

Bank of Scotland plc

Q1 2023
Pillar 3 Disclosures

31 March 2023

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BASIS OF PREPARATION

This report presents the interim Pillar 3 disclosures of Bank of Scotland plc ('the Bank') as at 31 March 2023.

The disclosures have been prepared in accordance with the Disclosure Part of the PRA Rulebook.

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

Abbreviation	Template name	Reason for exclusion
CCR7	RWA flow statements of CCR exposures under the IMM	Not applicable to the Bank
LIQ1	Quantitative information of LCR	Liquidity is managed at a DoLSub level, refer to the Lloyds Bank plc Q1 2023 Pillar 3 disclosures for further information.
LIQB	Qualitative information on LCR, which complements template LIQ1	

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; political instability including as a result of any UK general election and any further possible referendum on Scottish independence; acts of hostility or terrorism and responses to those acts, or other such events; geopolitical unpredictability; the war between Russia and Ukraine; the tensions between China and Taiwan; market related risks, trends and developments; exposure to counterparty risk; instability in the global financial markets, including within the Eurozone, and as a result of the exit by the UK from the European Union (EU) and the effects of the EU-UK Trade and Cooperation Agreement; the ability to access sufficient sources of capital, liquidity and funding when required; changes to the Group's credit ratings; fluctuations in interest rates, inflation, exchange rates, stock markets and currencies; volatility in credit markets; volatility in the price of the Group's securities; tightening of monetary policy in jurisdictions in which the Group operates; natural pandemic (including but not limited to the COVID-19 pandemic) and other disasters; risks concerning borrower and counterparty credit quality; longevity risks affecting defined benefit pension schemes; risks related to the uncertainty surrounding the integrity and continued existence of reference rates; changes in laws, regulations, practices and accounting standards or taxation; changes to regulatory capital or liquidity requirements and similar contingencies; the policies and actions of governmental or regulatory authorities or courts together with any resulting impact on the future structure of the Group; risks associated with the Group's compliance with a wide range of laws and regulations; assessment related to resolution planning requirements; risks related to regulatory actions which may be taken in the event of a bank or Group failure; exposure to legal, regulatory or competition proceedings, investigations or complaints; failure to comply with anti-money laundering, counter terrorist financing, anti-bribery and sanctions regulations; failure to prevent or detect any illegal or improper activities; operational risks; conduct risk; technological changes and risks to the security of IT and operational infrastructure, systems, data and information resulting from increased threat of cyber and other attacks; technological failure; inadequate or failed internal or external processes or systems; risks relating to ESG matters, such as climate change (and achieving climate change ambitions), including the Group's ability along with the government and other stakeholders to measure, manage and mitigate the impacts of climate change effectively, and human rights issues; the impact of competitive conditions; failure to attract, retain and develop high calibre talent; the ability to achieve strategic objectives; the ability to derive cost savings and other benefits including, but without limitation, as a result of any acquisitions, disposals and other strategic transactions; inability to capture accurately the expected value from acquisitions; assumptions and estimates that form the basis of the Group's financial statements; and potential changes in dividend policy. A number of these influences and factors are beyond the control of the Group or any of the Group's immediate or ultimate parent entities (if applicable). Please refer to the latest Annual Report on Form 20-F filed by Lloyds Bank plc with the US Securities and Exchange Commission (the SEC), which is available on the SEC's website at www.sec.gov, 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.

Executive Summary

Leverage Summary

		31 Mar 2023 ¹	31 Dec 2022	30 Jun 2022
Leverage ratio				
1	Total exposure measure excluding claims on central banks (£m)	301,900	300,175	299,860
2	Leverage ratio excluding claims on central banks (%)	4.6 %	4.5 %	4.1 %
Additional leverage ratio disclosure requirements				
3	Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)	4.6 %	4.4 %	4.1 %
4	Leverage ratio including claims on central banks (%)	4.6 %	4.4 %	4.1 %
5	Average leverage ratio excluding claims on central banks (%) ¹	4.6 %		
6	Average leverage ratio including claims on central banks (%) ¹	4.6 %		
7	Countercyclical leverage ratio buffer (%)	0.3%		

1 The average leverage exposure measure (excluding claims on central banks) for the period from 1 January 2023 to 31 March 2023 amounted to £300,855 million.

Leverage

The Bank's UK leverage ratio increased to 4.6 per cent (31 December 2022: 4.5 per cent), reflecting an increase in total Tier 1 capital, largely driven by the issuance of a new AT1 capital instrument and an increase in CET1 capital. This was partially offset by the increase in the leverage exposure measure, reflecting an increase in balance sheet assets.

OV1: Overview of risk-weighted assets

	Total RWA		Total own funds requirements
	31 Mar 2023	31 Dec 2022	31 Mar 2023
	£m	£m	£m
1 Credit risk (excluding CCR)	65,119	64,546	5,210
2 Of which the standardised approach	4,011	4,307	321
3 Of which the foundation IRB (FIRB) approach	1,542	1,522	123
4 Of which slotting approach	1,051	1,082	84
UK 4a Of which equities under the simple risk weighted approach	2,868	2,834	229
5 Of which the advanced IRB (AIRB) approach	54,645	53,771	4,372
Of which: non-credit obligation assets	1,002	1,029	80
6 Counterparty credit risk - CCR	231	268	18
7 Of which the standardised approach	177	191	14
UK 8b Of which credit valuation adjustment - CVA	54	77	4
16 Securitisation exposures in the non-trading book (after the cap)	1,207	463	96
17 Of which SEC-IRBA approach	751	—	60
18 Of which SEC-ERBA approach (including IAA)	456	463	36
20 Position, foreign exchange and commodities risks (Market risk)	131	56	11
22 Of which IMA	131	56	11
UK 22a Large exposures	—	—	—
23 Operational risk	7,750	7,751	620
UK 23b Of which standardised approach	7,750	7,751	620
24 Memo: Amounts below the thresholds for deduction (subject to 250% risk weight) (For information)	3,270	3,190	262
29 Total	74,438	73,084	5,955
Pillar 2A capital requirement ²			1,395
Total capital requirement			7,350

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

2 As at 31 March 2023, the Pillar 2A capital requirement was around 1.9 per cent of risk-weighted assets, of which around 1.1 per cent was to be met with CET1 capital.

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 - 3 months to 31 March 2023

	Total RWA £m
1 Risk weighted exposure amount as at 31 Dec 2022	56,375
2 Asset size (+/-)	33
3 Asset quality (+/-)	261
5 Methodology and policy (+/-)	572
7 Foreign exchange movements (+/-)	(3)
9 Risk weighted exposure amount as at 31 Mar 2023	57,238

Key movements

- Asset quality movement driven by increases in Retail Mortgages partly offset by decreases in unsecured products.
- Methodology and policy increase reflects a reallocation of existing CRDIV related temporary model adjustments within the Ring Fenced Bank. This reallocation was driven by the impact of the disposal of legacy mortgages.