Bank of Scotland plc

Q1 2022
Pillar 3 Disclosures

31 March 2022

BASIS OF PREPARATION

This report presents the interim Pillar 3 disclosures of Bank of Scotland plc ('the Bank') as at 31 March 2022.

The disclosures have been prepared in accordance with the Disclosure Part of the PRA Rulebook which includes revised disclosure requirements applicable from 1 January 2022 following the UK implementation of the remaining provisions of Capital Requirements Regulation II.

Specific Pillar 3 templates are required to be disclosed on a quarterly basis and these are included within this report with the following exceptions:

– Template CCR7 (RWA flow statements of CCR exposures under the IMM) is not applicable to the Bank.
– Template MR2-B (RWA flow statements of Market risk exposures under an IMA) is not material inline with CRR article 432.
– Templates LIQ1 and LIQB (Liquidity requirements); Liquidity is managed at a DoLSub level, refer to the Lloyds Bank plc Q1 2022 Pillar 3 disclosures for further information.

The information presented in this Pillar 3 report is not required to be, and has not been, subject to external audit.

FORWARD LOOKING STATEMENTS

This document contains certain forward looking statements within the meaning of Section 21E of the US Securities Exchange Act of 1934, as amended, and section 27A of the US Securities Act of 1933, as amended, with respect to the business, strategy, plans and/or results of Bank of Scotland plc together with its subsidiaries (the Group) and its current goals and expectations. Statements that are not historical or current facts, including statements about the Group's or its directors' and/or management's beliefs and expectations, are forward looking statements. Words such as, without limitation, 'believes', 'achieves', 'anticipates', 'estimates', 'expects', 'targets', 'should', 'intends', 'aims', 'projects', 'plans', 'potential', 'will', 'would', 'could', 'considered', 'likely', 'may', 'seek', 'estimate', 'probability', 'goal', 'objective', 'deliver', 'endeavour', 'prospects', 'optimistic' and similar expressions or variations on these expressions are intended to identify forward looking statements. These statements concern or may affect future matters, including but not limited to: projections or expectations of the Group's future financial position, including profit attributable to shareholders, provisions, economic profit, dividends, capital structure, portfolios, net interest margin, capital ratios, liquidity, risk-weighted assets (RWAs), expenditures or any other financial items or ratios; litigation, regulatory and governmental investigations; the Group's future financial performance; the level and extent of future impairments and write-downs; the Group's ESG targets and/or commitments; statements of plans, objectives or goals of the Group or its management and other statements that are not historical fact; expectations about the impact of COVID-19; and statements of assumptions underlying such statements. By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend upon circumstances that will or may occur in the future. Factors that could cause actual business, strategy, plans and/or results (including but not limited to the payment of dividends) to differ materially from forward looking statements include, but are not limited to: general economic and business conditions in the UK and internationally; market related risks, trends and developments; risks concerning borrower and counterparty credit quality; fluctuations in interest rates, inflation, exchange rates, stock markets and currencies; volatility in credit markets; volatility in the price of our securities; any impact of the transition from IBORs to alternative reference rates; the ability to access sufficient sources of capital, liquidity and funding when required; changes to the Group's credit ratings; the ability to derive cost savings and other benefits including, but without limitation, as a result of any acquisitions, disposals and other strategic transactions; inability to capture accurately the expected value from acquisitions; potential changes in dividend policy; the ability to achieve strategic objectives; insurance risks; management and monitoring of conduct risk; exposure to counterparty risk; credit rating risk; tightening of monetary policy in jurisdictions in which the Group operates; instability in the global financial markets, including within the Eurozone, and as a result of ongoing uncertainty following the exit by the UK from the European Union (EU) and the effects of the EU-UK Trade and Cooperation Agreement; political instability including as a result of any UK general election and any further possible referendum on Scottish independence; operational risks; conduct risk; technological changes and risks to the security of IT and operational infrastructure, systems, data and information resulting from increased threat of cyber and other attacks; natural pandemic (including but not limited to the COVID-19 pandemic) and other disasters; inadequate or failed internal or external processes or systems; acts of hostility or terrorism and responses to those acts, or other such events; geopolitical unpredictability; the war between Russia and Ukraine; risks relating to sustainability and climate change (and achieving climate change ambitions), including the Group's ability along with the government and other stakeholders to measure, manage and mitigate the impacts of climate change effectively; changes in laws, regulations, practices and accounting standards or taxation; changes to regulatory capital or liquidity requirements and similar contingencies; assessment related to resolution planning requirements; the policies and actions of governmental or regulatory authorities or courts together with any resulting impact on the future structure of the Group; failure to comply with anti-money laundering, counter terrorist financing, anti-bribery and sanctions regulations; failure to prevent or detect any illegal or improper activities; projected employee numbers and key person risk; increased labour costs; assumptions and estimates that form the basis of our financial statements; the impact of competitive conditions; and exposure to legal, regulatory or competition proceedings, investigations or complaints. A number of these influences and factors are beyond the Group's control. Please refer to the latest Annual Report on Form 20-F filed by Lloyds Bank plc with the US Securities and Exchange Commission (the SEC), which is available on the SEC's website at www.sec.gov, for a discussion of certain factors and risks. Lloyds Banking Group plc may also make or disclose written and/or oral forward-looking statements in other written materials and in oral statements made by the directors, officers or employees of Lloyds Banking Group plc to third parties, including financial analysts. Except as required by any applicable law or regulation, the forward-looking statements contained in this document are made as of today's date, and the Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statements contained in this document whether as a result of new information, future events or otherwise. 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.

TABLE OF CONTENTS

Overview of risk weighted exposure amounts

OV1: Overview of risk-weighted assets

		Total RWA		Total own funds requirements
		31 Mar 2022	31 Dec 2021[1]	31 Mar 2022
		£m	£m	£m
1	**Credit risk (excluding CCR)[1]**	**62,646**	51,329	**5,012**
2	Of which the standardised approach[1]	4,736	4,803	379
3	Of which the foundation IRB (FIRB) approach	2,176	2,193	174
4	Of which slotting approach	1,194	1,283	96
UK 4a	Of which equities under the simple risk weighted approach[1]	214	214	17
5	Of which the advanced IRB (AIRB) approach	53,242	41,636	4,259
	Of which: non-credit obligation assets[2]	1,083	1,199	87
6	**Counterparty credit risk - CCR**	**512**	379	**41**
7	Of which the standardised approach	410	—	33
	Of which: marked to market	—	333	—
UK 8b	Of which credit valuation adjustment - CVA	102	46	8
16	**Securitisation exposures in the non-trading book (after the cap)**	**358**	357	**29**
18	Of which SEC-ERBA (including IAA)	358	357	29
20	**Position, foreign exchange and commodities risks (Market risk)**	**54**	254	**4**
21	Of which the standardised approach	—	182	—
22	Of which IMA	54	72	4
23	**Operational risk**	**8,488**	8,488	**679**
UK 23b	Of which standardised approach	8,488	8,488	679
24	**Amounts below the thresholds for deduction (subject to 250% risk weight) (For information)[1]**	611	628	49
29	**Total**	**72,057**	60,807	**5,765**
	Pillar 2A capital requirement			1,511
	Total capital requirement			**7,276**

1 Restated in accordance with revised OV1 template requirements: threshold balances now reported through relevant underlying category.

2 Non-credit obligation assets (IRB approach) predominately relate to other balance sheet assets that have no associated credit risk.

IRB Approach to Credit Risk

The table below summarises the movements of risk-weighted assets for credit risk exposures under the Internal Ratings Based (IRB) Approach. The table excludes counterparty credit risk exposures, securitisation exposures, other non-credit obligation assets and equity exposures.

CR8: Risk-weighted assets flow statements of credit risk exposures - year to 31 March 2022

		Total RWA	Total own funds requirements
		£m	£m
1	**Risk weighted exposure amount as at 31 Dec 2021**	**45,112**	**3,609**
2	Asset size (+/-)	305	24
3	Asset quality (+/-)	(751)	(60)
4	Model updates (+/-)	—	—
5	Methodology and policy (+/-)	11,943	955
6	Acquisitions and disposals (+/-)	—	—
7	Foreign exchange movements (+/-)	3	—
8	Other (+/-)	—	—
9	**Risk weighted exposure amount as at 31 Mar 2022**	**56,612**	**4,529**

Key movements

– Asset quality decrease driven by retail model calibrations.

– Methodology and policy changes primarily reflect increase in risk-weighted assets due to the implementation (via the application of temporary model adjustments) of new CRD IV models to meet revised regulatory standards for modelled outputs.