Scotiabank Europe plc

Capital and Risk Management

Pillar 3 Disclosures for the half year ended 30 April 2022

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1. Overview

1.1 Background

Scotiabank Europe plc (the “Company” or “SBE” or “Bank”) is subject to legislation issued by the UK government which seeks to stabilise and strengthen the UK financial system by ensuring that firms, including the Company, hold adequate capital to meet the potential impact of the risks to which they are exposed. As part of this capital adequacy regime, firms are required to publicly disclose specified information (so-called “Pillar 3 disclosures”) to enable market participants to understand how a firm implements the applicable legislation. This should include an explanation of how it identifies and quantifies the risks to which it is exposed together with details of how much capital it holds in respect of these risks.

These disclosures are made for no other purpose and should not be relied upon in making any financial or investment decision.

The Company is authorised by the UK Prudential Regulation Authority (“PRA”) and regulated by the PRA and the UK Financial Conduct Authority (“FCA”). The PRA receives information on capital adequacy from, and sets certain capital requirements for, the Company.

1.2 Scope

These Pillar 3 disclosures are prepared on an unconsolidated/ individual basis. SBE’s total assets were above EUR30 billion at 30 April 2022 and so is required to disclose key metrics on a semi-annual basis.

1.3 Presentation of information

The disclosures contained in this document cover the qualitative and quantitative disclosure requirements of Pillar 3, set out in the PRA Rulebook Chapter Disclosure (CRR) and are based on data as at 30 April 2022 with comparative figures for 31 October 2021 and 30 April 2021 where relevant.

The Liquidity Coverage Ratio (“LCR”) reported as at 30 April 2022 is prepared as a 12-month average whilst the Net Stable Funding Ratio (“NSFR”) as at 30 April 2022 is prepared on a spot basis. From 1 January 2023, NSFR disclosures will be calculated as an average of the preceding four quarters as per the PRA’s guidance which came in effect on 1 January 2022.

2. Key Regulatory Metrics

The table below summarises the key regulatory metrics as at 30 April 2022.

UK KM1 - Key metrics[1]	**Apr-22 USD 000**	**Oct-21 USD 000**	**Apr-21 USD 000**
Available own funds (amounts)			
Common Equity Tier 1 (CET1) capital	1,762,408	1,767,644	1,766,578
Tier 1 capital	1,762,408	1,767,644	1,766,578
Total capital	1,762,408	1,767,644	1,766,578
Risk-weighted exposure amounts			
Total risk-weighted exposure amount	4,196,149	6,093,905	6,517,122
Capital ratios (as a percentage of risk-weighted exposure amount)			
Common Equity Tier 1 ratio (%)	42.00%	29.01%	27.11%
Tier 1 ratio (%)	42.00%	29.01%	27.11%
Total capital ratio (%)	42.00%	29.01%	27.11%
Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)			
Additional CET1 SREP requirements (%)	1.51%	1.50%	1.49%
Additional AT1 SREP requirements (%)	0.50%	0.50%	0.50%
Additional T2 SREP requirements (%)	0.67%	0.66%	0.66%
Total SREP own funds requirements (%)	10.68%	10.66%	10.66%
Combined buffer requirement (as a percentage of risk-weighted exposure amount)			
Capital conservation buffer (%)	2.50%	2.50%	2.50%
Institution specific countercyclical capital buffer (%)	0.02%	0.02%	0.02%
Combined buffer requirement (%)	2.52%	2.52%	2.52%
Overall capital requirements (%)	13.20%	13.18%	13.17%
CET1 available after meeting the total SREP own funds requirements (%)	35.99%	23.01%	21.11%
Leverage ratio[2]			
Total exposure measure excluding claims on central banks	36,466,502	34,693,415	32,529,907
Leverage ratio excluding claims on central banks (%)	4.83%	5.10%	5.43%
Liquidity Coverage Ratio[3]			
Total high-quality liquid assets (HQLA) (Weighted value -average)	2,530,836	2,426,239	2,540,493
Cash outflows - Total weighted value	2,402,039	1,973,890	2,183,622
Cash inflows - Total weighted value	1,463,680	1,022,695	1,121,688
Total net cash outflows (adjusted value)	938,359	951,195	1,061,934
Liquidity coverage ratio (%)	284.00%	271.00%	254.00%
Net Stable Funding Ratio[3]			
Total available stable funding	4,447,720		
Total required stable funding	2,278,907		
NSFR ratio (%)	195.17%		

1. Above table based on Template UK KM1 [PRA Rulebook Disclosure ("CRR")] excluding not applicable rows
2. 2021 Comparatives include claims on Central Banks as the rule to exclude only applied from 1 January 2022
3. LCR presented using 12-month average whereas NSFR presented on a spot basis

Strong capital position

The Company is well capitalised and maintains a strong capital base to support the development of the business and to ensure that the Company meets the Total Supervisory Review and Evaluation Process (“SREP”) own funds requirements and Combined Buffer requirements at all times.

Movements in the capital and leverage metrics in the period

As at 30 April 2022, the Common Equity Tier 1 (“CET1”) capital was $1.76 billion (October 2021: $1.77 billion). The CET1 ratio was 42.00%, up compared to 29.01% as at 31 October 2021, mainly due to reduction in Risk Weighted Assets (“RWAs”). RWAs were $4.2 billion (October 2021: $6.1 billion), decrease of $1.9 billion largely driven by a reduction in credit risk as a result of a decrease in the Corporate Banking loan book. Corporate Banking loan exposures are materially lower than the previous financial year due to the new booking model which has led to all refinanced facilities issued from the Bank of Nova Scotia London Branch.

As at 30 April 2022 the Leverage Ratio was 4.83%, down compared to 5.10% as at 31 October 2021 but remained well in excess of the PRA expectation for firms not in scope of the leverage ratio minimum capital requirement and buffers, who should manage their leverage risk so that their leverage ratio does not ordinarily fall below 3.25%. The reduction in the Leverage Ratio was mainly due to an increase in the Fixed Income balance sheet that was partly offset by the exclusion of central bank reserves following the change in Leverage Ratio Exposure calculation that applied from 1 January 2022.

SBE has retained the surplus capital resulting from reduction in risk weighted assets in order to ensure that it continues to meet the PRA Leverage Ratio expectations and the Large Exposure limits requirements.

Movements in the liquidity and funding metrics in the period

The Company manages both the Liquidity Coverage Ratio (“LCR”) and the Net Stable Funding Ratio (“NSFR”), which applied from 1 January 2022, above 100% minimum regulatory requirements at all times.

The 12-month average LCR was 284% (October 2021: 271%). This was mainly due to a $0.1 billion increase in 12-month average high-quality liquid assets (HQLA).

The NSFR was 195.17% as at 30 April 2022.