

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 £m	Exposures to be secured ¹ £m	Exposures secured by collateral ² £m	Exposures secured by financial guarantees £m	Exposures secured by credit derivatives £m	Exposures unsecured – carrying amount £m	Exposures to be secured ¹ £m	Exposures secured by collateral ² £m	Exposures secured by financial guarantees £m	Exposures secured by credit derivatives £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	£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	£m	£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	£m	£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		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:		On performing forbore exposures £m	On non-performing forbore 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 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	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	Of which: defaulted £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												
	£m	Performing		Non-performing £m	Unlikely to pay that are not past-due or past-due < 90 days							
		Not past due or Past due <= 30 days £m	Past due > 30 days <= 90 days £m		Past due < 90 days £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	Of which: defaulted £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 £m	Of which stage 2 £m	£m	Of which stage 2 £m	Of which stage 3 £m	£m	Of which stage 1 £m	Of which stage 2 £m	£m	Of which stage 2 £m	Of which stage 3 £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
	Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3				
	£m	£m	£m	£m	£m	£m	£m	£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	Items extracted from the Bank's statutory balance sheet(1) £m	Adjustments							Notes	Reversal of IFRS 9 Transitional arrangements £m	Transitional own funds (IFRS 9 full impact) (10) £m
			Deferred tax £m	Threshold adjustments £m	Non-eligible instruments (9) £m	Amounts excluded from AT1 due to Cap (9) £m	Regulatory and other adjustments £m	Transitional own funds £m				
	Common equity tier 1 (CET1) capital: instruments and reserves											
Share capital	Capital instruments and related share premium accounts	5,847						5,847				5,847
	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											
Goodwill and other intangible assets	Additional value adjustments							(78)	(78)	3		(78)
	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 Fully loaded £m	31 Dec 2020 Fully loaded £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						
	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	Total	2021 Own funds requirement weights	2021 Countercyclical capital buffer rate	
	£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) Total ¹	—	70	—	—	—	5	—	—	5	0.12%		
United Kingdom	12,254	317,764	—	—	423	4,011	—	6	4,017	98.07%	—	
ii) Total ¹	12,254	317,764	—	—	423	4,011	—	6	4,017	98.07%		
iii) Rest of the World ¹	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			
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.