 2.9 | 1.7 | 2.2 | 3.1 |

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

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

*Base case scenario by quarter*

Key quarterly assumptions made by the Group in the base case scenario are shown below. Gross domestic product is presented quarter-on-quarter. House price growth, commercial real estate price growth and CPI inflation are presented year-on-year i.e from the equivalent quarter in the previous year. Unemployment rate and UK Bank Rate are presented as at the end of each quarter.

| **At 30 June 2022** | **First quarter 2022 %** | **Second quarter 2022 %** | **Third quarter 2022 %** | **Fourth quarter 2022 %** | **First quarter 2023 %** | **Second quarter 2023 %** | **Third quarter 2023 %** | **Fourth quarter 2023 %** |
|---|---|---|---|---|---|---|---|---|
| Gross domestic product | **0.8** | **(0.4)** | **0.1** | **0.2** | **0.2** | **0.2** | **0.4** | **0.4** |
| Unemployment rate | **3.7** | **3.8** | **3.8** | **3.9** | **4.0** | **4.2** | **4.3** | **4.3** |
| House price growth | **11.1** | **10.5** | **6.8** | **1.8** | **(2.2)** | **(4.1)** | **(3.7)** | **(1.4)** |
| Commercial real estate price growth | **18.0** | **15.3** | **9.5** | **1.8** | **(4.3)** | **(6.3)** | **(5.3)** | **(5.0)** |
| UK Bank Rate | **0.75** | **1.25** | **1.75** | **2.00** | **2.25** | **2.25** | **2.25** | **2.25** |
| CPI inflation | **6.2** | **9.1** | **9.3** | **10.0** | **9.0** | **5.4** | **5.0** | **2.8** |

| At 31 December 2021 | First quarter 2021 % | Second quarter 2021 % | Third quarter 2021 % | Fourth quarter 2021 % | First quarter 2022 % | Second quarter 2022 % | Third quarter 2022 % | Fourth quarter 2022 % |
|---|---|---|---|---|---|---|---|---|
| Gross domestic product | (1.3) | 5.4 | 1.1 | 0.4 | 0.1 | 1.5 | 0.5 | 0.3 |
| Unemployment rate | 4.9 | 4.7 | 4.3 | 4.3 | 4.4 | 4.3 | 4.3 | 4.3 |
| House price growth | 6.5 | 8.7 | 7.4 | 9.8 | 8.4 | 6.1 | 3.2 | 0.0 |
| Commercial real estate price growth | (2.9) | 3.4 | 7.5 | 10.2 | 8.4 | 5.2 | 0.9 | (2.2) |
| UK Bank Rate | 0.10 | 0.10 | 0.10 | 0.25 | 0.50 | 0.75 | 1.00 | 1.00 |
| CPI inflation | 0.6 | 2.1 | 2.8 | 4.9 | 5.3 | 6.5 | 6.3 | 5.3 |

*ECL sensitivity to economic assumptions*

The table below shows the Group's ECL for the upside, base case, downside and severe downside scenarios. The stage allocation for an asset is based on the overall scenario probability-weighted PD and, hence, the staging of assets is constant across all the scenarios. In each economic scenario the ECL for individual assessments and post-model adjustments is constant, reflecting the basis on which they are evaluated. Judgements applied through changes to inputs are reflected in the scenario sensitivities. The probability-weighted view shows the extent to which a higher ECL allowance has been recognised to take account of multiple economic scenarios relative to the base case; the uplift being £236 million compared to £126 million at 31 December 2021.

| **ECL allowance** | **Probability-weighted £m** | **Upside £m** | **Base case £m** | **Downside £m** | **Severe downside £m** |
|---|---|---|---|---|---|
| **At 30 June 2022** | **2,563** | **2,151** | **2,327** | **2,730** | **4,003** |
| At 31 December 2021 | 2,639 | 2,385 | 2,513 | 2,799 | 3,295 |

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

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

The impact of changes in the UK unemployment rate and House Price Index (HPI) have also been assessed. Although such changes would not be observed in isolation, as economic indicators tend to be correlated in a coherent scenario, this gives insight into the sensitivity of the Group's ECL to gradual changes in these two critical economic factors. The assessment has been made against the base case with the reported staging unchanged and is assessed through the direct impact on modelled ECL only.

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

| | **At 30 June 2022** | | At 31 December 2021 | |
|---|---|---|---|---|
| | **1pp increase in unemployment** | **1pp decrease in unemployment** | 1pp increase in unemployment | 1pp decrease in unemployment |
| **ECL impact, £m** | **31** | **(28)** | 40 | (35) |

The table below shows the impact on the Group's ECL in respect of UK mortgages resulting from an increase or decrease in loss given default for a 10 percentage point (pp) increase or decrease in the UK House Price Index (HPI). The increase or decrease is presented based on the adjustment phased evenly over the first ten quarters of the base case scenario. The increased ECL sensitivity in the period has resulted from the change in definition of default and associated model changes. This has resulted in greater univariate sensitivity of predicted defaults and possession rates to future house price levels, alongside the direct impact on forecast sale values.

| | **At 30 June 2022** | | At 31 December 2021 | |
|---|---|---|---|---|
| | **10pp increase in HPI** | **10pp decrease in HPI** | 10pp increase in HPI | 10pp decrease in HPI |
| **ECL impact, £m** | **(127)** | **199** | (106) | 154 |

*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 (i.e. probability of default, exposure at default and loss given default). Limitations in the Group's impairment models or data inputs may be identified through the ongoing assessment and validation of the output of the models. In these circumstances, management make appropriate adjustments to the Group's allowance for impairment losses to ensure that the overall provision adequately reflects all material risks. These adjustments are determined by considering the particular attributes of exposures which have not been adequately captured by the impairment models and range from changes to model inputs and parameters, at account level, through to more qualitative post-model adjustments.

Judgements are not typically assessed under each distinct economic scenario used to generate ECL, but instead are applied incrementally to final modelled ECL which reflects the probability-weighted view of all scenarios. All adjustments are reviewed quarterly and are subject to internal review and challenge, including by the Audit Committee, to ensure that amounts are appropriately calculated and that there are specific release criteria identified.

The coronavirus pandemic and the various support measures that were put in place resulted in an economic environment which differed significantly from the historical economic conditions upon which the impairment models had been built. As a result there has been a greater need for management judgements to be applied alongside the use of models. Over the first half of 2022 the intensifying inflationary pressures within the Group's outlook have created further risks not present in these historic conditions. Conversely, the direct impact of the pandemic on both economic and credit performance has appeared to reduce, resulting in a reduction in judgements required specifically to capture COVID-19 risks. At 30 June 2022 total management judgement resulted in additional ECL allowances of £596 million (31 December 2021: £1,060 million). 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 management judgement.

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

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

| | | | Judgements due to: | | | |
|---|---|---|---|---|---|---|
| | Modelled ECL £m | Individually assessed £m | COVID-19[1] £m | Inflationary risk £m | Other £m | Total ECL £m |
| **At 30 June 2022** | **1,219** | **748** | **173** | **78** | **345** | **2,563** |
| At 31 December 2021 | 870 | 709 | 390 | 57 | 613 | 2,639 |

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

Except as noted below, the nature of the judgements is consistent with those applied by the Group in its financial statements for the year ended 31 December 2021. The 30 June 2022 allowance has been re-assessed based on latest economic outlook, data points and modelled result.

**Judgements due to COVID-19**

*Increase in time to repossession: £51 million (31 December 2021: £76 million)*

This reflects an adjustment made to allow for an increase in the time assumed between default and repossession as a result of the Group temporarily suspending the repossession of properties to support customers during the pandemic. The reduction in scale of the judgement reflects the lower sensitivity of the time between default and repossession following the change in definition of default to align with the CRD IV regulatory definition adopted from 1 January 2022.

*Specific sector risks: £nil (31 December 2021: £10 million)*

Judgemental uplifts which previously applied a targeted stress on likelihood and severity of loss to sectors considered to be exposed to an elevated risk from COVID-19 have been released. This is because COVID-19 and potential social restrictions are no longer considered to pose an elevated risk to these industries. Wider economic risks have now been assessed separately with similar judgemental adjustments raised to reflect inflationary pressures.

*COVID-19 risk to base case conditioning assumptions: £120 million (31 December 2021: £240 million)*

An important element of the methodology used to calculate the Group's ECL allowance is the determination of a base case economic scenario, predicated on certain conditioning assumptions, which is then used to derive alternative economic scenarios using stochastic shocks. The base case represents the Group's most likely view, however management believes that in the context of the pandemic, the possibility that the conditioning assumptions are invalidated remains to the downside. In particular, the possibility that a future virus mutation has vaccine resistance leading to serious social and economic disruption. Such a possibility lies outside of the Group's current methodology because it would invalidate one of the key assumptions behind the base case forecast. The likelihood and impact of a vaccine resistant mutation is difficult to estimate with any precision therefore the Group has used judgement to determine a reasonable estimate of this additional downside risk, informed by several approaches.

As at 30 June 2022, this adjustment has been reduced from £240 million to £120 million, reflecting the reduced risk seen through lower levels of mortality in the UK and globally, while continuing to recognise that the risk of a vaccine resistant mutation remains. Two further sub-variants of Omicron classed as variants of concern towards the end of May are now predominant in the UK and are causing a recent increase in infection and hospitalisations. The recent increase in COVID-19 infections demonstrates the need to retain some caution, however COVID-19 is no longer considered to pose the same level of elevated risk as at 31 December 2021.

One approach used to quantify the amount of the central adjustment of £120 million (31 December 2021: £240 million) is to apply a 5 per cent re-weighting from the stated upside to the stated severe downside scenario, a reduced re-weight from 31 December 2021. Another approach is to apply a half of the impact of the stated univariate sensitivities of unemployment (1 percentage point increase) and HPI (10 percentage point decrease), still reflecting a more immediate and therefore greater ECL impact than the gradual increase reflected in those sensitivities.

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

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

**Judgements due to inflationary risk**

*Inflationary risk on retail products: £31 million (31 December 2021: £nil)*

Although portfolio performance remains strong, and no deterioration in credit risk has been observed to date due to high inflation and a rising interest rate environment, management have made an adjustment for customers most vulnerable to inflationary pressures and interest rate rises which may impact the ability to maintain repayment commitments. Additional ECL has been raised for customers with lower income levels and higher indebtedness based on a higher estimated likelihood of default. Management will monitor customer performance over time to ensure that this adjustment remains reasonable and appropriate.

*Adjustment to affordability: £25 million (31 December 2021: £nil)*

The Group's ECL models for credit cards and personal loan portfolios use predictions of wage growth to account for future affordability stress. As rapidly increasing inflation is currently eroding assumed nominal wage growth, adjustments have been made to the econometric models to account for real, rather than nominal, income to produce adjusted expected default forecasts. Management believe that this is an appropriate way to account for the aggregate inflationary risk in these unsecured portfolios and will continue to monitor both actual economic and customer outcomes to ensure that this adjustment remains reasonable and appropriate.

*Sectors at risk: £22 million (31 December 2021: £nil)*

Management believe that new risks have emerged for certain sectors due to impacts from heightened inflationary pressures and rising interest rates beyond what is captured in the models. An adjustment of £22 million has been raised to increase ECL for specific commercial sectors deemed most susceptible to inflationary pressures. Management will continue to closely monitor all sectors of the economy and revise the sectors in scope of this judgement as risks and corporate borrower performance evolve.

**Other judgements**

*End-of-term interest-only: £34 million (31 December 2021: £211 million)*

The adoption of a definition of default in 2022 for UK mortgages that now includes interest-only accounts that become 90 days past due has removed the previous need to adjust for losses associated with interest-only accounts that have missed their final capital payment. A remaining smaller adjustment has been maintained to mitigate the risk that the model potentially understates the credit losses associated with interest-only accounts that have not yet reached maturity but could potentially miss their final capital payment when it falls due.

*Long-term defaults: £178 million (31 December 2021: £144 million)*

The Group suspended mortgage litigation activity between late-2014 and mid-2018 as policy changes were implemented for the treatment of amounts in arrears, interrupting the natural flow of accounts to repossession. Provision coverage is uplifted to the equivalent levels of those accounts already in repossession on an estimated shortfall of balances expected to flow to possession. A further adjustment is made to accounts which have been in default for more than 24 months, with an arrears balance increase in the last 6 months. These accounts have their probability of possession set to 95 per cent based on observed historical losses incurred on accounts that were of an equivalent status. The increase in the judgement reflects a lower modelled coverage that requires a larger adjustment to reach the same levels.

*Adjustment for specific segments: £57 million (31 December 2021: £78 million)*

The Group monitors risks across specific segments of its portfolios which may not be fully captured through wider collective models. Judgemental increases applied to probability of default on forborne accounts (31 December 2021: £36 million) have been removed as models now include forborne accounts in Stage 3 assets. There is negligible change to the judgement (31 December 2021: £42 million) for fire safety and cladding uncertainty. This captures risks within the assessment of affordability and asset valuations, not captured by underlying models.

*Lifetime extension on revolving products: £22 million (31 December 2021: £16 million)*

As per the Group's financial statements for the year ended 31 December 2021, 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 model was developed. Previously this was deemed to be six years by increasing default probabilities through the extrapolation of the default trajectory observed throughout the three years and beyond. During 2022, work was undertaken to reassess the expected lifetime for these assets, concluding in an extension of the expected lifetime from six to ten years, resulting in an increase to this adjustment.

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

### Note 3: Net fee and commission income

| | **Half-year to 30 Jun 2022 £m** | Half-year to 30 Jun 2021 £m |
|---|---|---|
| Fee and commission income: | | |
| Current accounts | **103** | 104 |
| Credit and debit card fees | **157** | 105 |
| Other fees and commissions | **36** | 53 |
| Total fee and commission income | **296** | 262 |
| Fee and commission expense | **(153)** | (137) |
| **Net fee and commission income** | **143** | 125 |

### Note 4: Operating expenses

| | **Half-year to 30 Jun 2022 £m** | Half-year to 30 Jun 2021 £m |
|---|---|---|
| Staff costs | **538** | 577 |
| Premises and equipment costs | **72** | 59 |
| Amounts paid to fellow Lloyds Banking Group undertakings and other expenses | **740** | 809 |
| Depreciation and amortisation | **107** | 108 |
| **Total operating expenses** | **1,457** | 1,553 |

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

**Note 5: Impairment**

| | **Half-year to 30 Jun 2022 £m** | Half-year to 30 Jun 2021 £m |
|---|---|---|
| Impact of transfers between stages | **201** | 86 |
| Other changes in credit quality | **(134)** | (221) |
| Additions and repayments | **(47)** | (119) |
| Other items | **(2)** | 2 |
| | **(183)** | (338) |
| **Total impairment charge (credit)** | **18** | (252) |
| *In respect of:* | | |
| Loans and advances to customers | **5** | (223) |
| Due from fellow Lloyds Banking Group undertakings | **5** | (4) |
| Financial assets held at amortised cost | **10** | (227) |
| Loan commitments and financial guarantees | **8** | (25) |
| **Total impairment charge (credit)** | **18** | (252) |

The Group's impairment charge comprises the following:

*Impact of transfers between stages*

The net impact on the impairment charge of transfers between stages.

*Other changes in credit quality*

Changes in loss allowance as a result of movements in risk parameters that reflect changes in customer credit quality, but which have not resulted in a transfer to a different stage. This also contains the impact on the impairment charge of write-offs and recoveries, where the related loss allowances are reassessed to reflect the view of credit quality at the balance sheet date and therefore the ultimate realisable or recoverable value.

*Additions and repayments*

Expected loss allowances are recognised on origination of new loans or further drawdowns of existing facilities. Repayments relate to the reduction of loss allowances resulting from the repayment of outstanding balances that have been provided against.

**Note 6: Tax expense**

In accordance with IAS 34, the Group's income tax expense for the half-year to 30 June 2022 is based on the best estimate of the weighted-average annual income tax rate expected for the full financial year. The tax effects of one-off items are not included in the weighted-average annual income tax rate, but are recognised in the relevant period.

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

| | **Half-year to 30 Jun 2022 £m** | Half-year to 30 Jun 2021 £m |
|---|---|---|
| Profit before tax | **1,157** | 1,408 |
| UK corporation tax thereon at 19 per cent (2021: 19 per cent) | **(220)** | (268) |
| Impact of surcharge on banking profits | **(87)** | (107) |
| Non-deductible costs: conduct charges | **—** | (3) |
| Other non-deductible costs | **4** | (8) |
| Non-taxable income | **(1)** | 3 |
| Tax relief on coupons on other equity instruments | **—** | 10 |
| Remeasurement of deferred tax due to rate changes | **(23)** | 433 |
| Adjustments in respect of prior years | **13** | (5) |
| **Tax (expense) credit** | **(314)** | 55 |

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

### Note 7: Financial assets at amortised cost

### Half-year to 30 June 2022

| | Gross carrying amount | | | | Allowance for expected credit losses | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 £m | Stage 2 £m | Stage 3 £m | Total £m | Stage 1 £m | Stage 2 £m | Stage 3 £m | Total £m |
| **Loans and advances to banks** | | | | | | | | |
| **At 30 June 2022** | **105** | **—** | **—** | **105** | **—** | **—** | **—** | **—** |
| **Allowance for impairment losses** | **—** | **—** | **—** | **—** | | | | |
| **Net carrying amount** | **105** | **—** | **—** | **105** | | | | |
| **Loans and advances to customers** | | | | | | | | |
| At 1 January 2022 | **250,007** | **26,420** | **5,561** | **281,988** | **392** | **810** | **1,377** | **2,579** |
| Exchange and other adjustments | **7** | **—** | **—** | **7** | **—** | **(1)** | **23** | **22** |
| Transfers to Stage 1 | **5,672** | **(5,651)** | **(21)** | **—** | **74** | **(71)** | **(3)** | **—** |
| Transfers to Stage 2 | **(15,578)** | **15,766** | **(188)** | **—** | **(22)** | **47** | **(25)** | **—** |
| Transfers to Stage 3 | **(219)** | **(2,652)** | **2,871** | **—** | **(2)** | **(157)** | **159** | **—** |
| Impact of transfers between stages | **(10,125)** | **7,463** | **2,662** | **—** | **(61)** | **191** | **70** | **200** |
| | | | | | **(11)** | **10** | **201** | **200** |
| Other changes in credit quality | | | | | **(109)** | **(95)** | **59** | **(145)** |
| Additions and repayments | **5,970** | **(1,352)** | **(487)** | **4,131** | **12** | **(34)** | **(28)** | **(50)** |
| Charge (credit) to the income statement | | | | | **(108)** | **(119)** | **232** | **5** |
| Advances written off | | | **(159)** | **(159)** | | | **(159)** | **(159)** |
| Recoveries of advances written off in previous years | | | **44** | **44** | | | **44** | **44** |
| **At 30 June 2022** | **245,859** | **32,531** | **7,621** | **286,011** | **284** | **690** | **1,517** | **2,491** |
| **Allowance for impairment losses** | **(284)** | **(690)** | **(1,517)** | **(2,491)** | | | | |
| **Net carrying amount** | **245,575** | **31,841** | **6,104** | **283,520** | | | | |
| **Due from fellow Lloyds Banking Group undertakings** | | | | | | | | |
| **At 30 June 2022** | **18,400** | **—** | **—** | **18,400** | **8** | **—** | **—** | **8** |
| **Allowance for impairment losses** | **(8)** | **—** | **—** | **(8)** | | | | |
| **Net carrying amount** | **18,392** | **—** | **—** | **18,392** | | | | |
| **Total financial assets at amortised cost** | **264,072** | **31,841** | **6,104** | **302,017** | | | | |

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

**Note 7: Financial assets at amortised cost** (continued)

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

| | Allowance for expected credit losses | | | |
|---|---|---|---|---|
| | Stage 1 £m | Stage 2 £m | Stage 3 £m | Total £m |
| **Undrawn balances** | | | | |
| At 1 January 2022 | **26** | **29** | **1** | **56** |
| Exchange and other adjustments | **—** | **(1)** | **—** | **(1)** |
| Transfers to Stage 1 | **9** | **(9)** | **—** | **—** |
| Transfers to Stage 2 | **(1)** | **1** | **—** | **—** |
| Transfers to Stage 3 | **—** | **—** | **—** | **—** |
| Impact of transfers between stages | **(8)** | **9** | **—** | **1** |
| | **—** | **1** | **—** | **1** |
| Other items taken to the income statement | **3** | **4** | **—** | **7** |
| Charge to the income statement | **3** | **5** | **—** | **8** |
| **At 30 June 2022** | **29** | **33** | **1** | **63** |

The Group's total impairment allowances at 30 June 2022 were as follows:

| | Allowance for expected credit losses | | | |
|---|---|---|---|---|
| | Stage 1 £m | Stage 2 £m | Stage 3 £m | Total £m |
| *In respect of:* | | | | |
| Loans and advances to customers | **284** | **690** | **1,517** | **2,491** |
| Debt securities | **—** | **—** | **1** | **1** |
| Due from fellow Lloyds Banking Group undertakings | **8** | **—** | **—** | **8** |
| Financial assets at amortised cost | **292** | **690** | **1,518** | **2,500** |
| Provisions in relation to loan commitments and financial guarantees | **29** | **33** | **1** | **63** |
| **Total** | **321** | **723** | **1,519** | **2,563** |

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

### Note 7: Financial assets at amortised cost (continued)

Year ended 31 December 2021

| | 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 |
| **Loans and advances to banks** | | | | | | | | |
| At 31 December 2021 | 51 | — | — | 51 | — | — | — | — |
| Allowance for impairment losses | — | — | — | — | | | | |
| Net carrying amount | 51 | — | — | 51 | | | | |
| **Loans and advances to customers** | | | | | | | | |
| At 1 January 2021 | 226,746 | 34,437 | 5,775 | 266,958 | 486 | 1,146 | 1,560 | 3,192 |
| Exchange and other adjustments | (32) | — | (31) | (63) | — | — | 9 | 9 |
| Transfers to Stage 1 | 9,790 | (9,779) | (11) | — | 210 | (206) | (4) | — |
| Transfers to Stage 2 | (6,399) | 7,171 | (772) | — | (19) | 108 | (89) | — |
| Transfers to Stage 3 | (309) | (1,356) | 1,665 | — | (6) | (118) | 124 | — |
| Impact of transfers between stages | 3,082 | (3,964) | 882 | — | (160) | 100 | 110 | 50 |
| | | | | | 25 | (116) | 141 | 50 |
| Other changes in credit quality | | | | | (83) | (107) | 75 | (115) |
| Additions and repayments | 20,211 | (4,053) | (745) | 15,413 | (36) | (113) | (88) | (237) |
| (Credit) charge to the income statement | | | | | (94) | (336) | 128 | (302) |
| Advances written off | | | (382) | (382) | | | (382) | (382) |
| Recoveries of advances written off in previous years | | | 62 | 62 | | | 62 | 62 |
| At 31 December 2021 | 250,007 | 26,420 | 5,561 | 281,988 | 392 | 810 | 1,377 | 2,579 |
| Allowance for impairment losses | (392) | (810) | (1,377) | (2,579) | | | | |
| Net carrying amount | 249,615 | 25,610 | 4,184 | 279,409 | | | | |
| **Due from fellow Lloyds Banking Group undertakings** | | | | | | | | |
| At 31 December 2021 | 17,065 | — | — | 17,065 | 3 | — | — | 3 |
| Allowance for impairment losses | (3) | — | — | (3) | | | | |
| Net carrying amount | 17,062 | — | — | 17,062 | | | | |
| Total financial assets at amortised cost | 266,728 | 25,610 | 4,184 | 296,522 | | | | |

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

**Note 7: Financial assets at amortised cost** (continued)

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

| | Allowance for expected credit losses | | | |
|---|---|---|---|---|
| | Stage 1 £m | Stage 2 £m | Stage 3 £m | Total £m |
| **Undrawn balances** | | | | |
| At 1 January 2021 | 54 | 69 | 6 | 129 |
| Exchange and other adjustments | (1) | — | — | (1) |
| Transfers to Stage 1 | 20 | (20) | — | — |
| Transfers to Stage 2 | (3) | 3 | — | — |
| Transfers to Stage 3 | — | (2) | 2 | — |
| Impact of transfers between stages | (17) | 7 | (1) | (11) |
| | — | (12) | 1 | (11) |
| Other items taken to the income statement | (27) | (28) | (6) | (61) |
| Credit to the income statement | (27) | (40) | (5) | (72) |
| At 31 December 2021 | 26 | 29 | 1 | 56 |

The Group's total impairment allowances at 31 December 2021 were as follows:

| | Allowance for expected credit losses | | | |
|---|---|---|---|---|
| | Stage 1 £m | Stage 2 £m | Stage 3 £m | Total £m |
| *In respect of:* | | | | |
| Loans and advances to customers | 392 | 810 | 1,377 | 2,579 |
| Debt securities | — | — | 1 | 1 |
| Due from fellow Lloyds Banking Group undertakings | 3 | — | — | 3 |
| Financial assets at amortised cost | 395 | 810 | 1,378 | 2,583 |
| Provisions in relation to loan commitments and financial guarantees | 26 | 29 | 1 | 56 |
| Total | 421 | 839 | 1,379 | 2,639 |

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

Transfers between stages are deemed to have taken place at the start of the reporting period, with all other movements shown in the stage in which the asset is held at the period end.

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

Loans and advances to customers include advances securitised under the Group's securitisation and covered bond programmes (see note 8).

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

**Note 8: Debt securities in issue**

| | At 30 June 2022 | | | At 31 December 2021 | | |
|---|---|---|---|---|---|---|
| | 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 | — | 4,275 | 4,275 | — | 4,048 | 4,048 |
| Covered bonds | — | 533 | 533 | — | 1,651 | 1,651 |
| Securitisation notes | 29 | 1,471 | 1,500 | 33 | 1,654 | 1,687 |
| | 29 | 6,279 | 6,308 | 33 | 7,353 | 7,386 |

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 2022, external parties held £1,500 million (31 December 2021: £1,687 million) of the Group's securitisation notes in issue; these notes, together with those held internally, are secured on loans and advances to customers and debt securities held at amortised cost amounting to £20,875 million (31 December 2021: £22,101 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 2022, external parties held £533 million (31 December 2021: £1,651 million) of the Group's covered bonds in issue; these bonds, together with those held internally, are secured on certain loans and advances to customers amounting to £818 million (31 December 2021: £3,407 million) that have been assigned to bankruptcy remote limited liability partnerships. These loans are retained on the Group's balance sheet.

Cash deposits of £1,621 million (31 December 2021: £1,286 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.

**Note 9: Other provisions**

| | Provisions for financial commitments and guarantees £m | Regulatory and legal provisions £m | Other £m | Total £m |
|---|---|---|---|---|
| At 1 January 2022 | 56 | 835 | 166 | 1,057 |
| Exchange and other adjustments | (1) | — | — | (1) |
| Provisions applied | — | (122) | (27) | (149) |
| Charge for the period | 8 | 2 | 6 | 16 |
| **At 30 June 2022** | 63 | 715 | 145 | 923 |

**Regulatory and legal provisions**

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 half-year to 30 June 2022 the Group charged a further £2 million in respect of legal actions and other regulatory matters.

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

**Note 9: Other provisions** (continued)

The unutilised balance at 30 June 2022 was £715 million (31 December 2021: £835 million). The most significant items are as follows:

*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 appeal process for the further assessment of debt relief and de facto director status is now nearing completion. Further details of the Foskett Panel were announced on 3 April 2020 and 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 their decisions in a generous, fair and common sense manner, assessing claims against an expanded definition of the fraud and on a lower evidential basis.

Following the emergence of the first outcomes of the Foskett Panel through 2021, the Group charged a further £790 million in the year ended 31 December 2021, of which £600 million was recognised in the fourth quarter. This included operational costs in relation to Dame Linda Dobbs's review, which is considering whether the issues relating to HBOS Reading were investigated and appropriately reported by the Group during the period from January 2009 to January 2017, and other programme costs. A significant proportion of the fourth quarter charge related to the estimated future awards from the Foskett Panel. To date the Foskett Panel has shared outcomes on a limited subset of the total population which covers a wide range of businesses and different claim characteristics. The estimated awards provision recognised is therefore materially dependent on the assumption that the limited number of awards to date are representative of the full population of cases.

Following the provision taken for the independent review of compensation for customers of HBOS Reading, the Lloyds Banking Group's Remuneration Committee has undertaken its review of whether performance adjustments are required in light of the shortcomings identified by Sir Ross Cranston in relation to the original review of customer compensation overseen by Professor Griggs. Taking into account prior actions taken, including the voluntary withdrawal of the former Group Chief Executive and former Chief Operating Officer from the 2019 GPS awards as a result of the overall performance of the Group and the issues faced during 2019, including publication of the Cranston report, the Remuneration Committee has determined that the Group's performance adjustment requirements have been met in respect of the Executive Directors in office at the relevant time.

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. The estimated awards provision recognised at 31 December 2021 remains the Group's best estimate of the cost to conclude the process. With the alternative process only recently commenced and no experience of overall participation, alongside previously stated existing uncertainties, there is a risk that the final outcome could be significantly different from the current provision once the re-review is concluded by the Foskett Panel. There is no confirmed timeline for the completion of the Foskett Panel re-review process. The Group is committed to implementing Sir Ross's recommendations in full.

*Payment protection insurance*

The Group has incurred costs for PPI over a number of years totalling £6,356 million. Good progress continues to be made towards ensuring operational completeness, ahead of an orderly programme close. In addition to the above, the Group continues to challenge PPI litigation cases, with mainly legal fees and operational costs associated with litigation activity recognised within regulatory and legal provisions. PPI litigation remains inherently uncertain, with a number of key court judgments due to be delivered in the second half of 2022.

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

**Note 10: Related party transactions**

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

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

| | **At 30 Jun 2022 £m** | At 31 Dec 2021 £m |
|---|---|---|
| **Assets, included within:** | | |
| Financial assets at amortised cost: due from fellow Lloyds Banking Group undertakings | **18,392** | 17,062 |
| Derivative financial instruments | **2,429** | 2,411 |
| | **20,821** | 19,473 |
| **Liabilities, included within:** | | |
| Due to fellow Lloyds Banking Group undertakings | **84,070** | 77,839 |
| Derivative financial instruments | **3,998** | 3,632 |
| Debt securities in issue | **3,614** | 3,387 |
| Subordinated liabilities | **1,561** | 1,564 |
| | **93,243** | 86,422 |

During the half-year to 30 June 2022 the Group earned £114 million (half-year to 30 June 2021: £48 million) of interest income and incurred £1,036 million (half-year to 30 June 2021: £811 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 2022 the Group incurred expenditure of £24 million (half-year ended 30 June 2021: £19 million) on behalf of fellow Lloyds Banking Group undertakings which was recharged to those undertakings; and fellow Lloyds Banking Group undertakings incurred expenditure of £596 million (half-year ended 30 June 2021: £381 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 2022 are similar in nature to those for the year ended 31 December 2021.

**Note 11: Contingent liabilities, commitments and guarantees**

**Interchange fees**

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

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

Any impact on the Group of the litigation against Visa and Mastercard remains uncertain at this time, such that it is not practicable for the Group to provide an estimate of any potential financial effect. Insofar as Visa is required to pay damages to retailers for interchange fees set prior to June 2016, contractual arrangements to allocate liability have been agreed between various UK banks (including the 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. Any such release and any subsequent sale of Visa common stock does not impact the contingent liability.

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

**Note 11: Contingent liabilities, commitments and guarantees** (continued)

**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 and the Australian BBSW reference 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 Group of any private lawsuits or any related challenges to the interpretation or validity of any of the Group's contractual arrangements, including their timing and scale. As such, it is not practicable to provide an estimate of any potential financial effect.

**Tax authorities**

The Group has an open matter in relation to a claim for group relief of losses incurred in its former Irish banking subsidiary, which ceased trading on 31 December 2010. In 2013, HMRC informed the Group that its interpretation of the UK rules means that the group relief is not available. In 2020, HMRC concluded their enquiry into the matter and issued a closure notice. The Group's interpretation of the UK rules has not changed and hence it has appealed to the First Tier Tax Tribunal, with a hearing expected in 2023. If the final determination of the matter by the judicial process is that HMRC's position is correct, management estimate that this would result in an increase in current tax liabilities of approximately £180 million (including interest). The Group, having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due.

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

**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, which could relate to a number of issues, including financial, environmental or other regulatory matters, both in the UK and overseas. Where material, such matters are periodically reassessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of the Group incurring a liability. In those instances where it is concluded that it is more likely than not that a payment will be made, a provision is established based on management's best estimate of the amount required at the relevant balance sheet date. In some cases it will not be possible to form a view, for example because the facts are unclear or because further time is needed to assess properly the merits of the case, and no provisions are held in relation to such matters. In these circumstances, specific disclosure in relation to a contingent liability will be made where material. However, the Group does not currently expect the final outcome of any such case to have a material adverse effect on its financial position, operations or cash flows. Where there is a contingent liability related to an existing provision the relevant disclosures are included within note 9.

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

### Note 11: Contingent liabilities, commitments and guarantees (continued)

### Contingent liabilities, commitments and guarantees

| | **At 30 Jun 2022 £m** | At 31 Dec 2021 £m |
|---|---|---|
| **Contingent liabilities** | **150** | 263 |
| **Commitments and guarantees** | | |
| Undrawn formal standby facilities, credit lines and other commitments to lend: | | |
| Less than 1 year original maturity: | | |
| Mortgage offers made | **17,456** | 16,147 |
| Other commitments and guarantees | **24,557** | 24,794 |
| | **42,013** | 40,941 |
| 1 year or over original maturity | **2,787** | 3,061 |
| Other | **—** | 6 |
| **Total commitments and guarantees** | **44,800** | 44,008 |

Of the amounts shown above in respect of undrawn formal standby facilities, credit lines and other commitments to lend, £19,455 million (31 December 2021: £18,740 million) was irrevocable.

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

### Note 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 33 to the Group's financial statements for the year ended 31 December 2021 details the definitions of the three levels in the fair value hierarchy.

**Valuation control framework**

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

**Transfers into and out of level 3 portfolios**

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

**Valuation methodology**

For level 2 and level 3 portfolios, there is no significant change to the valuation methodology (techniques and inputs) disclosed in the Group's financial statements for the year ended 31 December 2021 applied to these portfolios.

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

| | **At 30 June 2022** | | At 31 December 2021 | |
|---|---|---|---|---|
| | **Carrying value £m** | **Fair value £m** | Carrying value £m | Fair value £m |
| **Financial assets** | | | | |
| Loans and advances to banks | **105** | **105** | 51 | 51 |
| Loans and advances to customers | **283,520** | **284,870** | 279,409 | 282,369 |
| Due from fellow Lloyds Banking Group undertakings | **18,392** | **18,392** | 17,062 | 17,062 |
| Financial assets at amortised cost | **302,017** | **303,367** | 296,522 | 299,482 |
| **Financial liabilities** | | | | |
| Deposits from banks | **280** | **280** | 597 | 597 |
| Customer deposits | **169,855** | **169,875** | 170,777 | 170,842 |
| Repurchase agreements | **30,066** | **30,066** | 30,028 | 30,028 |
| Due to fellow Lloyds Banking Group undertakings | **84,070** | **84,070** | 77,839 | 77,839 |
| Debt securities in issue | **6,279** | **6,308** | 7,353 | 7,425 |
| Subordinated liabilities | **1,596** | **1,632** | 1,644 | 1,671 |

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

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

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

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

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

The following tables provide an analysis of the financial assets and liabilities of the Group that are carried at fair value in the Group's consolidated balance sheet, grouped into levels 1 to 3 based on the degree to which the fair value is observable. There were no significant transfers between level 1 and level 2 during the period.

| **Financial assets** | **Level 1 £m** | **Level 2 £m** | **Level 3 £m** | **Total £m** |
|---|---|---|---|---|
| **At 30 June 2022** | | | | |
| Loans and advances to customers at fair value through profit or loss | **—** | **20** | **330** | **350** |
| Debt securities at fair value through other comprehensive income | **—** | **2,377** | **—** | **2,377** |
| Derivative financial instruments | **—** | **3,473** | **—** | **3,473** |
| **Total financial assets carried at fair value** | **—** | **5,870** | **330** | **6,200** |
| At 31 December 2021 | | | | |
| Loans and advances to customers at fair value through profit or loss | — | — | 362 | 362 |
| Debt securities at fair value through other comprehensive income | — | 2,047 | — | 2,047 |
| Derivative financial instruments | — | 4,264 | — | 4,264 |
| Total financial assets carried at fair value | — | 6,311 | 362 | 6,673 |

| **Financial liabilities** | **Level 1 £m** | **Level 2 £m** | **Level 3 £m** | **Total £m** |
|---|---|---|---|---|
| **At 30 June 2022** | | | | |
| Financial liabilities designated at fair value through profit or loss | **—** | **—** | **29** | **29** |
| Derivative financial instruments | **—** | **4,376** | **171** | **4,547** |
| **Total financial liabilities carried at fair value** | **—** | **4,376** | **200** | **4,576** |
| At 31 December 2021 | | | | |
| Financial liabilities designated at fair value through profit or loss | — | — | 33 | 33 |
| Derivative financial instruments | — | 4,144 | 176 | 4,320 |
| Total financial liabilities carried at fair value | — | 4,144 | 209 | 4,353 |

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

### Note 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 | Derivative assets £m | Total financial assets carried at fair value £m |
|---|---|---|---|
| At 1 January 2022 | **362** | **—** | **362** |
| Losses recognised in the income statement within other income | **(5)** | **—** | **(5)** |
| Repayments of customer loans | **(27)** | **—** | **(27)** |
| **At 30 June 2022** | **330** | **—** | **330** |
| Losses recognised in the income statement, within other income, relating to the change in fair value of those assets held at 30 June 2022 | **(5)** | **—** | **(5)** |
| At 1 January 2021 | 477 | 12 | 489 |
| Losses recognised in the income statement within other income | (55) | (1) | (56) |
| Purchases/increases to customer loans | 4 | — | 4 |
| Repayments of customer loans | (26) | — | (26) |
| At 30 June 2021 | 400 | 11 | 411 |
| Losses recognised in the income statement, within other income, relating to the change in fair value of those assets held at 30 June 2021 | (52) | (1) | (53) |

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

| | Financial liabilities at fair value through profit or loss £m | Derivative liabilities £m | Total financial liabilities carried at fair value £m |
|---|---|---|---|
| At 1 January 2022 | **33** | **176** | **209** |
| (Gains) losses recognised in the income statement within other income | **(2)** | **6** | **4** |
| Redemptions | **(2)** | **(11)** | **(13)** |
| **At 30 June 2022** | **29** | **171** | **200** |
| (Gains) losses recognised in the income statement, within other income, relating to the change in fair value of those liabilities held at 30 June 2022 | **(2)** | **5** | **3** |
| At 1 January 2021 | 45 | 271 | 316 |
| Gains recognised in the income statement within other income | (2) | (46) | (48) |
| Redemptions | (5) | (19) | (24) |
| At 30 June 2021 | 38 | 206 | 244 |
| Gains recognised in the income statement, within other income, relating to the change in fair value of those liabilities held at 30 June 2021 | (2) | (42) | (44) |

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

**Note 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.

| | | | | Effect of reasonably possible alternative assumptions[1] | |
|---|---|---|---|---|---|
| **At 30 June 2022** | **Valuation techniques** | **Significant unobservable inputs[2]** | **Carrying value £m** | **Favourable changes £m** | **Unfavourable changes £m** |
| *Financial assets at fair value through profit or loss* | | | | | |
| Loans and advances to customers | Discounted cash flows | Interest rate spreads (+/- 50bps) | **330** | **28** | **(26)** |
| **Level 3 financial assets carried at fair value** | | | **330** | | |
| *Financial liabilities at fair value through profit or loss* | | | | | |
| Securitisation notes | Discounted cash flows | Interest rate spreads (+/- 50bps) | **29** | **1** | **(1)** |
| *Derivative financial liabilities* | | | | | |
| Shared appreciation rights | Market values – property valuation | HPI (+/- 1%) | **171** | **18** | **(18)** |
| **Level 3 financial liabilities carried at fair value** | | | **200** | | |
| At 31 December 2021 | | | | | |
| *Financial assets at fair value through profit or loss* | | | | | |
| Loans and advances to customers | Discounted cash flows | Interest rate spreads (+/- 50bps) | 362 | 31 | (29) |
| Level 3 financial assets carried at fair value | | | 362 | | |
| *Financial liabilities at fair value through profit or loss* | | | | | |
| Securitisation notes | Discounted cash flows | Interest rate spreads (+/- 50bps) | 33 | 1 | (1) |
| *Derivative financial liabilities* | | | | | |
| Shared appreciation rights | Market values – property valuation | HPI (+/- 1%) | 176 | 19 | (18) |
| Level 3 financial liabilities carried at fair value | | | 209 | | |

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.

### Unobservable inputs

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

### 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 note 33 to the Group's financial statements for the year ended 31 December 2021.

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

**Note 13: Interest rate benchmark reform**

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

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

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

| At 30 June 2022 | Sterling LIBOR £m | US Dollar LIBOR £m | Other[1] £m | Total £m |
|---|---|---|---|---|
| **Non-derivative financial assets** | | | | |
| Financial assets at fair value through profit or loss | — | — | — | — |
| Loans and advances to customers | **821** | **32** | — | **853** |
| Due from fellow Lloyds Banking Group undertakings | — | — | — | — |
| Financial assets at amortised cost | **821** | **32** | — | **853** |
| | **821** | **32** | — | **853** |
| **Non-derivative financial liabilities** | | | | |
| Debt securities in issue | — | — | — | — |
| **Derivative notional/contract amount** | | | | |
| Interest rate | **1,408** | **1,170** | **3** | **2,581** |
| Cross currency | — | **1,751** | — | **1,751** |
| | **1,408** | **2,921** | **3** | **4,332** |

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

| At 31 December 2021 | Sterling LIBOR £m | US Dollar LIBOR £m | Other £m | Total £m |
|---|---|---|---|---|
| **Non-derivative financial assets** | | | | |
| Financial assets at fair value through profit or loss | 98 | — | — | 98 |
| Loans and advances to customers | 404 | 23 | — | 427 |
| Due from fellow Lloyds Banking Group undertakings | 7 | 127 | — | 134 |
| Financial assets at amortised cost | 411 | 150 | — | 561 |
| | 509 | 150 | — | 659 |
| **Non-derivative financial liabilities** | | | | |
| Debt securities in issue | — | — | 23 | 23 |
| **Derivative notional/contract amount** | | | | |
| Interest rate | 2,860 | 1,092 | 10 | 3,962 |
| Cross currency | — | 1,716 | — | 1,716 |
| | 2,860 | 2,808 | 10 | 5,678 |

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

**Note 13: Interest rate benchmark reform** (continued)

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

Of the £2,921 million of USD derivative notional balances as at 30 June 2022, £634 million relate to contracts with their final LIBOR fixing prior to LIBOR cessation. Of the remaining £2,287 million, all are fallback-eligible.

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

## 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 UK adopted International Accounting Standard 34, *Interim Financial Reporting*, and that the half-year management report herein includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R, namely:

- an indication of important events that have occurred during the six months ended 30 June 2022 and their impact on the condensed consolidated half-year financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related party transactions in the six months ended 30 June 2022 and any material changes in the related party transactions described in the last annual report.

Signed on behalf of the Board by

**Charlie Nunn**
Chief Executive
26 July 2022

Bank of Scotland plc Board of directors:

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

**Non-Executive Directors:**
Robin Budenberg CBE *(Chair)*
Alan Dickinson *(Deputy Chair)*
Sarah Bentley
Brendan Gilligan
Nigel Hinshelwood
Sarah Legg
Lord Lupton CBE
Amanda Mackenzie OBE
Harmeen Mehta
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 Bank of Scotland plc together with its subsidiaries (the Group) and its current goals and expectations. Statements that are not historical or current facts, including statements about the Group's or its directors' and/or management's beliefs and expectations, are forward looking statements. Words such as, without limitation, ‘believes’, ‘achieves’, ‘anticipates’, ‘estimates’, ‘expects’, ‘targets’, ‘should’, ‘intends’, ‘aims’, ‘projects’, ‘plans’, ‘potential’, ‘will’, ‘would’, ‘could’, ‘considered’, ‘likely’, ‘may’, ‘seek’, ‘estimate’, ‘probability’, ‘goal’, ‘objective’, ‘deliver’, ‘endeavour’, ‘prospects’, ‘optimistic’ and similar expressions or variations on these expressions are intended to identify forward looking statements. These statements concern or may affect future matters, including but not limited to: projections or expectations of the Group’s future financial position, including profit attributable to shareholders, provisions, economic profit, dividends, capital structure, portfolios, net interest margin, capital ratios, liquidity, risk-weighted assets (RWAs), expenditures or any other financial items or ratios; litigation, regulatory and governmental investigations; the Group’s future financial performance; the level and extent of future impairments and write-downs; the Group’s ESG targets and/or commitments; statements of plans, objectives or goals of the Group or its management and other statements that are not historical fact; expectations about the impact of COVID-19; and statements of assumptions underlying such statements. By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend upon circumstances that will or may occur in the future. Factors that could cause actual business, strategy, plans and/or results (including but not limited to the payment of dividends) to differ materially from forward looking statements include, but are not limited to: general economic and business conditions in the UK and internationally; market related risks, trends and developments; risks concerning borrower and counterparty credit quality; fluctuations in interest rates, inflation, exchange rates, stock markets and currencies; volatility in credit markets; volatility in the price of the Group's securities; any impact of the transition from IBORs to alternative reference rates; the ability to access sufficient sources of capital, liquidity and funding when required; changes to the Group’s credit ratings; the ability to derive cost savings and other benefits including, but without limitation, as a result of any acquisitions, disposals and other strategic transactions; inability to capture accurately the expected value from acquisitions; potential changes in dividend policy; the ability to achieve strategic objectives; insurance risks; management and monitoring of conduct risk; exposure to counterparty risk; credit rating risk; tightening of monetary policy in jurisdictions in which the Group operates; instability in the global financial markets, including within the Eurozone, and as a result of ongoing uncertainty following the exit by the UK from the European Union (EU) and the effects of the EU-UK Trade and Cooperation Agreement; political instability including as a result of any UK general election and any further possible referendum on Scottish independence; operational risks; conduct risk; technological changes and risks to the security of IT and operational infrastructure, systems, data and information resulting from increased threat of cyber and other attacks; natural pandemic (including but not limited to the COVID-19 pandemic) and other disasters; inadequate or failed internal or external processes or systems; acts of hostility or terrorism and responses to those acts, or other such events; geopolitical unpredictability; the war between Russia and Ukraine; risks relating to sustainability and climate change (and achieving climate change ambitions), including the Group’s ability along with the government and other stakeholders to measure, manage and mitigate the impacts of climate change effectively; changes in laws, regulations, practices and accounting standards or taxation; changes to regulatory capital or liquidity requirements and similar contingencies; assessment related to resolution planning requirements; the policies and actions of governmental or regulatory authorities or courts together with any resulting impact on the future structure of the Group; failure to comply with anti-money laundering, counter terrorist financing, anti-bribery and sanctions regulations; failure to prevent or detect any illegal or improper activities; projected employee numbers and key person risk; increased labour costs; assumptions and estimates that form the basis of the Group's financial statements; the impact of competitive conditions; and exposure to legal, regulatory or competition proceedings, investigations or complaints. A number of these influences and factors are beyond the Group’s control. Please refer to the latest Annual Report on Form 20-F filed by Lloyds Bank 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. 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