

Bank of Scotland plc

Q3 2023

Pillar 3 Disclosures

30 September 2023

Table of contents

Basis of preparation	2
Key metric and overview of risk weighted exposure amounts	
Leverage Summary	3
OVI Overview of risk-weighted exposure amounts	3
Credit risk	
CR8 Risk-weighted assets movements by key driver	4
Forward-looking statements	5

Basis of preparation

This report presents the interim Pillar 3 disclosures of Bank of Scotland plc ('the Bank') as at 30 September 2023.

These disclosures have been prepared in accordance with the Disclosure section of the PRA Rulebook. Pillar 3 templates required to be disclosed on a quarterly basis that have not been included in this report are listed in the table below along with the reason for exclusion.

PRA reference	Template name	Reason for exclusion
CCR7	RWA flow statements of CCR exposures under the IMM	Not applicable to the Bank
MR2-B	RWA flow statements of market risk exposures under the IMA	Not applicable to the Bank
LIQ1	Quantitative information of LCR	Liquidity is managed at a DoLSub level, refer to the Lloyds Bank plc Q3 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.

Key metric and overview of risk weighted exposure amounts

Leverage summary

	30 Sep 2023	30 Jun 2023	31 Mar 2023	31 Dec 2022
Leverage ratio				
1 Total exposure measure excluding claims on central banks (£m)	302,548	302,175	301,900	300,175
2 Leverage ratio excluding claims on central banks (%)	4.5%	4.6%	4.6%	4.5%
Additional leverage ratio disclosure requirements				
3 Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)	4.5%	4.6%	4.6%	4.4%
4 Leverage ratio including claims on central banks (%)	4.4%	4.5%	4.6%	4.4%
5 Average leverage ratio excluding claims on central banks (%) ¹	4.5%	4.6%	4.6%	
6 Average leverage ratio including claims on central banks (%)	4.5%	4.6%	4.6%	
7 Countercyclical leverage ratio buffer (%)	0.7%	0.3%	0.3%	

¹ The average leverage exposure measure (excluding claims on central banks) for the period from 1 July 2023 to 30 September 2023 amounted to £302,242 million.

Leverage

The Bank's UK leverage ratio remained flat at 4.5 per cent (31 December 2022: 4.5 per cent) with the increase in total Tier 1 capital offset by an increase in the leverage exposure measure, reflecting balance sheet asset increases.

OVI: Overview of risk-weighted assets

		Total RWA		Total own funds requirements
		30 Sep 2023	31 Dec 2022	30 Sep 2023
		£m	£m	£m
1	Credit risk (excluding CCR)	69,373	64,546	5,550
2	Of which the standardised approach	3,906	4,307	313
3	Of which the foundation IRB (FIRB) approach	1,565	1,522	125
4	Of which slotting approach	928	1,082	74
UK 4a	Of which equities under the simple risk weighted approach	2,770	2,835	222
5	Of which the advanced IRB (AIRB) approach	59,216	53,771	4,737
	Of which: non-credit obligation assets ¹	988	1,029	79
6	Counterparty credit risk (CCR)	142	268	11
7	Of which the standardised approach	98	191	8
UK 8b	Of which credit valuation adjustment (CVA)	44	77	3
16	Securitisation exposures in the non-trading book (after the cap)	1,002	463	80
17	Of which SEC-IRBA approach	556	–	44
18	Of which SEC-ERBA approach (including IAA)	446	463	36
20	Position, foreign exchange and commodities risks (Market risk)	72	56	6
21	Of which the standardised approach	72		6
22	Of which IMA	–	56	–
23	Operational risk	7,980	7,751	638
UK 23b	Of which standardised approach	7,980	7,751	638
24	Memo: Amounts below the thresholds for deduction (subject to 250% risk weight)	3,110	3,190	249
29	Total	78,569	73,084	6,285
	Pillar 2A capital requirement ²			1,471
	Total capital requirement			7,756

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

² As at 30 September 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.

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

		Total RWA quarter to 30 Sept 2023	Total RWA YTD 30 Sept 2023
		£m	£m
1	Risk weighted exposure amount as at the end of previous reporting period	60,604	56,375
2	Asset size (+/-)	115	352
3	Asset quality (+/-)	986	1,472
5	Methodology and policy (+/-)	1	3,580
7	Foreign exchange movements (+/-)	3	(5)
8	Other (+/-)	–	(65)
9	Risk weighted exposure amount at the end of the reporting period	61,709	61,709

Key movements 30 June to 30 September 2023

- Asset size movement predominantly driven by growth in our unsecured Retail portfolio.
- Asset quality movement predominantly driven by our Retail mortgage portfolio.

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.