

Bank of Scotland plc

2023 Half-Year Results

26 July 2023

Member of the Lloyds Banking Group

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## FINANCIAL REVIEW

### Principal activities

Bank of Scotland plc (the Bank) and its subsidiaries (together, the Group) provide a wide range of banking and financial services. 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 made a loss before tax for the half-year to 30 June 2023 of £112 million, compared to a profit before tax of £1,157 million for the same period in 2022, as a result of lower net interest income and a higher impairment charge. Loss after tax was £31 million (half-year to 30 June 2022: profit after tax of £843 million).

Total income for the half-year to 30 June 2023 was £1,751 million, a decrease of 33 per cent on the first half of 2022. Net interest income was £1,565 million, compared to £2,472 million for the same period in 2022. This was impacted by higher funding costs on intra-group borrowing which more than offset the benefits from UK Bank Rate increases and effects of average interest-earning asset growth.

Other income of £186 million was 16 per cent higher than the first half of 2022, driven by increases in both net fee and commission income and other operating income. Net fee and commission income for the period was £175 million compared to £143 million in the first half of 2022, reflecting improved credit and debit card performance. Other operating income in the period of £56 million was up £27 million.

Operating expenses of £1,485 million were 2 per cent higher than in the first half of 2022, due to higher depreciation given increased strategic investment, partly offset by lower staff costs. The Group recognised remediation costs of £11 million (half-year to 30 June 2022: £2 million). There have been no further charges relating to HBOS Reading and the provision held continues to reflect the Group's best estimate of its full liability, albeit uncertainties remain.

The impairment charge was £378 million compared with a £18 million charge in the half-year to 30 June 2022. The increase reflects the expected credit loss (ECL) allowance build from Stage 1 loans rolling forward into a more adverse economic outlook, as well as increased flows to default primarily in legacy variable rate mortgage portfolios and the inclusion of MBNA limited following the transfer from Lloyds Bank plc in November 2022. This increase was partly offset by a lower charge from economic outlook revisions. The Group's ECL allowance increased to £3,401 million, compared to £3,327 million at 31 December 2022 resulting from the Stage 3 increases in the mortgages and commercial portfolios alongside low levels of write offs in the period. Asset quality remains resilient with only modest deterioration to date from a low base, with credit performance similar, or remaining favourable, to pre-pandemic experience.

The Group recognised a tax credit of £81 million in the period, compared to an expense of £314 million in the first half of 2022.

### Balance sheet

The Group's balance sheet has remained broadly stable compared to 31 December 2022. Total assets of £320,026 million were down £215 million compared to £320,241 million at 31 December 2022. Financial assets at amortised cost were £562 million lower at £308,100 million compared to £308,662 million at 31 December 2022 with debt securities £1,957 million higher, offset by a reduction in balances due from fellow Lloyds Banking Group undertakings of £358 million and loans and advances to customers of £2,172 million to £290,244 million. The reduction in loans and advances to customers was largely as a result of the exit of £2.5 billion of legacy mortgage loans.

Total liabilities of £303,746 million were down £449 million compared to £304,195 million at 31 December 2022 driven by a reduction in customer deposits of £3,951 million in the period to £162,412 million. The reduction in the first half included a decrease in current account balances from tax payments, higher spend and a more competitive market, partly offset by growth in savings balances. This was partially offset by increases in balances due to fellow Lloyds Banking Group undertakings of £2,094 million and debt securities in issue of £1,455 million.

Total equity increased by £234 million from £16,046 million at 31 December 2022 to £16,280 million at 30 June 2023.

**FINANCIAL REVIEW** (continued)**Capital**

The capital position of Bank of Scotland plc is presented on an unconsolidated basis. The Bank's capital position as at 30 June 2023, after applying IFRS 9 transitional arrangements, is set out in the following section.

**Capital resources of the Bank**

	<b>At 30 Jun 2023 £m</b>	At 31 Dec 2022 £m
<b>Common equity tier 1</b>		
Shareholders' equity per balance sheet	13,755	13,704
Cash flow hedging reserve	73	65
Other adjustments	58	133
	<b>13,886</b>	<b>13,902</b>
<b>less: deductions from common equity tier 1</b>		
Goodwill and other intangible assets	(691)	(672)
Prudent valuation adjustment	(41)	(53)
Removal of defined benefit pension surplus	(29)	(33)
Significant investments	(40)	(54)
Deferred tax assets	(1,809)	(1,806)
<b>Common equity tier 1 capital</b>	<b>11,276</b>	<b>11,284</b>
<b>Additional tier 1</b>		
Additional tier 1 instruments	2,550	2,200
<b>Total tier 1 capital</b>	<b>13,826</b>	<b>13,484</b>
<b>Tier 2</b>		
Tier 2 instruments	1,500	1,500
Eligible provisions and other adjustments	370	346
<b>Total tier 2 capital</b>	<b>1,870</b>	<b>1,846</b>
<b>Total capital resources</b>	<b>15,696</b>	<b>15,330</b>
<b>Risk-weighted assets</b>	<b>77,592</b>	<b>73,084</b>
<b>Capital and leverage ratios</b>		
Common equity tier 1 capital ratio	14.5%	15.4%
Tier 1 capital ratio	17.8%	18.5%
Total capital ratio	20.2%	21.0%
UK leverage ratio	4.6%	4.5%

The Bank's common equity tier 1 (CET1) capital ratio reduced from 15.4 per cent at 31 December 2022 to 14.5 per cent at 30 June 2023. This largely reflected dividends received from subsidiaries, which were more than offset by the loss for the period, a reduction in IFRS 9 transitional relief following the end of static relief and phased reduction of dynamic relief and an increase in risk-weighted assets. The total capital ratio reduced to 20.2 per cent (31 December 2022: 21.0 per cent), primarily reflecting the increase in risk-weighted assets, partially offset by the issuance of a new AT1 capital instrument during the period.

Risk-weighted assets increased by £4.5 billion to £77.6 billion at 30 June 2023 (31 December 2022: £73.1 billion), largely reflecting an adjustment for the anticipated impact of CRD IV models taken in the second quarter, a small uplift from model calibration and the increase in debt securities held.

The CRD IV model updates reflect an updated impact assessment following a further iteration of model development. The models remain subject to further development and final approval by the PRA. On that basis final impacts remain uncertain and further increases could be required.

The Bank's UK leverage ratio of 4.6 per cent at 30 June 2023 has increased from 4.5 per cent at 31 December 2022, largely reflecting the increase in total tier 1 capital.

## PRINCIPAL RISKS AND UNCERTAINTIES

The most important risks faced by the Group are detailed below. The external risks faced by the Group may impact the success of delivering against the Group's long-term strategic objectives. They include, but are not limited to macroeconomic uncertainty; high interest rates and high inflation which are contributing to the 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. The Group has experienced only modest deterioration in credit performance across its portfolio to date, most notably in UK mortgages where new to arrears and flows to default have increased on legacy variable rate loans. The Group continues to work with its customers to proactively support them through cost of living pressures, the impact from rising interest rates and any deterioration in broader economic conditions.

The Group remains committed to the effective implementation and embedding of Consumer Duty into its purpose, strategy and culture in order to deliver good outcomes for our customers throughout their journeys. This activity seeks to align and enhance the Group's approach to supporting all customers, including those who may be vulnerable and customers in financial difficulty.

CRD IV model changes reflecting the revised regulatory standards introduced in 2022 remain subject to approval by the PRA with the resultant risk-weighted asset and expected loss outcome dependent upon this. An adjustment to risk-weighted assets has been taken in the second quarter, to reflect the anticipated impact of CRD IV models, following a further iteration of model development. On that basis final impacts remain uncertain and further increases could be required.

There have been minor changes to the definition of these risks compared to those disclosed in the Group's 2022 Annual Report and Accounts, such as clarifying third party and outsourced arrangements. The Group continues to conduct a detailed review of its Enterprise Risk Management Framework, which may result in a reclassification of the principal risks.

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

**Capital risk** – The risk that an insufficient quantity or quality of capital is held to meet regulatory requirements or to support business strategy, an inefficient level of capital is held or that capital is inefficiently deployed across the Group.

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

**Climate risk** – The risk that the Group experiences losses and/or reputational damage, either from the impacts of climate change and the transition to net zero, or as a result of the Group's responses to tackling climate change.

**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. Customer harm or detriment is defined as consumer loss, distress or inconvenience to customers due to breaches of regulatory or internal requirements or our wider duty to act fairly and reasonably.

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

**Data risk** – The risk of the Group failing to effectively govern, manage and protect its data throughout its lifecycle, including data processed by third parties, or failure to drive value from data; leading to unethical decision making, poor customer outcomes, loss of value to the Group and mistrust.

**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.

**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 equity prices.

**PRINCIPAL RISKS AND UNCERTAINTIES** (continued)

**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.

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

**Operational resilience risk** – The risk that the Group fails to design resilience into business operations including those that are outsourced, underlying infrastructure and controls (people, property, 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 customers and stakeholder expectations and needs when the continuity of operations is compromised.

**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.

**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

**STATUTORY INFORMATION****Condensed consolidated half-year financial statements (unaudited)**

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**CONSOLIDATED INCOME STATEMENT (UNAUDITED)**

	Note	Half-year to 30 Jun 2023 £m	Half-year to 30 Jun 2022 £m
Interest income		5,456	3,734
Interest expense		(3,891)	(1,262)
<b>Net interest income</b>		<b>1,565</b>	<b>2,472</b>
Fee and commission income		335	296
Fee and commission expense		(160)	(153)
Net fee and commission income	3	175	143
Net trading losses		(45)	(12)
Other operating income		56	29
<b>Other income</b>		<b>186</b>	<b>160</b>
<b>Total income</b>		<b>1,751</b>	<b>2,632</b>
Operating expenses	4	(1,485)	(1,457)
Impairment	5	(378)	(18)
<b>(Loss) profit before tax</b>		<b>(112)</b>	<b>1,157</b>
Tax credit (expense)	6	81	(314)
<b>(Loss) profit for the period</b>		<b>(31)</b>	<b>843</b>
(Loss) profit attributable to ordinary shareholders		(119)	786
Profit attributable to other equity holders		88	57
<b>(Loss) profit for the period</b>		<b>(31)</b>	<b>843</b>

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 2023 £m	Half-year to 30 Jun 2022 £m
<b>(Loss) profit for the period</b>	<b>(31)</b>	843
<b>Other comprehensive income</b>		
<i>Items that will not subsequently be reclassified to profit or loss:</i>		
Post-retirement defined benefit scheme remeasurements		
Remeasurements before tax	(7)	9
Tax	2	–
	<b>(5)</b>	9
<i>Items that may subsequently be reclassified to profit or loss:</i>		
Movements in revaluation reserve in respect of debt securities held at fair value through other comprehensive income:		
Change in fair value	–	(8)
Tax	–	3
	–	(5)
Movements in cash flow hedging reserve:		
Effective portion of changes in fair value taken to other comprehensive income	(6)	12
Net income statement transfers	(6)	(5)
Tax	4	(5)
	<b>(8)</b>	2
<b>Total other comprehensive (loss) income for the period, net of tax</b>	<b>(13)</b>	6
<b>Total comprehensive (loss) income for the period</b>	<b>(44)</b>	849
Total comprehensive (loss) income attributable to ordinary shareholders	<b>(132)</b>	792
Total comprehensive income attributable to other equity holders	<b>88</b>	57
<b>Total comprehensive (loss) income for the period</b>	<b>(44)</b>	849

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

## CONSOLIDATED BALANCE SHEET (UNAUDITED)

	Note	At 30 Jun 2023 £m	At 31 Dec 2022 £m
<b>Assets</b>			
Cash and balances at central banks		2,941	3,004
Financial assets at fair value through profit or loss		300	291
Derivative financial instruments		3,345	3,477
Loans and advances to banks		209	198
Loans and advances to customers	8	290,244	292,416
Debt securities		1,957	–
Due from fellow Lloyds Banking Group undertakings		15,690	16,048
Financial assets at amortised cost		308,100	308,662
Goodwill		452	452
Current tax recoverable		985	390
Deferred tax assets		1,940	1,944
Retirement benefit assets		41	47
Other assets <sup>1</sup>		1,922	1,974
<b>Total assets</b>		<b>320,026</b>	<b>320,241</b>
<b>Liabilities</b>			
Deposits from banks		176	195
Customer deposits		162,412	166,363
Repurchase agreements		30,332	30,210
Due to fellow Lloyds Banking Group undertakings		93,381	91,287
Financial liabilities at fair value through profit or loss		25	26
Derivative financial instruments		4,435	4,570
Notes in circulation		1,342	1,280
Debt securities in issue	10	7,578	6,123
Other liabilities <sup>1</sup>		1,732	1,570
Other provisions	11	796	973
Subordinated liabilities		1,537	1,598
<b>Total liabilities</b>		<b>303,746</b>	<b>304,195</b>
<b>Equity</b>			
Share capital		5,847	5,847
Other reserves		3,043	3,051
Retained profits		4,832	4,940
<b>Ordinary shareholders' equity</b>		<b>13,722</b>	<b>13,838</b>
Other equity instruments		2,550	2,200
Total equity excluding non-controlling interests		16,272	16,038
Non-controlling interests		8	8
<b>Total equity</b>		<b>16,280</b>	<b>16,046</b>
<b>Total equity and liabilities</b>		<b>320,026</b>	<b>320,241</b>

<sup>1</sup> See note 1 regarding changes to presentation.

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Attributable to ordinary shareholders				Other equity instruments £m	Non-controlling interests £m	Total £m
	Share capital £m	Other reserves £m	Retained profits £m	Total £m			
At 1 January 2023	5,847	3,051	4,940	13,838	2,200	8	16,046
<b>Comprehensive income</b>							
Profit for the period	–	–	(119)	(119)	88	–	(31)
<i>Other comprehensive income</i>							
Post-retirement defined benefit scheme remeasurements, net of tax	–	–	(5)	(5)	–	–	(5)
Movements in cash flow hedging reserve, net of tax	–	(8)	–	(8)	–	–	(8)
<b>Total other comprehensive loss</b>	–	(8)	(5)	(13)	–	–	(13)
<b>Total comprehensive (loss) income<sup>1</sup></b>	–	(8)	(124)	(132)	88	–	(44)
<b>Transactions with owners</b>							
Distributions on other equity instruments	–	–	–	–	(88)	–	(88)
Issue of other equity instruments	–	–	–	–	350	–	350
Capital contributions received	–	–	16	16	–	–	16
<b>Total transactions with owners</b>	–	–	16	16	262	–	278
<b>At 30 June 2023<sup>2</sup></b>	<b>5,847</b>	<b>3,043</b>	<b>4,832</b>	<b>13,722</b>	<b>2,550</b>	<b>8</b>	<b>16,280</b>

<sup>1</sup> Total comprehensive income attributable to owners of the parent was a loss of £44 million.

<sup>2</sup> Total equity attributable to owners of the parent was £16,272 million.

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

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

	Attributable to ordinary shareholders				Other equity instruments £m	Non-controlling interests £m	Total £m
	Share capital £m	Other reserves £m	Retained profits £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
<i>Other comprehensive income</i>							
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
Total other comprehensive (loss) income	–	(3)	9	6	–	–	6
Total comprehensive (loss) income <sup>1</sup>	–	(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 <sup>2</sup>	5,847	2,010	4,793	12,650	2,200	8	14,858
Comprehensive income							
Profit for the period	–	–	158	158	65	–	223
<i>Other comprehensive income</i>							
Post-retirement defined benefit scheme remeasurements, net of tax	–	–	(15)	(15)	–	–	(15)
Movements in revaluation reserve in respect of debt securities held at fair value through other comprehensive income, net of tax	–	(9)	–	(9)	–	–	(9)
Movements in cash flow hedging reserve, net of tax	–	(4)	–	(4)	–	–	(4)
Total other comprehensive loss	–	(13)	(15)	(28)	–	–	(28)
Total comprehensive (loss) income <sup>1</sup>	–	(13)	143	130	65	–	195
Transactions with owners							
Distributions on other equity instruments	–	–	–	–	(65)	–	(65)
Capital contributions received	–	1,054	23	1,077	–	–	1,077
Adjustment on transfer of subsidiary	–	–	(19)	(19)	–	–	(19)
Total transactions with owners	–	1,054	4	1,058	(65)	–	993
At 31 December 2022 <sup>2</sup>	5,847	3,051	4,940	13,838	2,200	8	16,046

<sup>1</sup> Total comprehensive income attributable to owners of the parent for the half-year to 30 June 2022 was £849 million (half-year to 31 December 2022: £195 million).

<sup>2</sup> Total equity attributable to owners of the parent at 30 June 2022 was £14,850 million (31 December 2022: £16,038 million).

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

**CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)**

	<b>Half-year to 30 Jun 2023 £m</b>	<b>Half-year to 30 Jun 2022 £m</b>
<b>Cash flows from operating activities</b>		
(Loss) profit before tax	(112)	1,157
Adjustments for:		
Change in operating assets	489	(4,486)
Change in operating liabilities	(225)	4,157
Non-cash and other items	230	(69)
Tax paid (net)	(506)	(333)
<b>Net cash (used in) provided by operating activities</b>	<b>(124)</b>	<b>426</b>
<b>Cash flows from investing activities</b>		
Purchase of financial assets	–	(556)
Proceeds from sale and maturity of financial assets	–	179
Purchase of fixed assets	(76)	(68)
Proceeds from sale of fixed assets	11	–
<b>Net cash used in investing activities</b>	<b>(65)</b>	<b>(445)</b>
<b>Cash flows from financing activities</b>		
Distributions on other equity instruments	(88)	(57)
Interest paid on subordinated liabilities	(50)	(27)
Proceeds from issue of other equity instruments	350	–
Repayment of subordinated liabilities	(62)	(44)
<b>Net cash provided by (used) in financing activities</b>	<b>150</b>	<b>(128)</b>
Change in cash and cash equivalents	(39)	(147)
Cash and cash equivalents at beginning of period	2,053	2,166
<b>Cash and cash equivalents at end of period</b>	<b>2,014</b>	<b>2,019</b>

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

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

**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 2023 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 2022 which complied with international accounting standards in conformity with the requirements of the Companies Act 2006 and were prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Copies of the 2022 Annual Report and Accounts are available on the Lloyds Banking Group's website and are also 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 these condensed consolidated half-year financial statements. In reaching this assessment, the directors have taken into account the uncertainties affecting the UK economy and their potential effects upon the Group's performance and projected funding and capital position; the impact of further stress scenarios has also been considered. On this basis, the directors are satisfied that the Group will maintain adequate levels of funding and capital for the foreseeable future.

The Group's accounting policies are consistent with those applied by the Group in its financial statements for the year ended 31 December 2022 and there have been no changes in the Group's methods of computation.

*Presentational changes*

The following changes have been made to the presentation of the Group's balance sheet:

- items in the course of collection from banks are reported within other assets rather than separately on the face of the balance sheet; and
- items in the course of transmission to banks are reported within other liabilities rather than separately on the face of the balance sheet.

There has been no change in the basis of accounting for any of the underlying transactions. Comparatives have been presented on a consistent basis.

*Future accounting developments*

The IASB has issued a number of minor amendments to IFRSs effective 1 January 2024, including IFRS 16 *Lease liability in a sale and leaseback*, IAS 1 *Non-current liabilities with covenants*, and IAS 1 *Classification of liabilities as current or non-current*. These amendments are not expected to have a significant impact on the Group and, apart from the amendments relating to IFRS 16 *Lease liability in a sale and leaseback*, have not been endorsed for use in the UK.

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 2022 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](http://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 2022 were approved by the directors on 7 March 2023 and were delivered to the Registrar of Companies on 6 April 2023. The auditors' report on those accounts was unqualified and did not include a statement under sections 498(2) (accounting records or returns inadequate or accounts not agreeing with records and returns) or 498(3) (failure to obtain necessary information and explanations) of the Act.

**NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS** (continued)**Note 2: Critical accounting judgements and key sources of estimation uncertainty**

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

Except for the removal of the judgements and estimates in respect of capitalised software enhancements, the Group's significant judgements, estimates and assumptions are unchanged compared to those applied at 31 December 2022. Further information on the critical accounting judgements and key sources of estimation uncertainty for the allowance for expected credit losses is set out in note 9.

**Note 3: Net fee and commission income**

	<b>Half-year to 30 Jun 2023 £m</b>	Half-year to 30 Jun 2022 £m
Fee and commission income:		
Current accounts	96	103
Credit and debit card fees	202	157
Other fees and commissions	37	36
Total fee and commission income	335	296
Fee and commission expense	(160)	(153)
<b>Net fee and commission income</b>	<b>175</b>	<b>143</b>

**Note 4: Operating expenses**

	<b>Half-year to 30 Jun 2023 £m</b>	Half-year to 30 Jun 2022 £m
Staff costs	483	538
Premises and equipment costs	94	72
Amounts paid to fellow Lloyds Banking Group undertakings and other expenses	775	740
Depreciation and amortisation	133	107
<b>Total operating expenses</b>	<b>1,485</b>	<b>1,457</b>

**NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS** (continued)**Note 5: Impairment**

	<b>Half-year to 30 Jun 2023 £m</b>	Half-year to 30 Jun 2022 £m
Impact of transfers between stages	295	201
Other changes in credit quality	154	(134)
Additions and repayments	(77)	(47)
Other items	6	(2)
	83	(183)
<b>Total impairment</b>	<b>378</b>	<b>18</b>
<i>In respect of:</i>		
Loans and advances to customers	378	5
Due from fellow Lloyds Banking Group undertakings	(1)	5
Financial assets held at amortised cost	377	10
Loan commitments and financial guarantees	1	8
<b>Total impairment</b>	<b>378</b>	<b>18</b>

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 credit (expense) for the half-year to 30 June 2023 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 credit (expense) and accounting profit is set out below:

	<b>Half-year to 30 Jun 2023 £m</b>	Half-year to 30 Jun 2022 £m
(Loss) profit before tax	(112)	1,157
UK corporation tax thereon at 23.5 per cent (2022: 19.0 per cent)	26	(220)
Impact of surcharge on banking profits	13	(87)
Non-deductible costs: conduct charges	(1)	–
Other non-deductible costs	(5)	4
Non-taxable income	–	(1)
Tax relief on coupons on other equity instruments	21	–
Tax-exempt gains on disposals	22	–
Remeasurement of deferred tax due to rate changes	–	(23)
Adjustments in respect of prior years	5	13
<b>Tax credit (expense)</b>	<b>81</b>	<b>(314)</b>



**NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS** (continued)**Note 7: 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 34 to the Group's financial statements for the year ended 31 December 2022 details the definitions of the three levels in the fair value hierarchy.

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

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

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

<b>Financial assets</b>	<b>Level 1 £m</b>	<b>Level 2 £m</b>	<b>Level 3 £m</b>	<b>Total £m</b>
<b>At 30 June 2023</b>				
Loans and advances to customers at fair value through profit or loss	–	–	300	300
Derivative financial instruments	–	3,345	–	3,345
<b>Total financial assets carried at fair value</b>	<b>–</b>	<b>3,345</b>	<b>300</b>	<b>3,645</b>
<b>At 31 December 2022</b>				
Loans and advances to customers at fair value through profit or loss	–	–	291	291
Derivative financial instruments	–	3,477	–	3,477
<b>Total financial assets carried at fair value</b>	<b>–</b>	<b>3,477</b>	<b>291</b>	<b>3,768</b>
<b>Financial liabilities</b>				
	<b>Level 1 £m</b>	<b>Level 2 £m</b>	<b>Level 3 £m</b>	<b>Total £m</b>
<b>At 30 June 2023</b>				
Financial liabilities designated at fair value through profit or loss	–	–	25	25
Derivative financial instruments	–	4,274	161	4,435
<b>Total financial liabilities carried at fair value</b>	<b>–</b>	<b>4,274</b>	<b>186</b>	<b>4,460</b>
<b>At 31 December 2022</b>				
Financial liabilities designated at fair value through profit or loss	–	–	26	26
Derivative financial instruments	–	4,420	150	4,570
<b>Total financial liabilities carried at fair value</b>	<b>–</b>	<b>4,420</b>	<b>176</b>	<b>4,596</b>

**NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS** (continued)**Note 7: Fair values of financial assets and liabilities** (continued)**Valuation control framework**

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

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

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

**Valuation methodology**

For level 2 and level 3 portfolios, there is no significant change to the valuation methodology (techniques and inputs) disclosed in the Group's financial statements for the year ended 31 December 2022 applied to these portfolios.

**Movements in level 3 portfolio**

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

	Financial assets at fair value through profit or loss £m	Derivative assets £m	Total financial assets carried at fair value £m
At 1 January 2023	291	–	291
Gains recognised in the income statement within other income	17	–	17
Repayments of customer loans	(8)	–	(8)
<b>At 30 June 2023</b>	<b>300</b>	<b>–</b>	<b>300</b>
Gains recognised in the income statement, within other income, relating to the change in fair value of those assets held at 30 June 2023	17	–	17
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)

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 2023	26	150	176
(Gains) losses recognised in the income statement within other income	(1)	16	15
Redemptions	–	(5)	(5)
<b>At 30 June 2023</b>	<b>25</b>	<b>161</b>	<b>186</b>
(Gains) losses recognised in the income statement, within other income, relating to the change in fair value of those liabilities held at 30 June 2023	(1)	16	15
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

**NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS** (continued)**Note 7: Fair values of financial assets and liabilities** (continued)**Sensitivity of level 3 valuations**

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

At 30 June 2023	Valuation techniques	Significant unobservable inputs <sup>2</sup>	Carrying value £m	Effect of reasonably possible alternative assumptions <sup>1</sup>	
				Favourable changes £m	Unfavourable changes £m
<i>Financial assets at fair value through profit or loss</i>					
Loans and advances to customers	Discounted cash flows	Interest rate spreads (+/- 50bps)	300	24	(24)
<b>Level 3 financial assets carried at fair value</b>			<b>300</b>		
<i>Financial liabilities at fair value through profit or loss</i>					
Securitisation notes	Discounted cash flows	Interest rate spreads (+/- 50bps)	25	1	(1)
<i>Derivative financial liabilities</i>					
Shared appreciation rights	Market values – property valuation	HPI (+/- 1%)	161	15	(16)
<b>Level 3 financial liabilities carried at fair value</b>			<b>186</b>		
At 31 December 2022					
<i>Financial assets at fair value through profit or loss</i>					
Loans and advances to customers	Discounted cash flows	Interest rate spreads (+/- 50bps)	291	25	(23)
Level 3 financial assets carried at fair value			291		
<i>Financial liabilities at fair value through profit or loss</i>					
Securitisation notes	Discounted cash flows	Interest rate spreads (+/- 50bps)	26	1	(1)
<i>Derivative financial liabilities</i>					
Shared appreciation rights	Market values – property valuation	HPI (+/- 1%)	150	16	(16)
Level 3 financial liabilities carried at fair value			176		

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

<sup>2</sup> 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, unlisted equity investments and derivatives are unchanged from those described in the Group's financial statements for the year ended 31 December 2022.

**Reasonably possible alternative assumptions**

Valuation techniques applied to many of the Group's level 3 instruments often involve the use of two or more inputs whose relationship is interdependent. The calculation of the effect of reasonably possible alternative assumptions included in the table above reflects such relationships and is unchanged from that described in note 34 to the Group's financial statements for the year ended 31 December 2022.

**NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS** (continued)**Note 7: Fair values of financial assets and liabilities** (continued)

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

	At 30 June 2023		At 31 December 2022	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
<b>Financial assets</b>				
Loans and advances to banks	209	209	198	198
Loans and advances to customers	290,244	282,280	292,416	285,540
Debt securities	1,957	1,752	–	–
Due from fellow Lloyds Banking Group undertakings	15,690	15,690	16,048	16,048
Financial assets at amortised cost	308,100	299,931	308,662	301,786
<b>Financial liabilities</b>				
Deposits from banks	176	176	195	195
Customer deposits	162,412	162,408	166,363	166,264
Repurchase agreements	30,332	30,332	30,210	30,210
Due to fellow Lloyds Banking Group undertakings	93,381	93,381	91,287	91,287
Debt securities in issue	7,578	7,575	6,123	6,122
Subordinated liabilities	1,537	1,556	1,598	1,631

The carrying amount of cash and balances at central banks and notes in circulation is a reasonable approximation of fair value.

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

## Note 8: Loans and advances to customers

## Half-year to 30 June 2023

	Gross carrying amount				Allowance for expected credit losses			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
At 1 January 2023	243,873	44,226	7,514	295,613	284	1,132	1,781	3,197
Exchange and other adjustments	(2)	(4)	–	(6)	–	–	66	66
Transfers to Stage 1	8,739	(8,735)	(4)	–	144	(142)	(2)	–
Transfers to Stage 2	(13,290)	13,785	(495)	–	(24)	73	(49)	–
Transfers to Stage 3	(212)	(1,379)	1,591	–	(3)	(118)	121	–
Impact of transfers between stages	(4,763)	3,671	1,092	–	(95)	242	146	293
Other changes in credit quality					22	55	216	293
Additions and repayments	2,216	(905)	(506)	805	7	(41)	(42)	(76)
Charge to the income statement					40	15	323	378
Disposals and derecognition <sup>1</sup>	(1,314)	(887)	(447)	(2,648)	(1)	(35)	(85)	(121)
Advances written off			(308)	(308)			(308)	(308)
Recoveries of advances written off in previous years			61	61			61	61
<b>At 30 June 2023</b>	<b>240,010</b>	<b>46,101</b>	<b>7,406</b>	<b>293,517</b>	<b>323</b>	<b>1,112</b>	<b>1,838</b>	<b>3,273</b>
<b>Allowance for impairment losses</b>	<b>(323)</b>	<b>(1,112)</b>	<b>(1,838)</b>	<b>(3,273)</b>				
<b>Net carrying amount</b>	<b>239,687</b>	<b>44,989</b>	<b>5,568</b>	<b>290,244</b>				
<i>Drawn ECL coverage<sup>2</sup> (%)</i>	<b>0.1</b>	<b>2.4</b>	<b>24.8</b>	<b>1.1</b>				

## Year ended 31 December 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
At 1 January 2022	250,007	26,420	5,561	281,988	392	810	1,377	2,579
Exchange and other adjustments	8	–	–	8	–	–	55	55
Acquisition of business <sup>3</sup>	5,345	875	125	6,345	61	110	57	228
Transfers to Stage 1	5,473	(5,422)	(51)	–	75	(71)	(4)	–
Transfers to Stage 2	(24,077)	24,327	(250)	–	(31)	64	(33)	–
Transfers to Stage 3	(498)	(2,722)	3,220	–	(5)	(163)	168	–
Impact of transfers between stages	(19,102)	16,183	2,919	–	(57)	401	161	505
Other changes in credit quality					(18)	231	292	505
Additions and repayments	7,615	748	(835)	7,528	(187)	(14)	329	128
Charge (credit) to the income statement					36	(5)	(73)	(42)
Advances written off			(350)	(350)	(169)	212	548	591
Recoveries of advances written off in previous years			94	94			(350)	(350)
At 31 December 2022	243,873	44,226	7,514	295,613	284	1,132	1,781	3,197
Allowance for impairment losses	(284)	(1,132)	(1,781)	(3,197)				
Net carrying amount	243,589	43,094	5,733	292,416				
<i>Drawn ECL coverage<sup>2</sup> (%)</i>	0.1	2.6	23.7	1.1				

<sup>1</sup> Relates to the exit of legacy mortgage loans.

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

<sup>3</sup> On 30 November 2022 the Group acquired MBNA Limited, formerly a subsidiary of Lloyds Bank plc, a fellow Lloyds Banking Group undertaking.

**NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS** (continued)**Note 8: Loans and advances to customers** (continued)

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 10).

**Note 9: 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 2023 the Group's expected credit loss allowance was £3,401 million (31 December 2022: £3,327 million), of which £3,285 million (31 December 2022: £3,212 million) was in respect of drawn balances.

The Group's total allowances for expected credit losses were as follows:

	<b>Allowance for expected credit losses</b>			
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>At 30 June 2023</b>				
<i>In respect of:</i>				
Loans and advances to customers	323	1,112	1,838	3,273
Debt securities	–	–	1	1
Due from fellow Lloyds Banking Group undertakings	11	–	–	11
Drawn balances	334	1,112	1,839	3,285
Provisions in relation to loan commitments and financial guarantees	54	61	1	116
<b>Total</b>	<b>388</b>	<b>1,173</b>	<b>1,840</b>	<b>3,401</b>
<b>At 31 December 2022</b>				
<i>In respect of:</i>				
Loans and advances to customers	284	1,132	1,781	3,197
Debt securities	–	–	1	1
Due from fellow Lloyds Banking Group undertakings	14	–	–	14
Drawn balances	298	1,132	1,782	3,212
Provisions in relation to loan commitments and financial guarantees	53	61	1	115
<b>Total</b>	<b>351</b>	<b>1,193</b>	<b>1,783</b>	<b>3,327</b>

**NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS** (continued)**Note 9: Allowance for expected credit losses** (continued)

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 note 14 to the Group's financial statements for the year ended 31 December 2022. The principal changes made in the half-year to 30 June 2023 are as follows:

*Base case and MES economic assumptions*

The Group's updated base case scenario has three conditioning assumptions: first, the war in Ukraine remains contained within its borders; second, the financial stress emerging from some weak bank/insurer business models in the context of rising bond yields does not become systemic; and third, the Bank of England will continue to tighten policy until it is clear that inflation is returning to target.

Based on these assumptions and incorporating the economic data published in the second quarter of 2023, the Group's base case scenario is for a slow expansion of economic activity alongside a gradual rise in the unemployment rate. Increases in UK Bank Rate in response to persistent inflationary pressures trigger further declines in residential and commercial property prices. Risks around this base case economic view lie in both directions and are largely captured by the generation of alternative economic scenarios.

The Group has taken into account the latest available information at the reporting date in defining its base case scenario and generating alternative economic scenarios. The scenarios include forecasts for key variables in the second quarter of 2023, 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 note 14 to the financial statements for the year ended 31 December 2022. For June 2023, the Group continues to judge it appropriate to include a non-modelled severe downside scenario for Group ECL calculations. This adjusted scenario is considered to better reflect the risks around the Group's base case view in an economic environment where past supply shocks continue to unwind slowly.

*Scenarios by year*

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

*Annual assumptions*

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

*Five-year average*

The five-year average reflects the average annual growth rate, or level, over the five-year period. It includes movements within the current reporting year, such that the position as of 30 June 2023 covers the five years 2023 to 2027. The inclusion of the reporting year within the five-year period reflects the need to predict variables which remain unpublished at the reporting date and recognises that credit models utilise both level and annual changes. The use of calendar years maintains a comparability between the annual assumptions presented.

**NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS** (continued)**Note 9: Allowance for expected credit losses** (continued)

At 30 June 2023	2023 %	2024 %	2025 %	2026 %	2027 %	2023 to 2027 average %
<b>Upside</b>						
Gross domestic product	0.8	1.6	0.9	1.5	2.0	1.3
Unemployment rate	3.3	2.7	3.0	3.4	3.3	3.1
House price growth	(3.3)	2.4	7.8	7.5	7.3	4.3
Commercial real estate price growth	2.3	6.5	1.8	2.4	3.8	3.4
UK Bank Rate	5.39	7.00	6.57	5.76	5.63	6.07
CPI inflation	7.9	4.2	3.7	3.3	3.3	4.5
<b>Base case</b>						
Gross domestic product	0.2	0.3	0.7	1.5	2.1	0.9
Unemployment rate	4.1	4.7	5.2	5.3	5.0	4.9
House price growth	(5.4)	(3.2)	0.8	2.8	4.8	(0.1)
Commercial real estate price growth	(3.9)	(0.2)	(0.3)	1.2	3.8	0.1
UK Bank Rate	5.06	5.44	4.63	3.69	3.50	4.46
CPI inflation	7.9	4.0	3.0	2.2	2.0	3.8
<b>Downside</b>						
Gross domestic product	(0.6)	(1.5)	0.4	1.4	2.1	0.4
Unemployment rate	4.9	7.1	7.7	7.6	7.1	6.9
House price growth	(6.9)	(8.2)	(6.3)	(2.5)	2.2	(4.4)
Commercial real estate price growth	(9.2)	(7.0)	(3.7)	(1.4)	2.2	(3.9)
UK Bank Rate	4.73	3.67	2.37	1.30	1.04	2.62
CPI inflation	7.9	3.8	2.3	0.9	0.4	3.1
<b>Severe downside</b>						
Gross domestic product	(1.5)	(2.8)	0.3	1.2	1.8	(0.2)
Unemployment rate	6.1	9.8	10.4	10.1	9.5	9.2
House price growth	(9.3)	(14.6)	(14.3)	(9.1)	(1.8)	(9.9)
Commercial real estate price growth	(17.5)	(16.5)	(9.0)	(6.1)	(0.4)	(10.1)
UK Bank Rate – modelled	4.26	1.73	0.48	0.08	0.04	1.32
UK Bank Rate – adjusted <sup>1</sup>	5.69	7.00	4.94	3.88	3.50	5.00
CPI inflation – modelled	7.9	3.5	1.4	(0.5)	(1.3)	2.2
CPI inflation – adjusted <sup>1</sup>	9.8	7.4	5.5	4.2	3.9	6.2
<b>Probability-weighted</b>						
Gross domestic product	0.0	(0.2)	0.6	1.4	2.0	0.8
Unemployment rate	4.3	5.3	5.8	5.9	5.5	5.4
House price growth	(5.6)	(4.1)	(0.7)	1.4	4.1	(1.1)
Commercial real estate price growth	(5.0)	(1.9)	(1.5)	0.1	2.9	(1.1)
UK Bank Rate – modelled	4.98	5.00	4.12	3.23	3.05	4.08
UK Bank Rate – adjusted <sup>1</sup>	5.12	5.53	4.56	3.61	3.40	4.45
CPI inflation – modelled	7.9	4.0	2.8	1.9	1.6	3.6
CPI inflation – adjusted <sup>1</sup>	8.1	4.3	3.2	2.3	2.1	4.0

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



**NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS** (continued)**Note 9: Allowance for expected credit losses** (continued)

	2022	2023	2024	2025	2026	2022 to 2026 average
At 31 December 2022	%	%	%	%	%	%
<b>Upside</b>						
Gross domestic product	4.1	0.1	1.1	1.7	2.1	1.8
Unemployment rate	3.5	2.8	3.0	3.3	3.4	3.2
House price growth	2.4	(2.8)	6.5	9.0	8.0	4.5
Commercial real estate price growth	(9.4)	8.5	3.5	2.6	2.3	1.3
UK Bank Rate	1.94	4.95	4.98	4.63	4.58	4.22
CPI inflation	9.0	8.3	4.2	3.3	3.0	5.5
<b>Base case</b>						
Gross domestic product	4.0	(1.2)	0.5	1.6	2.1	1.4
Unemployment rate	3.7	4.5	5.1	5.3	5.1	4.8
House price growth	2.0	(6.9)	(1.2)	2.9	4.4	0.2
Commercial real estate price growth	(11.8)	(3.3)	0.9	2.8	3.1	(1.8)
UK Bank Rate	1.94	4.00	3.38	3.00	3.00	3.06
CPI inflation	9.0	8.3	3.7	2.3	1.7	5.0
<b>Downside</b>						
Gross domestic product	3.9	(3.0)	(0.5)	1.4	2.1	0.8
Unemployment rate	3.8	6.3	7.5	7.6	7.2	6.5
House price growth	1.6	(11.1)	(9.8)	(5.6)	(1.5)	(5.4)
Commercial real estate price growth	(13.9)	(15.0)	(3.7)	0.4	1.4	(6.4)
UK Bank Rate	1.94	2.93	1.39	0.98	1.04	1.65
CPI inflation	9.0	8.2	3.3	1.3	0.3	4.4
<b>Severe downside</b>						
Gross domestic product	3.7	(5.2)	(1.0)	1.3	2.1	0.1
Unemployment rate	4.1	9.0	10.7	10.4	9.7	8.8
House price growth	1.1	(14.8)	(18.0)	(11.5)	(4.2)	(9.8)
Commercial real estate price growth	(17.3)	(28.8)	(9.9)	(1.3)	3.2	(11.6)
UK Bank Rate – modelled	1.94	1.41	0.20	0.13	0.14	0.76
UK Bank Rate – adjusted <sup>1</sup>	2.44	7.00	4.88	3.31	3.25	4.18
CPI inflation – modelled	9.0	8.2	2.6	(0.1)	(1.6)	3.6
CPI inflation – adjusted <sup>1</sup>	9.7	14.3	9.0	4.1	1.6	7.7
<b>Probability-weighted</b>						
Gross domestic product	4.0	(1.8)	0.2	1.5	2.1	1.2
Unemployment rate	3.7	5.0	5.8	5.9	5.7	5.2
House price growth	1.9	(7.7)	(3.2)	0.7	2.9	(1.2)
Commercial real estate price growth	(12.3)	(5.8)	(0.8)	1.6	2.3	(3.1)
UK Bank Rate – modelled	1.94	3.70	2.94	2.59	2.60	2.76
UK Bank Rate – adjusted <sup>1</sup>	1.99	4.26	3.41	2.91	2.91	3.10
CPI inflation – modelled	9.0	8.3	3.6	2.1	1.4	4.9
CPI inflation – adjusted <sup>1</sup>	9.1	8.9	4.3	2.5	1.7	5.3

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

**NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS** (continued)**Note 9: Allowance for expected credit losses** (continued)*Base case scenario by quarter*

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.

	First quarter 2023	Second quarter 2023	Third quarter 2023	Fourth quarter 2023	First quarter 2024	Second quarter 2024	Third quarter 2024	Fourth quarter 2024
At 30 June 2023	%	%	%	%	%	%	%	%
Gross domestic product	0.1	(0.1)	0.1	(0.1)	0.1	0.1	0.1	0.2
Unemployment rate	3.9	4.0	4.2	4.4	4.5	4.7	4.8	4.9
House price growth	1.6	(2.5)	(6.4)	(5.4)	(9.1)	(9.5)	(6.2)	(3.2)
Commercial real estate price growth	(18.8)	(21.4)	(17.9)	(3.9)	(3.5)	(3.5)	(2.0)	(0.2)
UK Bank Rate	4.25	5.00	5.50	5.50	5.50	5.50	5.50	5.25
CPI inflation	10.2	8.7	7.3	5.3	4.8	3.6	3.8	3.7

  

	First quarter 2022	Second quarter 2022	Third quarter 2022	Fourth quarter 2022	First quarter 2023	Second quarter 2023	Third quarter 2023	Fourth quarter 2023
At 31 December 2022	%	%	%	%	%	%	%	%
Gross domestic product	0.6	0.1	(0.3)	(0.4)	(0.4)	(0.4)	(0.2)	(0.1)
Unemployment rate	3.7	3.8	3.6	3.7	4.0	4.4	4.7	4.9
House price growth	11.1	12.5	9.8	2.0	(3.0)	(8.4)	(9.8)	(6.9)
Commercial real estate price growth	18.0	18.0	8.4	(11.8)	(16.9)	(19.8)	(15.9)	(3.3)
UK Bank Rate	0.75	1.25	2.25	3.50	4.00	4.00	4.00	4.00
CPI inflation	6.2	9.2	10.0	10.7	10.0	8.9	8.0	6.1

*ECL sensitivity to economic assumptions*

The table below shows the Group's ECL for the probability-weighted, upside, base case, downside and severe downside scenarios, with the severe downside scenario incorporating adjustments made to CPI inflation and UK Bank Rate paths. The stage allocation for an asset is based on the overall scenario probability-weighted PD and hence the staging of assets is constant across all the scenarios. In each economic scenario the ECL for individual assessments and post-model adjustments is typically held constant reflecting the basis on which they are evaluated. However, post-model adjustments in Commercial Banking have been apportioned across the scenarios to better reflect the sensitivity of these adjustments to each scenario. Judgements applied through changes to model inputs are reflected in the scenario ECL 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 £472 million for 30 June 2023 and £441 million at 31 December 2022.

ECL allowance	Probability- weighted £m	Upside £m	Base case £m	Downside £m	Severe downside £m
At 30 June 2023	3,401	2,481	2,929	3,640	6,864
At 31 December 2022	3,327	2,484	2,886	3,604	6,343

**NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS** (continued)**Note 9: Allowance for expected credit losses** (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 2023		At 31 December 2022	
	1pp increase in unemployment	1pp decrease in unemployment	1pp increase in unemployment	1pp decrease in unemployment
<b>ECL impact, £m</b>	<b>78</b>	<b>(67)</b>	<b>73</b>	<b>(70)</b>

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.

	At 30 June 2023		At 31 December 2022	
	10pp increase in HPI	10pp decrease in HPI	10pp increase in HPI	10pp decrease in HPI
<b>ECL impact, £m</b>	<b>(203)</b>	<b>328</b>	<b>(207)</b>	<b>341</b>

*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.

During 2022 the intensifying inflationary pressures, alongside rising interest rates within the Group's outlook created further risks not deemed to be fully captured by ECL models. This has required judgements to be added to capture affordability risks from inflationary and rising interest rate pressures. These risks have increased further in the first half of 2023 with additional judgemental adjustments taken. At 30 June 2023 total management judgement resulted in additional ECL allowances of £337 million (31 December 2022: £402 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.

	Modelled ECL £m	Individually assessed £m	Judgements due to:		Total ECL £m
			Inflationary and interest rate risk £m	Other £m	
<b>At 30 June 2023</b>	<b>2,130</b>	<b>934</b>	<b>186</b>	<b>151</b>	<b>3,401</b>
At 31 December 2022	2,048	877	137	265	3,327

**NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS** (continued)**Note 9: Allowance for expected credit losses** (continued)**Judgements due to inflationary and interest rate risk**

*Inflationary and interest rate pressures: £186 million (31 December 2022: £137 million)*

There has been modest evidence of credit deterioration in the UK mortgages portfolio through the first half of 2023 despite the high levels of inflation and the rising interest rate environment. Increases in new to arrears and defaults that have emerged are mainly driven by variable-rate customers, who have experienced material increases in their monthly payment. Mortgage ECL models use bank base rate as a driver of predicted defaults and that has contributed materially to the elevated levels of ECL at 30 June 2023. However, there remains a potential risk to affordability from continued inflationary pressures combined with higher interest rates, and that this may not be fully captured by the Group's ECL models. This risk is to customers maturing from low fixed rate deals, the building impact on variable rate product holders, lower levels of real household income and rental cover value.

The level of risk is somewhat mitigated from stressed affordability assessments applied at loan origination which means most customers are anticipated to be able to absorb payment shocks. A judgemental uplift in ECL has therefore been taken in specific segments of the mortgages portfolio, either where inflation is expected to present a more material risk, or where segments within the model do not recognise bank base rate as a material driver of predicted defaults. The increase in judgemental ECL during the period recognises the heightened risk within the interest-only segment and potential default suppression due to increased monthly payments diluting the relative scale of amounts in arrears.

**Other judgements**

These adjustments principally comprise:

*Increase in time to repossession: £144 million (31 December 2022: £159 million)*

Due to the Group suspending mortgage litigation activity between late-2014 and mid-2018 due to policy changes for the treatment of arrears, and as collections strategy normalises post COVID-19 pandemic, the Group's experience of possessions data on which our models rely on is limited. This reflects an adjustment made to allow for an increase in the time assumed between default and repossession. Provision coverage is therefore 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 six months. These accounts have their probability of possession set to 70 per cent based on observed historical losses incurred on accounts that were of an equivalent status.

*Asset recovery values: £108 million (31 December 2022: £93 million)*

Due to low repossession volumes, sales data informing the estimated level of discount in the event of repossessions has been limited, impacting the ability to update model parameters. Despite these low volumes, since 2020 the observed asset recovery sale values have remained broadly the same on the limited volumes seen, however the indexed valuation within the model has shown an increasing trend due to HPI increases, therefore management consider it appropriate to uplift ECL to reflect expected recovery values. The increase in the judgement reflects an enhancement in the assessment approach as well as increased volumes of predicted defaults against which the adjustment is applied.

*Adjustment for specific segments: £26 million (31 December 2022: £27 million)*

The Group monitors risks across specific segments of its portfolios which may not be fully captured through wider collective models. The judgement for fire safety and cladding uncertainty has been maintained. Though experience remains limited the risk is considered sufficiently material to address through judgement, given that there is evidence of assessed cases having defective cladding, or other fire safety issues.

*Adjustment for Stage 2 oversensitivity: £(69) million (31 December 2022: £nil)*

The observed mortgages ECL model oversensitivity to the economic forecast movements is driven by model limitations such as lack of forward looking origination PD and movement from application to behaviour scorecards, amplified by the worsening economic outlook. Management have applied a judgement to mitigate the Stage 2 oversensitivity in recent vintages where the impact is most materially observed.

**NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS** (continued)**Note 9: Allowance for expected credit losses** (continued)**Other judgements** (continued)

*Lifetime extension on revolving products: £54 million (31 December 2022: £63 million)*

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

*Adjustments to loss given defaults (LGDs): £(92) million (31 December 2022: £(76) million)*

A number of adjustments have been made to the loss given default assumptions used within unsecured credit models. These include largely favourable impacts on ECL in relation to the alignment of MBNA credit card cure rates as collection strategies harmonise and adjustments to capture recent improvements in observed cure rates across all portfolios. These adjustments will be released once incorporated into models through future recalibration which is pending model development. The additional benefit in the period is driven by a greater proportion of charged off accounts being eligible for debt sale.

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

**Note 10: Debt securities in issue**

	At 30 June 2023			At 31 December 2022		
	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	–	5,739	5,739	–	4,876	4,876
Covered bonds	–	500	500	–	500	500
Securitisation notes	25	1,339	1,364	26	747	773
	<b>25</b>	<b>7,578</b>	<b>7,603</b>	<b>26</b>	<b>6,123</b>	<b>6,149</b>

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 2023, external parties held £1,364 million (31 December 2022: £773 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 £26,630 million (31 December 2022: £24,811 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 2023, external parties held £500 million (31 December 2022: £500 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 £867 million (31 December 2022: £831 million) that have been assigned to bankruptcy remote limited liability partnerships. These loans are retained on the Group's balance sheet.

The Group holds cash deposits of £1,235 million (31 December 2022: £1,501 million) which support the debt securities issued by the structured entities, the term advances related to covered bonds and other legal obligations.

**NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS** (continued)**Note 11: Other provisions**

	Provisions for financial commitments and guarantees £m	Regulatory and legal provisions £m	Other £m	Total £m
At 1 January 2023	115	709	149	973
Exchange and other adjustments	–	–	(4)	(4)
Provisions applied	–	(187)	(19)	(206)
Charge for the period	1	11	21	33
<b>At 30 June 2023</b>	<b>116</b>	<b>533</b>	<b>147</b>	<b>796</b>

**Regulatory and legal provisions**

In the course of its business, the Group engages in discussions with the PRA, FCA and other UK and overseas regulators and other governmental authorities on a range of matters on a regular basis, including legal and regulatory reviews and, from time to time, enforcement investigations (including in relation to compliance with applicable laws and regulations, such as those relating to prudential regulation, consumer protection, investment advice, business conduct, systems and controls, competition/antitrust, tax, anti-bribery, anti-money laundering and sanctions). Any matters discussed or identified during such discussions and inquiries may result in, among other things, further inquiry or investigation, other action being taken by governmental and/or regulatory authorities, increased costs being incurred by the Group, remediation of systems and controls, public or private censure, restriction of the Group's business activities and/or fines. The Group also receives complaints in connection with its past conduct and claims brought by or on behalf of current and former employees, customers, investors and other third parties and is subject to legal proceedings and other legal actions from time to time. Any events or circumstances mentioned herein or below could have a material adverse effect on the Group's financial position, operations or cash flows. Where significant, provisions are held against the costs and/or liabilities expected to be incurred in relation to these matters and matters arising from related internal reviews. However, the impact of such matters cannot always be predicted with certainty and the ultimate liability of the Group may be significantly more, or less, than the amount of any provision recognised. During the half-year to 30 June 2023 the Group charged a further £11 million in respect of legal actions and other regulatory matters. The unutilised balance at 30 June 2023 was £533 million (31 December 2022: £709 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 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.

The provision, unchanged from 2022, includes 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 provision relates to the estimated future awards from the Foskett Panel, and is materially dependent on the assumption that the number of awards to date are representative of the full population of cases.

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. Around three-quarters of the population have now had outcomes via this new process. Notwithstanding the settled claims and the increase in coverage which builds confidence in the full estimated cost, uncertainties remain and the final outcome could be different from the current provision once the re-review is concluded by the Foskett Panel. There is no confirmed timeline for the completion of the Foskett Panel re-review process nor the review by Dame Linda Dobbs. The Group is committed to implementing Sir Ross's recommendations in full.

*Payment protection insurance*

The Group has incurred costs for PPI over a number of years totalling £6,356 million. The Group continues to challenge PPI litigation cases, with mainly legal fees and operational costs associated with litigation activity recognised within regulatory and legal provisions. PPI litigation remains inherently uncertain, with a number of key court judgments due to be delivered in 2023.

**NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS** (continued)**Note 12: 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:

	<b>At 30 Jun 2023 £m</b>	At 31 Dec 2022 £m
<b>Assets, included within:</b>		
Derivative financial instruments	<b>2,941</b>	2,901
Financial assets at amortised cost: due from fellow Lloyds Banking Group undertakings	<b>15,690</b>	16,048
	<b>18,631</b>	18,949
<b>Liabilities, included within:</b>		
Due to fellow Lloyds Banking Group undertakings	<b>93,381</b>	91,287
Derivative financial instruments	<b>3,904</b>	4,090
Debt securities in issue	<b>5,091</b>	4,196
Subordinated liabilities	<b>1,503</b>	1,564
	<b>103,879</b>	101,137

During the half-year to 30 June 2023 the Group earned £306 million (half-year to 30 June 2022: £114 million) of interest income and incurred £2,441 million (half-year to 30 June 2022: £1,036 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 2023 the Group incurred expenditure of £28 million (half-year ended 30 June 2022: £24 million) on behalf of fellow Lloyds Banking Group undertakings which was recharged to those undertakings; and fellow Lloyds Banking Group undertakings incurred expenditure of £604 million (half-year ended 30 June 2022: £596 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 2023 are similar in nature to those for the year ended 31 December 2022.

**Note 13: Contingent liabilities, commitments and guarantees****Interchange fees**

With respect to multi-lateral interchange fees (MIFs), the Lloyds Banking Group is not a party in the ongoing or threatened litigation which involves the card schemes Visa and Mastercard (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 from time to time. 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 13: 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 ongoing 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 appealed to the First Tier Tax Tribunal, with a hearing having taken place in May 2023. If the final determination of the matter by the judicial process is that HMRC's position is correct, management estimate that this would result in an increase in current tax liabilities of approximately £185 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, in the course of its business the Group is subject to other complaints and threatened or actual legal proceedings (including class or group action claims) brought by or on behalf of current or former employees, customers, investors or other third parties, as well as legal and regulatory reviews, enquiries and examinations, requests for information, audits, challenges, investigations and enforcement actions, which could relate to a number of issues, including financial, environmental, compliance, conduct or other regulatory matters, some of which may be beyond the Group's control, both in the UK and overseas. Where material, such matters are periodically reassessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of the Group incurring a liability. 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, although the recognition of a provision does not amount to an admission of liability or wrongdoing on the part of the Group. 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. 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 11.

**Contingent liabilities, commitments and guarantees arising from the banking business**

At 30 June 2023 total contingent liabilities were £105 million (31 December 2022: £97 million). Total commitments and guarantees were £64,564 million (31 December 2022: £65,188 million), of which £17,549 million (2022: £17,458 million) was irrevocable.



**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 2023 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 2023 and any material changes in the related party transactions described in the last annual report.

Signed on behalf of the Board by

**Charlie Nunn**

Group Chief Executive  
25 July 2023

Bank of Scotland plc Board of Directors:

**Executive directors:**

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

**Non-executive directors:**

Sir Robin Budenberg CBE (*Chair*)  
Alan Dickinson (*Deputy Chair*)  
Sarah Bentley  
Brendan Gilligan  
Nigel Hinshelwood  
Sarah Legg  
Lord Lupton CBE  
Amanda Mackenzie LVO OBE  
Harmeen Mehta  
Cathy Turner  
Scott Wheway  
Catherine Woods

## FORWARD LOOKING STATEMENTS

This document contains certain forward looking statements within the meaning of Section 21E of the US Securities Exchange Act of 1934, as amended, and section 27A of the US Securities Act of 1933, as amended, with respect to the business, strategy, plans and/or results of 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; political instability including as a result of any UK general election and any further possible referendum on Scottish independence; acts of hostility or terrorism and responses to those acts, or other such events; geopolitical unpredictability; the war between Russia and Ukraine; the tensions between China and Taiwan; market related risks, trends and developments; exposure to counterparty risk; instability in the global financial markets, including within the Eurozone, and as a result of the exit by the UK from the European Union (EU) and the effects of the EU-UK Trade and Cooperation Agreement; the ability to access sufficient sources of capital, liquidity and funding when required; changes to the Group's credit ratings; fluctuations in interest rates, inflation, exchange rates, stock markets and currencies; volatility in credit markets; volatility in the price of the Group's securities; tightening of monetary policy in jurisdictions in which the Group operates; natural pandemic (including but not limited to the COVID-19 pandemic) and other disasters; risks concerning borrower and counterparty credit quality; longevity risks affecting defined benefit pension schemes; risks related to the uncertainty surrounding the integrity and continued existence of reference rates; changes in laws, regulations, practices and accounting standards or taxation; changes to regulatory capital or liquidity requirements and similar contingencies; the policies and actions of governmental or regulatory authorities or courts together with any resulting impact on the future structure of the Group; risks associated with the Group's compliance with a wide range of laws and regulations; assessment related to resolution planning requirements; risks related to regulatory actions which may be taken in the event of a bank or Group failure; exposure to legal, regulatory or competition proceedings, investigations or complaints; failure to comply with anti-money laundering, counter terrorist financing, anti-bribery and sanctions regulations; failure to prevent or detect any illegal or improper activities; operational risks; conduct risk; technological changes and risks to the security of IT and operational infrastructure, systems, data and information resulting from increased threat of cyber and other attacks; technological failure; inadequate or failed internal or external processes or systems; risks relating to ESG matters, such as climate change (and achieving climate change ambitions), including the Group's ability along with the government and other stakeholders to measure, manage and mitigate the impacts of climate change effectively, and human rights issues; the impact of competitive conditions; failure to attract, retain and develop high calibre talent; the ability to achieve strategic objectives; the ability to derive cost savings and other benefits including, but without limitation, as a result of any acquisitions, disposals and other strategic transactions; inability to capture accurately the expected value from acquisitions; assumptions and estimates that form the basis of the Group's financial statements; and potential changes in dividend policy. A number of these influences and factors are beyond the control of the Group or any of the Group's immediate or ultimate parent entities (if applicable). 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](http://www.sec.gov), for a discussion of certain factors and risks. Lloyds Banking Group plc may also make or disclose written and/or oral forward-looking statements in other written materials and in oral statements made by the directors, officers or employees of Lloyds Banking Group plc to third parties, including financial analysts. Except as required by any applicable law or regulation, the forward-looking statements contained in this document are made as of today's date, and the Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statements contained in this document whether as a result of new information, future events or otherwise. The information, statements and opinions contained in this document do not constitute a public offer under any applicable law or an offer to sell any securities or financial instruments or any advice or recommendation with respect to such securities or financial instruments.

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