

Benchmark Factsheet



Sterling Overnight Index Average – (SONIA)

This document must be read in conjunction with the respective *Product Summary*

What is SONIA?

SONIA is an interest rate benchmark – also known as a reference rate or a benchmark rate. It is based on the terms of actual overnight transactions and so the rate is largely unaffected by bank credit risk. It is the near risk-free rate (“RFR”) for sterling markets. SONIA was introduced in 1997 and reformed in April 2018. Since 2016 it has been calculated and administered by the Bank of England. The rate for a given London business day is published at 9am on the following London business day.

SONIA is the Bank of England-initiated Working Group on Sterling Risk-Free Reference Rates’ preferred benchmark for the transition to sterling risk-free rates from LIBOR.

Differences between SONIA and LIBOR

1. SONIA is described as a risk-free, or near risk-free, rate as unlike LIBOR it does not contain material term risk or bank credit risk.
2. SONIA is an overnight rate which is published in arrears. In contrast LIBOR is a term rate which is published at the start of the relevant interest period. This means that for products referencing SONIA, unless adjustments are made to the methodology, the actual amount of interest payable is not known until the end of the agreed interest period.

How is SONIA calculated?

SONIA is a weighted average rate (rounded to four-decimal places) of interest rates paid on certain eligible sterling denominated deposit transactions.

Eligible transactions are categorised as those which are:

- Unsecured,
- One business day maturity which are executed between 00:00 hours and 18:00 hours UK time and settled the same day, and
- Equal to or greater than GBP25million in value.

Features to consider

Interest for SONIA products may be payable for periods longer than overnight (e.g. monthly, quarterly), so the daily SONIA rate will be aggregated in order to determine the effective interest rate that will apply for the relevant interest period.

As RFRs are overnight rates, the interest due for the respective period will not be known until the end of the interest period i.e. on the actual payment date. Bank of Scotland has adopted a number of possible conventions to address this uncertainty. These are explained below.

Please note: The effective interest rate for a period will not be known at the start of that period.

Conventions for interest calculation

Where Bank of Scotland uses SONIA the rate of interest is calculated on a compounded basis (that is, interest is calculated daily on both the notional and any interest already accrued).

As the interest rate for a period is calculated in arrears, the last piece of data for the calculation will only be available at the end of the interest period. This may present operational difficulties in making timely payments, as amounts due will not be known until the actual payment date.

Bank of Scotland provides a range of different conventions and calculation methods, for example observation lag, sometimes called lookback, or payment delay (such as 2 days or 5 days). Interest rate quoting conventions continue to evolve as the market develops and consequently there may not be an exact match for certain structure or derivative types. However the expectation is that, in most circumstances, the difference in floating rate calculated between these various conventions is likely to be minimal.

Bank of Scotland is able to structure derivatives to accommodate different conventions. SONIA loans provided by Bank of Scotland on a bilateral basis have the floating interest rate calculated by compounding SONIA on a daily basis with a 5 London business day 'lookback'. This is consistent with conventions established in bond markets and used in early RFR loan products. Using this convention, you will receive a communication of the interest payable 4 London business days before the payment date.

You should ensure that you understand the requirements of the convention applicable to your transaction. More information about the calculation conventions referenced in this factsheet is available in our [RFR Floating Rate Conventions Factsheet](#). If you have any questions please contact your Bank of Scotland representative, or for further information refer to the links below.

It is important for all parties to a transaction to understand:

- **The calculation method that will be used to determine the aggregate rate of interest**
- **When the floating interest rate for a given period will be known**

Further Information

- <https://www.bankofengland.co.uk/markets/sonia-benchmark/administration-of-sonia>
- <https://www.bankofengland.co.uk/markets/sonia-benchmark>
- <https://www.bankofengland.co.uk/-/media/boe/files/markets/benchmarks/discussion-paper-conventions-for-referencing-sonia-in-new-contracts.pdf>

Disclaimer: This document has been prepared by Bank of Scotland for information purposes only. This document describes the product and summarises the risks and benefits associated with entering into a transaction of this nature or making an investment of this nature. Whilst Bank of Scotland has exercised reasonable care in preparing this document and any views or information expressed or presented are based on sources it believes to be accurate and reliable, no representation or warranty, express or implied, is made as to the accuracy, reliability or completeness of the information contained herein. If you receive information from us which is inconsistent with other information which you have received from us, you should refer this to your Bank of Scotland Sales representative for clarification. Bank of Scotland acts solely in a principal capacity. Not all products or transactions will fulfil your requirements. You should be aware that any product or transaction which you enter into with us is, in the absence of any written agreement to the contrary, on the basis that you are able to make your own independent assessment and decision as to your requirements and whether that product or transaction fulfils those requirements. Your decision will be based on your own knowledge and experience and any professional advice which you may have sought in relation to the financial, legal, regulatory, tax or accounting aspects of the proposed product or transaction. Lloyds Banking Group plc and its subsidiaries may participate in benchmarks in any one or more of the following capacities; as administrator, submitter or user. Benchmarks may be referenced by Lloyds Banking Group plc for internal purposes or used to reference products, services or transactions which we provide or carry out with you. No assurance is provided that a referenced interest rate benchmark will continue to exist throughout the term of any proposed transaction, or that changes will not occur with respect to the administration of such interest rate benchmark. More information about Lloyds Banking Group plc's participation in benchmarks is set out in the Benchmark Transparency Statement which is available on our [website](#).

Bank of Scotland is a trading name of Bank of Scotland plc. Bank of Scotland plc's registered office is at The Mound, Edinburgh EH1 1YZ. Registered in Scotland no. SC327000. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority under registration number 169628. Eligible deposits with us are protected by the Financial Services Compensation Scheme (FSCS). We are covered by the Financial Ombudsman Service (FOS). Please note that due to FSCS and FOS eligibility criteria not all Business customers will be covered.