Bank of Scotland plc

2026 half year results

30 July 2026

Member of the Lloyds Banking Group

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FINANCIAL REVIEW

Principal activities

Bank of Scotland plc (the Bank), together with its subsidiary undertakings (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, mortgages, credit cards and unsecured loans to retail customers and loans and other products to commercial clients.

Income statement

The Group's profit before tax for the first half of 2026 was £1,127 million, compared to a profit before tax of £680 million for the first half of 2025, reflecting higher total income and lower operating expenses, partly offset by a higher impairment charge. Profit after tax was £828 million (half-year to 30 June 2025: £524 million).

Total income for the first half of 2026 was £3,158 million, an increase of 20% on the first half of 2025. Net interest income was £2,810 million, compared to £2,281 million for the same period in 2025, driven by higher average interest-earning assets and a higher margin. Other income of £348 million was £5 million lower than the first half of 2025, reflecting higher net fee and commission income and the gain on the securitisation of primarily legacy mortgages, offset by lower net trading income.

Operating expenses of £1,780 million were 6% lower than in the first half of 2025 reflecting continued cost savings, a lower severance expense and plateauing investment as this strategic cycle culminates, partially offset by business growth costs and inflationary pressures. The Group recognised remediation costs of £13 million within operating expenses (half-year to 30 June 2025: £2 million), across a small number of rectification programmes.

The impairment charge was £251 million up from £60 million in the half-year to 30 June 2025. The higher charge includes a net charge from updated multiple economic scenarios (MES) reflecting the impact of the deterioration in economic outlook in the first quarter due to the Middle East conflict, net of modest second quarter updates. The MES impact for the half year captures a higher unemployment rate peak and softer house price outlook compared to the year end view. Credit performance remains strong and stable with arrears low and stable across portfolios.

The Group recognised a tax expense of £299 million in the first half of 2026 (half-year to 30 June 2025: £156 million). An explanation of the relationship between the tax expense and the Group's accounting profit for the period is set out on page 12.

Balance sheet

Total assets of £354,511 million were £14,922 million higher (31 December 2025: £339,589 million). Financial assets at amortised cost were £15,466 million higher at £345,506 million. An increase in loans and advances to customers of £1,504 million to £314,359 million was primarily due to growth in UK mortgages, net of the impact of a securitisation of primarily legacy mortgages. Balances due from fellow Lloyds Banking Group undertakings increased by £14,327 million, largely reflecting the equitable assignment of mortgage assets to Lloyds Bank plc in support of its covered bonds programme. Within liabilities, there is a broadly corresponding increase in amounts due to fellow Lloyds Banking Group undertakings.

Total liabilities of £337,669 million increased by £14,413 million (31 December 2025: £323,256 million). Customer deposits decreased by £2,969 million in the period to £164,617 million, primarily due to disciplined pricing decisions throughout the tax year-end.

Total equity of £16,842 million increased by £509 million (31 December 2025: £16,333 million). The movement reflected profit for the period partially offset by an interim dividend of £480 million.

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 2026 is set out below.

Capital resources of the Bank

	At 30 Jun 2026 £m	At 31 Dec 2025 £m
Common equity tier 1		
Shareholders' equity per unconsolidated balance sheet	14,566	14,363
Adjustment to retained earnings for foreseeable dividends	–	(480)
Cash flow hedging reserve	76	90
Other adjustments	(1)	(1)
	14,641	13,972
less: deductions from common equity tier 1		
Goodwill and other intangible assets	(765)	(746)
Prudent valuation adjustment	(32)	(39)
Excess of expected losses over impairment provisions and value adjustments	(385)	(295)
Removal of defined benefit pension surplus	(32)	(28)
Significant investments	–	(45)
Deferred tax assets	(1,677)	(1,736)
Common equity tier 1 capital	11,750	11,083
Additional tier 1		
Additional tier 1 instruments	2,850	2,600
Total tier 1 capital	14,600	13,683
Tier 2		
Tier 2 instruments	500	1,500
Total capital resources	15,100	15,183
Risk-weighted assets	83,201	82,357
Capital and leverage ratios		
Common equity tier 1 capital ratio	14.1%	13.5%
Tier 1 capital ratio	17.5%	16.6%
Total capital ratio	18.1%	18.4%
UK leverage ratio	4.5%	4.3%

The Bank's common equity tier 1 (CET1) capital ratio increased from 13.5% at 31 December 2025 to 14.1% at 30 June 2026. Profit for the first half of the year was partly offset by an increase in risk-weighted assets. The total capital ratio reduced to 18.1% (31 December 2025: 18.4%) reflecting the increase in risk-weighted assets and a reduction in total capital resources, with the increase in CET1 capital and AT1 instrument issuance more than offset by AT1 and Tier 2 instrument calls.

Risk-weighted assets increased by £844 million from £82,357 million at 31 December 2025 to £83,201 million at 30 June 2026, largely reflecting the impact of lending growth offset by optimisation activity, including a securitisation of primarily legacy mortgages.

The Bank's UK leverage ratio of 4.5% at 30 June 2026 has increased from 4.3% at 31 December 2025, reflecting the increase in total tier 1 capital, partially offset by the increase in the leverage exposure measure following lending growth.

Pillar 3 Disclosures

The Bank will publish a condensed set of half-year Pillar 3 disclosures in the first 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 significant risks faced by the Group are detailed below. External risks may impact delivery against the Group's recently updated long-term strategic objectives. They include, but are not limited to, macroeconomic and geopolitical uncertainties and inflation trends which could have implications for both consumers and businesses.

The Group's credit performance remains strong and stable; the portfolios are well positioned amid macroeconomic uncertainty and are proactively monitored to identify signs of stress.

Ongoing oversight of operational resilience risks and continuous enhancements to controls remains critical, particularly in relation to cybersecurity, IT stability and supplier risk. The Group remains committed to ensuring lessons are learned from internal and external events of disruption, which may have an impact on the Group's ability to continue operations.

The Group remains committed to modernising its technology and strengthening capabilities to ensure safe and responsible use of models and tools such as artificial intelligence.

Risk management is fundamental to our business model and strategy, and enables the Group to embrace opportunities responsibly and deliver sustainable growth. Our strong risk management culture, underpinned by Lloyds Banking Group's risk management framework (RMF), is vital in safeguarding the Group, colleagues and customers against both existing and emerging risks.

During 2026, the Group has continued to make progress in its risk transformation journey by standardising practices and streamlining processes, enabling simplification and efficiency. The RMF ensures processes are in place to facilitate robust risk management and effective decision making to deliver good outcomes for our customers.

The Group has 10 principal risks, underpinned by a suite of level two risks which are reviewed and reported regularly to the Board. The principal risks consist of capital risk, climate risk, compliance risk, conduct risk, credit risk, economic crime risk, liquidity risk, market risk, model risk and operational risk.

Further information regarding the Group's principal risks is available on page 5 of the Group's 2025 annual report and accounts.

CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (UNAUDITED)

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Note	Half-year to 30 Jun 2026 £m	Half-year to 30 Jun 2025 £m
Interest income		7,585	7,382
Interest expense		(4,775)	(5,101)
Net interest income		2,810	2,281
Fee and commission income		340	342
Fee and commission expense		(151)	(165)
Net fee and commission income	3	189	177
Net trading income		35	114
Other operating income		124	62
Other income		348	353
Total income		3,158	2,634
Operating expenses	4	(1,780)	(1,894)
Impairment	5	(251)	(60)
Profit before tax		1,127	680
Tax expense	6	(299)	(156)
Profit after tax		828	524
Profit attributable to ordinary shareholders		701	404
Profit attributable to other equity holders		127	120
Profit after tax		828	524

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 2026 £m	Half-year to 30 Jun 2025[1] £m
Profit for the period	828	524
Other comprehensive income		
Items that will not subsequently be reclassified to profit or loss:		
Post-retirement defined benefit scheme remeasurements:		
Remeasurements before tax	5	(9)
Deferred tax	(1)	3
	4	(6)
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	4	(16)
Deferred tax	(1)	3
	3	(13)
Net income statement transfers	17	(4)
Deferred tax	(5)	1
	12	(3)
	15	(16)
Movements in foreign currency translation reserve (tax: £nil)	(2)	1
	13	(15)
Total other comprehensive income (loss) for the period, net of tax	17	(21)
Total comprehensive income for the period	845	503
Total comprehensive income attributable to ordinary shareholders	718	383
Total comprehensive income attributable to other equity holders	127	120
Total comprehensive income for the period	845	503

[1] Deferred tax impacts, previously shown in aggregate for each reserve, are now presented alongside each line item. Comparatives are represented on a consistent basis.

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

CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

	Note	At 30 Jun 2026 £m	At 31 Dec 2025 £m
Assets			
Cash and balances at central banks		2,706	2,767
Financial assets at fair value through profit or loss	7	240	253
Derivative financial instruments		1,951	2,214
Loans and advances to banks		117	121
Loans and advances to customers		314,359	312,855
Debt securities		680	1,041
Due from fellow Lloyds Banking Group undertakings		30,350	16,023
Financial assets at amortised cost		345,506	330,040
Goodwill		452	452
Current tax recoverable		335	377
Deferred tax assets		1,661	1,743
Retirement benefit assets		45	39
Other assets		1,615	1,704
Total assets		354,511	339,589
Liabilities			
Deposits from banks		109	99
Customer deposits		164,617	167,586
Repurchase agreements at amortised cost		12,969	10,443
Due to fellow Lloyds Banking Group undertakings		143,889	128,036
Financial liabilities at fair value through profit or loss	7	17	17
Derivative financial instruments		1,984	3,016
Notes in circulation		2,177	2,118
Debt securities in issue at amortised cost	9	9,793	8,933
Other liabilities		1,223	1,068
Provisions	10	362	408
Subordinated liabilities	11	529	1,532
Total liabilities		337,669	323,256
Equity			
Share capital		5,847	5,847
Other reserves		3,061	3,048
Retained profits		5,084	4,838
Ordinary shareholders' equity		13,992	13,733
Other equity instruments		2,850	2,600
Total equity excluding non-controlling interests		16,842	16,333
Non-controlling interests		–	–
Total equity		16,842	16,333
Total equity and liabilities		354,511	339,589

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 2026	5,847	3,048	4,838	13,733	2,600	–	16,333
Comprehensive income							
Profit for the period	–	–	701	701	127	–	828
Other comprehensive income							
Post-retirement defined benefit scheme remeasurements, net of tax	–	–	4	4	–	–	4
Movements in revaluation reserve in respect of debt securities held at fair value through other comprehensive income, net of tax	–	–	–	–	–	–	–
Movements in cash flow hedging reserve, net of tax	–	15	–	15	–	–	15
Movements in foreign currency translation reserve, net of tax	–	(2)	–	(2)	–	–	(2)
Total other comprehensive income	–	13	4	17	–	–	17
Total comprehensive income[1]	–	13	705	718	127	–	845
Transactions with owners							
Dividends (note 12)	–	–	(480)	(480)	–	–	(480)
Distributions on other equity instruments	–	–	–	–	(127)	–	(127)
Issue of other equity instruments	–	–	–	–	1,250	–	1,250
Redemption of other equity instruments	–	–	–	–	(1,000)	–	(1,000)
Changes in non-controlling interests	–	–	–	–	–	–	–
Capital contributions received	–	–	21	21	–	–	21
Total transactions with owners	–	–	(459)	(459)	123	–	(336)
At 30 June 2026[2]	5,847	3,061	5,084	13,992	2,850	–	16,842

[1] Total comprehensive income attributable to owners of the parent was £845 million.

[2] Total equity attributable to owners of the parent was £16,842 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 2025	5,847	3,063	4,712	13,622	2,600	8	16,230
Comprehensive income							
Profit for the period	–	–	404	404	120	–	524
Other comprehensive income							
Post-retirement defined benefit scheme remeasurements, net of tax	–	–	(6)	(6)	–	–	(6)
Movements in cash flow hedging reserve, net of tax	–	(16)	–	(16)	–	–	(16)
Movements in foreign currency translation reserve, net of tax	–	1	–	1	–	–	1
Total other comprehensive loss	–	(15)	(6)	(21)	–	–	(21)
Total comprehensive income[1]	–	(15)	398	383	120	–	503
Transactions with owners							
Dividends (note 12)	–	–	(250)	(250)	–	–	(250)
Distributions on other equity instruments	–	–	–	–	(120)	–	(120)
Issue of other equity instruments	–	–	–	–	–		–
Changes in non-controlling interests	–	–	8	8	–	(8)	–
Capital contributions received	–	–	10	10	–	–	10
Total transactions with owners	–	–	(232)	(232)	(120)	(8)	(360)
At 30 June 2025[2]	5,847	3,048	4,878	13,773	2,600	–	16,373
Comprehensive income							
Profit for the period	–	–	696	696	117	–	813
Other comprehensive income							
Post-retirement defined benefit scheme remeasurements, net of tax	–	–	(5)	(5)	–	–	(5)
Movements in cash flow hedging reserve, net of tax	–	(1)	–	(1)	–	–	(1)
Movements in foreign currency translation reserve, net of tax	–	1	–	1	–	–	1
Total other comprehensive income	–	–	(5)	(5)	–	–	(5)
Total comprehensive income[1]	–	–	691	691	117	–	808
Transactions with owners							
Dividends	–	–	(730)	(730)	–	–	(730)
Distributions on other equity instruments	–	–	–	–	(117)	–	(117)
Issue of other equity instruments	–	–	–	–	–	–	–
Redemption of other equity instruments	–	–	–	–	–	–	–
Changes in non-controlling interests	–	–	–	–	–	–	–
Capital contributions received	–	–	(1)	(1)	–	–	(1)
Total transactions with owners	–	–	(731)	(731)	(117)	–	(848)
At 31 December 2025[2]	5,847	3,048	4,838	13,733	2,600	–	16,333

[1] Total comprehensive income attributable to owners of the parent for the half-year to 30 June 2025 was £503 million (half-year to 31 December 2025: £808 million).

[2] Total equity attributable to owners of the parent at 30 June 2025 was £16,373 million (31 December 2025: £16,333 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 2026 £m	Half-year to 30 Jun 2025 £m
Cash flows (used in) provided by operating activities		
Profit before tax	1,127	680
Adjustments for:		
Change in operating assets	(15,166)	(8,104)
Change in operating liabilities	15,489	6,912
Non-cash and other items	169	(74)
Tax paid	(333)	(167)
Tax refunded	150	1,162
Net cash provided by operating activities	1,436	409
Cash flows from investing activities		
Purchase of property, plant and equipment	(79)	(150)
Purchase of other intangible assets	(49)	(3)
Proceeds from sale of property, plant and equipment	10	2
Proceeds from sale of goodwill and other intangible assets	–	2
Net cash used in investing activities	(118)	(149)
Cash flows from financing activities		
Dividends paid to ordinary shareholders	(480)	(250)
Distributions on other equity instruments	(127)	(120)
Interest paid on subordinated liabilities	(44)	(50)
Proceeds from issue of other equity instruments	1,250	–
Repurchases and redemptions of subordinated liabilities	(1,000)	–
Repurchases and redemptions of other equity instruments	(1,000)	–
Net cash used in financing activities	(1,401)	(420)
Change in cash and cash equivalents	(83)	(160)
Cash and cash equivalents at beginning of period	2,795	2,883
Cash and cash equivalents at end of period	2,712	2,723

Interest received was £7,512 million (half-year to 30 June 2025: £7,341 million) and interest paid was £4,294 million (half-year to 30 June 2025: £4,171 million).

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.

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

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 2026 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 issued by the International Accounting Standards Board (IASB) 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 2025 which complied with international accounting standards in conformity with the requirements of the Companies Act 2006 and were prepared in accordance with IFRS® Accounting Standards as issued by the IASB. Copies of the 2025 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, 33 Old Broad Street, London, EC2N 1HZ.

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 2025 and there have been no changes in the Group's methods of computation.

The IASB has issued its annual improvements and a number of amendments to the IFRS Accounting Standards effective 1 January 2026, including Amendments to IFRS 9 Financial Instruments and Amendments to IFRS 7 Financial Instruments Disclosure. These improvements and amendments have not had a significant impact on the Group.

Future accounting developments

There are a number of new accounting pronouncements issued by the IASB with an effective date of 1 January 2027, including IFRS 18 Presentation and Disclosure in Financial Statements which replaces IAS 1 Presentation of Financial Statements. While many of the existing requirements of IAS 1 Presentation of Financial Statements are retained, IFRS 18 Presentation and Disclosure in Financial Statements introduces additional disclosure obligations in relation to the structure of the income statement, management-defined performance measures, and the aggregation and disaggregation of financial information. IFRS 18 will have no impact on the Group's net profit as it impacts neither recognition nor measurement. The new standard will impact the presentation of the Group's results as it requires that operating, investing and financing activities are presented separately. There will also be a change in the Group's cash flow statement as IFRS 18 requires that the first line of the cash flow statement is operating profit rather than profit before tax.

IFRS 19 Subsidiaries without Public Accountability: Disclosures is being assessed and is not expected to have a significant impact on the Group.

Other information

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 2025 and copies may be obtained from Investor Relations, Lloyds Banking Group plc, 33 Old Broad Street, London, EC2N 1HZ 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 2025 were approved by the directors on 26 February 2026 and were delivered to the Registrar of Companies on 20 March 2026. The independent 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 2025 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 8.

Note 3: Net fee and commission income

	Half-year to 30 Jun 2026 £m	Half-year to 30 Jun 2025 £m
Fee and commission income:		
Current accounts	105	104
Credit and debit card fees	213	209
Other fees and commissions	22	29
Total fee and commission income	340	342
Fee and commission expense	(151)	(165)
Net fee and commission income	189	177

Note 4: Operating expenses

	Half-year to 30 Jun 2026 £m	Half-year to 30 Jun 2025 £m
Staff costs	456	581
Premises and equipment costs	94	129
Depreciation and amortisation	126	147
Amounts payable to fellow Lloyds Banking Group undertakings and other expenses	1,104	1,037
Total operating expenses	1,780	1,894

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

Note 5: Impairment

	Half-year to 30 Jun 2026 £m	Half-year to 30 Jun 2025 £m
Loans and advances to customers	254	78
Due from fellow Lloyds Banking Group undertakings	–	(3)
Financial assets held at amortised cost	254	75
Loan commitments and financial guarantees	(3)	(15)
Total impairment	251	60

Note 6: Tax

In accordance with IAS 34, the Group's income tax expense for the half-year to 30 June 2026 is based on the best estimate of the weighted-average annual income tax rate expected for the full financial year. The tax effects of one-off items are not included in the weighted-average annual income tax rate, but are recognised in the relevant period.

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

	Half-year to 30 Jun 2026 £m	Half-year to 30 Jun 2025 £m
Profit before tax	1,127	680
UK corporation tax thereon at 25.0% (2025: 25.0%)	(282)	(170)
Impact of surcharge on banking profits	(29)	(19)
Other non-deductible costs	(15)	(37)
Non-taxable income	6	2
Tax relief on coupons on other equity instruments	32	30
Tax-exempt gains on disposals	–	2
Adjustments in respect of prior years	(11)	36
Tax expense	(299)	(156)

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 2025 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 2026				
Financial assets at fair value through profit or loss				
Loans and advances to customers	–	–	237	237
Debt securities	–	–	3	3
Total financial assets at fair value through profit or loss	–	–	240	240
Derivative financial instruments	–	1,951	–	1,951
Total financial assets carried at fair value	–	1,951	240	2,191
At 31 December 2025				
Loans and advances to customers at fair value through profit or loss	–	–	253	253
Derivative financial instruments	–	2,214	–	2,214
Total financial assets carried at fair value	–	2,214	253	2,467

Financial liabilities	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 30 June 2026				
Debt securities in issue designated at fair value through profit or loss	–	–	17	17
Derivative financial instruments	–	1,882	102	1,984
Total financial liabilities carried at fair value	–	1,882	119	2,001
At 31 December 2025				
Debt securities in issue designated at fair value through profit or loss	–	–	17	17
Derivative financial instruments	–	2,903	113	3,016
Total financial liabilities carried at fair value	–	2,903	130	3,033

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 2025 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 2026	253	–	253
Losses recognised in the income statement within other income	(7)	–	(7)
Purchases/increases	5	–	5
Sales/repayments	(11)	–	(11)
At 30 June 2026	**240**	**–**	**240**
Losses recognised in the income statement, within other income, relating to the change in fair value of those assets held at 30 June 2026	(4)	–	(4)
At 1 January 2025	278	–	278
Losses recognised in the income statement within other income	(16)	–	(16)
Purchases/increases	14	–	14
Sales/repayments	(17)	–	(17)
At 30 June 2025	259	–	259
Losses recognised in the income statement, within other income, relating to the change in fair value of those assets held at 30 June 2025	(16)	–	(16)

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 2026	17	113	130
Losses (gains) recognised in the income statement within other income	1	(3)	(2)
Redemptions	(1)	(8)	(9)
At 30 June 2026	**17**	**102**	**119**
Losses (gains) recognised in the income statement, within other income, relating to the change in fair value of those liabilities held at 30 June 2026	1	(2)	(1)
At 1 January 2025	22	139	161
Gains recognised in the income statement within other income	(2)	(5)	(7)
Redemptions	(2)	(12)	(14)
At 30 June 2025	18	122	140
Gains recognised in the income statement, within other income, relating to the change in fair value of those liabilities held at 30 June 2025	(2)	(3)	(5)

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

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

Significant unobservable inputs in level 3 valuations

The following tables disclose the valuation techniques and key unobservable inputs for instruments recognised at fair value and classified as level 3 and provides the range of those inputs at the balance sheet date.

For each portfolio, the minimum and maximum significant unobservable inputs that are used in the balance sheet valuation are shown.

Significant unobservable inputs affecting the valuations are unchanged from those described in note 14 in the Group's financial statements for the year ended 31 December 2025.

At 30 June 2026	Valuation techniques	Significant unobservable inputs	Minimum	Maximum	Carrying value £m
Financial assets at fair value through profit or loss					
Loans and advances to customers	Discounted Cash Flows	Credit spreads	138bps	349bps	114
	Market values - property valuation	HPI growth	3%	4%	123
					237
Debt securities	Discounted Cash Flows	Price	12%	86%	3
					240
Financial liabilities at fair value through profit or loss					
Securitisation notes and other	Discounted cash flows	Credit spreads	349bps	349bps	17
Derivative financial liabilities					
Interest rate derivatives	Option pricing model	Interest rate ATM volatility	56bps	93bps	1
Shared appreciation rights	Market values - property valuation	HPI growth	3%	4%	101
					102
					119

At 31 December 2025	Valuation techniques	Significant unobservable inputs	Minimum	Maximum	Carrying value £m
Financial assets at fair value through profit or loss					
Loans and advances to customers	Discounted Cash Flows	Credit spreads	138bps	349bps	118
	Market values - property valuation	HPI growth	3%	4%	135
					253
Financial liabilities at fair value through profit or loss					
Securitisation notes and other	Discounted cash flows	Credit spreads	349bps	349bps	17
Derivative financial liabilities					
Interest rate derivatives	Option pricing model	Interest rate ATM volatility	38bps	82bps	2
Shared appreciation rights	Market values - property valuation	HPI growth	3%	4%	111
					113
					130

Reasonably possible alternative assumptions

Valuation techniques applied to the Group's level 3 instruments involve the use of unobservable inputs. The calculation of the effect of reasonably possible alternative assumptions for those inputs are included in the tables and is unchanged from that described in note 14 to the Group's financial statements for the year ended 31 December 2025.

For each portfolio, the maximum and minimum changes presented reflect the difference between the significant unobservable inputs used in the balance sheet valuation and those used when applying reasonably possible alternative assumptions.

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.

At 30 June 2026	Significant unobservable inputs	Max up	Max down	Favourable changes[1] £m	Unfavourable changes[1] £m
Financial assets at fair value through profit or loss					
Loans and advances to customers	Credit spreads	115bps	(115)bps	5	(5)
	HPI growth	1%	(1)%	11	(10)
Debt securities	Price	10%	(10)%	–	–
Financial liabilities at fair value through profit or loss					
Securitisation notes and other	Credit spreads	50bps	(50)bps	1	(1)
Derivative financial liabilities					
Interest rate derivatives	Interest rate ATM volatility	4bps	(4)bps	–	–
Shared appreciation rights	HPI growth	1%	(1)%	9	(8)

At 31 December 2025	Significant unobservable inputs	Max up	Max down	Favourable changes[1] £m	Unfavourable changes[1] £m
Financial assets at fair value through profit or loss					
Loans and advances to customers	Credit spreads	115bps	(115)bps	5	(5)
	HPI growth	1%	(1)%	14	(12)
Financial liabilities at fair value through profit or loss					
Securitisation notes and other	Credit spreads	50bps	(50)bps	1	(1)
Derivative financial liabilities					
Interest rate derivatives	Interest rate ATM volatility	4bps	(4)bps	–	–
Shared appreciation rights	HPI growth	1%	(1)%	11	(10)

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

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 2026		At 31 December 2025	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Financial assets				
Loans and advances to banks	117	117	121	121
Loans and advances to customers	314,359	312,104	312,855	313,834
Debt securities	680	679	1,041	1,036
Due from fellow Lloyds Banking Group undertakings	30,350	30,350	16,023	16,023
Financial liabilities				
Deposits from banks	109	109	99	99
Customer deposits	164,617	164,796	167,586	168,476
Repurchase agreements	12,969	12,969	10,443	10,443
Due to fellow Lloyds Banking Group undertakings	143,889	143,889	128,036	128,036
Debt securities in issue	9,793	9,783	8,933	8,925
Subordinated liabilities	529	549	1,532	1,552

The carrying amounts of cash and balances at central banks and notes in circulation are a reasonable approximation of their fair values.

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

Note 8: Allowance for expected credit losses

The calculation of the Group's allowance for expected credit losses 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 2025, 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.

	Modelled ECL £m	Individually assessed £m	Judgemental adjustments £m	Total ECL £m
At 30 June 2026	1,262	58	110	1,430
At 31 December 2025	1,312	59	167	1,538

Adjustments to modelled ECL

These adjustments principally comprise:

Repossession risk: £69 million (31 December 2025: £88 million)
Additional ECL continues to be held judgementally to capture the potential repossession and recovery risk from specific subsets of largely long-term defaulted cases. The reduction in the adjustment comes from the reclassification of one part previously needed to set an anticipated longer duration between default and repossession than was observable at the time. Having now seen that elongation emerge and subsequently normalise there is now sufficient observable behaviour to return to a data driven approach.

Adjustment for specific segments: £nil (31 December 2025: £13 million)
An adjustment was previously required to address fire safety and cladding uncertainty as not fully captured through collective models. This adjustment has been fully released as the risk is now deemed immaterial following reduction in exposure to these properties.

Lifetime extension on revolving products: £35 million (31 December 2025: £37 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.

Adjustments to loss given defaults (LGDs): £4 million (31 December 2025: £3 million)
An adjustment is required for a specific segment of the SME portfolio which judgementally applies a more appropriate blended LGD rate from credit risk profile segments more aligned to experience.

Corporate insolvency rates: £(9) million (31 December 2025: £(9) million)
The volume of UK corporate insolvencies continues to exhibit an elevated trend beyond December 2019 levels, revealing a marked misalignment between observed UK corporate insolvencies and the Group's equivalent credit performance. This dislocation gives rise to uncertainty over the drivers of the observed trends in the metric and the appropriateness of the Group's Commercial Banking model response which uses observed UK corporate insolvencies data to anchor future loss estimates to. Given the Group's stable credit performance, a negative adjustment is applied by reverting judgementally to the long-term average of the insolvency rate. The scale of the negative adjustment reduced in the period reflecting the reduction in observed actual UK corporate insolvency rates, narrowing the gap of the misalignment.

Global tariff and political disruption risks: £nil (31 December 2025: £3 million)
An adjustment was previously held to recognise the potential risks to specific drivers across various corporate sectors not reflected in broad macroeconomic model drivers. These were in relation to potential nuanced risks to businesses inherent in the base case which could also worsen in the downside scenarios. This adjustment has been fully released as these risks are considered to be adequately captured within assumptions and resulting modelled provisions.

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

Note 8: Allowance for expected credit losses (continued)

Base case and MES economic assumptions

The Group's base case economic scenario has been updated to reflect ongoing geopolitical developments and conditions in financial and commodity markets through to the balance sheet date. The Group's updated base case scenario has four conditioning assumptions. First, developments in global conflicts, technology or financial sector issues do not cause a significant degree of financial market volatility. Second, a drift towards further deglobalisation and financial market fragmentation continues as part of a reordering of global economic relations, adding to economic frictions. Third, the UK's existing macroeconomic framework for monetary and fiscal policy remains in place, alongside broader continuity on other areas of government policy. Fourth, advancements in AI begin to boost UK productivity growth but worsen the employment outlook in a 'transitional' phase around the turn of the decade.

Based on these assumptions and incorporating the economic data published in the second quarter of 2026, the Group's base case scenario is for a slow expansion in gross domestic product (GDP) and a further rise in the unemployment rate alongside small gains in residential and commercial property prices. Although inflationary pressures attributable to the conflict in the Middle East are yet to peak, UK Bank Rate is expected to remain on hold during 2026, before reaching a 'neutral' policy stance in 2027. Risks around this base case economic view lie in both directions and are largely captured by the generation of alternative economic scenarios.

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 2025. 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 as at the second quarter of 2026. Actuals for this period, or restatements of past data, may have since emerged prior to publication and have not been included.

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 2026 covers the five years 2026 to 2030. 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 8: Allowance for expected credit losses (continued)

At 30 June 2026	2026 %	2027 %	2028 %	2029 %	2030 %	2026 to 2030 average %
Upside						
Gross domestic product growth	1.4	2.4	1.9	1.6	1.6	1.8
Unemployment rate	4.8	3.7	3.1	3.1	3.3	3.6
House price growth	1.8	4.5	7.7	7.5	6.0	5.5
Commercial real estate price growth	3.3	6.6	3.1	2.0	0.7	3.1
UK Bank Rate	3.85	4.79	5.19	5.46	5.65	4.99
CPI inflation	3.1	2.5	2.2	2.7	3.0	2.7
Base case						
Gross domestic product growth	1.0	1.0	1.5	1.6	1.6	1.4
Unemployment rate	5.2	5.4	5.0	4.7	4.7	5.0
House price growth	0.9	1.2	2.0	3.4	3.4	2.2
Commercial real estate price growth	(0.3)	0.0	0.9	0.8	0.0	0.3
UK Bank Rate	3.75	3.63	3.50	3.50	3.50	3.58
CPI inflation	3.1	2.4	1.8	1.8	2.0	2.2
Downside						
Gross domestic product growth	0.6	(1.2)	0.5	1.4	1.7	0.6
Unemployment rate	5.6	7.5	7.7	7.3	7.0	7.0
House price growth	0.0	(2.4)	(5.4)	(3.2)	(1.3)	(2.5)
Commercial real estate price growth	(3.5)	(8.7)	(3.2)	(2.1)	(2.7)	(4.0)
UK Bank Rate	3.65	2.04	1.04	0.71	0.49	1.59
CPI inflation	3.1	2.3	1.2	0.7	0.6	1.6
Severe downside						
Gross domestic product growth	0.1	(3.3)	(0.1)	1.2	1.5	(0.1)
Unemployment rate	6.2	10.1	10.4	9.8	9.3	9.2
House price growth	(1.0)	(5.1)	(12.4)	(9.2)	(6.0)	(6.8)
Commercial real estate price growth	(8.6)	(17.8)	(8.7)	(6.5)	(6.1)	(9.6)
UK Bank Rate	3.49	0.64	0.07	0.02	0.01	0.85
CPI inflation	3.1	2.2	0.6	(0.5)	(1.0)	0.9
Probability-weighted						
Gross domestic product growth	0.9	0.4	1.1	1.5	1.6	1.1
Unemployment rate	5.3	6.0	5.8	5.5	5.4	5.6
House price growth	0.7	0.5	0.0	1.4	1.8	0.9
Commercial real estate price growth	(1.0)	(2.4)	(0.6)	(0.4)	(1.2)	(1.1)
UK Bank Rate	3.72	3.20	2.93	2.90	2.89	3.13
CPI inflation	3.1	2.3	1.6	1.5	1.6	2.0

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

Note 8: Allowance for expected credit losses (continued)

At 31 December 2025	2025 %	2026 %	2027 %	2028 %	2029 %	2025 to 2029 average %
Upside						
Gross domestic product growth	1.4	2.0	2.3	1.6	1.6	1.8
Unemployment rate	4.8	4.2	3.2	3.1	3.2	3.7
House price growth	0.8	3.5	7.1	6.9	6.0	4.8
Commercial real estate price growth	1.2	7.9	4.9	1.7	0.8	3.2
UK Bank Rate	4.13	3.94	4.59	5.07	5.33	4.61
CPI inflation	3.4	2.6	2.4	2.8	3.1	2.9
Base case						
Gross domestic product growth	1.4	1.2	1.4	1.5	1.6	1.4
Unemployment rate	4.8	5.2	4.8	4.6	4.5	4.8
House price growth	0.8	1.6	1.9	2.2	3.1	1.9
Commercial real estate price growth	1.2	0.6	1.7	0.5	0.2	0.9
UK Bank Rate	4.13	3.44	3.25	3.44	3.50	3.55
CPI inflation	3.4	2.6	2.2	2.2	2.3	2.6
Downside						
Gross domestic product growth	1.4	(0.3)	(0.5)	1.1	1.6	0.7
Unemployment rate	4.8	6.6	7.5	7.4	7.0	6.7
House price growth	0.8	(0.2)	(4.7)	(5.7)	(2.8)	(2.6)
Commercial real estate price growth	1.2	(7.1)	(4.2)	(2.7)	(2.3)	(3.1)
UK Bank Rate	4.13	2.74	1.09	0.75	0.52	1.85
CPI inflation	3.4	2.6	2.0	1.4	1.0	2.1
Severe downside						
Gross domestic product growth	1.4	(1.9)	(1.8)	0.7	1.4	0.0
Unemployment rate	4.8	8.3	10.2	9.9	9.4	8.5
House price growth	0.8	(1.2)	(11.1)	(12.2)	(7.8)	(6.5)
Commercial real estate price growth	1.2	(17.4)	(9.8)	(7.4)	(5.4)	(8.0)
UK Bank Rate	4.13	1.91	0.10	0.03	0.01	1.24
CPI inflation	3.4	2.6	1.7	0.5	(0.4)	1.6
Probability-weighted						
Gross domestic product growth	1.4	0.7	0.8	1.3	1.6	1.2
Unemployment rate	4.8	5.6	5.7	5.5	5.4	5.4
House price growth	0.8	1.3	0.2	(0.2)	1.1	0.6
Commercial real estate price growth	1.2	(1.3)	(0.3)	(0.9)	(0.9)	(0.4)
UK Bank Rate	4.13	3.23	2.69	2.78	2.81	3.13
CPI inflation	3.4	2.6	2.2	2.0	1.9	2.4

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

Note 8: 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 2026	First quarter 2026 %	Second quarter 2026 %	Third quarter 2026 %	Fourth quarter 2026 %	First quarter 2027 %	Second quarter 2027 %	Third quarter 2027 %	Fourth quarter 2027 %
Gross domestic product growth	0.6	0.1	0.1	0.2	0.3	0.3	0.3	0.3
Unemployment rate	5.0	5.0	5.2	5.4	5.5	5.4	5.3	5.2
House price growth	0.8	0.5	0.3	0.9	0.6	1.2	1.4	1.2
Commercial real estate price growth	0.8	0.3	(0.2)	(0.3)	(0.3)	(0.2)	(0.1)	0.0
UK Bank Rate	3.75	3.75	3.75	3.75	3.75	3.75	3.50	3.50
CPI inflation	3.1	2.8	3.0	3.3	2.9	2.5	2.0	1.9

At 31 December 2025	First quarter 2025 %	Second quarter 2025 %	Third quarter 2025 %	Fourth quarter 2025 %	First quarter 2026 %	Second quarter 2026 %	Third quarter 2026 %	Fourth quarter 2026 %
Gross domestic product growth	0.7	0.3	0.1	0.3	0.3	0.3	0.4	0.4
Unemployment rate	4.5	4.7	5.0	5.1	5.3	5.3	5.2	5.1
House price growth	2.9	2.7	1.3	0.8	1.3	1.6	1.6	1.6
Commercial real estate price growth	2.5	2.6	2.6	1.2	0.5	0.2	0.1	0.6
UK Bank Rate	4.50	4.25	4.00	3.75	3.75	3.50	3.25	3.25
CPI inflation	2.8	3.5	3.8	3.7	3.3	2.6	2.2	2.2

ECL sensitivity to economic assumptions

The following table shows the Group's ECL for the probability-weighted, upside, base case, downside and severe downside scenarios. The stage allocation for an asset is based on the overall probability-weighted probability of default and hence the staging of assets is constant across all the scenarios. In each economic scenario the ECL for individual assessments is held constant reflecting the basis on which they are evaluated. Judgemental adjustments applied through changes to model inputs or parameters, or more qualitative post model adjustments, are apportioned across the scenarios in proportion to modelled ECL where this better reflects the sensitivity of these adjustments to each scenario. The probability-weighted view shows the extent to which a higher ECL allowance has been recognised to take account of multiple economic scenarios relative to the base case; the uplift being £199 million compared to £228 million at 31 December 2025.

ECL allowance	Probability-weighted £m	Upside £m	Base case £m	Downside £m	Severe downside £m
At 30 June 2026	1,430	997	1,231	1,663	2,631
At 31 December 2025	1,538	1,074	1,310	1,802	2,822

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

Note 8: Allowance for expected credit losses (continued)

Movement in expected credit loss allowance

	Half-year to 30 June 2026 £m	Half-year to 30 June 2025 £m	Half-year to 31 December 2025 £m
Opening ECL at start of period	1,538	1,883	1,598
Write-offs and other	(359)	(345)	(254)
Income statement charge	251	60	194
Net ECL decrease	(108)	(285)	(60)
Closing ECL at end of period	1,430	1,598	1,538

Note 9: Debt securities in issue

	At 30 June 2026			At 31 December 2025		
	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	–	6,767	6,767	–	5,698	5,698
Securitisation notes	17	3,026	3,043	17	3,235	3,252
	17	9,793	9,810	17	8,933	8,950

Securitisation programmes

The Group's securitisation vehicles issue notes that are held both externally and internally, and are secured on loans and advances to customers amounting to £27,224 million at 30 June 2026 (31 December 2025: £25,662 million), the majority of which have been sold 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.

Cash deposits of £1,057 million (31 December 2025: £1,070 million) which support the debt securities issued by the structured entities, the term advances related to legal obligations, are held by the Group.

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

Note 10: Provisions

	Provisions for financial commitments and guarantees[1] £m	Regulatory and legal provisions £m	Other £m	Total £m
At 1 January 2026	91	228	89	408
Exchange and other adjustments	1	–	(6)	(5)
Provisions applied	–	(41)	(42)	(83)
(Credit) charge for the period	(3)	13	32	42
At 30 June 2026	89	200	73	362

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, employment, business conduct, systems and controls, environmental, sustainability, competition/anti-trust, tax, anti-bribery, anti-money laundering and sanctions). Any matters discussed or identified during such discussions and inquiries may result in, among other things, further inquiry or investigation, other action being taken by governmental and/or regulatory authorities, increased costs being incurred by the Group, remediation of systems and controls, public or private censure, restriction of the Group's business activities and/or fines. The Group also receives complaints and pre-action correspondence in connection with its past conduct and claims brought or threatened 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 or regulatory actions from time to time. Any such events or circumstances 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 2026 the Group charged a further £13 million in respect of legal actions and other regulatory matters and the unutilised balance at 30 June 2026 was £200 million (31 December 2025: £228 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.

All of the population have now had an initial decision, with a small number of the populations' challenges to the Panel's initial decision ongoing through the published process, with operational costs, redress and tax costs associated with the re-reviews recognised within the amount provided.

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

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

Note 10: Provisions (continued)

Payment protection insurance (PPI)

The Group continues to receive and challenge PPI litigation cases, with mainly operational costs and legal fees associated with litigation activity (including via bulk claims forms) recognised within regulatory and legal provisions.

Note 11: Subordinated liabilities

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

	Total £m
At 1 January 2025	1,533
Issued during the period	–
Repurchases and redemptions during the period	–
Foreign exchange movements	–
Other movements (cash and non-cash)	(1)
At 30 June 2025	1,532
Issued during the period	–
Repurchases and redemptions during the period	–
Foreign exchange movements	–
Other movements (cash and non-cash)	–
At 31 December 2025	1,532
Issued during the period	–
Repurchases and redemptions during the period	(1,000)
Foreign exchange movements	–
Other movements (cash and non-cash)	(3)
At 30 June 2026	529

Note 12: Dividends on ordinary shares

The Bank paid a dividend of £480 million on 16 February 2026 (£250 million in the half-year to 30 June 2025).

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

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 2026 £m	At 31 Dec 2025 £m
Assets, included within:		
Derivative financial instruments	1,684	1,878
Financial assets at amortised cost: due from fellow Lloyds Banking Group undertakings	30,350	16,023
Liabilities, included within:		
Due to fellow Lloyds Banking Group undertakings	143,889	128,036
Derivative financial instruments	1,720	2,702
Debt securities in issue	6,549	5,449
Subordinated liabilities	501	1,503

During the half-year to 30 June 2026 the Group earned £481 million (half-year to 30 June 2025: £430 million) of interest income and incurred £3,189 million (half-year to 30 June 2025: £2,932 million) of interest expense and recognised net fee and commission income of £11 million (half-year to 30 June 2025: net fee and commission income of £17 million) on balances and transactions with Lloyds Banking Group plc and fellow Lloyds Banking Group undertakings.

In addition, during the half-year to 30 June 2026 the Group incurred expenditure of £93 million (half-year ended 30 June 2025: £61 million) on behalf of fellow Lloyds Banking Group undertakings which was recharged to those undertakings; and fellow Lloyds Banking Group undertakings incurred expenditure of £923 million (half-year ended 30 June 2025: £909 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 2026 are similar in nature to those for the year ended 31 December 2025.

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

Note 14: Contingent liabilities, commitments and guarantees

Contingent liabilities, commitments and guarantees

At 30 June 2026 contingent liabilities, such as performance bonds and letters of credit, arising from the banking business were £93 million (31 December 2025: £133 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 financial guarantees were £66,156 million (31 December 2025: £63,919 million), of which in respect of undrawn formal standby facilities, credit lines and other commitments to lend, £21,049 million (31 December 2025: £18,752 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 or any settlements of such litigation. However, the Group is a member/licensee of Visa and Mastercard and other card schemes.

Litigation has been 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 final judgment of the Supreme Court in 2020 that certain historic interchange arrangements of Mastercard and Visa infringed competition law and a subsequent judgment of the Competition Appeal Tribunal in June 2025 finding that all default interchange fee rules of Mastercard and Visa (including after the Interchange Fee Regulation) infringed competition law.

Separate litigation was brought on behalf of UK consumers in the English Courts against Mastercard (settlement of which was approved by the Competition Appeal Tribunal in the first half of 2025).

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 as the amount of cash consideration received by the Lloyds Banking Group in 2016 for the sale of its stake in Visa Europe.

LIBOR and other trading rates

Certain Lloyds Banking Group companies, together with other panel banks, were previously named as defendants in private lawsuits 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 Group company dismissals from these lawsuits remain subject to appeal.

A Lloyds Banking Group entity is also named as a defendant in a Dutch class action, raising LIBOR manipulation allegations and one English claim relating to the alleged mis-sale of interest rate hedging products which also includes an allegation of LIBOR manipulation.

It is currently not possible to predict the scope and ultimate outcome on the Lloyds Banking Group of any private lawsuits. As such, it is not practicable to provide an estimate of any potential financial effect.

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

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

Tax authorities

The Group has an open matter in relation to a claim for group relief of losses incurred in its former Irish banking subsidiary, which ceased trading on 31 December 2010. In 2020, HMRC concluded its enquiry into the matter and issued a closure notice denying the group relief claim. The Group appealed to the First Tier Tax Tribunal. The hearing took place in May 2023. In January 2025, the First Tier Tribunal concluded in favour of HMRC. The Group believes it has applied the rules correctly and that the claim for group relief is correct. Having reviewed the Tribunal's conclusions and having taken appropriate advice the Group has appealed to the Upper Tier Tax Tribunal, and does not consider this to be a case where an additional tax liability will ultimately fall due. If the final determination of the matter by the judicial process is that HMRC's position is correct, management believes that this would result in an increase in current tax liabilities of the Group of approximately £195 million (including interest). Following the First Tier Tax Tribunal outcome, the tax has been paid to HMRC and recognised as a current tax asset, given the Group's view that the tax liability will not ultimately fall due. The appeal has been listed for hearing in March 2027, however final conclusion of the judicial process may not be for several years.

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

Arena and Sentinel litigation claims

The Group is facing claims brought by (i) Arena Television Limited and Arena Holdings Limited and (ii) Sentinel Broadcast Limited, alleging breach of duty and/or mandate in connection with an external fraud. The Group is continuing to defend the claims, which are now proceeding to trial expected in October 2028. At this stage, it is not practicable to estimate the final outcome of the matter or its financial impact (if any) to 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 actions) brought by or on behalf of current or former employees, customers (including their appointed representatives), investors or other third parties, as well as legal and regulatory reviews, enquiries and examinations, requests for information, audits, challenges, investigations and enforcement actions, which could relate to a number of issues. This includes matters in relation to compliance with applicable laws and regulations, such as those relating to prudential regulation, employment, consumer protection, investment advice, business conduct, systems and controls, environmental, sustainability, competition/anti-trust, tax, anti-bribery, anti-money laundering and sanctions, some of which may be beyond the Group's control, both in the UK and overseas. Where material, such matters are periodically reassessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of the Group incurring a liability. The Group does not currently expect the final outcome of any such case to have a material adverse effect on its financial position, operations or cash flows. Where there is a contingent liability related to an existing provision the relevant disclosures are included within note 10.

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 the United Kingdom's Financial Conduct Authority's Disclosure Guidance and Transparency Rules, 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 2026 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 2026 and any material changes in the related party transactions described in the last annual report

Signed on behalf of the Board by

Charlie Nunn

Charlie Nunn
Group Chief Executive
29 July 2026

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
Catherine Woods
Nathan Bostock
Chris Vogelzang
Danuta Gray

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 (including in relation to tariffs); imposed and threatened tariffs and changes to global trade policies; acts of hostility or terrorism and responses to those acts, or other such events; geopolitical unpredictability; the war between Russia and Ukraine; the escalation of conflicts in the Middle East; the tensions between China and Taiwan; political instability including as a result of any UK general election; market related risks, trends and developments; changes in client and consumer behaviour and demand; exposure to counterparty risk; the ability to access sufficient sources of capital, liquidity and funding when required; changes to the Group's credit ratings; fluctuations in interest rates, inflation, exchange rates, stock markets and currencies; volatility in credit markets; volatility in the price of the Group's securities; natural pandemic and other disasters; risks concerning borrower and counterparty credit quality; risks affecting defined benefit pension schemes; changes in laws, regulations, practices and accounting standards or taxation; changes to regulatory capital or liquidity requirements and similar contingencies; the policies and actions of governmental or regulatory authorities or courts together with any resulting impact on the future structure of the Group; risks associated with the Group's compliance with a wide range of laws and regulations; assessment related to resolution planning requirements; risks related to regulatory actions which may be taken in the event of a bank or Group failure; exposure to legal, regulatory or competition proceedings, investigations or complaints; failure to comply with anti-money laundering, counter terrorist financing, anti-bribery and sanctions regulations; failure to prevent or detect any illegal or improper activities; operational risks including risks as a result of the failure of third party suppliers; conduct risk; risks related to new and emerging technologies, including artificial intelligence; technological changes and risks to the security of IT and operational infrastructure, systems, data and information resulting from increased threat of cyber and other attacks; technological failure; inadequate or failed internal or external processes or systems; risks relating to ESG matters, such as climate change (and achieving climate change ambitions) and decarbonisation, including the Group's ability along with the government and other stakeholders to measure, manage and mitigate the impacts of climate change effectively, and human rights issues; the impact of competitive conditions; failure to attract, retain and develop high calibre talent; the ability to achieve strategic objectives; the ability to derive cost savings and other benefits including, but without limitation, as a result of any acquisitions, disposals and other strategic transactions; inability to capture accurately the expected value from acquisitions; and assumptions and estimates that form the basis of the Group's financial statements. A number of these influences and factors are beyond the Group's control. Please refer to the latest Annual Report on Form 20-F filed by Lloyds Banking Group plc with the US Securities and Exchange Commission (the SEC), which is available on the SEC's website at www.sec.gov, for a discussion of certain factors and risks. Lloyds Banking Group plc may also make or disclose written and/or oral forward-looking statements in other written materials and in oral statements made by the directors, officers or employees of Lloyds Banking Group plc to third parties, including financial analysts. Except as required by any applicable law or regulation, the forward-looking statements contained in this document are made as of today's date, and the Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained in this document whether as a result of new information, future events or otherwise. The information, statements and opinions contained in this document do not constitute a public offer under any applicable law or an offer to sell any securities or financial instruments or any advice or recommendation with respect to such securities or financial instruments.

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