Bank of Scotland plc

2024 Half-Year Results

25 July 2024

Member of the Lloyds Banking Group

CONTENTS

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's profit before tax for the first half of 2024 was £427 million, compared to a loss before tax of £112 million for the same period in 2023. This was due to higher total income and a lower impairment charge, partly offset by higher operating expenses. Profit after tax was £311 million (half-year to 30 June 2023: loss after tax of £31 million).

Total income for the period was £2,039 million, an increase of 16 per cent on the first half of 2023. Net interest income was £1,833 million, compared to £1,565 million for the same period in 2023. This included the effects of the mortgage book rolling on to higher rates, which more than offset the impact of higher deposit and funding costs. Other income of £206 million was £20 million higher than the first half of 2023, as the impact of increased net trading income more than offset the impact of changes to commission arrangements with Scottish Widows.

Operating expenses of £1,608 million were 8 per cent higher than in the first half of 2023, reflecting planned strategic investment, elevated severance charges and continued inflationary pressure. It also includes c.£40 million relating to the sector-wide change in the charging approach for the Bank of England Levy during the first quarter. The Group recognised remediation costs of £41 million (half-year to 30 June 2023: £11 million), largely in relation to pre-existing programmes.

Impairment was a net charge of £4 million compared to a charge of £378 million in the half-year to 30 June 2023. This decrease reflects a larger credit from improvements to the Group's economic outlook in the period compared to the prior year (notably in HPI) and changes in methodology. In addition the reduction also includes the release of judgemental adjustments for inflation and interest rate risk, and stronger performance in mortgage portfolios resulting in lower charges. Commercial portfolios have benefited from a one-off release from loss rates used in the model, while observing a low charge on new and existing Stage 3 clients.

The Group recognised a tax expense of £116 million in the period, compared to a tax credit of £81 million in the first half of 2023, reflecting increased profits.

Balance sheet

Total assets of £328,771 million were £6,341 million higher, or 2 per cent, compared to £322,430 million at 31 December 2023. Financial assets at amortised cost were £6,615 million higher at £317,760 million compared to £311,145 million at 31 December 2023, with increases in balances due from fellow Lloyds Banking Group undertakings of £4,845 million and loans and advances to customers of £2,028 million to £294,498 million. The increase in loans advances to customers was driven by increases in UK mortgages, partially offset by the securitisation of legacy mortgages.

Total liabilities of £312,602 million were up £6,771 million compared to £305,831 million at 31 December 2023. This was driven by increases in balances due to fellow Lloyds Banking Group undertakings of £4,641 million and an increase in customer deposits of £1,356 million. Customer deposits increased as a result of inflows into limited withdrawal and fixed savings products.

Total equity decreased by £430 million from £16,599 million at 31 December 2023 to £16,169 million at 30 June 2024. The movement reflected an interim dividend of £650 million which was partially offset by attributable profit for the period.

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 2024, after applying IFRS 9 transitional arrangements, is set out below.

Capital resources of the Bank

	At 30 Jun 2024 £m	At 31 Dec 2023 £m
Common equity tier 1		
Shareholders' equity per balance sheet	**13,978**	14,485
Adjustment to retained earnings for foreseeable dividends	**(400)**	–
Cash flow hedging reserve	**76**	76
Other adjustments	**(1)**	(1)
	13,653	14,560
less: deductions from common equity tier 1		
Goodwill and other intangible assets	**(711)**	(703)
Prudent valuation adjustment	**(41)**	(45)
Excess of expected losses over impairment provisions and value adjustments	**(138)**	–
Removal of defined benefit pension surplus	**(34)**	(36)
Significant investments	**(70)**	–
Deferred tax assets	**(1,800)**	(1,810)
Common equity tier 1 capital	**10,859**	11,966
Additional tier 1		
Additional tier 1 instruments	**2,550**	2,550
Total tier 1 capital	**13,409**	14,516
Tier 2		
Tier 2 instruments	**1,500**	1,500
Eligible provisions and other adjustments	**273**	394
Total tier 2 capital	**1,773**	1,894
Total capital resources	**15,182**	16,410
Risk-weighted assets	**80,928**	80,254
Capital and leverage ratios		
Common equity tier 1 capital ratio	**13.4%**	14.9%
Tier 1 capital ratio	**16.6%**	18.1%
Total capital ratio	**18.8%**	20.4%
UK leverage ratio	**4.4%**	4.8%

The Bank's common equity tier 1 (CET1) capital ratio reduced from 14.9 per cent at 31 December 2023 to 13.4 per cent at 30 June 2024. This largely reflected profits for period offset by the dividend payment in the second quarter of the year, the accrual for foreseeable ordinary dividends and an increase in risk-weighted assets. The total capital ratio reduced to 18.8 per cent (31 December 2023: 20.4 per cent) reflecting the reduction in CET1 capital, the increase in risk-weighted assets and the reduction in eligible provisions recognised through tier 2 in the period.

Risk-weighted assets increased by £674 million to £80,928 million at 30 June 2024 (31 December 2023: £80,254 million), largely reflecting impact of lending growth. This was partly offset by optimisation, including capital efficient securitisation activity within the balance sheet.

The Bank's UK leverage ratio of 4.4 per cent at 30 June 2024 has reduced from 4.8 per cent at 31 December 2023, reflecting the reduction in total tier 1 capital and an increase in the exposure measure.

Pillar 3 Disclosures

The Bank will publish a condensed set of half-year Pillar 3 disclosures in the second half of August. A copy of the disclosures will be available to view at: www.lloydsbankinggroup.com/investors/financial-downloads.html.

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 and elevated interest rates which are contributing to the cost of living and associated implications for UK consumers and businesses.

Asset quality remains strong with resilient credit performance throughout the period. The Group continues to monitor the impacts of the economic environment carefully through a suite of early warning indicators and governance arrangements that ensure risk mitigating action plans are in place to support customers and protect the Group's positions.

The Group is transforming its approach to risk management to support its strategic ambition and purpose of Helping Britain Prosper. The Group has reviewed its three lines of defence model and is evolving its accountabilities with enhanced focus on controls and expertise. This will increase the pace of decision making, with the intent of improving risk management. The Group has initially focused on non-financial risks.

The Group has also undertaken a detailed review of its risk categories and implemented an events-based risk management framework. This has resulted in a reduction in the number of principal risk types and the simplification of secondary risk categories. This change better aligns to the Basel Committee on Banking Supervision's event categories which will benefit the Group for scenario activities and regulatory reporting.

The Group has 10 principal risks; capital risk, climate risk, compliance risk (previously regulatory and legal risk), conduct risk, credit risk, economic crime risk, liquidity risk (previously liquidity and funding risk), market risk, model risk and operational risk (operational resilience risk has been removed as a separate risk category as it relates to many of the principal risk types).

The below principal risk definitions have changed since the Group's 2023 annual report and accounts:

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

Economic crime risk – The risk that the Group implements ineffective policies, systems, processes and controls to prevent, detect and respond to the risk of fraud and/or financial crime resulting in increased losses, regulatory censure/ fines and/or adverse publicity in the UK or other jurisdictions in which the Group operates.

Liquidity risk – The risk that the Group does not have sufficient financial resources to meet its commitments when they fall due or can only secure them at excessive cost.

Model risk – The potential for adverse consequences from model errors or the inappropriate use of modelled outputs to inform business decisions. Adverse consequences could lead to a deterioration in the prudential position, non-compliance with applicable laws and/or regulations, or damage to the Group's reputation. Model risk can also lead to financial loss, as well as qualitative limitations such as the imposition of restrictions on business activities.

Operational risk – The risk of actual or potential impact to the Group (financial and/or non-financial) resulting from inadequate or failed internal processes, people, and systems or from external events. Resilience is core to the management of operational risk within Lloyds Banking Group to ensure that business processes (including those that are outsourced) can withstand operational risks and can respond to and meet customer and stakeholder needs when continuity of operations is compromised.

All other principal risk definitions remain unchanged.

STATUTORY INFORMATION

Condensed consolidated half-year financial statements (unaudited)

Notes to the condensed consolidated half-year financial statements (unaudited)

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Note	**Half-year to 30 Jun 2024 £m**	Half-year to 30 Jun 2023 £m
Interest income		**6,929**	5,456
Interest expense		**(5,096)**	(3,891)
Net interest income		**1,833**	1,565
Fee and commission income		**334**	335
Fee and commission expense		**(236)**	(160)
Net fee and commission income	3	**98**	175
Net trading income (losses)		**52**	(45)
Other operating income		**56**	56
Other income		**206**	186
Total income		**2,039**	1,751
Operating expenses	4	**(1,608)**	(1,485)
Impairment	5	**(4)**	(378)
Profit (loss) before tax		**427**	(112)
Tax (expense) credit	6	**(116)**	81
Profit (loss) for the period		**311**	(31)
Profit (loss) attributable to ordinary shareholders		**212**	(119)
Profit attributable to other equity holders		**99**	88
Profit (loss) for the period		**311**	(31)

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	Half-year to 30 Jun 2024 £m	Half-year to 30 Jun 2023 £m
Profit (loss) for the period	**311**	(31)
Other comprehensive income		
Items that will not subsequently be reclassified to profit or loss:		
Post-retirement defined benefit scheme remeasurements		
Remeasurements before tax	**(3)**	(7)
Tax	**1**	2
	(2)	(5)
Items that may subsequently be reclassified to profit or loss:		
Movements in cash flow hedging reserve:		
Effective portion of changes in fair value taken to other comprehensive income	**3**	(6)
Net income statement transfers	**(3)**	(6)
Tax	**–**	4
	–	(8)
Total other comprehensive loss for the period, net of tax	**(2)**	(13)
Total comprehensive income (loss) for the period	**309**	(44)
Total comprehensive income (loss) attributable to ordinary shareholders	**210**	(132)
Total comprehensive income attributable to other equity holders	**99**	88
Total comprehensive income (loss) for the period	**309**	(44)

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

CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

	Note	**At 30 Jun 2024 £m**	At 31 Dec 2023 £m
Assets			
Cash and balances at central banks		**2,383**	3,009
Financial assets at fair value through profit or loss	7	**298**	266
Derivative financial instruments		**2,804**	2,850
Loans and advances to banks		**105**	206
Loans and advances to customers	8	**294,498**	292,470
Debt securities		**1,539**	1,696
Due from fellow Lloyds Banking Group undertakings		**21,618**	16,773
Financial assets at amortised cost		**317,760**	311,145
Goodwill		**452**	452
Current tax recoverable		**1,217**	1,024
Deferred tax assets		**1,871**	1,911
Retirement benefit assets		**48**	49
Other assets		**1,938**	1,724
Total assets		**328,771**	322,430
Liabilities			
Deposits from banks		**122**	179
Customer deposits		**163,302**	161,946
Repurchase agreements		**30,393**	30,397
Due to fellow Lloyds Banking Group undertakings		**99,739**	95,098
Financial liabilities at fair value through profit or loss	7	**23**	23
Derivative financial instruments		**4,093**	4,428
Notes in circulation		**1,766**	1,392
Debt securities in issue at amortised cost	10	**9,289**	8,610
Other liabilities		**1,783**	1,506
Provisions	11	**560**	720
Subordinated liabilities		**1,532**	1,532
Total liabilities		**312,602**	305,831
Equity			
Share capital		**5,847**	5,847
Other reserves		**3,061**	3,061
Retained profits		**4,703**	5,133
Ordinary shareholders' equity		**13,611**	14,041
Other equity instruments		**2,550**	2,550
Total equity excluding non-controlling interests		**16,161**	16,591
Non-controlling interests		**8**	8
Total equity		**16,169**	16,599
Total equity and liabilities		**328,771**	322,430

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Attributable to ordinary shareholders						
	Share capital £m	Other reserves £m	Retained profits £m	Total £m	Other equity instruments £m	Non-controlling interests £m	Total £m
At 1 January 2024	**5,847**	**3,061**	**5,133**	**14,041**	**2,550**	**8**	**16,599**
Comprehensive income							
Profit for the period	–	–	212	212	99	–	311
Other comprehensive income							
Post-retirement defined benefit scheme remeasurements, net of tax	–	–	(2)	(2)	–	–	(2)
Movements in cash flow hedging reserve, net of tax	–	–	–	–	–	–	–
Total other comprehensive loss	–	–	(2)	(2)	–	–	(2)
Total comprehensive income[1]	–	–	210	210	99	–	309
Transactions with owners							
Dividends	–	–	(650)	(650)	–	–	(650)
Distributions on other equity instruments	–	–	–	–	(99)	–	(99)
Issue of other equity instruments	–	–	–	–	–	–	–
Capital contributions received	–	–	10	10	–	–	10
Total transactions with owners	–	–	(640)	(640)	(99)	–	(739)
At 30 June 2024[2]	**5,847**	**3,061**	**4,703**	**13,611**	**2,550**	**8**	**16,169**

[1] Total comprehensive income attributable to owners of the parent was £309 million.

[2] Total equity attributable to owners of the parent was £16,161 million.

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

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

	Attributable to ordinary shareholders						
	Share capital £m	Other reserves £m	Retained profits £m	Total £m	Other equity instruments £m	Non-controlling interests £m	Total £m
At 1 January 2023	5,847	3,051	4,940	13,838	2,200	8	16,046
Comprehensive income							
(Loss) profit for the period	–	–	(119)	(119)	88	–	(31)
Other comprehensive income							
Post-retirement defined benefit scheme remeasurements, net of tax	–	–	(5)	(5)	–	–	(5)
Movements in cash flow hedging reserve, net of tax	–	(8)	–	(8)	–	–	(8)
Total other comprehensive loss	–	(8)	(5)	(13)	–	–	(13)
Total comprehensive (loss) income[1]	–	(8)	(124)	(132)	88	–	(44)
Transactions with owners							
Distributions on other equity instruments	–	–	–	–	(88)	–	(88)
Issue of other equity instruments	–	–	–	–	350		350
Capital contributions received	–	–	16	16	–	–	16
Total transactions with owners	–	–	16	16	262	–	278
At 30 June 2023[2]	5,847	3,043	4,832	13,722	2,550	8	16,280
Comprehensive income							
Profit for the period	–	–	268	268	98	–	366
Other comprehensive income							
Post-retirement defined benefit scheme remeasurements, net of tax	–	–	6	6	–	–	6
Movements in cash flow hedging reserve, net of tax	–	(3)	–	(3)	–	–	(3)
Movements in foreign currency translation reserve, net of tax	–	21	–	21	–	–	21
Total other comprehensive income	–	18	6	24	–	–	24
Total comprehensive income[1]	–	18	274	292	98	–	390
Transactions with owners							
Distributions on other equity instruments	–	–	–	–	(98)	–	(98)
Issue of other equity instruments	–	–	–	–	–	–	–
Capital contributions received	–	–	27	27	–	–	27
Total transactions with owners	–	–	27	27	(98)	–	(71)
At 31 December 2023[2]	5,847	3,061	5,133	14,041	2,550	8	16,599

1 Total comprehensive income attributable to owners of the parent for the half-year to 30 June 2023 was a loss of £44 million (half-year to 31 December 2023: surplus of £390 million).

2 Total equity attributable to owners of the parent at 30 June 2023 was £16,272 million (31 December 2023: £16,591 million).

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

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

	Half-year to 30 Jun 2024 £m	Half-year to 30 Jun 2023 £m
Cash flows from operating activities		
Profit (loss) before tax	**427**	(112)
Adjustments for:		
Change in operating assets	**(5,635)**	489
Change in operating liabilities	**6,916**	(225)
Non-cash and other items	**(226)**	230
Net tax paid	**(267)**	(506)
Net cash provided by (used in) operating activities	**1,215**	(124)
Cash flows from investing activities		
Purchase of fixed assets	**(128)**	(76)
Proceeds from sale of fixed assets	**7**	11
Net cash used in investing activities	**(121)**	(65)
Cash flows from financing activities		
Dividends paid to ordinary shareholders	**(650)**	–
Distributions on other equity instruments	**(99)**	(88)
Interest paid on subordinated liabilities	**(55)**	(50)
Proceeds from issue of other equity instruments	**–**	350
Repayment of subordinated liabilities	**–**	(62)
Net cash (used in) provided by financing activities	**(804)**	150
Change in cash and cash equivalents	**290**	(39)
Cash and cash equivalents at beginning of period	**2,126**	2,053
Cash and cash equivalents at end of period	**2,416**	2,014

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 (UNAUDITED)

Note 1: Basis of preparation and accounting policies

These condensed consolidated half-year financial statements as at and for the period to 30 June 2024 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 2023 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 2023 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 2023 and there have been no changes in the Group's methods of computation.

The IASB has issued a number of minor amendments to IFRSs that are relevant to the Group 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 have not had a significant impact on the Group.

Future accounting developments

The IASB has issued *Amendments to the Classification and Measurement of Financial Instruments* (IFRS 9 and IFRS 7) which is effective 1 January 2026 and IFRS 19 *Subsidiaries without Public Accountability: Disclosures* which is effective 1 January 2027. Neither the amendments nor IFRS 19 are expected to have a significant impact on the Group. The IASB has also issued IFRS 18 *Primary Financial Statements* which is effective 1 January 2027. The standard includes no measurement changes, and the Group is currently assessing the impact of this standard on its income statement presentation.

The Bank'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 2023 and copies may be obtained from Investor Relations, Lloyds Banking Group plc, 25 Gresham Street, London EC2V 7HN and are available for download from www.lloydsbankinggroup.com.

The financial information contained in this document does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006 (the Act). The statutory accounts for the year ended 31 December 2023 were approved by the directors on 29 February 2024 and were delivered to the Registrar of Companies on 30 March 2024. 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 (UNAUDITED) (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.

The Group's significant judgements, estimates and assumptions are unchanged compared to those disclosed in note 3 of the Group's 2023 financial statements. 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

	Half-year to 30 Jun 2024 £m	Half-year to 30 Jun 2023 £m
Fee and commission income:		
Current accounts	**97**	96
Credit and debit card fees	**207**	202
Other fees and commissions	**30**	37
Total fee and commission income	**334**	335
Fee and commission expense	**(236)**	(160)
Net fee and commission income	**98**	175

Note 4: Operating expenses

	Half-year to 30 Jun 2024 £m	Half-year to 30 Jun 2023 £m
Staff costs	**531**	483
Premises and equipment costs	**86**	94
Depreciation and amortisation	**135**	133
Amounts payable to fellow Lloyds Banking Group undertakings and other expenses	**856**	775
Total operating expenses	**1,608**	1,485

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

Note 5: Impairment

	Half-year to 30 Jun 2024 £m	Half-year to 30 Jun 2023 £m
Loans and advances to customers	**18**	378
Due from fellow Lloyds Banking Group undertakings	**(4)**	(1)
Financial assets held at amortised cost	**14**	377
Loan commitments and financial guarantees	**(10)**	1
Total impairment	**4**	378

Note 6: Tax

In accordance with IAS 34, the Group's income tax (expense) credit for the half-year to 30 June 2024 is based on the best estimate of the weighted-average annual income tax rate expected for the full financial year. The tax effects of one-off items are not included in the weighted-average annual income tax rate, but are recognised in the relevant period.

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

	Half-year to 30 Jun 2024 £m	Half-year to 30 Jun 2023 £m
Profit (loss) before tax	**427**	(112)
UK corporation tax thereon at 25.0 per cent (2023: 23.5 per cent)	**(107)**	26
Impact of surcharge on banking profits	**(8)**	13
Non-deductible costs: conduct charges	**5**	(1)
Other non-deductible costs	**(28)**	(5)
Non-taxable income	**6**	–
Tax relief on coupons on other equity instruments	**25**	21
Tax-exempt gains/(losses) on disposals	**–**	22
Adjustments in respect of prior years	**(9)**	5
Tax (expense) credit	**(116)**	81

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 14 to the Group's financial statements for the year ended 31 December 2023 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 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.

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

Note 7: Fair values of financial assets and liabilities (continued)

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

Financial assets	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
At 30 June 2024				
Loans and advances to customers at fair value through profit or loss	**–**	**14**	**284**	**298**
Derivative financial instruments	**–**	**2,804**	**–**	**2,804**
Total financial assets carried at fair value	**–**	**2,818**	**284**	**3,102**
At 31 December 2023				
Loans and advances to customers at fair value through profit or loss	–	–	266	266
Derivative financial instruments	–	2,850	–	2,850
Total financial assets carried at fair value	–	2,850	266	3,116

Financial liabilities	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
At 30 June 2024				
Debt securities in issue designated at fair value through profit or loss	**–**	**–**	**23**	**23**
Derivative financial instruments	**–**	**3,950**	**143**	**4,093**
Total financial liabilities carried at fair value	**–**	**3,950**	**166**	**4,116**
At 31 December 2023				
Debt securities in issue designated at fair value through profit or loss	–	–	23	23
Derivative financial instruments	–	4,296	132	4,428
Total financial liabilities carried at fair value	–	4,296	155	4,451

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 2023 applied to these portfolios.

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

Note 7: Fair values of financial assets and liabilities (continued)

Movements in level 3 portfolio

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

	Financial assets at fair value through profit or loss £m	Derivative assets £m	Total financial assets carried at fair value £m
At 1 January 2024	**266**	**–**	**266**
Gains recognised in the income statement within other income	**30**	**–**	**30**
Purchases/increases to customer loans	**3**	**–**	**3**
Repayments of customer loans	**(15)**	**–**	**(15)**
At 30 June 2024	**284**	**–**	**284**
Gains recognised in the income statement, within other income, relating to the change in fair value of those assets held at 30 June 2024	**28**	**–**	**28**
At 1 January 2023	291	–	291
Gains recognised in the income statement within other income	17	–	17
Purchases/increases to customer loans	–	–	–
Repayments of customer loans	(8)	–	(8)
At 30 June 2023	300	–	300
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

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 2024	**23**	**132**	**155**
Losses recognised in the income statement within other income	**2**	**23**	**25**
Redemptions	**(2)**	**(12)**	**(14)**
At 30 June 2024	**23**	**143**	**166**
Losses recognised in the income statement, within other income, relating to the change in fair value of those liabilities held at 30 June 2024	**2**	**21**	**23**
At 1 January 2023	26	150	176
(Gains) losses recognised in the income statement within other income	(1)	16	15
Redemptions	–	(5)	(5)
At 30 June 2023	25	161	186
(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

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (UNAUDITED) (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.

				Effect of reasonably possible alternative assumptions[1]	
At 30 June 2024	**Valuation techniques**	**Significant unobservable inputs[2]**	**Carrying value £m**	**Favourable changes £m**	**Unfavourable changes £m**
Financial assets at fair value through profit or loss					
Loans and advances to customers	Discounted cash flows	Interest rate spreads (+/- 50bps)	**284**	**20**	**(19)**
Level 3 financial assets carried at fair value			**284**		
Financial liabilities at fair value through profit or loss					
Securitisation notes	Discounted cash flows	Interest rate spreads (+/- 50bps)	**23**	**1**	**(1)**
Derivative financial liabilities					
Shared appreciation rights	Market values – property valuation	HPI (+/- 1%)	**143**	**13**	**(12)**
Level 3 financial liabilities carried at fair value			**166**		
At 31 December 2023					
Financial assets at fair value through profit or loss					
Loans and advances to customers	Discounted cash flows	Interest rate spreads (+/- 50bps)	266	21	(19)
Level 3 financial assets carried at fair value			266		
Financial liabilities at fair value through profit or loss					
Securitisation notes	Discounted cash flows	Interest rate spreads (+/- 50bps)	23	1	(1)
Derivative financial liabilities					
Shared appreciation rights	Market values – property valuation	HPI (+/- 1%)	132	13	(12)
Level 3 financial liabilities carried at fair value			155		

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

2 Ranges are shown where appropriate and represent the highest and lowest inputs used in the level 3 valuations.

Unobservable inputs

Significant unobservable inputs affecting the valuation of debt securities and derivatives are unchanged from those described in the Group's financial statements for the year ended 31 December 2023.

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 14 to the Group's financial statements for the year ended 31 December 2023.

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (UNAUDITED) (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 2024		At 31 December 2023	
	Carrying value £m	**Fair value £m**	Carrying value £m	Fair value £m
Financial assets				
Loans and advances to banks	**105**	**105**	206	206
Loans and advances to customers	**294,498**	**289,183**	292,470	284,115
Debt securities	**1,539**	**1,531**	1,696	1,794
Due from fellow Lloyds Banking Group undertakings	**21,618**	**21,618**	16,773	16,773
Financial assets at amortised cost	**317,760**	**312,437**	311,145	302,888
Financial liabilities				
Deposits from banks	**122**	**122**	179	179
Customer deposits	**163,302**	**163,657**	161,946	162,115
Repurchase agreements	**30,393**	**30,393**	30,397	30,397
Due to fellow Lloyds Banking Group undertakings	**99,739**	**99,739**	95,098	95,098
Debt securities in issue	**9,289**	**9,327**	8,610	8,633
Subordinated liabilities	**1,532**	**1,566**	1,532	1,556

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

Note 8: Loans and advances to customers

Half-year to 30 June 2024

	Gross carrying amount				**Allowance for expected credit losses**			
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Total £m**	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Total £m**
At 1 January 2024	**247,818**	**40,066**	**6,855**	**294,739**	**383**	**857**	**1,029**	**2,269**
Exchange and other adjustments	**(617)**	**–**	**–**	**(617)**	**–**	**(3)**	**12**	**9**
Transfers to Stage 1	**13,424**	**(13,420)**	**(4)**	**–**	**156**	**(153)**	**(3)**	**–**
Transfers to Stage 2	**(7,397)**	**7,860**	**(463)**	**–**	**(23)**	**69**	**(46)**	**–**
Transfers to Stage 3	**(292)**	**(1,394)**	**1,686**	**–**	**(4)**	**(99)**	**103**	**–**
Net change in ECL due to transfers					**(103)**	**132**	**116**	**145**
					26	**(51)**	**170**	**145**
Impact of transfers between stages	**5,735**	**(6,954)**	**1,219**	**–**				
Other changes in credit quality					**(118)**	**(31)**	**174**	**25**
Additions and repayments	**5,730**	**(1,548)**	**(568)**	**3,614**	**(18)**	**(52)**	**(82)**	**(152)**
Charge to the income statement					**(110)**	**(134)**	**262**	**18**
Disposals and derecognition[1]	**(490)**	**(266)**	**(219)**	**(975)**	**(1)**	**(5)**	**(27)**	**(33)**
Advances written off			**(356)**	**(356)**			**(356)**	**(356)**
Recoveries of advances written off in previous years			**56**	**56**			**56**	**56**
At 30 June 2024	**258,176**	**31,298**	**6,987**	**296,461**	**272**	**715**	**976**	**1,963**
Allowance for ECL	**(272)**	**(715)**	**(976)**	**(1,963)**				
Net carrying amount	**257,904**	**30,583**	**6,011**	**294,498**				
Drawn ECL coverage[2] (%)	**0.1**	**2.3**	**14.0**	**0.7**				

[1] Relates to the securitisation of legacy retail mortgages.

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

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

Note 8: Loans and advances to customers (continued)

Year ended 31 December 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	640	–	–	640	(1)	–	114	113
Transfers to Stage 1	12,921	(12,909)	(12)	–	217	(213)	(4)	–
Transfers to Stage 2	(12,594)	13,209	(615)	–	(23)	79	(56)	–
Transfers to Stage 3	(702)	(2,252)	2,954	–	(7)	(160)	167	–
Net change in ECL due to transfers					(138)	211	241	314
					49	(83)	348	314
Impact of transfers between stages	(375)	(1,952)	2,327	–				
Other changes in credit quality					44	(113)	353	284
Additions and repayments	4,993	(1,320)	(1,943)	1,730	8	(44)	(886)	(922)
Charge (credit) to the income statement					101	(240)	(185)	(324)
Disposals and derecognition[1]	(1,313)	(888)	(447)	(2,648)	(1)	(35)	(85)	(121)
Advances written off			(684)	(684)			(684)	(684)
Recoveries of advances written off in previous years			88	88			88	88
At 31 December 2023	247,818	40,066	6,855	294,739	383	857	1,029	2,269
Allowance for ECL	(383)	(857)	(1,029)	(2,269)				
Net carrying amount	247,435	39,209	5,826	292,470				
Drawn ECL coverage[2] (%)	0.2	2.1	15.0	0.8				

1 Relates to the securitisation of legacy retail mortgages.

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

The movement tables are compiled by comparing the position at the end of the period to that at the beginning of the year. Transfers between stages are deemed to have taken place at the start of the reporting period, with all other movements shown in the stage in which the asset is held at the end of the period.

Additions and repayments comprise new loans originated and repayments of outstanding balances throughout the reporting period.

The Group's impairment charge comprises impact of transfers between stages, other changes in credit quality and additions and repayments.

Advances written off have first been transferred to Stage 3 and then acquired a full allowance through other changes in credit quality. Recoveries of advances written off in previous years are shown at the full recovered value, with a corresponding entry in repayments and release of allowance through other changes in credit quality.

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

Note 9: Allowance for expected credit losses

The calculation of the Group's allowance for expected credit loss allowances requires the Group to make a number of judgements, assumptions and estimates. These are set out in full in note 17 to the Group's financial statements for the year ended 31 December 2023, with the most significant set out below.

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

			Judgemental adjustments due to:		
	Modelled ECL £m	Individually assessed £m	Inflationary and interest rate risk £m	Other £m	Total ECL £m
At 30 June 2024	**1,791**	**146**	**31**	**115**	**2,083**
At 31 December 2023	2,060	167	144	33	2,404

Application of judgement in adjustments to modelled ECL

Impairment models fall within the Group's model risk framework with model monitoring, periodic validation and back testing performed on model components, such as probability of default. Limitations in the 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 applies appropriate judgemental adjustments to the ECL 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 and 2023 the intensifying inflationary pressures, alongside rising interest rates created further risks not deemed to be fully captured by ECL models which required judgemental adjustments to be added. Through the first half of 2024 these risks have largely subsided with inflation back at two per cent and the UK Bank rate now believed to have peaked. The portfolio has proven resilient to higher rates and inflation. As a result, the judgements held in respect of inflationary and interest rate risks are significantly reduced to £31 million (31 December 2023: £144 million). Other judgements continue to be applied for broader data and model limitations, both increasing and decreasing ECL.

Judgemental adjustments due to inflationary and interest rate risk

Inflationary and interest rate pressures: £31 million (31 December 2023: £144 million)

The Group's ECL models for UK mortgages use UK Bank Rate as a driver of predicted defaults and were largely believed to have captured the stretch on customers due to increased interest rates. However, the combination of inflationary pressures with sharp increases to interest rates over 2023 were believed to create further risk not potentially captured by ECL models. Modest increases in new to arrears and defaults emerged in 2023, mainly driven by variable rate customers, who experienced sudden material increases in their monthly payment. Given interest rates have stabilised, inflation has reduced and experience through the first half of 2024 has been benign, this risk has reduced. A lower judgemental uplift in ECL continues to be taken in 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 UK Bank Rate as a material driver of predicted defaults.

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

Note 9: Allowance for expected credit losses (continued)

Other judgemental adjustments

These adjustments principally comprise:

Increase in time to repossession: £122 million (31 December 2023: £126 million)

The UK mortgage portfolio currently contains a larger number of customers that have been in default for a longer period than would typically be expected following pauses in litigation activity both before and during COVID-19. There is a risk that the probability of possession (PPD), and therefore ECL on these accounts is understated given this component of the model may not reflect the full impact of customers remaining in default for an extended period. Adjustments for this risk have been in place for several years, although the approach has been refined in the first half of 2024. The updated approach continues to target accounts that have been in default for more than 24 months with an arrears balance increase in the last six months. These accounts now have their PPD increased to a level based on equivalent observed performance graduated by their time in default. The change in approach has resulted in a similar level of adjustment, but now provides a mechanism which will see the adjustment naturally release as this backlog reduces.

Adjustment for single point of loss model limitation: £47 million (31 December 2023: £nil)

The current UK mortgages ECL model estimates customer level losses using a ‘single point of loss’ (SPOL) calculation, with predicted timings of defaults and subsequent repossession using average time periods. This simplification is continually assessed for any potential over or understatement of ECL compared to a more sophisticated ‘multiple points of loss’ (MPOL) modelling technique. To date, this has not shown any material difference for which an adjustment would be required. Management have been developing a new ECL model which will address this limitation, anticipated to be formally adopted later this year. However, the development activity is now suitably progressed to be leveraged in the ongoing assessment of the scale of the SPOL model simplification. This assessment indicated that the MES update in the second quarter of the year had increased the impact of the simplification up to a scale that required mitigation through a judgemental adjustment. This adjustment is expected to be released upon the final adoption of the new ECL model once it has completed appropriate internal model governance activities.

Lifetime extension on revolving products: £26 million (31 December 2023: £53 million)

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

Adjustments to loss given defaults (LGDs): £(63) million (31 December 2023: £(64) million)

A number of adjustments continue to be made to the loss given default assumptions used within unsecured and motor credit models. For unsecured portfolios, the adjustments reflect the impact of changes in collection debt sale strategy on the Group’s LGD models, incorporating up to date customer performance and forward flow debt sale pricing. For UK Motor Finance, the adjustment captures the latest outlook on used car prices.

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

Corporate insolvency rates: £(35) million (31 December 2023: £(47) million)

The volume of UK corporate insolvencies has continued to remain well above December 2019 levels, revealing a marked misalignment between observed UK corporate insolvencies and the Group’s credit performance which has been better than this. This dislocation gives rise to uncertainty over the drivers of observed trends and the appropriateness of the Group’s Commercial Banking model response which uses observed UK corporate insolvencies data to anchor future loss estimates to. Given the Group’s asset quality remains strong with low new defaults, a negative adjustment is applied by using the long-term average rate. The slightly greater negative adjustment in the period reflects the widening gap between the increasing industry level and the long-term average rate used.

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

Note 9: Allowance for expected credit losses (continued)

Base case and MES economic assumptions

The Group's base case economic scenario as at 30 June 2024 has been updated to reflect ongoing geopolitical and economic developments, as the slow reduction of inflationary pressures brings into view a shift to less restrictive monetary policies globally. The Group's updated base case scenario has three conditioning assumptions: first, the wars in Ukraine and the Middle East remain geographically contained; second, the UK's post-election economic policies retain the framework of the inflation target and fiscal rules, while allowing for an increase in both current and capital public spending; and third, the outcome of the US election broadly maintains economic policy continuity, including an unchanged position for the Federal Reserve.

Based on these assumptions and incorporating the economic data published in the second quarter of 2024, the Group's base case scenario is for a gradual expansion of economic activity and a slight rise in the unemployment rate, alongside modest changes in residential and commercial property prices. Following a gradual reduction in inflationary pressures, UK Bank Rate is expected to be lowered twice during 2024. 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 2024, for which actuals may have since emerged prior to publication. The Group's base case economic scenario predated the results of the UK General Election and, as such, information that has become available since the election has not been included.

The Group's approach to generating alternative economic scenarios is set out in detail in note 17 to the financial statements for the year ended 31 December 2023. 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. A small refinement was made to the Group's approach during the first half of 2024, with alternative economic scenarios now dispersing from the base case after the balance sheet date. This is one quarter later than previously adopted reflecting the use of a base case that is now set closer to the reporting date than at the onset of IFRS 9. As a result, all scenarios include the same forecasted level for key variables in the second quarter of 2024, for which actuals may have since emerged prior to publication.

For June 2024, the Group continues to judge it appropriate to include a non-modelled severe downside scenario for Group ECL calculations. The scenario is now generated as a simple average of a fully modelled severe scenario, better representing shocks to demand, and a scenario with higher paths for UK Bank Rate and CPI inflation, as a representation of shocks to supply. The combined 'adjusted' scenario used in ECL modelling is considered to better reflect the risks around the Group's base case view in an economic environment where demand and supply shocks are more balanced.

Scenarios by year

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

Annual assumptions

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

Five-year average

The five-year average reflects the average annual growth rate, or level, over the five-year period. It includes movements within the current reporting year, such that the position as of 30 June 2024 covers the five years 2024 to 2028. The inclusion of the reporting year within the five-year period reflects the need to predict variables which remain unpublished at the reporting date and recognises that credit models utilise both level and annual changes. The use of calendar years maintains a comparability between the annual assumptions presented.

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

Note 9: Allowance for expected credit losses (continued)

At 30 June 2024	2024 %	2025 %	2026 %	2027 %	2028 %	2024 to 2028 average %
Upside						
Gross domestic product growth	**1.1**	**2.3**	**1.7**	**1.5**	**1.4**	**1.6**
Unemployment rate	**4.1**	**3.2**	**3.0**	**2.9**	**2.9**	**3.2**
House price growth	**2.2**	**5.0**	**7.3**	**6.0**	**5.2**	**5.1**
Commercial real estate price growth	**2.2**	**8.7**	**2.4**	**2.8**	**1.2**	**3.4**
UK Bank Rate	**5.17**	**5.30**	**5.17**	**5.33**	**5.55**	**5.31**
CPI inflation	**2.5**	**2.5**	**2.4**	**2.7**	**2.9**	**2.6**
Base case						
Gross domestic product growth	**0.8**	**1.2**	**1.6**	**1.6**	**1.6**	**1.3**
Unemployment rate	**4.5**	**4.8**	**4.8**	**4.6**	**4.6**	**4.7**
House price growth	**1.2**	**1.4**	**1.0**	**1.4**	**2.4**	**1.5**
Commercial real estate price growth	**(1.6)**	**1.2**	**0.0**	**1.9**	**1.0**	**0.5**
UK Bank Rate	**5.06**	**4.19**	**3.63**	**3.50**	**3.50**	**3.98**
CPI inflation	**2.5**	**2.5**	**2.1**	**2.1**	**2.2**	**2.3**
Downside						
Gross domestic product growth	**0.6**	**(0.5)**	**0.8**	**1.5**	**1.6**	**0.8**
Unemployment rate	**4.9**	**6.9**	**7.5**	**7.4**	**7.2**	**6.7**
House price growth	**0.6**	**(1.8)**	**(6.5)**	**(5.4)**	**(2.3)**	**(3.1)**
Commercial real estate price growth	**(4.7)**	**(6.7)**	**(4.1)**	**(0.8)**	**(1.3)**	**(3.5)**
UK Bank Rate	**4.97**	**2.77**	**1.38**	**0.89**	**0.63**	**2.13**
CPI inflation	**2.5**	**2.4**	**1.8**	**1.4**	**1.2**	**1.9**
Severe downside						
Gross domestic product growth	**0.1**	**(2.2)**	**0.4**	**1.2**	**1.5**	**0.2**
Unemployment rate	**5.5**	**9.4**	**10.2**	**10.1**	**9.8**	**9.0**
House price growth	**(0.7)**	**(4.8)**	**(13.9)**	**(11.8)**	**(7.6)**	**(7.9)**
Commercial real estate price growth	**(9.1)**	**(15.1)**	**(8.6)**	**(5.3)**	**(4.7)**	**(8.6)**
UK Bank Rate – modelled	**4.81**	**1.12**	**0.16**	**0.05**	**0.02**	**1.23**
UK Bank Rate – adjusted[1]	**5.09**	**3.22**	**2.33**	**2.02**	**1.79**	**2.89**
CPI inflation – modelled	**2.6**	**2.4**	**1.3**	**0.5**	**0.1**	**1.4**
CPI inflation – adjusted[1]	**2.9**	**3.2**	**1.6**	**0.9**	**1.0**	**1.9**
Probability-weighted						
Gross domestic product growth	**0.8**	**0.7**	**1.3**	**1.5**	**1.5**	**1.2**
Unemployment rate	**4.6**	**5.4**	**5.6**	**5.5**	**5.4**	**5.3**
House price growth	**1.1**	**0.9**	**(0.9)**	**(0.6)**	**0.8**	**0.3**
Commercial real estate price growth	**(2.1)**	**(0.5)**	**(1.3)**	**0.6**	**(0.2)**	**(0.7)**
UK Bank Rate – modelled	**5.04**	**3.79**	**3.07**	**2.92**	**2.90**	**3.55**
UK Bank Rate – adjusted[1]	**5.07**	**4.00**	**3.29**	**3.12**	**3.08**	**3.71**
CPI inflation – modelled	**2.5**	**2.5**	**2.1**	**1.9**	**1.9**	**2.2**
CPI inflation – adjusted[1]	**2.6**	**2.6**	**2.1**	**1.9**	**2.0**	**2.2**

[1] 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 the risks of supply and demand shocks are seen as more balanced.

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

Note 9: Allowance for expected credit losses (continued)

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

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

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

Note 9: Allowance for expected credit losses (continued)

Base case scenario by quarter

Gross domestic product growth is presented quarter-on-quarter. House price growth, commercial real estate price growth and CPI inflation are presented year-on-year, i.e. from the equivalent quarter in the previous year. Unemployment rate and UK Bank Rate are presented as at the end of each quarter.

At 30 June 2024	**First quarter 2024 %**	**Second quarter 2024 %**	**Third quarter 2024 %**	**Fourth quarter 2024 %**	**First quarter 2025 %**	**Second quarter 2025 %**	**Third quarter 2025 %**	**Fourth quarter 2025 %**
Gross domestic product growth	**0.6**	**0.4**	**0.3**	**0.2**	**0.3**	**0.3**	**0.4**	**0.4**
Unemployment rate	**4.3**	**4.5**	**4.6**	**4.7**	**4.8**	**4.9**	**4.9**	**4.8**
House price growth	**0.4**	**1.0**	**3.8**	**1.2**	**0.9**	**1.3**	**1.3**	**1.4**
Commercial real estate price growth	**(5.3)**	**(5.3)**	**(3.5)**	**(1.6)**	**(0.9)**	**0.2**	**(0.2)**	**1.2**
UK Bank Rate	**5.25**	**5.25**	**5.00**	**4.75**	**4.50**	**4.25**	**4.00**	**4.00**
CPI inflation	**3.5**	**2.1**	**2.0**	**2.5**	**2.2**	**2.7**	**2.6**	**2.4**

At 31 December 2023	First quarter 2023 %	Second quarter 2023 %	Third quarter 2023 %	Fourth quarter 2023 %	First quarter 2024 %	Second quarter 2024 %	Third quarter 2024 %	Fourth quarter 2024 %
Gross domestic product growth	0.3	0.0	(0.1)	0.0	0.1	0.2	0.3	0.3
Unemployment rate	3.9	4.2	4.2	4.3	4.5	4.8	5.0	5.2
House price growth	1.6	(2.6)	(4.5)	1.4	(1.1)	(1.5)	0.5	(2.2)
Commercial real estate price growth	(18.8)	(21.2)	(18.2)	(5.1)	(4.1)	(3.8)	(2.2)	(0.2)
UK Bank Rate	4.25	5.00	5.25	5.25	5.25	5.00	4.75	4.50
CPI inflation	10.2	8.4	6.7	4.0	3.8	2.1	2.3	2.8

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 is held constant reflecting the basis on which they are evaluated. Judgemental adjustments applied through changes to model inputs or parameters, or more qualitative post model adjustments, are apportioned across the scenarios in proportion to modelled ECL where this better reflects the sensitivity of these adjustments to each scenario. The probability-weighted view shows the extent to which a higher ECL allowance has been recognised to take account of multiple economic scenarios relative to the base case; the uplift being £313 million compared to £461 million at 31 December 2023.

ECL allowance	**Probability-weighted £m**	**Upside £m**	**Base case £m**	**Downside £m**	**Severe downside £m**
At 30 June 2024	**2,083**	**1,420**	**1,770**	**2,360**	**4,177**
At 31 December 2023	2,404	1,520	1,943	2,548	6,004

The sensitivity of ECL to isolated changes in the UK unemployment rate and House Price Index (HPI) has been assessed on a univariate basis. Although such changes would not be observed in isolation, as economic indicators tend to be correlated in a coherent scenario, this gives insight into the sensitivity of the Group’s ECL to gradual changes in these two critical economic factors. The assessment has been made against the base case with staging held flat to the reported probability-weighted view and is assessed through the direct impact on modelled ECL and therefore only includes judgemental adjustments applied within the model.

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

Note 9: Allowance for expected credit losses (continued)

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 10 quarters of the base case scenario. A more immediate increase or decrease would drive a more material ECL impact as it would be fully reflected in both 12-month and lifetime probability of defaults.

	At 30 June 2024		At 31 December 2023	
	1pp increase in unemployment £m	**1pp decrease in unemployment £m**	1pp increase in unemployment £m	1pp decrease in unemployment £m
ECL impact	**60**	**(54)**	65	(64)

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 HPI. The increase or decrease is presented based on the adjustment phased evenly over the first 10 quarters of the base case scenario.

	At 30 June 2024		At 31 December 2023	
	10pp increase in HPI £m	**10pp decrease in HPI £m**	10pp increase in HPI £m	10pp decrease in HPI £m
ECL impact	**(149)**	**222**	(182)	275

Note 10: Debt securities in issue

	At 30 June 2024			At 31 December 2023		
	At fair value through profit or loss £m	**At amortised cost £m**	**Total £m**	At fair value through profit or loss £m	At amortised cost £m	Total £m
Senior unsecured notes issued	**–**	**6,003**	**6,003**	–	6,022	6,022
Securitisation notes	**23**	**2,775**	**2,798**	23	2,083	2,106
Covered bonds	**–**	**511**	**511**	–	505	505
	23	**9,289**	**9,312**	23	8,610	8,633

Covered bonds and securitisation programmes

At 30 June 2024, the bonds held by external parties and those held internally, were secured on certain loans and advances to customers amounting to £831 million (31 December 2023: £824 million) which have been assigned to bankruptcy remote limited liability partnerships to provide security for issues of covered bonds by the Group. The Group retains all of the risks and rewards associated with these loans and the partnerships are consolidated fully with the loans retained on the Group's balance sheet and the related covered bonds in issue included within debt securities in issue at amortised cost.

At 30 June 2024, the Group's securitisation notes in issue held by external parties includes £23 million at fair value through profit or loss (31 December 2023: £23 million). Those notes held internally, are secured on loans and advances to customers amounting to £27,512 million (31 December 2023: £29,649 million), the majority of which have been sold by subsidiary companies to bankruptcy remote structured entities. As the structured entities are funded by the issue of debt on terms whereby the majority of the risks and rewards of the portfolio are retained by the subsidiary, the structured entities are consolidated fully and all of these loans are retained on the Group's balance sheet, with the related notes in issue included within debt securities in issue at amortised cost.

Cash deposits of £1,444 million (31 December 2023: £1,277 million) which support the debt securities issued by the structured entities, the term advances related to covered bonds and other legal obligations, are held by the Group.

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

Note 11: Provisions

	Provisions for financial commitments and guarantees[1] £m	Regulatory and legal provisions £m	Other £m	Total £m
At 1 January 2024	**128**	**426**	**166**	**720**
Exchange and other adjustments	**(1)**	**–**	**–**	**(1)**
Provisions applied	**–**	**(145)**	**(86)**	**(231)**
(Credit) charge for the period	**(10)**	**41**	**41**	**72**
At 30 June 2024	**117**	**322**	**121**	**560**

[1] In respect of loans and advances to customers.

Regulatory and legal provisions

In the course of its business, the Group is engaged on a regular basis in discussions with UK and overseas regulators and other governmental authorities on a range of matters, including legal and regulatory reviews and, from time to time, enforcement investigations (including in relation to compliance with applicable laws and regulations, such as those relating to prudential regulation, consumer protection, investment advice, business conduct, systems and controls, environmental, competition/anti-trust, tax, anti-bribery, anti-money laundering and sanctions). Any matters discussed or identified during such discussions and inquiries may result in, among other things, further inquiry or investigation, other action being taken by governmental and/or regulatory authorities, increased costs being incurred by the Group, remediation of systems and controls, public or private censure, restriction of the Group's business activities and/or fines. The Group also receives complaints in connection with its past conduct and claims brought by or on behalf of current and former employees, customers (including their appointed representatives), investors and other third parties and is subject to legal proceedings and other legal actions from time to time. Any events or circumstances disclosed could have a material adverse effect on the Group's financial position, operations or cash flows. Provisions are held where the Group can reliably estimate a probable outflow of economic resources. The ultimate liability of the Group may be significantly more, or less, than the amount of any provision recognised. If the Group is unable to determine a reliable estimate, a contingent liability is disclosed. The recognition of a provision does not amount to an admission of liability or wrongdoing on the part of the Group. During the half-year to 30 June 2024 the Group charged a further £41 million in respect of legal actions and other regulatory matters and the unutilised balance at 30 June 2024 was £322 million (31 December 2023: £426 million). The most significant items are outlined below.

HBOS Reading – review

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

In June 2022, the Foskett Panel announced an alternative option, in the form of a fixed sum award which could be accepted as an alternative to participation in the full re-review process, to support earlier resolution of claims for those deemed by the Foskett Panel to be victims of the fraud. Over 95 per cent of the population have now had decisions via this new process. The provision is unchanged in the first half of 2024. Notwithstanding the settled claims and the increase in outcomes which builds confidence in the full estimated cost, uncertainties remain and the final outcome could be different 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 Cranston's recommendations in full.

Payment protection insurance (PPI)

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.

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

Note 12: Dividends on ordinary shares

The Bank paid a dividend of £650 million on 16 May 2024 (no dividend was paid during the half-year to 30 June 2023).

Note 13: Related party transactions

Balances and transactions with fellow Lloyds Banking Group undertakings

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

	At 30 Jun 2024 £m	At 31 Dec 2023 £m
Assets, included within:		
Derivative financial instruments	**2,459**	2,334
Financial assets at amortised cost: due from fellow Lloyds Banking Group undertakings	**21,618**	16,773
Liabilities, included within:		
Due to fellow Lloyds Banking Group undertakings	**99,739**	95,098
Derivative financial instruments	**3,701**	3,986
Debt securities in issue	**5,365**	5,371
Subordinated liabilities	**1,503**	1,503

During the half-year to 30 June 2024 the Group earned £529 million (half-year to 30 June 2023: £306 million) of interest income and incurred £2,788 million (half-year to 30 June 2023: £2,441 million) of interest expense and recognised net fee and commission expense of £66 million (half year to 30 June 2023: net fee and commission income £10 million) on balances and transactions with Lloyds Banking Group plc and fellow Lloyds Banking Group undertakings. The increase in net fee and commission expense is primarily due to the impact of changes to commission arrangements with Scottish Widows.

In addition, during the half-year to 30 June 2024 the Group incurred expenditure of £39 million (half-year ended 30 June 2023: £28 million) on behalf of fellow Lloyds Banking Group undertakings which was recharged to those undertakings; and fellow Lloyds Banking Group undertakings incurred expenditure of £681 million (half-year ended 30 June 2023: £604 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 2024 are similar in nature to those for the year ended 31 December 2023.

Note 14: Contingent liabilities, commitments and guarantees

Contingent liabilities, commitments and guarantees

At 30 June 2024 contingent liabilities, such as performance bonds and letters of credit, arising from the banking business were £104 million (31 December 2023: £109 million).

The contingent liabilities of the Group arise in the normal course of its banking business and it is not practicable to quantify their future financial effect. Total commitments and guarantees were £67,070 million (31 December 2023: £60,718 million), of which in respect of undrawn formal standby facilities, credit lines and other commitments to lend, £19,139 million (2023: £13,967 million) was irrevocable.

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

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

Note 14: Contingent liabilities, commitments and guarantees (continued)

Any impact on the Group of the litigation against Visa and Mastercard remains uncertain at this time, such that it is not practicable for the Group to provide an estimate of any potential financial effect. Insofar as Visa is required to pay damages to retailers for interchange fees set prior to June 2016, contractual arrangements to allocate liability have been agreed between various UK banks (including the Lloyds Banking Group) and Visa Inc, as part of Visa Inc's acquisition of Visa Europe in 2016. These arrangements cap the maximum amount of liability to which the Lloyds Banking Group may be subject and this cap is set at the cash consideration received by the Lloyds Banking Group for the sale of its stake in Visa Europe to Visa Inc in 2016. In 2016, the Lloyds Banking Group received Visa preference shares as part of the consideration for the sale of its shares in Visa Europe. A release assessment is carried out by Visa on certain anniversaries of the sale (in line with the Visa Europe sale documentation) and as a result, some Visa preference shares may be converted into Visa Inc Class A common stock from time to time. Any such release and any subsequent sale of Visa common stock does not impact the contingent liability.

LIBOR and other trading rates

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

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

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

Tax authorities

The Group has an open matter in relation to a claim for group relief of losses incurred in its former Irish banking subsidiary, which ceased trading on 31 December 2010. In 2013, HMRC informed the Group that its interpretation of the UK rules means that the group relief is not available. In 2020, HMRC concluded its 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 believes that this would result in an increase in current tax liabilities of the Group of approximately £190 million (including interest). The Group, following conclusion of the hearing and 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 Group is in discussions with HMRC, none of which is expected to have a material impact on the financial position of the Group.

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

As previously disclosed, the FCA has opened an investigation into the Lloyds Banking Group's compliance with domestic UK money laundering regulations and the FCA's rules and Principles for Businesses, with a focus on aspects of its anti-money laundering control framework. The Lloyds Banking Group continues to co-operate with the investigation. It is not currently possible to estimate the potential financial impact to the Lloyds Banking Group.

Arena litigation claims

The Group is facing claims alleging breach of duty and/or mandate in the context of an underlying external fraud matter involving Arena Television. The Group intends to contest the claims. It is not possible to estimate with certainty the potential financial impact (if any) to the Group.

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

Note 14: Contingent liabilities, commitments and guarantees (continued)

Other legal actions and regulatory matters

In addition, in the course of its business the Group is subject to other complaints and threatened or actual legal proceedings (including class or group action claims) brought by or on behalf of current or former employees, customers (including their appointed representatives), investors or other third parties, as well as legal and regulatory reviews, enquiries and examinations, requests for information, audits, challenges, investigations and enforcement actions, which could relate to a number of issues. This includes matters in relation to compliance with applicable laws and regulations, such as those relating to prudential regulation, consumer protection, investment advice, business conduct, systems and controls, environmental, competition/anti-trust, tax, anti-bribery, anti-money laundering and sanctions, some of which may be beyond the Group’s control, both in the UK and overseas. Where material, such matters are periodically reassessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of the Group incurring a liability. The Group does not currently expect the final outcome of any such case to have a material adverse effect on its financial position, operations or cash flows. Where there is a contingent liability related to an existing provision the relevant disclosures are included within note 11.

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 2024 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 2024 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
24 July 2024

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)*
Sarah Bentley
Brendan Gilligan
Nigel Hinshelwood
Sarah Legg
Amanda Mackenzie LVO OBE
Harmeen Mehta
Cathy Turner
Scott Wheway
Catherine Woods

FORWARD-LOOKING STATEMENTS

This document contains certain forward-looking statements within the meaning of Section 21E of the US Securities Exchange Act of 1934, as amended, and section 27A of the US Securities Act of 1933, as amended, with respect to the business, strategy, plans and/or results of 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 and statements of assumptions underlying such statements. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend upon circumstances that will or may occur in the future. Factors that could cause actual business, strategy, targets, plans and/or results (including but not limited to the payment of dividends) to differ materially from forward-looking statements include, but are not limited to: general economic and business conditions in the UK and internationally; acts of hostility or terrorism and responses to those acts, or other such events; geopolitical unpredictability; the war between Russia and Ukraine; the conflicts in the Middle East; the tensions between China and Taiwan; political instability including as a result of any UK general election; market related risks, trends and developments; changes in client and consumer behaviour and demand; exposure to counterparty risk; the ability to access sufficient sources of capital, liquidity and funding when required; changes to the Group's credit ratings; fluctuations in interest rates, inflation, exchange rates, stock markets and currencies; volatility in credit markets; volatility in the price of the Group's securities; tightening of monetary policy in jurisdictions in which the Group operates; natural pandemic and other disasters; risks concerning borrower and counterparty credit quality; risks defined benefit pension schemes; changes in laws, regulations, practices and accounting standards or taxation; changes to regulatory capital or liquidity requirements and similar contingencies; the policies and actions of governmental or regulatory authorities or courts together with any resulting impact on the future structure of the Group; risks associated with the Group's compliance with a wide range of laws and regulations; assessment related to resolution planning requirements; risks related to regulatory actions which may be taken in the event of a bank or Group failure; exposure to legal, regulatory or competition proceedings, investigations or complaints; failure to comply with anti-money laundering, counter terrorist financing, anti-bribery and sanctions regulations; failure to prevent or detect any illegal or improper activities; operational risks including risks as a result of the failure of third party suppliers; conduct risk; technological changes and risks to the security of IT and operational infrastructure, systems, data and information resulting from increased threat of cyber and other attacks; technological failure; inadequate or failed internal or external processes or systems; risks relating to ESG matters, such as climate change (and achieving climate change ambitions) and decarbonisation, including the Group's ability along with the government and other stakeholders to measure, manage and mitigate the impacts of climate change effectively, and human rights issues; the impact of competitive conditions; failure to attract, retain and develop high calibre talent; the ability to achieve strategic objectives; the ability to derive cost savings and other benefits including, but without limitation, as a result of any acquisitions, disposals and other strategic transactions; inability to capture accurately the expected value from acquisitions; 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, 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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