

BANK OF SCOTLAND plc

2021 Year-End
Pillar 3 Disclosures

31 December 2021

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 and its current goals and expectations. Statements that are not historical or current facts, including statements about Bank of Scotland plc'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 Bank of Scotland plc'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; Bank of Scotland plc's future financial performance; the level and extent of future impairments and write-downs; Bank of Scotland plc's ESG targets and/or commitments; statements of plans, objectives or goals of Bank of Scotland plc 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 Bank of Scotland plc's or Lloyds Banking Group plc'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 Bank of Scotland plc 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; risks relating to sustainability and climate change (and achieving climate change ambitions), including Bank of Scotland plc and/or Lloyds Banking Group plc'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 Bank of Scotland plc; 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 control of Bank of Scotland plc or Lloyds Banking Group plc. 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 Bank of Scotland plc 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.

BASIS OF PREPARATION

This document presents the Pillar 3 disclosures of Bank of Scotland plc (the 'Bank') as at 31 December 2021.

Under UK law, EU capital rules that existed on 31 December 2020 (including applicable Pillar 3 disclosure requirements) continue to apply to the Bank following the end of the transition period for the UK's withdrawal from the European Union, subject to the temporary transitional powers (TTP) granted to the Prudential Regulation Authority (PRA) which extend until 31 March 2022. The Bank continues to therefore apply the regulatory framework defined by the Capital Requirements Directive and Regulation (CRD IV), as amended by revisions to the Capital Requirements Directive implemented in December 2020 (CRD V) and by those provisions of the revised Capital Requirements Regulation (CRR II) that came into force in June 2019 and December 2020. The requirements are implemented in the UK by the PRA and supplemented through additional regulation under the PRA Rulebook and associated statements of policy, supervisory statements and other guidance.

The Bank's Pillar 3 disclosures have therefore been prepared in accordance with the requirements of CRD IV, as amended, and associated European Banking Authority (EBA) guidelines and technical standards that were in force on 31 December 2020. Specifically, these disclosures are provided in fulfilment of the applicable large subsidiary disclosure requirements under Article 13 'Application of disclosure requirements on a consolidated basis' of CRR II.

As of 1 January 2022, UK Pillar 3 disclosure requirements are now set out under the new Disclosure Part of the PRA Rulebook. This includes revised disclosure requirements that apply from the same date and which reflect the UK implementation of the remaining provisions of CRR II which are broadly aligned to the equivalent revisions that have already come into force under the EU version of CRR II.

The disclosures should be read in conjunction with both the Bank of Scotland plc Report and Accounts 2021 and the Lloyds Banking Group plc 2021 Year-End Pillar 3 Disclosures, standalone copies of which are located on the Lloyds Banking Group plc website (www.lloydsbankinggroup.com/investors/financial-downloads/).

A number of significant differences exist between accounting disclosures published in accordance with International Financial Reporting Standards (IFRS) and Pillar 3 disclosures published in accordance with capital regulations, which prevent direct comparison in a number of areas. These include the definition of credit risk exposure and the recognition, classification and valuation of capital instruments. Further details are included within the Lloyds Banking Group plc 2021 Year-End Pillar 3 Disclosures.

The minimum Pillar 1 capital requirements referred to in this document are calculated as 8 per cent of aggregated risk-weighted assets.

The Bank applies the full extent of the IFRS 9 transitional arrangements for capital as set out under CRR Article 473a (as amended via the CRR 'Quick Fix' revisions published in June 2020). Specifically, the Bank has opted to apply both paragraphs 2 and 4 of CRR Article 473a (static and dynamic relief) and in addition to apply a 100 per cent risk weight to the consequential Standardised credit risk exposure add-back as permitted under paragraph 7a of the revisions.

To ensure compliance with both CRR requirements and subsequent European Banking Authority guidelines, credit risk exposures are presented on different bases throughout this report. Each of the credit risk tables clearly state the basis that has been applied.

A description of the main features of common equity tier 1 (CET1), additional tier 1 (AT1) and tier 2 (T2) instruments issued by Lloyds Banking Group plc (the ultimate parent company) and its significant subsidiaries (including Bank of Scotland plc) are included in a separate document on the Lloyds Banking Group website located at www.lloydsbankinggroup.com/investors/financial-downloads. In addition, the report identifies and provides a description of the main features of those instruments that are recognised as eligible MREL in accordance with the Bank of England's MREL framework.

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

| | | |
|--|--|----|
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KEY METRICS

KM1: Key metrics and a comparison of own funds and capital and leverage ratios with and without the application of transitional arrangements for IFRS 9 (IFRS9-FL)¹

| | At 31 Dec 2021 | At 30 Jun 2021 | At 31 Dec 2020 |
|---|-------------------|-------------------|-------------------|
| Available capital (amounts)² | | | |
| 1 Common Equity Tier 1 (CET1) (£m) | 9,540 | 9,660 | 9,510 |
| 2 CET1 capital as if IFRS 9 transitional arrangements had not been applied (£m) | 9,141 | 9,079 | 8,700 |
| 3 Tier 1 (£m) | 11,762 | 11,880 | 11,731 |
| 4 Tier 1 capital as if IFRS 9 transitional arrangements had not been applied (£m) | 11,363 | 11,299 | 10,921 |
| 5 Total capital (£m) | 13,259 | 13,161 | 13,577 |
| 6 Total capital as if IFRS 9 transitional arrangements had not been applied (£m) | 13,143 | 13,032 | 13,134 |
| Risk-weighted assets (amounts)² | | | |
| 7 Total risk-weighted assets (£m) | 60,807 | 62,489 | 61,304 |
| 8 Total risk-weighted assets as if IFRS 9 transitional arrangements had not been applied (£m) | 60,887 | 62,569 | 61,376 |
| Risk-based capital ratios as a percentage of RWA² | | | |
| 9 Common Equity Tier 1 ratio (%) | 15.7% | 15.5% | 15.5% |
| 10 CET1 ratio as if IFRS 9 transitional arrangements had not been applied (%) | 15.0% | 14.5% | 14.2% |
| 11 Tier 1 ratio (%) | 19.3% | 19.0% | 19.1% |
| 12 Tier 1 ratio as if IFRS 9 transitional arrangements had not been applied (%) | 18.7% | 18.1% | 17.8% |
| 13 Total capital ratio (%) | 21.8% | 21.1% | 22.1% |
| 14 Total capital ratio as if IFRS 9 transitional arrangements had not been applied (%) | 21.6% | 20.8% | 21.4% |
| CRD IV leverage ratio³ | | | |
| 15 CRD IV leverage ratio exposure measure (£m) | 310,184 | 307,600 | 298,230 |
| 16 CRD IV leverage ratio (%) | 3.8% | 3.9% | 3.9% |
| 17 CRD IV leverage ratio as if IFRS 9 transitional arrangements had not been applied (%) | 3.7% | 3.7% | 3.7% |

1 The Bank applies the full extent of the IFRS 9 transitional arrangements for capital as set out under CRR Article 473a (as amended via the CRR 'Quick Fix' revisions published in June 2020). Specifically, the Bank has opted to apply both paragraphs 2 and 4 of CRR Article 473a (static and dynamic relief) and in addition to apply a 100 per cent risk weight to the consequential Standardised credit risk exposure add-back as permitted under paragraph 7a of the revisions. As at 31 December 2021, static relief (including 'locked' dynamic relief recognised prior to 1 January 2020) under the transitional arrangements amounted to £146 million (31 December 2020: £204 million) and dynamic relief (from 1 January 2020) under the transitional arrangements amounted to £253 million (31 December 2020: £606 million), through CET1 capital.

2 CRD IV transitional capital basis.

3 CRD IV fully loaded capital basis.

RISK-WEIGHTED ASSETS AND PILLAR 1 CAPITAL REQUIREMENTS**OV1: Overview of risk-weighted assets**

| | 31 Dec 2021 | 31 Dec 2020 | 31 Dec 2021 | 31 Dec 2020 |
|--|-------------|-------------|------------------------------|------------------------------|
| | RWA | RWA | Minimum capital requirements | Minimum capital requirements |
| | £m | £m | £m | £m |
| 1 Credit risk (excluding counterparty credit risk) | 50,701 | 50,492 | 4,056 | 4,039 |
| 2 Of which: standardised approach | 4,389 | 5,815 | 351 | 465 |
| 3 Of which: the foundation rating-based (FIRB) approach | 2,193 | 2,674 | 175 | 214 |
| 4 Of which: the retail IRB (RIRB) approach | 41,636 | 39,137 | 3,331 | 3,131 |
| Of which: corporates – specialised lending ¹ | 1,283 | 1,571 | 103 | 126 |
| Of which: non-credit obligation assets ² | 1,199 | 1,295 | 96 | 104 |
| 6 Counterparty credit risk | 379 | 573 | 30 | 46 |
| 7 Of which: marked to market | 333 | 473 | 27 | 38 |
| 12 Of which: credit valuation adjustment (CVA) | 46 | 100 | 4 | 8 |
| 13 Settlement risk | — | — | — | — |
| 14 Securitisation exposures in banking book | 357 | 663 | 29 | 53 |
| Of which: external ratings based approach | 357 | 663 | 29 | 53 |
| 19 Market risk | 254 | 220 | 20 | 18 |
| 20 Of which: standardised approach | 182 | 157 | 15 | 13 |
| 21 Of which: internal model approaches | 72 | 63 | 6 | 5 |
| 22 Large exposures | — | — | — | — |
| 23 Operational risk | 8,488 | 8,801 | 679 | 704 |
| 25 Of which: standardised approach | 8,488 | 8,801 | 679 | 704 |
| 27 Amounts below the thresholds for deduction (subject to 250% risk weight) | 628 | 555 | 50 | 44 |
| 28 Floor adjustment | — | — | — | — |
| 29 Total | 60,807 | 61,304 | 4,865 | 4,904 |
| Pillar 2A capital requirement | | | 1,511 | 1,912 |
| Total capital requirement | | | 6,376 | 6,816 |

1 Exposures subject to supervisory slotting.

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

ANALYSIS OF CREDIT RISK EXPOSURES**CRB-B: Total and average net amount of exposure**

The following table shows the Group's credit exposures split by Basel exposure class, together with associated risk-weighted assets and average risk weight.

| | 31 Dec 2021 | | | | | |
|--|-----------------------------------|------------------------------------|---------------------------------------|-------------------------------|--|-----------------------------|
| | EAD pre CRM and post CCF £m | EAD post CRM and post CCF £m | Average credit risk exposure £m | Risk-weighted assets £m | Minimum capital requirements £m | Average risk weight % |
| Institutions | 2,092 | 2,114 | 2,295 | 157 | 13 | 7% |
| Corporates | 5,734 | 5,553 | 6,264 | 3,319 | 266 | 60% |
| of which: Specialised lending | 1,712 | 1,681 | 1,857 | 1,283 | 103 | 76% |
| of which: SMEs | 1,017 | 883 | 1,316 | 491 | 39 | 56% |
| Retail | 308,817 | 308,266 | 301,369 | 41,636 | 3,331 | 14% |
| Secured by real estate property | 283,419 | 283,419 | 275,561 | 31,915 | 2,553 | 11% |
| Non-SMEs | 283,419 | 283,419 | 275,561 | 31,915 | 2,553 | 11% |
| Qualifying revolving | 21,503 | 20,952 | 21,888 | 5,505 | 440 | 26% |
| Other retail | 3,895 | 3,895 | 3,919 | 4,216 | 337 | 108% |
| Non-SMEs | 3,895 | 3,895 | 3,919 | 4,216 | 337 | 108% |
| Non-credit obligation assets ¹ | 3,356 | 3,356 | 3,332 | 1,199 | 96 | 36% |
| Total IRB approach | 319,999 | 319,289 | 313,259 | 46,312 | 3,705 | 15% |
| Central governments or central banks | 1,044 | 2,195 | 901 | — | — | — |
| Regional governments or local authorities | — | — | 12 | — | — | — |
| Public sector entities | — | — | 8 | — | — | — |
| Institutions ² | 15,364 | 15,364 | 15,844 | 6 | — | — |
| Corporates | 6,000 | 5,953 | 10,914 | 804 | 64 | 14% |
| of which: SMEs | 706 | 659 | 787 | 525 | 42 | 80% |
| Retail | 2,359 | 1,509 | 2,460 | 984 | 79 | 65% |
| of which: SMEs | 1,679 | 829 | 1,262 | 474 | 38 | 57% |
| Secured by mortgages on immovable property | 4,147 | 4,146 | 4,451 | 1,489 | 119 | 36% |
| of which: SMEs | 107 | 107 | 42 | 74 | 6 | 69% |
| Exposures in default | 923 | 827 | 843 | 902 | 72 | 109% |
| Other exposures ¹ | 243 | 243 | 266 | 204 | 16 | 84% |
| Total standardised approach | 30,080 | 30,236 | 35,699 | 4,389 | 351 | 15% |
| Total | 350,079 | 349,525 | 348,958 | 50,701 | 4,056 | 15% |

31 Dec 2020

| | EAD pre CRM and post CCF £m | EAD post CRM and post CCF £m | Average credit risk exposure £m | Risk-weighted assets £m | Minimum capital requirements £m | Average risk weight % |
|--|-----------------------------------|------------------------------------|---------------------------------------|-------------------------------|--|-----------------------------|
| Institutions | 2,478 | 2,478 | 2,728 | 211 | 17 | 9% |
| Corporates | 6,637 | 6,478 | 6,383 | 4,034 | 323 | 62% |
| of which: Specialised lending | 2,027 | 2,027 | 2,029 | 1,571 | 126 | 78% |
| of which: SMEs | 1,459 | 1,325 | 1,287 | 845 | 68 | 64% |
| Retail | 292,390 | 291,025 | 280,897 | 39,137 | 3,131 | 13% |
| Secured by real estate property | 266,125 | 266,125 | 254,794 | 29,500 | 2,360 | 11% |
| Non-SMEs | 266,125 | 266,125 | 254,794 | 29,500 | 2,360 | 11% |
| Qualifying revolving | 22,317 | 20,952 | 22,091 | 5,508 | 441 | 26% |
| Other retail | 3,949 | 3,949 | 4,012 | 4,130 | 330 | 105% |
| Non-SMEs | 3,949 | 3,949 | 4,012 | 4,130 | 330 | 105% |
| Non-credit obligation assets ¹ | 3,353 | 3,353 | 3,399 | 1,295 | 104 | 39% |
| Total IRB approach | 304,858 | 303,334 | 293,406 | 44,677 | 3,574 | 15% |
| Central governments or central banks | 782 | 2,066 | 831 | — | — | — |
| Regional governments or local authorities | 1 | 1 | 1 | — | — | — |
| Public sector entities | 1 | 1 | 2 | 1 | — | 100% |
| Institutions ² | 18,960 | 18,960 | 76,582 | 19 | 1 | — |
| Corporates | 14,700 | 14,458 | 14,249 | 2,045 | 164 | 14% |
| of which: SMEs | 893 | 851 | 957 | 716 | 57 | 84% |
| Retail | 2,446 | 1,524 | 1,882 | 983 | 79 | 65% |
| of which: SMEs | 931 | 931 | 1,071 | 538 | 43 | 58% |
| Secured by mortgages on immovable property | 4,762 | 4,762 | 5,140 | 1,667 | 133 | 35% |
| of which: SMEs | — | — | — | — | — | — |
| Exposures in default | 790 | 788 | 816 | 841 | 67 | 107% |
| Other exposures ¹ | 299 | 299 | 368 | 259 | 21 | 87% |
| Total standardised approach | 42,742 | 42,858 | 99,871 | 5,815 | 465 | 14% |
| Total | 347,600 | 346,192 | 393,277 | 50,492 | 4,039 | 15% |

1 Non-credit obligation assets (IRB approach) and other exposures (Standardised approach) predominantly relate to other balance sheet assets that have no associated credit risk. These comprise various non-financial assets, including fixed assets, cash, items in the course of collection, prepayments and sundry debtors.

2 Includes exposures to other entities within the same regulatory core group receiving a 0% risk-weight.

CRB-C: Geographical breakdown of exposures

Credit risk exposures as at 31 December 2021, analysed by geographical region, based on country of residence/incorporation of the customers, are provided in the table below. Exposures are presented on a pre CRM and post CCF basis.

| | 31 Dec 2021 | | | | | |
|--|----------------------|----------------------|-----------------------------------|--------------------|-------------|----------------|
| | United Kingdom £m | Rest of Europe £m | United States of America £m | Asia-Pacific £m | Other £m | Total £m |
| Institutions | 2,052 | 35 | 4 | — | — | 2,092 |
| Corporates | 5,370 | 346 | — | 3 | 15 | 5,734 |
| of which: Specialised lending | 1,405 | 295 | — | 3 | 8 | 1,712 |
| of which: SMEs | 1,016 | 1 | — | — | — | 1,017 |
| Retail | 308,817 | — | — | — | — | 308,817 |
| Secured by real estate property | 283,419 | — | — | — | — | 283,419 |
| Non-SMEs | 283,419 | — | — | — | — | 283,419 |
| Qualifying revolving | 21,503 | — | — | — | — | 21,503 |
| Other retail | 3,895 | — | — | — | — | 3,895 |
| Non-SMEs | 3,895 | — | — | — | — | 3,895 |
| Non-credit obligation assets | 3,356 | — | — | — | — | 3,356 |
| Total IRB approach | 319,595 | 381 | 5 | 3 | 16 | 319,999 |
| Central governments or central banks | 1,044 | — | — | — | — | 1,044 |
| Regional governments or local authorities | — | — | — | — | — | — |
| Public sector entities | — | — | — | — | — | — |
| Institutions | 15,364 | — | — | — | — | 15,364 |
| Corporates | 5,994 | 3 | — | — | 3 | 6,000 |
| Retail | 2,353 | 3 | 1 | — | 2 | 2,359 |
| Secured by mortgages on immovable property | 4,145 | 2 | — | — | — | 4,147 |
| Exposures in default | 511 | — | — | — | 412 | 923 |
| Other exposures | 243 | — | — | — | — | 243 |
| Total standardised approach | 29,654 | 7 | 1 | 1 | 416 | 30,080 |
| Total | 349,249 | 388 | 5 | 4 | 432 | 350,079 |

31 Dec 2020

| | United Kingdom £m | Rest of Europe £m | United States of America £m | Asia-Pacific £m | Other £m | Total £m |
|--|----------------------|----------------------|-----------------------------------|--------------------|-------------|----------------|
| Institutions | 2,422 | 55 | — | — | — | 2,478 |
| Corporates | 6,362 | 229 | — | — | 45 | 6,637 |
| of which: Specialised lending | 1,843 | 138 | — | — | 45 | 2,027 |
| of which: SMEs | 1,436 | 23 | — | — | — | 1,459 |
| Retail | 292,390 | — | — | — | — | 292,390 |
| Secured by real estate property | 266,125 | — | — | — | — | 266,125 |
| Non-SMEs | 266,125 | — | — | — | — | 266,125 |
| Qualifying revolving | 22,317 | — | — | — | — | 22,317 |
| Other retail | 3,949 | — | — | — | — | 3,949 |
| Non-SMEs | 3,949 | — | — | — | — | 3,949 |
| Non-credit obligation assets | 3,353 | — | — | — | — | 3,353 |
| Total IRB approach | 304,527 | 285 | — | — | 46 | 304,858 |
| Central governments or central banks | 782 | — | — | — | — | 782 |
| Regional governments or local authorities | 1 | — | — | — | — | 1 |
| Public sector entities | 1 | — | — | — | — | 1 |
| Institutions | 18,960 | — | — | — | — | 18,960 |
| Corporates | 14,176 | 473 | — | 1 | 49 | 14,700 |
| Retail | 2,442 | 1 | 1 | — | 2 | 2,446 |
| Secured by mortgages on immovable property | 4,762 | — | — | — | — | 4,762 |
| Exposures in default | 394 | — | — | — | 395 | 790 |
| Other exposures | 299 | — | — | — | — | 299 |
| Total standardised approach | 41,819 | 474 | 1 | 1 | 446 | 42,742 |
| Total | 346,346 | 759 | 1 | 1 | 492 | 347,600 |

CRB-D: Concentration of exposures by industry

Credit risk exposures as at 31 December 2021, analysed by major industrial sector, are provided in the table below. Exposures are presented on a pre CRM and post CCF basis.

| | 31 Dec 2021 | | | | | | | | | | | |
|--|------------------------------------|-------------------------|---------------|--------------|------------------------------------|------------------|--------------------|--|---------------------|-----------------|---------------|----------------|
| | Agriculture, forestry and fishing" | Energy and water supply | Manufacturing | Construction | Transport, distribution and hotels | Postal and comms | Property companies | Financial, business and other services | Personal: mortgages | Personal: other | Hire purchase | Total |
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| Institutions | — | — | — | — | — | — | — | 2,092 | — | — | — | 2,092 |
| Corporates | 14 | 94 | 450 | 819 | 1,066 | 121 | 2,703 | 468 | — | — | — | 5,734 |
| of which: Specialised lending | — | 24 | 10 | 146 | 69 | — | 1,422 | 41 | — | — | — | 1,712 |
| of which: SMEs | 12 | 6 | 86 | 126 | 335 | 10 | 294 | 148 | — | — | — | 1,017 |
| Retail | — | — | — | — | — | — | — | — | 283,419 | 25,398 | — | 308,817 |
| Secured by real estate property | — | — | — | — | — | — | — | — | 283,419 | — | — | 283,419 |
| Non-SMEs | — | — | — | — | — | — | — | — | 283,419 | — | — | 283,419 |
| Qualifying revolving | — | — | — | — | — | — | — | — | — | 21,503 | — | 21,503 |
| Other retail | — | — | — | — | — | — | — | — | — | 3,895 | — | 3,895 |
| Non-SMEs | — | — | — | — | — | — | — | — | — | 3,895 | — | 3,895 |
| Non-credit obligation assets | — | — | — | — | — | — | — | — | — | — | — | 3,356 |
| Total IRB approach | 14 | 94 | 450 | 819 | 1,066 | 121 | 2,703 | 2,560 | 283,419 | 25,398 | — | 319,999 |
| Central governments or central banks | — | — | — | — | — | — | — | 1,044 | — | — | — | 1,044 |
| Regional governments or local authorities | — | — | — | — | — | — | — | — | — | — | — | — |
| Public sector entities | — | — | — | — | — | — | — | — | — | — | — | — |
| Institutions | — | — | — | — | — | — | — | 15,364 | — | — | — | 15,364 |
| Corporates | 306 | 13 | 22 | 8 | 177 | 10 | 63 | 5,214 | — | 186 | 1 | 6,000 |
| Retail | 224 | 7 | 98 | 190 | 452 | 32 | 261 | 414 | — | 439 | 242 | 2,359 |
| Secured by mortgages on immovable property | 38 | — | 2 | — | 16 | — | 38 | 16 | 4,037 | — | — | 4,147 |
| Exposures in default | 33 | 1 | 7 | 26 | 481 | 3 | 24 | 45 | 249 | 53 | 1 | 923 |
| Other exposures | — | — | — | — | — | — | — | — | — | — | — | 243 |
| Total standardised approach | 601 | 22 | 128 | 224 | 1,125 | 45 | 386 | 22,097 | 4,286 | 678 | 244 | 30,080 |
| Total | 616 | 116 | 578 | 1,043 | 2,191 | 166 | 3,089 | 24,656 | 287,704 | 26,077 | 244 | 350,079 |

31 Dec 2020

| | Agriculture, forestry and fishing | Energy and water supply | Manufacturing | Construction | Transport, distribution and hotels | Postal and comms | Property companies | Financial, business and other services | Personal: mortgages | Personal: other | Hire purchase | Total |
|--|---|----------------------------|---------------|--------------|--|---------------------|-----------------------|---|------------------------|--------------------|---------------|----------------|
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| Institutions | — | — | — | — | — | — | — | 2,478 | — | — | — | 2,478 |
| Corporates | 17 | 12 | 497 | 925 | 1,237 | 2 | 3,255 | 686 | — | 7 | — | 6,637 |
| of which: Specialised lending | — | 9 | — | 18 | 80 | — | 1,823 | 97 | — | — | — | 2,027 |
| of which: SMEs | 11 | 3 | 260 | 84 | 429 | 1 | 330 | 341 | — | — | — | 1,459 |
| Retail | — | — | — | — | — | — | — | — | 266,125 | 26,266 | — | 292,390 |
| Secured by real estate property | — | — | — | — | — | — | — | — | 266,125 | — | — | 266,125 |
| Non-SMEs | — | — | — | — | — | — | — | — | 266,125 | — | — | 266,125 |
| Qualifying revolving | — | — | — | — | — | — | — | — | — | 22,317 | — | 22,317 |
| Other retail | — | — | — | — | — | — | — | — | — | 3,949 | — | 3,949 |
| Non-SMEs | — | — | — | — | — | — | — | — | — | 3,949 | — | 3,949 |
| Non-credit obligation assets | | | | | | | | | | | | 3,353 |
| Total IRB approach | 17 | 12 | 497 | 925 | 1,237 | 2 | 3,255 | 3,163 | 266,125 | 26,272 | — | 304,858 |
| Central governments or central banks | — | — | — | — | — | — | — | 782 | — | — | — | 782 |
| Regional governments or local authorities | — | — | — | — | — | — | — | 1 | — | — | — | 1 |
| Public sector entities | — | — | — | — | — | — | — | 1 | — | — | — | 1 |
| Institutions | — | — | — | — | — | — | — | 18,960 | — | — | — | 18,960 |
| Corporates | 346 | 13 | 107 | 106 | 345 | — | 279 | 13,318 | — | 183 | 2 | 14,700 |
| Retail | 264 | 5 | 31 | 45 | 174 | 2 | 201 | 1,131 | — | 420 | 173 | 2,446 |
| Secured by mortgages on immovable property | — | — | — | — | — | — | — | — | 4,762 | — | — | 4,762 |
| Exposures in default | 10 | — | 4 | 4 | 417 | — | 11 | 6 | 272 | 65 | — | 790 |
| Other exposures | | | | | | | | | | | | 299 |
| Total standardised approach | 620 | 18 | 142 | 155 | 936 | 2 | 490 | 34,201 | 5,034 | 669 | 175 | 42,742 |
| Total | 637 | 30 | 639 | 1,081 | 2,173 | 4 | 3,745 | 37,364 | 271,159 | 26,941 | 175 | 347,600 |

CRB-E: Maturity of exposures

Credit risk exposures at 31 December 2021, analysed by residual maturity, are provided in the table below. Exposures are presented on a pre CRM and post CCF basis.

| | 31 Dec 2021 | | | | | | 31 Dec 2020 | | | | | |
|--|--------------------|---------------|------------------------|----------------|-----------------------|----------------|--------------------|---------------|------------------------|----------------|-----------------------|----------------|
| | Net exposure value | | | | | | Net exposure value | | | | | |
| | On demand | <= 1 year | > 1 year <= 5 years | > 5 years | No stated maturity | Total | On demand | <= 1 year | > 1 year <= 5 years | > 5 years | No stated maturity | Total |
| £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | |
| Institutions | — | 400 | 1,558 | 134 | — | 2,092 | — | 281 | 1,782 | 414 | — | 2,478 |
| Corporates | 140 | 1,080 | 2,873 | 1,641 | — | 5,734 | 101 | 1,413 | 2,834 | 2,290 | — | 6,637 |
| of which: Specialised lending | 3 | 174 | 901 | 634 | — | 1,712 | 43 | 275 | 849 | 860 | — | 2,027 |
| of which: SMEs | 24 | 106 | 550 | 337 | — | 1,017 | 3 | 257 | 631 | 568 | — | 1,459 |
| Retail | 23,068 | 18,348 | 14,337 | 253,064 | — | 308,817 | 23,511 | 20,289 | 14,651 | 233,940 | — | 292,390 |
| Secured by real estate property | 1,565 | 17,720 | 11,318 | 252,816 | — | 283,419 | 1,193 | 19,687 | 11,569 | 233,675 | — | 266,125 |
| Non-SMEs | 1,565 | 17,720 | 11,318 | 252,816 | — | 283,419 | 1,193 | 19,687 | 11,569 | 233,675 | — | 266,125 |
| Qualifying revolving | 21,503 | — | — | — | — | 21,503 | 22,317 | — | — | — | — | 22,317 |
| Other retail | — | 628 | 3,019 | 248 | — | 3,895 | — | 601 | 3,082 | 265 | — | 3,949 |
| Non-SMEs | — | 628 | 3,019 | 248 | — | 3,895 | — | 601 | 3,082 | 265 | — | 3,949 |
| Non-credit obligation assets | 851 | — | — | — | 2,505 | 3,356 | 703 | — | — | — | 2,650 | 3,353 |
| Total IRB approach | 24,059 | 19,828 | 18,768 | 254,839 | 2,505 | 319,999 | 24,314 | 21,982 | 19,267 | 236,644 | 2,650 | 304,858 |
| Central governments or central banks | — | 1,044 | — | — | — | 1,044 | — | 782 | — | — | — | 782 |
| Regional governments or local authorities | — | — | — | — | — | — | — | — | — | 1 | — | 1 |
| Public sector entities | — | — | — | — | — | — | — | — | — | 1 | — | 1 |
| Institutions | 10,853 | 3,243 | 1,044 | 224 | — | 15,364 | 7,832 | 7,443 | 3,310 | 375 | — | 18,960 |
| Corporates | 1,670 | 116 | 267 | 3,947 | — | 6,000 | 5 | 1,114 | 550 | 13,031 | — | 14,700 |
| Retail | 24 | 167 | 1,139 | 1,029 | — | 2,359 | 25 | 277 | 457 | 1,688 | — | 2,446 |
| Secured by mortgages on immovable property | 52 | 125 | 418 | 3,551 | — | 4,147 | 10 | 139 | 367 | 4,246 | — | 4,762 |
| Exposures in default | 116 | 364 | 197 | 246 | — | 923 | 15 | 392 | 119 | 265 | — | 790 |
| Other exposures | 63 | — | 6 | 8 | 167 | 243 | 61 | — | 14 | 5 | 219 | 299 |
| Total standardised approach | 12,777 | 5,060 | 3,071 | 9,005 | 167 | 30,080 | 7,947 | 10,147 | 4,817 | 19,612 | 219 | 42,742 |
| Total | 36,837 | 24,887 | 21,839 | 263,844 | 2,672 | 350,079 | 32,261 | 32,129 | 24,084 | 256,256 | 2,869 | 347,600 |

ANALYSIS OF CREDIT RISK MITIGATION

CR3: CRM techniques – Overview

The following table provides an analysis of net carrying values of credit risk exposures secured by different CRM techniques split by regulatory approach and asset class.

| | 31 Dec 2021 | | | | | 31 Dec 2020 | | | | |
|---|---------------------------------------|--------------------------------------|--|---|---|---------------------------------------|--------------------------------------|--|---|---|
| | Exposures unsecured – carrying amount | Exposures to be secured ¹ | Exposures secured by collateral ² | Exposures secured by financial guarantees | Exposures secured by credit derivatives | Exposures unsecured – carrying amount | Exposures to be secured ¹ | Exposures secured by collateral ² | Exposures secured by financial guarantees | Exposures secured by credit derivatives |
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| Exposures subject to the IRB approach | | | | | | | | | | |
| Institutions ³ | 36 | 2,057 | 2,057 | — | — | 103 | 2,395 | 2,395 | — | — |
| Corporates | 2,216 | 4,287 | 4,094 | 192 | — | 1,627 | 4,854 | 4,695 | 159 | — |
| of which: Specialised Lending | — | 1,710 | 1,710 | — | — | — | 1,913 | 1,913 | — | — |
| of which: SME | 614 | 531 | 354 | 177 | — | 537 | 935 | 801 | 134 | — |
| Retail | 32,033 | 270,941 | 270,941 | — | — | 32,853 | 254,263 | 254,263 | — | — |
| Secured by real estate property | — | 270,941 | 270,941 | — | — | — | 254,263 | 254,263 | — | — |
| Non-SME | — | 270,941 | 270,941 | — | — | — | 254,263 | 254,263 | — | — |
| Qualifying Revolving | 28,272 | — | — | — | — | 29,116 | — | — | — | — |
| Other Retail | 3,761 | — | — | — | — | 3,738 | — | — | — | — |
| Non-SME | 3,761 | — | — | — | — | 3,738 | — | — | — | — |
| Non-credit obligation assets | 3,116 | — | — | — | — | 3,153 | — | — | — | — |
| Total – IRB approach | 37,401 | 277,285 | 277,092 | 192 | — | 37,737 | 261,512 | 261,353 | 159 | — |
| Exposures subject to the standardised approach | | | | | | | | | | |
| Central governments or central banks | 1,044 | — | — | — | — | 782 | — | — | — | — |
| Regional governments or local authorities | — | — | — | — | — | 1 | 1 | — | 1 | — |
| Public sector entities | — | — | — | — | — | 1 | — | — | — | — |
| Institutions | 15,384 | — | — | — | — | 18,963 | — | — | — | — |
| Corporates | 5,854 | 240 | 192 | 48 | — | 14,402 | 524 | 325 | 199 | — |
| Retail | 1,904 | 909 | 59 | 850 | — | 1,797 | 960 | 37 | 923 | — |
| Secured by mortgages on immovable property | — | 4,156 | 4,155 | 1 | — | — | 4,762 | 4,762 | — | — |
| Exposures in default | 573 | 354 | 258 | 96 | — | 517 | 275 | 273 | 2 | — |
| Other exposures | 243 | — | — | — | — | 299 | — | — | — | — |
| Total – standardised approach | 25,002 | 5,659 | 4,665 | 994 | — | 36,761 | 6,522 | 5,397 | 1,125 | — |
| Total exposures | 62,403 | 282,944 | 281,757 | 1,187 | — | 74,498 | 268,034 | 266,750 | 1,284 | — |
| of which: defaulted | 889 | 2,373 | 2,278 | 96 | — | 784 | 2,508 | 2,506 | 2 | — |

1 Allocation of the carrying amount of multi-secured exposures is made by order of priority to their different CRM techniques.

2 At 31 December 2021 the value of exposures secured by eligible financial collateral is £333m (2020: £135m) and the value of exposures secured by other eligible collateral is £281.4bn (2020: £266.6bn).

3 Exposures to Institutions secured by collateral includes £2,057m (2020: £2,395m) of exposures in the form of covered bonds.

ANALYSIS OF CREDIT QUALITY OF EXPOSURES**CR1-A: Credit quality of exposures by exposure class and instrument**

Tables below present analysis of credit risk exposures and credit risk adjustments (including charges in the period) analysed by regulatory exposure class, industry types and geography. Gross carrying value comprises both on and off-balance sheet exposures. Net values represent gross carrying values less specific credit risk adjustments. The Group does not recognise any general credit risk adjustments as defined by the EBA.

| | 31 Dec 2021 | | | | | 31 Dec 2020 | | | | |
|--|--------------------------|-------------------------|--|---|----------------|--------------------------|-------------------------|---------------------------------|--|----------------|
| | Gross carrying values of | | Specific credit risk adjustment ¹ | Credit risk adjustment charges in the period ¹ | Net values | Gross carrying values of | | Specific credit risk adjustment | Credit risk adjustment charges in the period | Net values |
| | Defaulted exposures | Non-defaulted exposures | | | | Defaulted exposures | Non-defaulted exposures | | | |
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | |
| Institutions | — | 2,093 | — | — | 2,093 | — | 2,498 | — | — | 2,498 |
| Corporates | 474 | 6,187 | 159 | (222) | 6,503 | 609 | 6,179 | 307 | 103 | 6,481 |
| of which: Specialised lending | 99 | 1,655 | 44 | (62) | 1,710 | 97 | 1,923 | 106 | 51 | 1,913 |
| of which: SMEs | 181 | 991 | 27 | (3) | 1,145 | 40 | 1,461 | 28 | 4 | 1,472 |
| Retail | 2,481 | 301,864 | 1,372 | (124) | 302,974 | 2,683 | 286,300 | 1,867 | 1,021 | 287,116 |
| Secured by real estate property | 2,275 | 269,660 | 994 | (187) | 270,941 | 2,449 | 253,042 | 1,228 | 410 | 254,263 |
| Non-SMEs | 2,275 | 269,660 | 994 | (187) | 270,941 | 2,449 | 253,042 | 1,228 | 410 | 254,263 |
| Qualifying revolving | 127 | 28,405 | 260 | 56 | 28,272 | 149 | 29,411 | 445 | 443 | 29,116 |
| Other retail | 80 | 3,799 | 118 | 7 | 3,761 | 85 | 3,848 | 195 | 167 | 3,738 |
| Non-SMEs | 80 | 3,799 | 118 | 7 | 3,761 | 85 | 3,848 | 195 | 167 | 3,738 |
| Non-credit obligation assets | — | 3,356 | — | — | 3,356 | — | 3,353 | — | — | 3,353 |
| Total IRB approach | 2,955 | 313,501 | 1,530 | (346) | 314,925 | 3,293 | 298,330 | 2,174 | 1,124 | 299,449 |
| Central governments or central banks | — | 1,044 | — | — | 1,044 | — | 782 | — | — | 782 |
| Regional governments or local authorities | — | — | — | — | — | — | 1 | — | — | 1 |
| Public sector entities | — | — | — | — | — | — | 1 | — | — | 1 |
| Institutions | — | 15,386 | 2 | — | 15,384 | — | 18,967 | 4 | (3) | 18,963 |
| Corporates | — | 6,159 | 65 | (28) | 6,094 | — | 15,051 | 125 | 30 | 14,926 |
| of which: SMEs | — | 765 | 6 | (16) | 758 | — | 1,124 | 16 | 11 | 1,108 |
| Retail | — | 2,832 | 19 | (22) | 2,813 | — | 2,801 | 44 | 15 | 2,756 |
| of which: SMEs | — | 1,977 | 5 | (22) | 1,973 | — | 2,011 | 19 | 10 | 1,992 |
| Secured by mortgages on immovable property | — | 4,186 | 30 | (5) | 4,156 | — | 4,792 | 30 | 9 | 4,762 |
| Exposures in default ² | 1,586 | — | 659 | 27 | 927 | 1,427 | — | 635 | 247 | 792 |
| Other exposures | — | 243 | — | — | 243 | — | 299 | — | — | 299 |
| Total standardised approach | 1,586 | 29,851 | 776 | (29) | 30,661 | 1,427 | 42,696 | 839 | 298 | 43,283 |
| Total | 4,541 | 343,351 | 2,307 | (375) | 345,586 | 4,719 | 341,026 | 3,014 | 1,422 | 342,732 |

¹ The total of specific credit risk adjustments and credit risk adjustment credits in the period are lower than financial reporting amounts predominantly due to the differing regulatory treatment of a number of exposures. The total specific credit risk adjustments also exclude the £240m central adjustment to the expected credit loss allowances.

² The breakdown of 'Exposure in default' by the exposure class that corresponds to the exposure before default, comprises Corporate £1,195m (2020: £1,084m), and Retail £391m (2020: £342m).

CR1-B: Credit quality of exposures by industry types

31 Dec 2021

| | Gross carrying values of | | Specific credit risk adjustment ¹ | Credit risk adjustment charges in the period ¹ | Net values |
|--|--------------------------|-------------------------|--|---|----------------|
| | Defaulted exposures | Non-defaulted exposures | | | |
| | £m | £m | | | |
| Agriculture, forestry and fishing | 37 | 703 | 7 | (17) | 732 |
| Energy and water supply | 1 | 147 | — | 10 | 148 |
| Manufacturing | 32 | 700 | 14 | 7 | 717 |
| Construction | 262 | 1,016 | 67 | (81) | 1,211 |
| Transport, distribution and hotels | 1,170 | 1,911 | 614 | 8 | 2,467 |
| Postal and communications | 3 | 194 | 1 | 2 | 196 |
| Property companies | 93 | 3,200 | 48 | (98) | 3,246 |
| Financial, business and other services | 110 | 28,429 | 90 | (73) | 28,449 |
| Personal: mortgages | 2,564 | 273,789 | 1,069 | (198) | 275,284 |
| Personal: other | 267 | 33,017 | 393 | 65 | 32,891 |
| Lease financing | — | — | — | — | — |
| Hire purchase | 2 | 244 | 3 | — | 244 |
| Total | 4,541 | 343,351 | 2,307 | (375) | 345,586 |

31 Dec 2020

| | Gross carrying values of | | Specific credit risk adjustment | Credit risk adjustment charges in the period | Net values |
|--|--------------------------|-------------------------|---------------------------------|--|----------------|
| | Defaulted exposures | Non-defaulted exposures | | | |
| | £m | £m | | | |
| Agriculture, forestry and fishing | 13 | 709 | 17 | 6 | 705 |
| Energy and water supply | — | 29 | — | — | 29 |
| Manufacturing | 27 | 694 | 10 | 4 | 711 |
| Construction | 252 | 950 | 114 | 13 | 1,089 |
| Transport, distribution and hotels | 1,176 | 1,743 | 608 | 278 | 2,312 |
| Postal and communications | — | 6 | — | — | 6 |
| Property companies | 119 | 3,546 | 106 | 23 | 3,560 |
| Financial, business and other services | 46 | 41,210 | 178 | 44 | 41,077 |
| Personal: mortgages | 2,769 | 257,880 | 1,314 | 437 | 259,335 |
| Personal: other | 315 | 34,081 | 664 | 615 | 33,733 |
| Lease financing | — | 1 | — | — | — |
| Hire purchase | 2 | 176 | 3 | 1 | 175 |
| Total | 4,719 | 341,026 | 3,014 | 1,422 | 342,732 |

¹ The total of specific credit risk adjustments and credit risk adjustment credits in the period are lower than financial reporting amounts predominantly due to the differing regulatory treatment of a number of exposures. The total specific credit risk adjustments also exclude the £240m central adjustment to the expected credit loss allowances.

CR1-C: Credit quality of exposures by geographical region

| | 31 Dec 2021 | | | | |
|--------------------------|--------------------------|-------------------------|--|---|----------------|
| | Gross carrying values of | | Specific credit risk adjustment ¹ | Credit risk adjustment charges in the period ¹ | Net values |
| | Defaulted exposures | Non-defaulted exposures | | | |
| | £m | £m | £m | £m | £m |
| United Kingdom | 3,490 | 342,960 | 1,689 | (454) | 344,761 |
| Rest of Europe | 48 | 354 | 25 | 26 | 377 |
| United States of America | — | 6 | — | — | 6 |
| Asia-Pacific | — | 4 | — | — | 4 |
| Other | 1,004 | 28 | 592 | 53 | 440 |
| Total | 4,541 | 343,351 | 2,307 | (375) | 345,586 |

| | 31 Dec 2020 | | | | |
|--------------------------|--------------------------|-------------------------|---------------------------------|--|----------------|
| | Gross carrying values of | | Specific credit risk adjustment | Credit risk adjustment charges in the period | Net values |
| | Defaulted exposures | Non-defaulted exposures | | | |
| | £m | £m | £m | £m | £m |
| United Kingdom | 3,752 | 340,230 | 2,447 | 1,172 | 341,535 |
| Rest of Europe | 19 | 740 | 13 | 7 | 746 |
| United States of America | — | 1 | — | — | 1 |
| Asia-Pacific | — | 1 | — | — | 1 |
| Other | 948 | 53 | 553 | 242 | 448 |
| Total | 4,719 | 341,026 | 3,014 | 1,422 | 342,732 |

¹ The total of specific credit risk adjustments and credit risk adjustment credits in the period are lower than financial reporting amounts predominantly due to the differing regulatory treatment of a number of exposures. The total specific credit risk adjustments also exclude the £240m central adjustment to the expected credit loss allowances.

ANALYSIS OF CREDIT QUALITY OF NON-PERFORMING AND FORBORNE EXPOSURES

In December 2020 the EBA published guidelines on the disclosure of non-performing and forborne exposures, to be applied from December 2021. The guidelines introduce ten new reporting templates providing a uniform disclosure format for non-performing exposures, forborne exposures and foreclosed assets. Proportionality is embedded in the guidelines through thresholds based on the size of the Institution and the level of non-performing exposures. The Group has assessed the threshold criteria within the guidelines and has determined that six of the ten templates are not applicable on the basis that its non-performing loan ratio is significantly lower than the reporting threshold.

The remaining four templates are not subject to threshold criteria, however template CQ7 – Collateral obtained by taking possession and execution process, is not applicable to the Group as no collateral taken into possession is recognised on the Group balance sheet. The remaining three templates are disclosed in tables CQ1, CQ3 and CR1.

Tables below present analysis of credit risk exposures and credit risk adjustments (including charges in the period) analysed by regulatory exposure class, industry types and geography. Gross carrying value comprises both on and off-balance sheet exposures. Net values represent gross carrying values less specific credit risk adjustments. The Group does not recognise any general credit risk adjustments as defined by the EBA.

CQ1: Credit quality of forborne exposures

| | 31 Dec 2021 | | | | | | | |
|----------------------------------|---|----------------------|-----------------|----------------|--|--|---|---|
| | Gross carrying amount/nominal amount of exposures with forbearance measures | | | | Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions | | Collateral received and financial guarantees received on forborne exposures | |
| | Performing Forborne £m | Non-performing £m | Of Which: | | On performing forborne exposures £m | On non-performing forborne exposures £m | £m | Of which collateral and financial guarantees received on non-performing exposures with forbearance measures £m |
| | | | Defaulted £m | Impaired £m | | | | |
| 1 Loans and advances | 1,345 | 4,404 | 2,709 | 3,425 | (49) | (1,069) | 3,595 | 2,383 |
| 5 Other financial corporations | 1 | 3 | 3 | 3 | — | (2) | — | — |
| 6 Non-financial corporations | 60 | 1,598 | 1,593 | 1,593 | — | (741) | 87 | 45 |
| 7 Households | 1,284 | 2,803 | 1,113 | 1,830 | (49) | (326) | 3,508 | 2,339 |
| 8 Debt Securities | — | — | — | — | — | — | — | — |
| 9 Loans Commitments Given | 97 | 191 | 122 | 43 | (1) | (1) | — | — |
| 10 Total | 1,442 | 4,595 | 2,831 | 3,469 | (50) | (1,070) | 3,595 | 2,383 |

| 31 Dec 2020 | | | | | | | | |
|---|---|----------------------|-----------------|----------------|--|--|--|---|
| | Gross carrying amount/nominal amount of exposures with forbearance measures | | | | Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions | | Collateral received and financial guarantees received on forbore exposures | |
| | Performing Forborne £m | Non-performing £m | Of Which: | Of Which: | On performing forborne exposures £m | On non-performing forborne exposures £m | | Of which collateral and financial guarantees received on non-performing exposures with forbearance measures £m |
| | | | Defaulted £m | Impaired £m | | | | |
| ¹ Loans and advances | 1,474 | 4,654 | 2,864 | 3,519 | (69) | (1,197) | 3,854 | 2,518 |
| ⁵ Other financial corporations | 1 | 3 | 3 | 3 | — | (2) | — | — |
| ⁶ Non-financial corporations | 76 | 1,642 | 1,640 | 1,612 | (2) | (801) | 113 | 54 |
| ⁷ Households | 1,398 | 3,009 | 1,220 | 1,904 | (67) | (394) | 3,741 | 2,464 |
| ⁸ Debt Securities | — | 1 | — | 1 | — | (1) | — | — |
| ⁹ Loans Commitments Given | 54 | 106 | 14 | 51 | 1 | 4 | — | — |
| ¹⁰ Total | 1,529 | 4,761 | 2,878 | 3,570 | (69) | (1,194) | 3,854 | 2,518 |

CQ3: Credit quality of performing and non-performing exposures by past due days

| | 31 Dec 2021 | | | | | | | | | | | | |
|---------------------------------------|--------------------------------------|-------------------------------|--------------|----------------|----------------------------------|--------------------------------|-------------------------------|------------------------------|-------------------------------|-------------------------------|--------------------|---------------------|--|
| | Gross carrying amount/nominal amount | | | | | | | | | | | | |
| | Performing | | | Non-performing | Unlikely to pay that are not | | | | | | | | |
| | Not past due or Past due <= 30 days | Past due > 30 days <= 90 days | | | past-due or past-due < = 90 days | Past due > 90 days <= 180 days | Past due > 180 days <= 1 year | Past due > 1 year <= 2 years | Past due > 2 years <= 5 years | Past due > 5 years <= 7 years | Past due > 7 years | Of which: defaulted | |
| £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | |
| 1 Loans and advances | 288,974 | 287,864 | 1,110 | 6,906 | 2,379 | 911 | 742 | 748 | 1,782 | 183 | 162 | 4,470 | |
| 2 Central banks | 1,311 | 1,311 | — | — | — | — | — | — | — | — | — | — | |
| 3 General governments | 73 | 73 | — | — | — | — | — | — | — | — | — | — | |
| 4 Credit institutions | 6,900 | 6,900 | — | — | — | — | — | — | — | — | — | — | |
| 5 Other financial corporations | 9,144 | 9,144 | — | 51 | 51 | — | — | — | — | — | — | 3 | |
| 6 Non-financial corporations | 6,854 | 6,833 | 21 | 1,637 | 525 | 104 | 1 | 2 | 1,004 | 2 | — | 1,632 | |
| 7 Of which: SMEs | 3,250 | 3,229 | 21 | 212 | 132 | 79 | 1 | — | — | — | — | 207 | |
| 8 Households | 264,692 | 263,603 | 1,089 | 5,218 | 1,803 | 806 | 741 | 746 | 779 | 181 | 162 | 2,835 | |
| 9 Debt securities | 2,370 | 2,370 | — | 1 | — | — | — | — | — | — | 1 | 1 | |
| 12 Credit institutions | 2,106 | 2,106 | — | — | — | — | — | — | — | — | — | — | |
| 13 Other financial corporations | 263 | 263 | — | — | — | — | — | — | — | — | — | — | |
| 14 Non-financial corporations | — | — | — | 1 | — | — | — | — | — | — | 1 | 1 | |
| 15 Off-balance-sheet exposures | 43,642 | | | 219 | | | | | | | | 123 | |
| 19 Other financial corporations | 1,541 | | | — | | | | | | | | — | |
| 20 Non-financial corporations | 2,471 | | | 123 | | | | | | | | 123 | |
| 21 Households | 39,629 | | | 96 | | | | | | | | — | |
| 22 Total | 334,985 | 290,234 | 1,110 | 7,125 | 2,379 | 911 | 742 | 748 | 1,782 | 183 | 162 | 4,594 | |

| 31 Dec 2020 | | | | | | | | | | | | |
|---------------------------------------|----------------|---|-------------------------------------|----------------|---|--------------|--------------------------------------|-------------------------------------|------------------------------------|-------------------------------------|-------------------------------------|--------------------------|
| Gross carrying amount/nominal amount | | | | | | | | | | | | |
| | Performing | | | Non-performing | Unlikely to pay that are not past-due or past-due < 90 days | | | | | | | |
| | £m | Not past due or Past due <= 30 days £m | Past due > 30 days <= 90 days £m | | £m | £m | Past due > 90 days <= 180 days £m | Past due > 180 days <= 1 year £m | Past due > 1 year <= 2 years £m | Past due > 2 years <= 5 years £m | Past due > 5 years <= 7 years £m | Past due > 7 years £m |
| 1 Loans and advances | 292,810 | 291,365 | 1,446 | 7,498 | 2,734 | 1,032 | 862 | 921 | 1,645 | 190 | 114 | 4,727 |
| 2 Central banks | 1,361 | 1,361 | — | — | — | — | — | — | — | — | — | — |
| 3 General governments | 39 | 39 | — | — | — | — | — | — | — | — | — | — |
| 4 Credit institutions | 16,529 | 16,529 | — | — | — | — | — | — | — | — | — | — |
| 5 Other financial corporations | 19,757 | 19,757 | — | 206 | 206 | — | — | — | — | — | — | 3 |
| 6 Non-financial corporations | 8,219 | 8,219 | — | 1,649 | 654 | 44 | — | — | 950 | 1 | — | 1,647 |
| 7 Of which: SMEs | 3,584 | 3,584 | — | 128 | 92 | 35 | — | — | — | — | — | 127 |
| 8 Households | 246,905 | 245,460 | 1,445 | 5,643 | 1,874 | 987 | 862 | 921 | 695 | 189 | 114 | 3,077 |
| 9 Debt securities | 2,758 | 2,758 | — | 1 | — | — | — | — | — | — | 1 | — |
| 12 Credit institutions | 2,415 | 2,415 | — | — | — | — | — | — | — | — | — | — |
| 13 Other financial corporations | 343 | 343 | — | — | — | — | — | — | — | — | — | — |
| 14 Non-financial corporations | — | — | — | 1 | — | — | — | — | — | — | 1 | — |
| 15 Off-balance-sheet exposures | 47,274 | | | 133 | | | | | | | | 20 |
| 19 Other financial corporations | 1,960 | | | — | | | | | | | | — |
| 20 Non-financial corporations | 3,062 | | | 20 | | | | | | | | 20 |
| 21 Households | 42,252 | | | 114 | | | | | | | | — |
| 22 Total | 342,842 | 294,123 | 1,446 | 7,632 | 2,734 | 1,032 | 862 | 921 | 1,645 | 190 | 115 | 4,746 |

CR1: Performing and non-performing exposures and related provisions

| | 31 Dec 2021 | | | | | | | | | | | | | | |
|---------------------------------------|--------------------------------------|------------------|------------------|--------------------------|------------------|------------------|--|------------------|------------------|---|------------------|------------------|-------------------------------|--|-----------------------------|
| | Gross carrying amount/nominal amount | | | | | | Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions | | | | | | Accumulated partial write-off | Collateral and financial guarantees received | |
| | Performing exposures | | | Non-performing exposures | | | Performing exposures – accumulated impairment and provisions | | | Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions | | | | On performing exposures | On non-performing exposures |
| | £m | Of which stage 1 | Of which stage 2 | £m | Of which stage 2 | Of which stage 3 | £m | Of which stage 1 | Of which stage 2 | £m | Of which stage 2 | Of which stage 3 | | £m | £m |
| 1 Loans and advances | 288,974 | 265,067 | 23,755 | 6,906 | 1,606 | 5,300 | (1,039) | (393) | (646) | — | (102) | (1,375) | (47) | 258,848 | 4,387 |
| 2 Central banks | 1,311 | 1,311 | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 3 General governments | 73 | 44 | — | — | — | — | — | — | — | — | — | — | — | 10 | — |
| 4 Credit institutions | 6,900 | 6,900 | — | — | — | — | (2) | (2) | — | — | — | — | — | — | — |
| 5 Other financial corporations | 9,144 | 9,142 | 2 | 51 | 1 | 50 | (2) | (2) | — | (50) | — | (50) | — | 20 | — |
| 6 Non-financial corporations | 6,854 | 5,791 | 966 | 1,637 | 14 | 1,624 | (72) | (24) | (48) | (742) | — | (742) | (46) | 3,684 | 49 |
| 7 Of which: SMEs | 3,250 | 2,836 | 414 | 212 | 14 | 198 | (22) | (8) | (14) | (12) | — | (12) | — | 1,544 | 41 |
| 8 Households | 264,692 | 241,879 | 22,788 | 5,218 | 1,592 | 3,626 | (963) | (365) | (598) | (684) | (102) | (582) | — | 255,133 | 4,338 |
| 9 Debt securities | 2,370 | 2,370 | — | 1 | — | 1 | (3) | (3) | — | (1) | — | (1) | — | — | — |
| 12 Credit institutions | 2,106 | 2,106 | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 13 Other financial corporations | 263 | 263 | — | — | — | — | (3) | (3) | — | — | — | — | — | — | — |
| 14 Non-financial corporations | — | — | — | 1 | — | 1 | — | — | — | (1) | — | (1) | — | — | — |
| 15 Off-balance-sheet exposures | 43,642 | 41,992 | 1,649 | 219 | 175 | 44 | (54) | (26) | (28) | (1) | (1) | (1) | — | 563 | — |
| 19 Other financial corporations | 1,541 | 1,539 | 2 | — | — | — | — | — | — | — | — | — | — | — | — |
| 20 Non-financial corporations | 2,471 | 2,383 | 88 | 123 | 122 | 1 | (8) | (4) | (5) | (1) | — | (1) | — | 563 | — |
| 21 Households | 39,629 | 38,070 | 1,559 | 96 | 53 | 42 | (46) | (22) | (24) | (1) | (1) | — | — | — | — |
| 22 Total | 334,985 | 309,429 | 25,405 | 7,125 | 1,781 | 5,344 | (1,097) | (422) | (675) | (1,479) | (102) | (1,376) | (47) | 259,411 | 4,387 |

| 31 Dec 2020 | | | | | | | | | | | | | | | |
|---------------------------------------|--------------------------------------|------------------|------------------|--------------------------|------------------|------------------|--|------------------|------------------|---|------------------|------------------|-------------------------------|--|-----------------------------|
| | Gross carrying amount/nominal amount | | | | | | Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions | | | | | | Accumulated partial write-off | Collateral and financial guarantees received | |
| | Performing exposures | | | Non-performing exposures | | | Performing exposures – accumulated impairment and provisions | | | Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions | | | | On performing exposures | On non-performing exposures |
| | £m | Of which stage 1 | Of which stage 2 | £m | Of which stage 2 | Of which stage 3 | £m | Of which stage 1 | Of which stage 2 | £m | Of which stage 2 | Of which stage 3 | | | |
| | | £m | £m | | £m | £m | | £m | £m | | £m | £m | | | |
| 1 Loans and advances | 292,810 | 261,551 | 31,101 | 7,498 | 1,872 | 5,626 | (1,420) | (489) | (931) | (1,710) | (134) | (1,576) | (45) | 241,385 | 4,674 |
| 2 Central banks | 1,361 | 1,361 | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 3 General governments | 39 | 12 | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 4 Credit institutions | 16,529 | 16,529 | — | — | — | — | (4) | (4) | — | — | — | — | — | — | — |
| 5 Other financial corporations | 19,757 | 19,684 | 72 | 206 | — | 206 | (4) | (4) | — | (92) | (1) | (90) | — | 83 | — |
| 6 Non-financial corporations | 8,219 | 6,928 | 1,192 | 1,649 | 37 | 1,612 | (142) | (38) | (104) | (804) | (2) | (801) | (45) | 3,849 | 54 |
| 7 Of which: SMEs | 3,584 | 3,022 | 562 | 128 | 19 | 109 | (47) | (17) | (30) | (16) | (2) | (14) | — | 1,855 | 8 |
| 8 Households | 246,905 | 217,037 | 29,837 | 5,643 | 1,836 | 3,807 | (1,270) | (442) | (828) | (815) | (130) | (684) | — | 237,453 | 4,620 |
| 9 Debt securities | 2,758 | 2,758 | — | 1 | — | 1 | (2) | (2) | — | (1) | — | (1) | — | — | — |
| 12 Credit institutions | 2,415 | 2,415 | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 13 Other financial corporations | 343 | 343 | — | — | — | — | (2) | (2) | — | — | — | — | — | — | — |
| 14 Non-financial corporations | — | — | — | 1 | — | 1 | — | — | — | (1) | — | (1) | — | — | — |
| 15 Off-balance-sheet exposures | 47,274 | 44,678 | 2,596 | 133 | 88 | 45 | (122) | (53) | (69) | (6) | — | (6) | — | 651 | — |
| 19 Other financial corporations | 1,960 | 1,959 | 1 | — | — | — | — | — | — | — | — | — | — | 19 | — |
| 20 Non-financial corporations | 3,062 | 2,497 | 566 | 20 | 14 | 6 | (25) | (8) | (16) | (6) | — | (6) | — | 627 | — |
| 21 Households | 42,252 | 40,222 | 2,029 | 114 | 74 | 40 | (98) | (45) | (52) | — | — | — | — | 4 | — |
| 22 Total | 342,842 | 308,987 | 33,697 | 7,632 | 1,960 | 5,672 | (1,545) | (545) | (1,000) | (1,716) | (134) | (1,582) | (45) | 242,035 | 4,674 |

The table above excludes loans and advances classified as held for sale, cash balances at central banks and other demand deposits to allow calculation of the NPL ratio in line with EBA definitions.

Debt securities classified as fair value through profit and loss have also been excluded from reported Stage 1 and 2 balances.

OWN FUNDS DISCLOSURE

CC1: Composition of regulatory own funds

An analysis of the Bank's capital position as at 31 December 2021 is presented in the following table on both a transitional arrangements basis and a fully loaded basis in respect of legacy capital securities that were subject to grandfathering provisions prior to 1 January 2022. In addition, the Bank's capital position under both bases reflects the application of the separate transitional arrangements for IFRS 9.

| | Transitional rules | | Fully loaded rules | |
|--|--------------------|----------------|--------------------|----------------|
| | At 31 Dec 2021 | At 30 Dec 2020 | At 31 Dec 2021 | At 30 Dec 2020 |
| | £m | £m | £m | £m |
| Common equity tier 1 (CET1) capital: instruments and reserves | | | | |
| Capital instruments and related share premium accounts | 5,847 | 5,847 | 5,847 | 5,847 |
| of which: called up share capital | 5,847 | 5,847 | 5,847 | 5,847 |
| Retained earnings | 3,917 | 3,618 | 3,917 | 3,618 |
| Accumulated other comprehensive income (and other reserves) | 2,044 | 2,078 | 2,044 | 2,078 |
| Common equity tier 1 (CET1) capital before regulatory adjustments | 11,808 | 11,543 | 11,808 | 11,543 |
| Common equity tier 1 (CET1) capital: regulatory adjustments | | | | |
| Additional value adjustments | (78) | (79) | (78) | (79) |
| Intangible assets (net of related tax liability) | (444) | (470) | (444) | (470) |
| Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) of the CRR are met) | (1,767) | (1,477) | (1,767) | (1,477) |
| Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value | 63 | 45 | 63 | 45 |
| Negative amounts resulting from the calculation of expected loss amounts | — | — | — | — |
| Gains or losses on liabilities valued at fair value resulting from changes in own credit standing | (1) | (2) | (1) | (2) |
| Defined benefit pension fund assets | (39) | (50) | (39) | (50) |
| Other regulatory adjustments to CET1 capital | (2) | — | (2) | — |
| Total regulatory adjustments applied to common equity tier 1 (CET1) | (2,268) | (2,033) | (2,268) | (2,033) |
| Common equity tier 1 (CET1) capital | 9,540 | 9,510 | 9,540 | 9,510 |
| Additional tier 1 (AT1) capital: instruments | | | | |
| Capital instruments and related share premium accounts | 2,200 | 2,200 | 2,200 | 2,200 |
| of which: classified as equity under applicable accounting standards | 2,200 | 2,200 | 2,200 | 2,200 |
| Amount of qualifying items referred to in Article 484 (4) of the CRR and the related share premium accounts subject to phase out from AT1 | 22 | 21 | — | — |
| Additional tier 1 (AT1) capital before regulatory adjustments | 2,222 | 2,221 | 2,200 | 2,200 |
| Tier 1 capital | 11,762 | 11,731 | 11,740 | 11,710 |
| Tier 2 (T2) capital: instruments and provisions | | | | |
| Capital instruments and related share premium accounts | 1,500 | 1,353 | 1,500 | 1,353 |
| Amount of qualifying items referred to in Article 484 (5) of the CRR and the related share premium accounts subject to phase out from T2 | — | 590 | — | — |
| Tier 2 (T2) capital before regulatory adjustments | 1,500 | 1,943 | 1,500 | 1,353 |

Table 14: CC1: Composition of regulatory own funds (Continued)

| | Transitional rules | | Fully loaded rules | |
|--|----------------------|----------------------|----------------------|----------------------|
| | At 31 Dec 2021 £m | At 30 Dec 2020 £m | At 31 Dec 2021 £m | At 30 Dec 2020 £m |
| Tier 2 (T2) capital: regulatory adjustments | | | | |
| IFRS 9 transitional adjustments | (3) | (97) | (3) | (97) |
| Total regulatory adjustments applied to Tier 2 (T2) capital | (3) | (97) | (3) | (97) |
| Tier 2 (T2) capital | 1,497 | 1,846 | 1,497 | 1,256 |
| Total capital | 13,259 | 13,577 | 13,237 | 12,966 |
| Total risk exposure amount (risk-weighted assets) | 60,807 | 61,304 | 60,807 | 61,304 |
| Capital ratios and buffers | | | | |
| Common equity tier 1 (as a percentage of risk exposure amount) | 15.7% | 15.5% | 15.7% | 15.5% |
| Tier 1 (as a percentage of risk exposure amount) | 19.3% | 19.1% | 19.3% | 19.1% |
| Total capital (as a percentage of risk exposure amount) | 21.8% | 22.1% | 21.8% | 21.2% |
| Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount) | 2.501% | 2.500% | 2.501% | 2.500% |
| of which: capital conservation buffer requirement | 2.500% | 2.500% | 2.500% | 2.500% |
| of which: countercyclical buffer requirement | 0.001% | 0.000% | 0.001% | 0.000% |
| Common equity tier 1 available to meet buffers (as a percentage of risk exposure) ¹ | 11.2% | 11.0% | 11.2% | 11.0% |
| Amounts below the threshold for deduction (before risk weighting) | | | | |
| Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions) | 86 | 76 | 86 | 76 |
| Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in 38 (3) are met) | 166 | 146 | 166 | 146 |
| Applicable caps on the inclusion of provisions in Tier 2 | | | | |
| Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap) | — | — | — | — |
| Cap on inclusion of credit risk adjustments in T2 under internal ratings-based approach | 280 | 270 | 280 | 270 |
| Capital instruments subject to phase-out arrangements | | | | |
| Current cap on AT1 instruments subject to phase out arrangements | 70 | 140 | — | — |
| Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities) | — | — | — | — |
| Current cap on T2 instruments subject to phase out arrangements | 928 | 1,856 | — | — |

¹ Of which 1.4 per cent is required to meet Pillar 2A requirements.

OWN FUNDS RECONCILIATION

The following table presents certain items from the Bank's statutory balance sheet for the year ended 31 December 2021, that are used to calculate own funds. Where necessary, the balance sheet components under the statutory scope of consolidation have been expanded such that the components of the transitional own funds disclosure template appear separately.

Items extracted from the Bank's statutory balance sheet and reconciliation of own funds items to audited financial statements

| Balance sheet category | Own funds description | Adjustments | | | | | | | Notes | Reversal of IFRS 9 Transitional arrangements | Transitional own funds (IFRS 9 full impact) (10) |
|--|---|--|--------------|-----------------------|------------------------------|--|----------------------------------|------------------------|-------|--|--|
| | | Items extracted from the Bank's statutory balance sheet(1) | Deferred tax | Threshold adjustments | Non-eligible instruments (9) | Amounts excluded from AT1 due to Cap (9) | Regulatory and other adjustments | Transitional own funds | | | |
| | | £m | £m | £m | £m | £m | £m | £m | | £m | £m |
| Common equity tier 1 (CET1) capital: instruments and reserves | | | | | | | | | | | |
| | Capital instruments and related share premium accounts | 5,847 | | | | | | 5,847 | | | 5,847 |
| Share capital | of which: called up share capital | 5,847 | | | | | | 5,847 | | | 5,847 |
| Retained profits | Retained earnings | 3,554 | | | | | 363 | 3,917 | 2 | (383) | 3,534 |
| Other reserves | Accumulated other comprehensive income (and other reserves) | 2,025 | | | | | 19 | 2,044 | | | 2,044 |
| Common equity tier 1 (CET1) capital: regulatory adjustments | | | | | | | | | | | |
| | Additional value adjustments | | | | | | (78) | (78) | 3 | | (78) |
| Goodwill and other intangible assets | Intangible assets (net of related tax liability) | (549) | 20 | | | | 85 | (444) | 4 | | (444) |
| Deferred tax assets | Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability where conditions in Article 38(3) of the CRR are met) | (1,991) | (39) | 166 | | | 97 | (1,767) | 5 | (16) | (1,783) |
| | Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value | | | | | | 63 | 63 | 6 | | 63 |
| | Negative amounts resulting from the calculation of expected loss amounts | | | | | | | — | 7 | | — |
| | Gains or losses on liabilities valued at fair value resulting from changes in own credit standing | | | | | | (1) | (1) | 8 | | (1) |
| | Defined benefit pension fund assets | (58) | 19 | | | | | (39) | | | (39) |
| | Other regulatory adjustments to CET1 capital | | | | | | (2) | (2) | | | (2) |
| Common equity tier 1 (CET1) capital | | 8,828 | — | 166 | | | 546 | 9,540 | | (399) | 9,141 |
| Additional tier 1 (AT1) capital: instruments | | | | | | | | | | | |
| Other equity instruments | Capital instruments and the related share premium accounts | 2,200 | | | | | | 2,200 | | | 2,200 |
| Subordinated liabilities | Amount of qualifying items referred to in Article 484 (4) of the CRR and the related share premium accounts subject to phase out from AT1 | 22 | | | | | | 22 | 9 | | 22 |
| | Additional tier 1 (AT1) capital | 2,222 | | | | | | 2,222 | | | 2,222 |
| Tier 1 capital | | 11,050 | — | 166 | | | 546 | 11,762 | | (399) | 11,363 |
| Tier 2 (T2) capital: instruments and provisions | | | | | | | | | | | |
| Subordinated liabilities | Capital instruments and related share premium accounts | 1,622 | | | (92) | | (30) | 1,500 | 9 | | 1,500 |
| | IFRS 9 transitional arrangements | | | | | | (3) | (3) | | 3 | — |
| | Eligible provisions | | | | | | — | — | 10 | 280 | 280 |
| Tier 2 (T2) capital | | 1,622 | — | — | (92) | — | (33) | 1,497 | | 283 | 1,780 |
| Total capital | | 12,672 | — | 166 | (92) | — | 513 | 13,259 | | (116) | 13,143 |

- 1 Assets extracted from the Bank's statutory balance sheet are presented as negative amounts, liabilities and equity are presented as positive amounts.
- 2 Retained earnings are adjusted to reflect the application of the IFRS 9 transitional arrangements - refer to note 10.
- 3 The additional value adjustments of £78m reflect the prudent valuation adjustment for all assets measured at fair value in accordance with Articles 34 and 105 of the CRR.
- 4 Own funds intangible assets of £549m extracted from the consolidated accounting balance sheet, representing £325m of goodwill and £224m of other intangible assets (capitalised software). CRD IV rules require the amount to be deducted from own funds to be reduced by the amount of associated deferred tax liabilities and adjusted to reflect the prudential amortisation of intangible software assets in accordance with the revised capital treatment implemented in December 2020. Remaining unamortised 'available for use' intangible software assets are risk-weighted under the revised treatment rather than deducted from capital.
- 5 Only the deferred tax amounts that rely on future profitability are required to be deducted from CET1, and may be reduced by associated deferred tax liabilities where conditions specified in Article 38 of the CRR are met. £166m of the deferred tax assets relating to temporary differences may be risk-weighted instead of deducted from capital as presented in the threshold adjustments column. Deferred tax assets are also adjusted to reflect the application of the IFRS 9 transitional arrangements.
- 6 Cash flow hedge reserve forms part of other reserves in the consolidated accounting balance sheet. Refer to Note 26 Other Reserves in the 2021 Bank of Scotland plc Annual Report and Accounts.
- 7 In accordance with Articles 36, 62, 158 and 159 of the CRR the excess of expected losses over specific credit risk adjustments (SCRAs) and additional value adjustments are deducted from CET1.
- 8 CRD IV requires the removal of the impact of any gains or losses recorded as liabilities held at fair value through profit and loss or derivative liabilities due to changes in the credit spreads of Bank of Scotland plc.
- 9 A reconciliation of subordinated liabilities from the Bank's statutory balance sheet to the amount recognised against each own funds description is presented in the table below.

| Own funds description | Accounting balance sheet total |
|---|---------------------------------------|
| | £m |
| Amount of qualifying items referred to in Article 484 (4) of the CRR and the related share premium accounts subject to phase out from AT1 | 22 |
| Capital instruments and related share premium accounts | 1,622 |
| Total subordinated liabilities as presented on the Bank's statutory balance sheet | 1,644 |

Adjustments required by regulatory rules to the value of subordinated liabilities presented within the regulatory and other adjustments column on the reconciliation include adjustments for accrued interest and regulatory amortisation.

- 10 The application of the IFRS 9 transitional arrangements for capital is reflected through the regulatory and other adjustments column. These comprise the following;
 - An increase in retained earnings of £383m reflecting the tax adjusted add-back (subject to the applicable factor) for the initial net increase in impairment provisions on 1 January 2018 ('static' relief), the subsequent net increase in Stage 1 and Stage 2 ECLs between 1 January 2018 and 31 December 2019 ('locked' dynamic relief) and the net increase in Stage 1 and Stage 2 ECLs from 1 January 2020 ('dynamic' relief)
 - A resultant movement in DTA deductions of £16m
 - A consequential adjustment to reduce tier 2 capital by £283m. Normally any excess of IFRS 9 expected credit losses over regulatory expected losses in respect of the Bank's IRB portfolios is added to tier 2 capital ('eligible provisions'), subject to a percentage cap based on IRB risk-weighted assets. However, as a consequence of applying the IFRS 9 transitional arrangements for capital, eligible provisions may be partially or fully reduced, with any resultant surplus adjustment under the arrangements subsequently deducted from tier 2 capital.

LEVERAGE DISCLOSURE (CRD IV)**LRCOM: Leverage ratio common disclosure**

| | At 31 Dec 2021 Fully loaded £m | At 31 Dec 2020 Fully loaded £m |
|--|--------------------------------------|--------------------------------------|
| On-balance sheet exposures (excluding derivatives and SFTs) | | |
| On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral) | 309,644 | 306,123 |
| Asset amounts deducted in determining Tier 1 capital | (1,877) | (1,241) |
| Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) | 307,767 | 304,882 |
| Derivative exposures¹ | | |
| Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin) | 793 | 1,138 |
| Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method) | 96 | 141 |
| Deductions of receivables assets for cash variation margin provided in derivatives transactions | (56) | (287) |
| Total derivative exposures | 833 | 992 |
| Securities financing transaction exposures² | | |
| Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions | — | — |
| Netted amounts of cash payables and cash receivables of gross SFT assets | — | — |
| Counterparty credit risk exposure for SFT assets | 2 | — |
| Total securities financing transaction exposures | 2 | — |
| Other off-balance sheet exposures | | |
| Off-balance sheet exposures at gross notional amount | 44,211 | 47,541 |
| Adjustments for conversion to credit equivalent amounts | (23,137) | (24,193) |
| Other off-balance sheet exposures | 21,074 | 23,348 |
| Exempted exposures in accordance with CRR Article 429 (7) (on and off balance sheet) | | |
| Intragroup exposures exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet) ³ | (19,492) | (30,992) |
| Capital and total exposure measure | | |
| Tier 1 capital | 11,740 | 11,710 |
| Leverage ratio total exposure measure | 310,184 | 298,230 |
| Leverage ratio | | |
| Leverage ratio | 3.8% | 3.9% |

1 Excludes intragroup derivative assets amounting to £2,386m (2020: £4,784m) exempted in accordance with CRR Article 429(7).

2 Excludes intragroup SFT assets amounting to £5m (2020: £2,195m) exempted in accordance with CRR Article 429(7).

3 Relates to exempted intragroup loans and receivables. Total intragroup exposures exempted in accordance with CRR Article 429(7), including derivatives and SFTs, amounted to £21,883m (2020: £37,791m).

LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

| | 31 Dec 2021 | 31 Dec 2020 |
|---|---------------------|--------------|
| | Fully loaded | Fully loaded |
| | £m | £m |
| Total assets as per the financial statements | 313,912 | 315,764 |
| Adjustment for regular-way purchases and sales of financial assets subject to trade date accounting ¹ | — | (24) |
| Adjustments for derivative financial instruments | (1,044) | (1,646) |
| Adjustments for securities financing transactions (SFTs) | 2 | — |
| Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures) | 21,074 | 23,348 |
| Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013 | (21,883) | (37,971) |
| Other adjustments | (1,877) | (1,241) |
| Leverage ratio total exposure measure | 310,184 | 298,230 |

1 Reflects the accelerated implementation for the netting of regular-way purchases and sales awaiting settlement in accordance with CRR Article 500d.

COUNTERCYCLICAL CAPITAL BUFFER (CCyB)**CCyB1: Geographical distribution of credit risk exposures relevant for the calculation of the countercyclical capital buffer**

| Breakdown by Country (£m) | 2021 | | 2021 | | 2021 | 2021 | | | Total | 2021 Own funds requirement weights | 2021 Countercyclical capital buffer rate |
|---|---|---------------------------|---|---|--|--|---|---|--------------|---|---|
| | General credit exposures ^{2,3} | | Trading book exposures ² | | Securitisation exposures ³ | Own funds requirements | | | | | |
| | Exposure Value for SA | Exposure Value for IRB | Sum of long and short positions of trading book exposures for SA | Value of trading book exposures for internal models | Exposure value for non-trading book | of which: General credit exposures ^{2,3} | of which: Trading book exposures ² | of which: Securitisation exposures ³ | | | |
| £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | % | % |
| Hong Kong | — | 3 | — | — | — | — | — | — | — | 0.00% | 1.00% |
| Norway | — | — | — | — | — | — | — | — | — | 0.00% | 1.00% |
| Czech Republic | — | — | — | — | — | — | — | — | — | 0.00% | 0.50% |
| Slovakia | — | — | — | — | — | — | — | — | — | 0.00% | 1.00% |
| Luxembourg | — | 67 | — | — | — | 5 | — | — | 5 | 0.12% | 0.50% |
| Bulgaria | — | — | — | — | — | — | — | — | — | 0.00% | 0.50% |
| i) Total¹ | — | 70 | — | — | — | 5 | — | — | 5 | 0.12% | |
| United Kingdom | 12,254 | 317,764 | — | — | 423 | 4,011 | — | 6 | 4,017 | 98.07% | — |
| ii) Total¹ | 12,254 | 317,764 | — | — | 423 | 4,011 | — | 6 | 4,017 | 98.07% | |
| iii) Rest of the World¹ | 423 | 317 | — | — | 1,440 | 51 | — | 23 | 74 | 1.81% | |
| Total | 12,677 | 318,151 | — | — | 1,863 | 4,067 | — | 29 | 4,096 | 100.00% | |

| Breakdown by Country (£m) | 2020 | | 2020 | | 2020 | 2020 | | | Total | 2020 Own funds requirement weights | 2020 Countercyclical capital buffer rate |
|-------------------------------------|---|---------------------------|---|--|--|---|---|---|-------|---|---|
| | General credit exposures ^{2,3} | | Trading book exposures ² | | Securitisation exposures ³ | Own funds requirements | | | | | |
| | Exposure Value for SA | Exposure Value for IRB | Sum of long and short positions of trading book exposures for SA | Value of trading book exposures for internal models | Exposure value for non- trading book | of which: General credit exposures ^{2,3} | of which: Trading book exposures ² | of which: Securitisation exposures ³ | | | |
| £m | £m | £m | £m | £m | £m | £m | £m | £m | % | % | |
| Hong Kong | — | — | — | — | — | — | — | — | — | 0.00% | 1.00% |
| Norway | — | 20 | — | — | — | — | — | — | — | 0.00% | 1.00% |
| Czech Republic | — | — | — | — | — | — | — | — | — | 0.00% | 0.50% |
| Slovakia | — | — | — | — | — | — | — | — | — | 0.00% | 1.00% |
| Luxembourg | — | 68 | — | — | — | 4 | — | — | 4 | 0.09% | 0.25% |
| Bulgaria | — | — | — | — | — | — | — | — | — | 0.00% | 0.50% |
| i) Total ¹ | — | 88 | — | — | — | 4 | — | — | 4 | 0.09% | |
| United Kingdom | 21,579 | 302,530 | — | — | 944 | 3,967 | — | 21 | 3,988 | 97.06% | — |
| ii) Total ¹ | 21,579 | 302,530 | — | — | 944 | 3,967 | — | 21 | 3,988 | 97.06% | |
| iii) Rest of the World ¹ | 880 | 220 | — | — | 1,472 | 85 | — | 32 | 117 | 2.85% | |
| Total | 22,460 | 302,838 | — | — | 2,416 | 4,056 | — | 53 | 4,109 | 100.00% | |

Amount of institution specific countercyclical capital buffer

| | 2021 | 2020 |
|---|----------|----------|
| Total risk exposure amount | £60,807m | £61,304m |
| Institution specific countercyclical buffer rate | 0.001% | 0.000% |
| Institution specific countercyclical buffer requirement | <£0m | <£0m |

1 The breakdown by country is disclosed on the following basis:

- i) those countries for which a countercyclical capital buffer rate has been set.
- ii) those countries for which a countercyclical capital buffer rate has not been set and have an own funds requirement weighting of greater than or equal to one per cent, the threshold having been determined by the Group in accordance with the EBA guidelines on materiality for Pillar 3.
- iii) the aggregate of all remaining countries for which a countercyclical buffer rate has not been set and individually have an own funds requirement weighting of less than one per cent.

2 For the purposes of the calculation of the countercyclical capital buffer, general credit risk and trading book exposures exclude exposures to central governments, central banks, regional governments, local authorities, public sector entities, multilateral development banks, international organisations and institutions. In addition, trading book exposures are limited to those that are subject to the own funds requirement for specific risk or incremental default and migration risk.

3 General credit and securitisation exposures include counterparty credit risk and are stated on a post CRM basis.