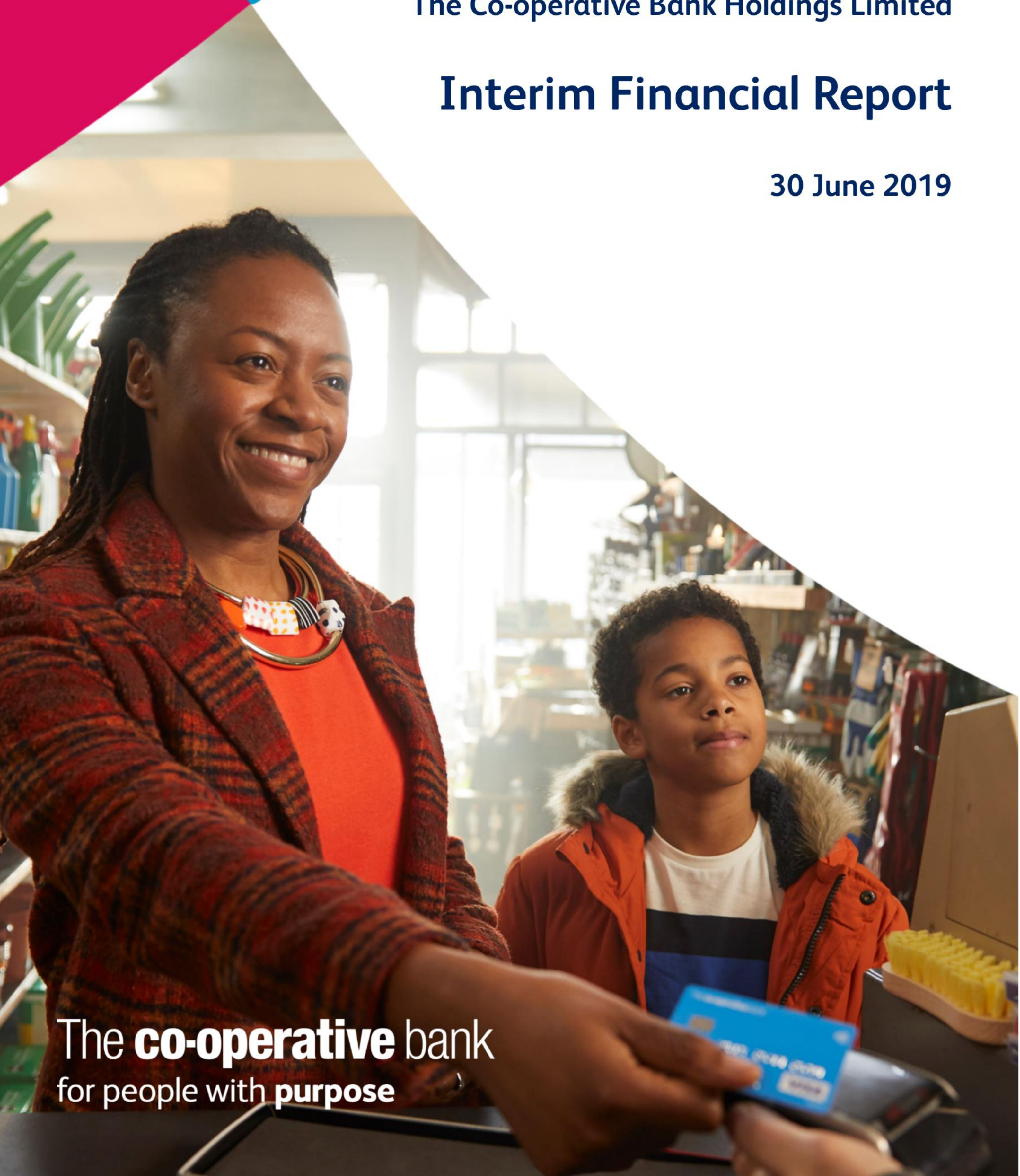
The Co-operative Bank Holdings Limited

Interim Financial Report

30 June 2019



The co-operative bank
for people with purpose

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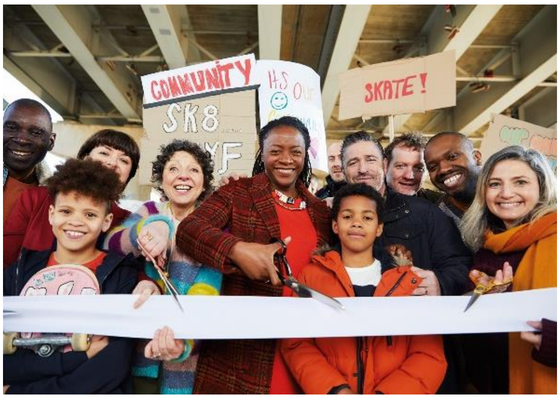

About us

The Co-operative Bank provides high street and internet banking, current accounts, mortgages, savings accounts and credit cards to retail and small and medium sized enterprises (SME) customers. We trace our roots back to our origins as the Loans and Deposits department of Co-operative Wholesale Society in 1872 and we have worked hard ever since to provide our customers with a real alternative to our larger competitors. We pride ourselves on our customer service and customer satisfaction levels. We always put our customers at the heart of what we do, and are also committed to the values and ethics of the co-operative movement. The Co-operative Bank was the first UK high street bank to introduce a customer-led Ethical Policy setting out the way we do business, a policy shaped by over 320,000 customer responses since 1992.

Our group structure

In the following pages the term "Group" refers to The Co-operative Bank Holdings Limited and its subsidiaries. Further detail on the group structure is provided on page 28.

Forward-looking statements

As we operate in an integrated way, we aim to report in an integrated way. As well as reporting our financial results, we also report on our approach to operating responsibly and take into account relevant economic, political, social, regulatory and environmental factors.

This Interim Report has been prepared solely to provide additional information to members to assess the Group's performance and strategies, and should not be relied on by any other party or for any other purpose. It contains certain forward-looking statements, which are made by the directors in good faith based on the information available to them up to the time of their approval of this report. Such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

Contact us

View our Annual Report and Accounts and other information about The Co-operative Bank at:

www.co-operativebank.co.uk/investorrelations

Visit our website:
co-operativebank.co.uk

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The Co-operative Bank plc

A glossary of key terms used in this Interim Report can be found on page 218 of the 2018 Annual Report and Accounts.

Our purpose

We pioneer banking that makes a positive difference to the lives of our customers and communities.

Our vision

To become a customer-centric, efficient and financially sustainable UK retail and SME Bank distinguished by its values and ethics.

Our products and services

We offer a range of fair and transparent products to both retail and SME customers using our ethical approach as a differentiator. Our clear, fair and transparent products are designed to meet our customers' needs and to reflect the values and ethics that we and our customers believe in.

Current accounts and savings

We will enhance our current account offer through the continued development of our digital services and products that meet the needs of our customers. We will seek to grow market share in savings with an increased focus on retaining existing customers and attracting new customers. We will enhance our propositions and improve service, in line with changing customer needs.

Mortgages

We will continue to offer mortgages through our Platform intermediary brand. Our strategy is to support customers' home ownership aspirations and needs throughout their lives including provision for first-time buyers. Offering excellent customer service and good value products to a broader range of customers will differentiate the Bank's mortgage proposition and drive commercial value.

Credit cards

We offer credit cards with competitive rates. We do not apply risk based pricing to credit card applications. This means the rate is not affected by the customer's credit score and they always get the advertised rate if they are accepted.

SME banking

We are investing in our SME business, building on our strong business current account proposition and focus on serving smaller SMEs who are attracted by, and aligned with, our ethical brand. We will invest in our online banking platform and digitise the current account opening experience.

Providing our customers with a choice of channels

We are committed to supporting customers through the channels of their choice. With increasing numbers adopting digital services, key customer journeys will be digitally enabled to ensure customers experience real time convenient banking which meets their needs.

At the same time, our network of 68 branches will be revitalised as the community access point to the Bank's ethical banking proposition and focal point for the Bank's role in local communities. Our award-winning customer contact teams will continue to support customer needs for advice, support and complex problem solving.

How we generate income

- On the difference in interest rates received from borrowers relative to that paid to savers (customer net interest margin).
- We receive interest on the money we lend.
- Via fees and commissions receivable on products offered.
- We pay interest on our external sources of funding, including wholesale funding and deposits from customers.
- We pay fees and commissions.

We incur costs

- In running the business – our operating expenses.
- To deliver our strategic projects, investing in our future.
- Funding our legacy pension obligations.
- Through provisions for bad debt and other exposures.
- When making charitable donations for the benefit of the wider community.

The bottom line is that…

… we believe that doing good is as important as doing well in business

Delivering our Plan

Our results are ahead of our expectations set out in our Financial Plan at the start of the year, but nevertheless the business reported an overall statutory loss before tax and an underlying loss as defined by management[1]. Our priority remains to return the Bank to a position of sustainable profitability in the future against a challenging external environment with continuing margin pressure. To do so, we are investing in the future of the Bank through marketing channels, our capabilities and in transforming our IT infrastructure. This impacts some financial metrics year-on-year, as planned under the Group's strategy.

The performance for the first half is compared to the performance for the same period in 2018 where the metric is one that is measured over time. Where metrics are a point in time assessment, the comparison is to 31 December 2018.

Statutory loss before tax [1]	Underlying (loss)/profit [1]	Customer net interest margin	Underlying cost: income ratio
£(38.5)m	£(2.8)m	1.83 %	101.0 %
30 June 2018: £(39.5)m	30 June 2018: £11.2m	30 June 2018: 2.08%	30 June 2018: 95.7%

1. The underlying loss stated above is a non-statutory measure that management uses to assess business performance. It is adjusted for certain expenses and is reconciled to the relevant statutory measures on page 10.

From a solid foundation and investing for the future

Following the Tier 2 debt issuance in April, total capital increased to £1.27bn (26.1 %) at 30 June 2019 from £1.13bn (22.3 %) at 31 December 2018.

Common Equity Tier 1 (CET1)	Well above the minimum liquidity ratio	Stable risk weighted assets	Investing in strategic projects
21.9 %	156.6 %	£4.9bn	£52.7m
31 December 2018: 22.3% Regulatory minimum: 12.9%	31 December 2018: 153.8% Regulatory minimum: 100%	31 December 2018: £5.1bn	30 June 2018: £45.4m

Putting our customers first

Customer needs start all of our conversations and shape all of our actions.

Providing funding for homes…		…and a range of savings options	
New mortgage completions	Net residential Lending	Customer deposits	Prime current account holders
£1.7bn	£0.4bn	£18.8bn	617k
30 June 2018: £2.1bn	30 June 2018: £0.5bn	31 December 2018: £18.7bn	31 December 2018: 627k

Working co-operatively with our customers

Our customers were instrumental in the development of our new mobile banking app, which was launched in January 2019.

Changes were tested with a customer panel every two weeks, to ensure they met their needs and to guide the order that new functionality was added.

We have continued to use this approach in 2019 as we further develop our app and other digital channels.

Engaged and purposeful colleagues

People with purpose united delivering the commitments we have made in our Ethical Policy.

Employee engagement score	Percentage of senior roles held by women	Employee turnover (voluntary leavers)
80 %	40.6 %	6 %
	31 December 2018: 40.5%	30 June 2018: 7%

Improving our customer service

Delivering award winning service through our People with Purpose.

Number of branches	Mortgage application to offer average	Current account Customer satisfaction (NPS)	Customers migrated to our new mobile digital app
68 (and no plans for closure)	13.5 days	+23 (Regaining our top three market position)	350k
31 December 2018: 68	30 June 2018: 16.0 days	30 June 2018: +24	

Supporting our local communities

We continue to tackle youth homelessness through our partnership with Centrepoint and make a difference to our customers' local communities through volunteering and fundraising for the charities and causes which are important to them.

Funding for Centrepoint (raised since May 2017)	Colleague volunteering (average hours per volunteer)	Colleague Volunteering hours
£1.1m	6.5	1,756
30 June 2018: £0.8m	30 June 2018: 4.7	30 June 2018: 1,888

Outlook

Based on performance so far in 2019, we are expecting to largely outperform the guidance that we provided in the 2018 results announcement. Key highlights include an upward revision to our CET1 ratio and an underlying cost:income ratio lower than previously indicated. Our customer net interest margin is trending to the lower end of our expectations, driven by both internal and external factors, in particular the latest projections in interest rates. Delivery of these expectations is based, amongst other things, on an orderly exit from the European Union, and as highlighted in this report, there remains ongoing political and economic uncertainty surrounding the likelihood and the potential impact of a 'no deal Brexit' in the autumn.

Other challenges we face include ongoing intense market competition and sustained pressure on margins. We do believe that the Group is well placed to execute the remainder of the 2019 financial plan and the milestones set for the remainder of this year within the multi-year strategic plan. We continue to 'fix the basics' in the initial phase of our multi-year transformation, to set us on the right course to enable the future and to establish a sustainable advantage as part of the later phases of our strategy.

Our co-operative values and ethics in action

Since we were formed in 1872, we have been committed to keeping co-operative principles at the heart of our business. Our commitment to promote co-operative values is part of our customer-led Ethical Policy, which is part of the Bank's Articles of Association and central to everything we do.

Our co-operative brand relies on how we do business rather than our ownership. Although the ownership of the Bank changed in 2017, our commitment to the co-operative values and principles on which we were built remains as strong as ever.

Our Ethical Policy has been shaped by over 320,000 customer responses since 1992 and the five pillars below collectively define our commitment to deliver ethical banking.

Ethical banking

We do not provide banking services to businesses and organisations that conflict with our Ethical Policy.

Our Ethical Policy includes commitments not to provide banking services to businesses that conflict with our customers' values and ethics, including concerns regarding human rights, pay day lenders and extraction or production of fossil fuels.

In H1 2019 we reviewed all of our SME banking applications, declining new business where appropriate, to ensure we don't provide banking services to businesses which conflict with our Ethical Policy.

Ethical products and services

We seek to offer products and services that reflect our values and ethics.

Our customers support five leading UK charities through our Everyday Rewards product. Customers who choose to donate their Everyday Rewards of up to £5.50 per month. In H1 2019, donations increased by 18% compared to the same period last year, raising over £150,000 this year so far.

Ethical business

We endeavour to behave ethically in how we run our business, including our relationships with suppliers and external organisations.

We have reported our GHG emissions since 1998 and in 2018 our total carbon emissions were 39% lower than in 2017. Since 2007 we have been beyond carbon neutral and continue this commitment by offsetting our operational carbon emissions. Our offsetting programme supports carbon reduction projects around the world.

In H1 2019 we set an ambitious goal to send **zero waste to landfill by the end of 2020.** We'll achieve this through our long-term waste and material consumption strategy, which adopts the principles of the circular economy – reducing, reusing, recycling and transitioning to circular solutions.

thehive.
Building better co-operative businesses

We continue to support the co-operative movement and our funding for **the Hive**, the business support programme developed in partnership with Co-operatives UK, will continue to the end of 2020.

CO-OPERATIVES UK
coop

We demonstrated our ongoing support for co-operative businesses by sponsoring the annual Co-operatives UK congress and the annual Co-operative of the Year awards in June. These events were attended by co-operative business leaders from across the UK.

Ethical workplace and culture

Our workplace culture reflects our co-operative values and ethics.

Our colleagues are people with purpose. **270** of them have volunteered **1,756** hours to the local charities and community projects, tidying up parks and school gardens, as well as continued regular support for local foodbanks and supporting long-term unemployed people at the Business In the Community Ready for Work Job Club.

Ethical campaigns

We campaign for social and economic change in line with our values and ethics.

centre point give homeless young people a future

Our work continues to support the vision to end youth homelessness in the UK through our partnership with Centrepoint. For every new mortgage or product switch we make a donation to Centrepoint, which together with colleague and customer fundraising, has now raised **£1.1m**. This funding gives vulnerable young people across the UK access to specialist advice through the Centrepoint Helpline, and provides mental health and drug dependency support to young people in Manchester and Bradford. The Manchester arm of the Centrepoint Helpline was set up thanks to funding from The Co-operative Bank and, as a result, over **500** young people from the Greater Manchester area have benefitted in the first half of 2019.

Financial performance ahead of expectations
I am pleased to report our financial results for the first half of 2019. We have made a positive start to the year, and whilst we remain loss-making overall, the reported statutory loss before tax of £38.5m is ahead of expectations with the Group being near break-even on an underlying basis (a £2.8m loss). The successful issuance of £200m Tier 2 debt with strong support from our investor base was a significant step towards de-risking the Bank and delivering our commitment to achieve MREL compliance within the industry-wide timelines

In light of performance in the first six months of the year, we have revised our expectations for full year CET1 ratio upwards and lowered our expected underlying cost:income ratio for 2019. This reflects a resilient business performance, despite a challenging UK retail banking market and uncertain political and economic backdrop. Whilst this supports our confidence in delivering our commitments for 2019 and beyond, we recognise that these political and economic uncertainties are likely to continue and that the market in which we operate will remain intensely competitive.

Progress in delivering our multi-year transformation plan
We continue to make progress on a number of significant projects, improving the IT software available to our colleagues every day, progressing the separation of our IT infrastructure from the Co-operative Group and strengthening our mortgages and savings platforms to enable better product development.

We have delivered significant improvements to our digital proposition, launching a new mobile app and migrating over 350,000 current account customers. We continue to see increasing numbers of new retail and SME customers joining our Bank and we remain committed to enhancing our digital capabilities, enriching customer journeys and improving our customer products whilst continuing to provide award-winning customer service.

A focus area for the second half of 2019 is to continue to invest in improving customer experience to provide a platform for growth in future years.

Resilient business performance
We have seen a stable performance in retail current accounts, underpinned by our customer first approach, resulting in a sustained improvement in our current account net promoter score (NPS) regaining our top three market position. We have successfully launched a new Select Access Saver which has been well received. There has been a focus on optimising high quality, low cost deposits, enabling balanced franchise growth. Overall current account performance remains solid.

In our mortgage business, as many of our peers also note, margins remain compressed. However, we are starting to see improvements following the actions we have taken to enhance our customer, product and service proposition and improving the digital experience for our customers through online switching capabilities. We have also seen controlled balance growth within a strongly competitive market with balances increasing by £1.1bn year-on-year.

We were delighted to be awarded £15m to improve and grow our SME banking business by Banking Competition Remedies (BCR). Our SME banking business is a key priority and we see considerable potential for growth. We will continue to invest in and develop our award-winning SME business offering as a genuine alternative to the 'Big 5' banks, focusing on the growing numbers of SMEs who are aligned with our People with Purpose brand and co-operative heritage.

Celebrating co-operative values and ethics
We are proud of our heritage as part of the co-operative movement and consider this a key strength at a time when consumers are increasingly seeking ethical choices. We continue to be the only UK high-street bank with a customer-led ethical policy shaped by our customers' views over 25 years. We were delighted to support this year's Co-operative Congress, and to celebrate the most innovative and successful co-operatives through the Co-operative of the Year Awards. We have supported the growth of this important sector of the economy with Co-operative UK's business support programme, The Hive, since 2016.

Our Everyday Rewards current account proposition enables our customers to support the causes that matter to them and we donated over £150,000 to charity partners in the first half of 2019, an increase of 18% year-on-year. Every new mortgage product helps end youth homelessness in the UK and we are proud to have raised over £96,000 so far this year in collaboration with customers and colleagues to support specialist homelessness charity Centrepoint, bringing total support to £1.1m since April 2017.

We put our co-operative values and ethics at the forefront of our new multi-media advertising campaign "For People with Purpose." Our campaign has been well received by both customers and colleagues, and we were delighted to be voted 'Most Trusted Mainstream Bank' at the Moneywise Customer Service Awards 2019.

Building our future

As we seek to return to sustainable profitability, we will continue to invest in our franchise, re-energise our brand proposition and re-engage our loyal customer base.

We will continue to transform, develop and deliver award-winning products and services whilst investing in key growth areas such as our SME business. We will increase momentum in our digital capability and continue to evolve the way we deliver change as we move to new more agile ways of working.

We will drive further efficiency and strengthen our robust approach to risk management and capital optimisation whilst delivering regulatory requirements to ensure the Bank remains safe.

I believe we are uniquely positioned to continue our support of retail customers and UK SMEs and I am confident that we can continue to build a sustainable Co-operative Bank and deliver on our commitment to provide an ethical banking proposition for our customers.

Andrew Bester
Chief Executive

7 August 2019

Continuing to deliver award-winning service - our recent awards

- Branch Network of the Year awarded by Moneyfacts two years in a row in January 2019.
- Best Charity Banking Provider awarded by Moneyfacts 3 years in a row.
- Best Service from a Business Bank awarded by Moneyfacts 2 years in a row.
- Moneyfacts 5 star rating for current account.
- Moneyfacts 5 star rating for current account plus.

Most Trusted Mainstream Bank

Fairer Finance Gold Ribbon status on our Current Accounts

Best packaged bank accounts

5* Rated Standard Current Account and Everyday Extra products

Worship Savings Account

Best Buy Current Account

Customer First

The Board has overseen embedding of our customer-first delivery model, which requires that, at all levels, the impact on our customers is considered as part of our decision-making and in the execution and management of the Group's strategic commitment to its customers. In the first half of 2019, the Group has created a dedicated Customer First Committee to support embedding these practices into day-to-day operations.

Strategy

Oversight of the ongoing delivery of our multi-year transformation strategy.

Enhancement of our mortgage and savings propositions.

Success in our C&I funding bid resulting in a grant for £15m to invest in our SME business.

Re-energising our brand, re-engaging existing and attracting new customers through our multi-channel brand.

Values & Ethics

Ensuring our values and ethics are at the heart of everything we do.

Oversight of the Bank's continued commitment to co-operative values and ethics including:

- Commitment to zero waste to landfill by the end of 2020.
- Ending youth homelessness through our partnership with Centrepoint raising £1.1m through customer and colleague fundraising.

Regulatory

Keeping the Bank safe.

Refining our risk management framework to provide greater security for our customers.

Ensuring our capital and liquidity ratios exceed the regulatory minimums, managing compliance with MREL requirements through the Bank's Financial Plan and the journey to full capital buffer compliance.

Issuance of Tier 2 debt.

Strategic Projects & People

Strategic projects and People

The Board continues to monitor the Group's effective deployment of resources to deliver the planned objectives and outcomes set out in the Plan. This includes oversight of activities to build internal capabilities (including technology) and capacity to deliver as expected. The main focus in the first half of 2019 has been:

- the oversight of key strategic projects, in terms of progress and costs; and
- oversight of the Group's 'People' priorities including the introduction of a new performance management framework aligned to the Group's longer-term objectives.

FINANCIAL REVIEW

All numbers are stated in £m unless otherwise indicated.

Performance is ahead of expectations set out in the Group's Financial Plan

The Group uses a number of alternative performance measures, including underlying profit or loss, to monitor its financial performance and financial position. The statutory result, a loss before tax of £38.5m, which is defined by accounting rules is also monitored for the Group overall, and is in line with the result achieved in the six months ended 30 June 2018, a loss of £39.5m.

The items adjusted to determine underlying profit or loss comprise the investment expense on strategic projects including severance and other costs to deliver the strategic projects, legacy charges for customer redress (most notably Payment Protection Insurance), changes in the fair value of the Surrendered Loss Debtor and the unwind of the discount on the IAS 19 pension surplus. Underlying performance is monitored by management on a segmental basis. The segments are Retail Banking, Business Banking for small and medium-sized enterprises (SME) and Treasury balances. The remainder of the business relates to legacy operations which the Group is looking to exit, or is attributable to the Group overall and not to any particular segment.

Underlying performance – segmental view

The Group's segmental presentation reflects the organisational and management structure at the reporting date. Prior year comparative information is re-stated to reflect the current year structure. Further information is provided in note 3 to the financial statements.

Six months ended 30 June 2019 £m	Core				Legacy &	
	Retail	SME	Treasury	Total	unallocated	Group
Net interest income	133.1	19.8	6.5	159.4	1.9	**161.3**
Other operating income	7.4	8.1	14.5	30.0	(0.1)	**29.9**
Operating income	**140.5**	**27.9**	**21.0**	**189.4**	**1.8**	**191.2**
Credit impairment (losses) / gains	(3.6)	3.4	-	(0.2)	(0.6)	**(0.8)**
Operating costs – staff						**(62.5)**
Operating costs – non-staff						**(122.5)**
Continuous improvement projects						**(8.2)**
Operating expenses						**(193.2)**
Underlying loss						**(2.8)**

Six months ended 30 June 2018 £m	Core				Legacy &	
	Retail	SME	Treasury	Total	unallocated	Group
Net interest income	138.2	20.1	11.0	169.3	4.6	**173.9**
Other operating income	8.6	7.9	1.1	17.6	1.4	**19.0**
Operating income	**146.8**	**28.0**	**12.1**	**186.9**	**6.0**	**192.9**
Credit impairment (losses) / gains	(2.3)	2.8	-	0.5	2.4	**2.9**
Operating costs – staff						**(64.8)**
Operating costs – non-staff						**(110.4)**
Continuous improvement projects						**(9.4)**
Operating expenses						**(184.6)**
Underlying profit						**11.2**

In the current period, the Group has made an underlying loss of £2.8m (six months ended 30 June 2018: profit of £11.2m). Whilst operating income is largely in line overall, income generated by core segments (Retail, SME and Treasury) of £189.4m is 1.3% higher than in 2018. Management expects income from legacy operations to reduce as the Group exits those products and services. Net interest income is lower in 2019 than in the six months ended 30 June 2018 (5.8% reduction in core segments to £159.4m). This continues the trend reported at the year end, where compression of retail mortgage margins is being experienced by UK lenders across the market which is only partially offset by reduced funding costs. The reduction in net interest income is offset by an increase in non-interest income, primarily in Treasury, as a result of an increase in the fair value of Visa shares and sales of gilts.

During the same period, operating costs have increased by 4.9%, leading to an increase in the underlying cost:income ratio from 95.7% to 101.0%. This reflects the Group's planned investment to reinvigorate and energise its brand and in its people as part of the strategy to build the future of the Bank. More information on the results by segment is given on pages 13 to 14.

Income statement – reconciliation to IFRS basis

Six months ended 30 June	2019	2018
Underlying (loss)/profit	**(2.8)**	11.2
Strategic project costs	**(52.7)**	(45.4)
Legacy net customer redress charge	**(2.5)**	(11.0)
Surrendered Loss Debtor revaluation	**7.8**	3.7
Pensions	**8.6**	1.8
Non-recurring	**3.1**	0.2
Statutory loss before tax	**(38.5)**	(39.5)

The statutory loss before tax for the six months ended 30 June 2019 is in line with the same period for 2018, despite the underlying loss in 2019 as the Group invests in its future. The increased expenditure on strategic project costs is principally focused on digital development, separation from the Co-operative Group and in desktop transformation.

In 2019, the Group has, to date, incurred a reduced charge for legacy net customer redress, principally PPI. The level of provision is being closely monitored as the PPI time-bar approaches. As part of a legacy arrangement, the Group received a final payment in relation to its sale of Vocalink. Such items are non-recurring in nature and are therefore excluded from the underlying result.

Balance sheet

As at 30 June 2019 £m	Core				Legacy &	
	Retail	SME	Treasury	Total	unallocated	Group
Assets	**16,187.2**	**208.4**	**4,503.8**	**20,899.4**	**2,504.6**	**23,404.0**
Liabilities	**(16,650.0)**	**(2,049.9)**	**(2,444.1)**	**(21,144.0)**	**(520.0)**	**(21,664.0)**

As at 31 December 2018 £m	Core				Legacy &	
	Retail	SME	Treasury	Total	unallocated	Group
Assets	15,846.7	291.3	4,501.9	20,639.9	2,462.9	23,102.8
Liabilities	(16,595.3)	(1,999.7)	(2,309.3)	(20,904.3)	(448.4)	(21,352.7)

In the first six months of the year, core segment assets have increased by £260m, driven by controlled growth of retail lending. Core segment liabilities have also grown by a similar amount of £240m over the same period. The growth in liabilities has been seen across both the Retail and SME segments.

Legacy and unallocated assets have grown in the first six months of the year in total. Legacy assets have decreased by £82m as they continue to run-off and we explore options for how we can redeploy the capital consumed in these businesses. Other unallocated assets have grown by £141m largely reflecting the right of use assets under IFRS 16 adopted in the period (£75m) and the increase in net pension surplus (£55m).

Legacy and unallocated liabilities have also grown in the first six months of the year. Legacy balances represent the customers which the Group is seeking to exit, but whilst remaining with the Group, such deposit balances can fluctuate month on month. This accounts for a £30m increase between December 2018 and June 2019. Other liabilities which are unallocated also increased, primarily due to the recognition of lease liabilities under IFRS 16 and fluctuations in accrued expenditure.

Capital

£m unless stated	30 June 2019	31 December 2018
CET1 and total Tier 1 capital	**1,065.9**	1,128.0
Tier 2 capital	**205.5**	-
Total capital	**1,271.4**	1,128.0

CET1 and Tier 1 resources

CET1 resources decreased by £62.1m since 31 December 2018, principally due to the loss incurred in the first half of 2019 and contributions into the pension schemes during that period.

Tier 2 capital

The Group completed a £200m Tier 2 capital transaction in April 2019 to strengthen capital and MREL resources and expects to issue further MREL qualifying transactions in the future. The fair value of the transaction at 30 June 2019 is £204.5m, reflecting the net impact of changes in interest rates, accrued interest and transaction costs.

£m unless stated	30 June 2019	31 December 2018
Capital ratios and other capital metrics		
CET1 ratio	**21.9%**	22.3%
Total capital ratio	**26.1%**	22.3%
Total Capital Requirement (TCR)	**812.7**	843.4
Surplus to regulatory minimum TCR	**456.4**	284.6
Overall Capital Requirement (OCR)	**983.2**	988.7
Surplus to regulatory minimum OCR	**285.9**	139.3
Risk weighted assets		
Credit risk	**4,411.8**	4,506.6
Market risk	**-**	-
Operational risk	**457.7**	546.9
Total risk weighted assets	**4,869.5**	5,053.5

The reported CET1 ratio of 21.9% at 30 June 2019 (31 December 2018: 22.3%) remains well above the regulatory minimum. As at 30 June 2019, the Group had Pillar 1 requirements equivalent to 8.0% of total risk weighted assets (RWAs) and an Individual Capital Requirement (ICR) equivalent to 8.69% of total RWAs (8.69% at 31 December 2018). The Group meets the Total Capital Requirements (TCR) - 16.69% of RWAs (or £812.7m) - with a surplus of £456.4m. MREL requirements in the first half of 2019 are aligned to TCR.

The Group has an Overall Capital Requirement (OCR) of 3.5% of RWAs (or £170.5m) above the TCR, which is higher than in 2018 due to an increase in the capital conservation buffer from 1.875% to 2.5% of RWAs. The Group meets this requirement with a surplus of £285.9m. The Group is targeting compliance with the PRA buffer by the end of the planning period and this surplus to OCR contributes towards meeting this target.

Risk weighted assets (RWAs)

Total RWAs have declined throughout the year and comprise credit and operational RWAs. Credit RWAs in total have reduced by £94.8m. Credit RWAs in respect of retail have increased by £122.2m, but this is offset by reductions in treasury and other (£104.3m), legacy corporate business (£39.7m), Optimum (£19.2m) and SME (£53.8m). The increase in retail RWAs is driven by the increase in the mortgage portfolio as the Platform book continues to grow.

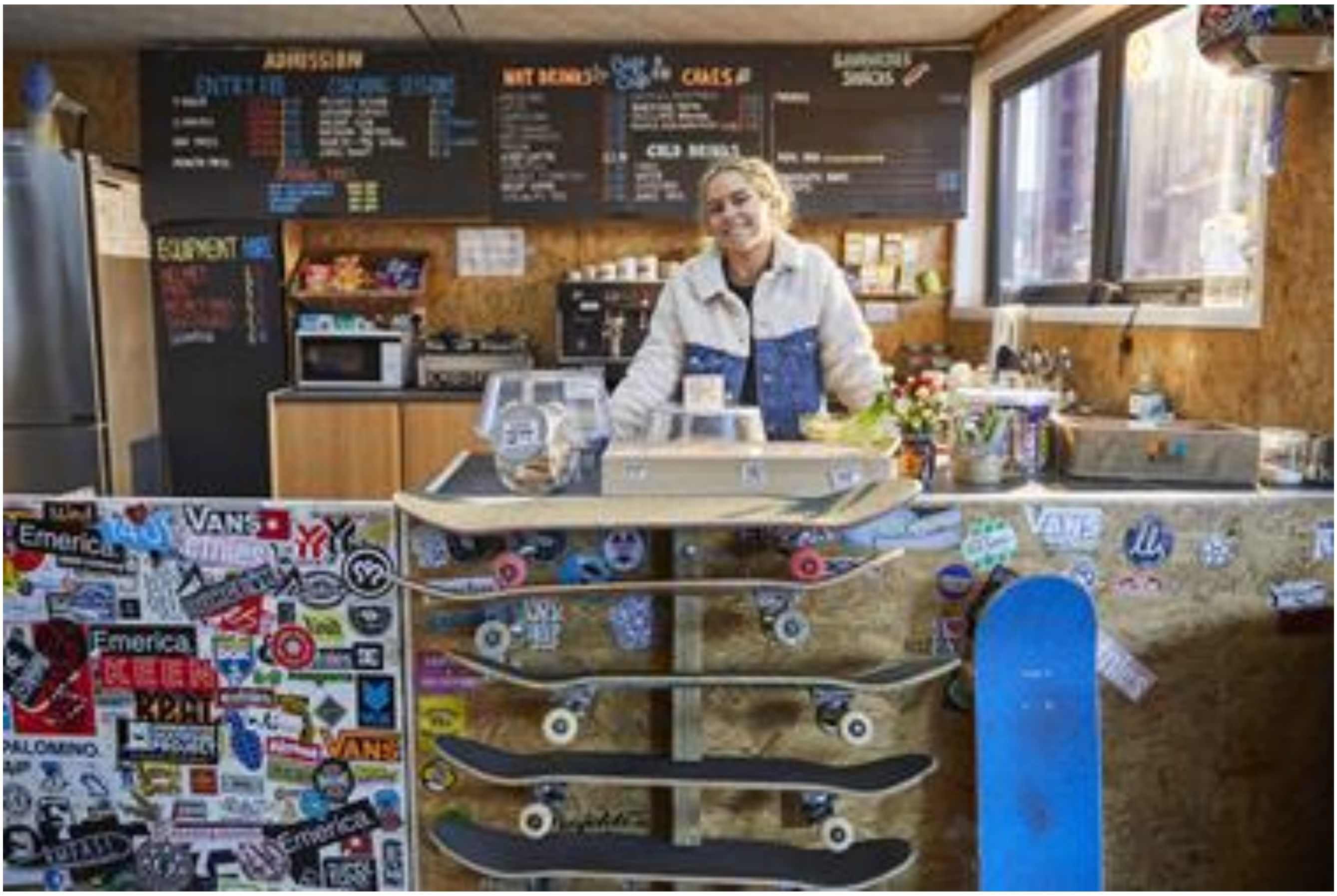
This is only partially offset by the continued reductions in retail unsecured lending. Corporate RWAs decrease as exposures continue to reduce, reflecting contractual and out-of-cycle repayments. This reduction is spread across the key corporate sectors such as SME, Registered Social Landlords (RSLs) and Commercial Real Estate.

Operational RWAs have reduced by £89.2m reflecting a reduction in the Bank's three-year average gross income.

Liquidity remains strong with primary liquidity remaining in line with the year end alongside the loan to deposit ratio, asset encumbrance ratio and Liquid Coverage Ratio (LCR) at 156.6% (153.8%: 31 December 2018).

Potential securitisation of Legacy retail secured mortgages

The Group is exploring the potential securitisation of a £0.3bn portfolio of remaining legacy retail secured mortgages that, if executed, would be on terms expected to be day 1 capital accretive to the Group.



Business segment performance review

Retail

	Six months ended 30 June		
	2019	2018	Change
Net interest income	**133.1**	138.2	(3.7%)
Other operating income	**7.4**	8.6	(14.0%)
Operating income	**140.5**	146.8	(4.3%)
Credit impairment losses	**(3.6)**	(2.3)	56.5%
Income net of impairment	**136.9**	144.5	(5.3%)

	30 June 2019	31 December 2018	Change
Secured	**15,858.6**	15,494.7	2.3%
Unsecured	**328.6**	352.0	(6.6%)
Loans and advances to customers	**16,187.2**	15,846.7	2.1%
Customer deposits	**16,650.0**	16,595.3	0.3%
Total retail current accounts	**1.3m**	1.3m	-

The segment includes the results of the savings and lending products to retail customers. Overall, the external market remains intensely competitive in terms of price and risk appetite. The macroeconomic environment – and the housing market in particular – continues to suffer from continued political uncertainty. As a result, and as expected, we continue to see pressure in margins.

Lending

The Bank has targeted and achieved a controlled level of growth in a competitive market. 35% of the mortgage book relates to customers who have taken a product in the last 12 months. Margin pressure remains, largely driven by two market-wide factors: firstly, the expiry of historical fixed rate products which were at a higher margin, with the preference to switch to a new fixed rate product before expiry, and secondly, the current low level of Standard Variable Rates (SVR) for the small numbers who do not switch before expiry. This contributes to a decrease in net interest income in the year to date. We continue to seek to balance the trade-off between volume of new business and margin in today's competitive environment. We have, however, increased our focus on retaining our existing customers and have seen an increase in customer retention since the start of the year.

During the first half of 2019, a number of key improvements have been made to customer experience. Firstly, there is an improved choice of channels available to existing customers, for example online channels have been made available to those who wish to switch products for both direct customers and those who have arranged their mortgage via an intermediary. Online switching is also available for our buy-to-let customers who arrange their mortgage with us directly. We have also enhanced the digital experience via the new Platform website and reduced the average time from application to offer by 16%.

Deposits

Performance in the first half of 2019 has been encouraging. Customer satisfaction measures, net promoter scores, have improved for both our current account and savings products. These improvements are driven by the launch of the new mobile app, enhancements to customer communication strategies and investment in our brand. Whilst the customer base has remained broadly flat, the average customer balance for both current accounts and savings products combined has increased to £5.3k from £5.0k since December 2018. We have been successful with our retention and attraction strategy, increasing the number of 'new to bank' savings customers by 6.4k since December 2018 (3.3k in the six months to 30 June 2018) and reducing the number of high usage customers (those with a savings balance over £10,000) leaving the Bank. Overall, customer deposits have grown slightly, represented by growth in variable savings balances, partly offset by planned reductions in term deposits. Growth in customer deposits supports the Group's lending strategies.

SME

	Six months ended 30 June		
	2019	2018	Change
Net interest income	**19.8**	20.1	(1.5%)
Other operating income	**8.1**	7.9	2.5%
Operating income	**27.9**	28.0	(0.4%)
Credit impairment gains	**3.4**	2.8	21.4%
Income net of impairment	**31.3**	30.8	1.6%

	30 June 2019	31 December 2018	Change
Loans and advances to customers	**208.4**	**291.3**	**(28.5%)**
Customer deposits	**2,049.9**	**1,999.7**	**2.5%**

SME customer deposits have increased by 2.5% in the first half of 2019, although net interest income is largely in line with 2018 levels. In the second half of the year, growth will be supported by a range of initiatives that have commenced and will continue throughout 2019 to enhance all aspects of customer experience and product offering. We do not, however, expect the NIM widening seen in the first half to continue. In April, we were pleased that our bid to the Banking Competition Remedies was successful for Capability & Innovation (C&I) funding of £15m which, along with the Group's own contribution of £17m, will drive further enhancements over the longer term.

In the first half of 2019, there have been targeted reductions in the Bank's corporate portfolio overall, with larger corporates being reclassified into legacy operations as we seek to focus on our core small and medium-sized customers. We have seen an improvement in our net promoter score and we are placed in the top quartile by an external benchmarking survey across the UK SME banks in relation to customer satisfaction.

Treasury

	Six months ended 30 June		
	2019	2018	Change
Net interest income	**6.5**	11.0	(40.9%)
Other operating income	**14.5**	1.1	> 100%
Operating income	**21.0**	12.1	73.6%
Credit impairment gains	-	-	n/a
Income net of impairment	**21.0**	12.1	73.6%

	30 June 2019	31 December 2018	Change
Assets	**4,503.8**	4,501.9	-
Liabilities	**2,444.1**	2,309.3	5.8%

The reduction in net interest income is principally due to three factors: the lower levels of mortgage backed securities held on average in the balance sheet following sales of such assets in the final quarter of 2018 (£1.3m); the higher interest charges in 2019 following the issuance of Tier 2 debt in April (£3.0m); and thirdly the impact of the amortisation of hedge accounting adjustments related to terminated swaps on this income statement line (£2.7m). The amortisation of hedge accounting adjustments related to terminated swaps was recorded in other operating income in 2018.

Other operating income has increased period-on-period. The drivers include: the non recognition of amortisation of hedge accounting adjustments related to terminated swaps in this line item in 2019 (as noted above) for which an expense of £2.9m was recorded in 2018; an increase on gains on sales of gilts and mortgage backed securities of £4.4m; an increase in gains on equities of £3.6m; and other fair value movements of £2.3m.

Responsibility statement

We confirm that to the best of our knowledge:

- the condensed set of financial statements have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting';
- the Interim Financial Report includes a fair review of the information presented in relation to the indication of important events during the first six months and the description of principal risks and uncertainties for the remaining six months of the year; and,
- the Interim Financial Report includes a fair review of the information presented in relation to the disclosure of related parties' transactions and changes therein.

Signed on behalf of the Board of Directors:

Bob Dench
Chairman
7 August 2019

Risk Management Framework

There have been no material changes to the Bank's Risk Management Framework (RMF).

Principal Risks and Uncertainties

The principal risks faced by the Group are:

- Capital
- Credit
- Model
- Market
- Pension
- Strategic
- Operational
- Liquidity and funding
- Reputational

Where relevant, the Group as a whole applies the same principal risk categories and risk management processes to the Holding Company, Issuer Company, Bank Company and their subsidiaries. The Group structure is explained on page 28.

Material changes to Principal Risks

Material changes to the risks faced by the Group compared to the 2018 year end position are detailed in the table below:

Governance

The Group's governance structure is detailed in the Risk Management section (1.5) of the 2018 Annual Report and Accounts.

Key updates to the 2018 year end position are:

- The formation of two new committees reporting to the Executive Committee aligned to the Group's ongoing strategy:

  a. People Committee - which provides oversight of the Bank's people management policies and procedures

  b. Customer First Committee - which provides oversight of the execution and management of the Bank's strategic commitment to its customers

- The Restructuring Committee has been re-constituted as the Investment & Project Oversight Committee reporting to the Group's Operating Committee

Principal Risk	Risk Title	Update
Capital	Macroeconomic Environment (Refer to the Risk Management section 1.6.1 of the 2018 Annual Report and Accounts)	The Group has continued to be subject to the macroeconomic uncertainties associated with Brexit which has been delayed until 31 October 2019 further increasing the period of uncertainty. The Group continues to monitor these uncertainties utilising a range of base, upside and downside economic scenarios.
Capital	Tier 2 / Minimum Requirement for Own Funds and Eligible Liabilities (MREL) (Refer to the Risk Management section 1.6.1 of the 2018 Annual Report and Accounts)	Improved position due to the Group successfully issuing £200m of Tier 2 debt in April 2019, representing 50% of planned issuances for the year. Further MREL debt issuances are necessary to ensure compliance with MREL requirements in the future.

Risk Management Framework
Full details can be found in the Risk Management sections (1.1-1.5) of the 2018 Annual Report and Accounts.

Principal Risks and Uncertainties
Those faced by the Group have been detailed in the Risk Management section (1.6.1-1.6.2) of the 2018 Annual Report and Accounts.

Credit risk is the risk to earnings and capital arising from a customer's failure to meet his/her legal and contractual obligations.

The Group manages credit risk on the following balance sheet items:
- Loans and advances to banks;
- Loans and advances to customers;
- Investment securities;
- Derivative financial instruments; and
- Other assets.

The most significant item is the Loans and advances to customers. This book is analysed further below by segment:

	Core		Legacy &		Of which:
30 June 2019	**Retail**	**SME**	**unallocated**	**Total**	**FVTPL**
Analysis of credit risk exposure					
Gross customer balance	16,185.4	210.0	1,439.3	17,834.7	119.2
Credit commitments	1,828.8	51.4	155.2	2,035.4	-
Gross customer exposure	18,014.2	261.4	1,594.5	19,870.1	119.2
Less: allowance for losses	(21.7)	(8.5)	(8.9)	(39.1)	-
Net customer exposure (Risk analysis)	17,992.5	252.9	1,585.6	19,831.0	119.2
Gross exposure for ECL calculation					
Gross customer exposure	18,014.2	261.4	1,594.5	19,870.1	
Less Fair Value Through Profit and Loss (FVTPL)	(2.0)	(5.8)	(111.4)	(119.2)	
Net customer exposure for ECL calculation	18,012.2	255.6	1,483.1	19,750.9	
Reconciliation of customer to accounting balances					
Net customer exposure	17,992.5	252.9	1,585.6	19,831.0	119.2
Less credit commitments	(1,828.8)	(51.4)	(155.2)	(2,035.4)	
Plus accounting adjustments	59.8	2.5	34.1	96.4	28.5
Gross loans and advances – note 8	**16,223.5**	**204.0**	**1,464.5**	**17,892.0**	**147.7**

	Core		Legacy &		Of which:
31 December 2018[1]	**Retail**	**SME**	**unallocated**	**Total**	**FVTPL**
Analysis of credit risk exposure					
Gross customer balance	15,843.5	282.6	1,532.7	17,658.8	123.9
Credit commitments	1,998.6	49.9	198.9	2,247.4	-
Gross customer exposure	17,842.1	332.5	1,731.6	19,906.2	123.9
Less: allowance for losses	(20.8)	(20.8)	(11.1)	(52.7)	-
Net customer exposure (Risk analysis)	17,821.3	311.7	1,720.5	19,853.5	123.9
Gross exposure for ECL calculation					
Gross customer exposure	17,842.1	332.5	1,731.6	19,906.2	
Less FVTPL	(2.6)	(7.7)	(113.6)	(123.9)	
Net customer exposure for ECL calculation	17,839.5	324.8	1,618.0	19,782.3	
Reconciliation of customer to accounting balances					
Net customer exposure	17,821.3	311.7	1,720.5	19,853.5	123.9
Less credit commitments	(1,998.6)	(49.9)	(198.9)	(2,247.4)	-
Plus accounting adjustments	81.6	6.4	39.8	127.8	26.9
Gross loans and advances – note 8	15,904.3	268.2	1,561.4	17,733.9	150.8

1. Restated to reflect new business segments, refer to Note 3 (Segmental information) for further information.

CREDIT RISK (CONTINUED)

The movement in the gross customer exposure (excludes those assets held at FVTPL) across the segments is shown below:

Gross customer exposure – Retail	Stage 1	Stage 2	Stage 3	Purchased or Originated Credit Impaired (POCI)	Total
Balance as at 31 December 2018	17,184.2	461.0	73.7	120.6	**17,839.5**
Changes in assets which transitioned during the period:					
To lifetime ECL	(146.8)	146.8	-	-	-
To credit impaired	(7.3)	(11.7)	19.0	-	-
To 12 month ECL	80.6	(80.6)	-	-	-
From credit impaired	2.2	2.7	(4.9)	-	-
Net changes in assets which transitioned during the period	(71.3)	57.2	14.1	-	-
Other charges/(releases):					
New assets originated or purchased	2,472.3	-	-	-	**2,472.3**
Other changes to risk parameters and data	(2,210.4)	(53.7)	(20.8)	(10.1)	**(2,295.0)**
Net other charges/(releases)	190.6	3.5	(6.7)	(10.1)	**177.3**
Assets written off	(1.1)	(1.0)	(2.4)	(0.1)	**(4.6)**
Balance as at 30 June 2019	17,373.7	463.5	64.6	110.4	**18,012.2**

Gross customer exposure – SME	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at 31 December 2018	252.6	33.1	37.8	1.3	**324.8**
Changes in assets which transitioned during the period:					
To lifetime ECL	(16.6)	16.6	-	-	-
To credit impaired	(0.1)	(0.2)	0.3	-	-
To 12 month ECL	1.6	(1.6)	-	-	-
Net changes in assets which transitioned during the period	(15.1)	14.8	0.3	-	-
Other charges/(releases):					
New assets originated or purchased	9.3	-	-	-	**9.3**
Other changes to risk parameters and data	(35.2)	(15.7)	(4.9)	-	**(55.8)**
Net other charges/(releases)	(41.0)	(0.9)	(4.6)	-	**(46.5)**
Assets written off	-	-	(22.7)	-	**(22.7)**
Balance as at 30 June 2019	211.6	32.2	10.5	1.3	**255.6**

Gross customer exposure – Legacy	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at 31 December 2018	1,276.4	80.1	25.8	235.7	**1,618.0**
Changes in assets which transitioned during the period:					
To lifetime ECL	(10.1)	10.1	-	-	-
To credit impaired	(3.9)	(2.8)	6.7	-	-
To 12 month ECL	6.4	(6.4)	-	-	-
From credit impaired	0.6	0.5	(1.1)	-	-
Net changes in assets which transitioned during the period	(7.0)	1.4	5.6	-	-
Other charges/(releases):					
New assets originated or purchased	14.1	-	-	-	**14.1**
Other changes to risk parameters and data	(101.4)	(24.3)	(5.0)	(13.3)	**(144.0)**
Net other charges/(releases)	(94.3)	(22.9)	0.6	(13.3)	**(129.9)**
Assets written off	(0.3)	(0.3)	(3.6)	(0.8)	**(5.0)**
Balance as at 30 June 2019	1,181.8	56.9	22.8	221.6	**1,483.1**

CREDIT RISK (CONTINUED)

The movement in the allowance for losses across the three segments (excludes FVTPL) is shown below:

Allowance for losses – Retail	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at 31 December 2018	9.0	3.6	7.8	0.4	**20.8**
Changes in assets which transitioned during the period:					
To lifetime ECL	(0.3)	1.7	-	-	**1.4**
To credit impaired	-	(0.4)	3.4	-	**3.0**
To 12 month ECL	0.2	(0.7)	-	-	**(0.5)**
From credit impaired	0.1	-	(0.6)	-	**(0.5)**
Net changes in assets which transitioned during the period	-	0.6	2.8	-	**3.4**
Other charges/(releases):					
New assets originated or purchased	1.0	-	-	-	**1.0**
Other changes to risk parameters	0.4	(0.2)	(2.3)	-	**(2.1)**
Other[1]	0.4	0.7	0.5	(0.1)	**1.5**
Net other charges/(releases)	1.8	1.1	1.0	(0.1)	**3.8**
Assets written off	(0.6)	(0.8)	(1.5)	-	**(2.9)**
Balance as at 30 June 2019	10.2	3.9	7.3	0.3	**21.7**

Allowance for losses – SME	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at 31 December 2018	0.5	0.1	18.9	1.3	**20.8**
Changes in assets which transitioned during the period:					
To lifetime ECL	-	0.1	-	-	**0.1**
To credit impaired	-	-	0.1	-	**0.1**
Net changes in assets which transitioned during the period	-	0.1	0.1	-	**0.2**
Other charges/(releases):					
Other changes to risk parameters and data	-	(0.1)	(2.9)	-	**(3.0)**
Net other charges/(releases)	-	-	(2.8)	-	**(2.8)**
Assets written off	-	-	(9.5)	-	**(9.5)**
Balance as at 30 June 2019	0.5	0.1	6.6	1.3	**8.5**

Allowance for losses – Legacy	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at 31 December 2018	2.3	1.4	4.2	3.2	**11.1**
Changes in assets which transitioned during the period:					
To lifetime ECL	0.1	-	-	-	**0.1**
To credit impaired	(0.1)	-	0.7	-	**0.6**
To 12 month ECL	(0.2)	-	-	-	**(0.2)**
Net changes in assets which transitioned during the period	(0.2)	-	0.7	-	**0.5**
Other charges/(releases):					
Other changes to risk parameters	0.5	-	(0.3)	0.1	**0.3**
Net other charges/(releases)	0.3	-	0.4	0.1	**0.8**
Assets written off	(0.2)	(0.3)	(2.3)	(0.2)	**(3.0)**
Balance as at 30 June 2019	2.4	1.1	2.3	3.1	**8.9**

1. The £1.5m increase in retail unsecured ECL relates to refinement of data inputs in H1 2019

Secured residential portfolio analysis

The following tables show the secured residential balances (excluding Legacy) analysed by a number of key risk measurements. The portfolio has grown by a net £0.4bn. The book has 83.8% of its balances with a PD of 1% or less (2018: 83.9%). The book is also subject to a range of forbearance measures which are detailed in the 2018 Annual Report and Accounts.

a) Loan-to-value (LTV) and repayment type

The table shows gross customer balances analysed by indexed LTV bandings (with interest only including mortgages on a part repayment/part interest basis). Total interest only balances have reduced by £0.1bn. At the same time, total capital repayment balances have increased by £0.5bn. The proportion of total balances with current LTV less than 50% has reduced in the period to 33.9% (31 December 2018: 36.1%); driven largely by a portfolio shift towards new Platform lending that has a higher LTV distribution. The increase in 90% to 100% LTV band is mainly driven by HPI refreshes that result in some customers moving up to this band when the valuation of the property decreases.

	30 June 2019			31 December 2018		
LTV %	Capital repayment	Interest only	Total	Capital repayment	Interest only	Total
Less than 50%	4,219.7	1,151.9	**5,371.6**	4,345.9	1,253.8	5,599.7
50% to 60%	1,945.0	525.9	**2,470.9**	1,923.5	546.2	2,469.7
60% to 70%	2,454.8	410.6	**2,865.4**	2,391.0	402.7	2,793.7
70% to 80%	2,751.6	145.1	**2,896.7**	2,551.9	118.7	2,670.6
80% to 90%	1,874.5	25.8	**1,900.3**	1,757.8	28.1	1,785.9
90% to 100%	338.7	8.5	**347.2**	160.7	6.9	167.6
Greater than or equal to 100%	1.1	5.3	**6.4**	0.8	4.8	5.6
	13,585.4	**2,273.1**	**15,858.5**	13,131.6	2,361.2	15,492.8

b) Mortgage type

The table below shows gross customer balances for mortgages analysed by asset class. The LTV shown is the current indexed average percentage. 99.7% of the total book is classified as prime or buy-to-let mortgages. The higher risk self-certified, almost prime and non-conforming account for only 0.3% of the total book.

	30 June 2019			31 December 2018		
	Gross customer balance	Average LTV %	Interest only %	Gross customer balance	Average LTV %	Interest only %
Prime residential	14,617.5	57.4	8.2	14,316.9	56.0	9.2
Buy-to-let	1,187.2	55.5	87.5	1,119.2	55.1	89.4
Self-certified	36.9	37.3	90.8	38.3	37.3	90.0
Almost prime	16.3	37.6	34.8	17.7	37.4	34.3
Non-conforming	0.6	49.2	53.5	0.7	49.0	52.8
	15,858.5	**57.2**	**14.3**	15,492.8	55.9	15.2

c) UK regional distribution

The table below shows the analysis of LTV's and gross customer balances UK regions. The largest region of London and South East also has the lowest average LTV.

	30 June 2019		31 December 2018	
	£m	LTV - %	£m	LTV - %
London & South East	6,499.2	54.8	6,473.6	53.6
Northern England	3,410.0	61.1	3,250.9	59.5
Midlands & East Anglia	3,287.4	57.3	3,172.5	55.7
Wales & South West	1,811.1	56.9	1,770.7	55.8
Other	850.8	57.8	825.1	59.7
	15,858.5	**57.2**	15,492.8	55.9

Introduction

We have been engaged by the Group to review the condensed set of financial statements in the Interim Financial Report for the six months ended 30 June 2019 which comprises the Condensed Consolidated Income Statement, Condensed Consolidated Statement of Comprehensive Income, Condensed Consolidated Balance Sheet, Condensed Consolidated Statement of Cashflows, Consolidated Statement of Changes in Equity and related notes 1 to 18. We have read the other information contained in the Interim Financial Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Group in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Group, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The Interim Financial Report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Interim Financial Report in accordance with International Accounting Standard 34, “Interim Financial Reporting,” as adopted by the European Union.

As disclosed in note 1, the annual financial statements of the company are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this Interim Financial Report has been prepared in accordance with International Accounting Standard 34, “Interim Financial Reporting,” as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Group a conclusion on the condensed set of financial statements in the Interim Financial Report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the Interim Financial Report for the six months ended 30 June 2019 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union.

Ernst & Young LLP
London
7 August 2019

CONDENSED CONSOLIDATED INCOME STATEMENT

£million

	Note	Six months ended 30 June 2019	2018
Interest income calculated using the effective interest rate method		**237.6**	250.2
Other interest and similar income		**12.6**	(0.9)
Interest income and similar income	4	**250.2**	249.3
Interest expense and similar charges	4	**(82.3)**	(74.8)
Net interest income		**167.9**	174.5
Fee and commission income		**30.6**	33.5
Fee and commission expense		**(19.5)**	(22.5)
Net fee and commission income		**11.1**	11.0
Other operating income/(expense) (net)	5	**31.0**	11.9
Operating income		**210.0**	197.4
Operating expenses	6	**(245.9)**	(230.0)
Net customer redress charge	11	**(2.5)**	(11.0)
Total operating expenses		**(248.4)**	(241.0)
Operating loss before net credit impairment losses		**(38.4)**	(43.6)
Net credit impairment (losses)/gains	8	**(0.1)**	4.1
Loss before taxation		**(38.5)**	(39.5)
Income tax	7	**2.5**	80.9
(Loss)/profit for the period		**(36.0)**	41.4

The results above wholly relate to continuing activities.

The (loss)/profit for the financial period is wholly attributable to equity shareholders.

The notes on pages 28 to 44 form part of these interim condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

£million

	Six months ended 30 June	
	2019	**2018**
(Loss)/profit for the period	**(36.0)**	41.4
Items that may be recycled to profit or loss:		
Changes in cash flow hedges:		
Net changes in fair value recognised directly in equity	**3.7**	(10.5)
Transfers from equity to income or expense	**1.4**	0.9
Income tax	**(1.2)**	2.4
Changes in fair value through other comprehensive income:		
Net changes in fair value recognised directly in equity	**(33.8)**	21.5
Transfers from equity to income or expense	**30.0**	(20.0)
Income tax	**0.7**	(0.8)
Items that may not subsequently be recycled to profit or loss:		
Changes in net retirement benefit asset:		
Recognition of defined benefit asset	**-**	528.9
Defined benefit plans credit for the period	**33.8**	12.1
Income tax	**(8.7)**	(135.0)
Other comprehensive income for the period, net of income tax	**25.9**	399.5
Total comprehensive (expense)/income for the period	**(10.1)**	440.9

The notes on pages 28 to 44 form part of these interim condensed consolidated financial statements.

CONDENSED CONSOLIDATED BALANCE SHEET

£million

	Note	30 June 2019	31 December 2018
Assets			
Cash and balances at central banks		**1,848.2**	1,843.8
Loans and advances to banks		**483.7**	485.8
Loans and advances to customers	8	**17,892.0**	17,733.9
Fair value adjustments for hedged risk		**91.9**	53.4
Investment securities	9	**1,837.5**	1,935.0
Derivative financial instruments		**240.4**	192.2
Property, plant and equipment classified as held-for-sale		**3.9**	3.9
Equity shares		**34.5**	26.4
Investment properties		**1.9**	2.3
Other assets		**61.8**	54.7
Prepayments and accrued income		**33.5**	31.8
Property, plant and equipment		**40.4**	40.8
Intangible assets		**77.2**	72.4
Right-of-use assets	17	**75.7**	-
Deferred tax assets		**2.6**	2.9
Net retirement benefit asset	12	**678.8**	623.5
Total assets		**23,404.0**	23,102.8
Liabilities			
Deposits by banks		**1,283.3**	1,433.5
Customer accounts		**18,893.3**	18,735.8
Debt securities in issue		**635.1**	617.6
Other borrowed funds	10	**204.5**	-
Derivative financial instruments		**322.9**	260.6
Lease liabilities	17	**74.0**	-
Other liabilities		**54.4**	92.1
Accruals and deferred income		**73.0**	63.0
Provisions	11	**69.2**	103.6
Deferred tax liabilities		**45.7**	38.9
Net retirement benefit liability	12	**8.6**	7.6
Total liabilities		**21,664.0**	21,352.7
Capital and reserves attributable to the Group's equity holders			
Ordinary share capital	15	**0.9**	0.9
Share premium account	15	**313.8**	313.8
Retained earnings		**(1,197.5)**	(1,161.5)
Other reserves		**2,622.8**	2,596.9
Total equity		**1,740.0**	1,750.1
Total liabilities and equity		**23,404.0**	23,102.8

The notes on pages 28 to 44 form part of these interim condensed consolidated financial statements.

Approved by the Board of The Co-operative Bank Holdings Limited on 7 August 2019:

Bob Dench
Chairman

Andrew Bester
Chief Executive Officer

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

£million

	Six months ended 30 June	
	2019	**2018**
Cash flows used in operating activities:		
Loss before taxation	**(38.5)**	(39.5)
Adjustments for non-cash movements:		
Net credit impairment losses/(gains)	**0.1**	(4.1)
Depreciation, amortisation and impairment of property, plant and equipment and intangibles	**20.7**	16.5
Other non-cash movements including exchange rate movements	**(15.0)**	45.0
Changes in operating assets and liabilities:		
(Decrease)/increase in deposits by banks	**(150.2)**	452.2
Increase in prepayments and accrued income	**(3.8)**	(10.0)
Decrease in accruals and deferred income	**(5.0)**	(9.2)
Increase/(decrease) in customer accounts	**156.7**	(1,207.5)
Increase in debt securities in issue	**17.5**	7.5
Increase in loans and advances to banks	**(4.4)**	(23.3)
Increase in loans and advances to customers	**(161.2)**	(468.6)
Net movement of other assets and other liabilities	**(106.3)**	(57.3)
Income tax received	**-**	1.0
Net cash flows used in operating activities	**(289.4)**	(1,297.3)
Cash flows from/(used in) investing activities:		
Purchase of tangible and intangible fixed assets	**(20.5)**	(7.1)
Purchase of investment securities	**(380.8)**	(343.2)
Proceeds from sale of property, plant and equipment	**-**	1.0
Proceeds from sale of equity shares	**8.2**	2.3
Proceeds from sale and maturity of investment securities	**486.8**	297.2
Proceeds from sale of joint venture	**-**	0.7
Proceeds from sale of investment properties	**0.5**	-
Dividends received	**0.6**	5.7
Net cash flows from/(used in) investing activities	**94.8**	(43.4)
Cash flows from financing activities:		
Lease liability principal payments	**(5.4)**	-
Net cash raised through Tier 2 notes issuance (other borrowed funds)	**197.9**	-
Net cash flows from financing activities	**192.5**	-
Net decrease in cash and cash equivalents	**(2.1)**	(1,340.7)
Cash and cash equivalents at the beginning of the period	**2,193.9**	4,469.4
Cash and cash equivalents at the end of the period	**2,191.8**	3,128.7
Comprising of:		
Cash and balances with central banks	**1,794.8**	2,723.1
Loans and advances to banks	**397.0**	405.6

RECONCILIATION OF MOVEMENTS OF LIABILITIES TO CASH FLOWS ARISING FROM FINANCING ACTIVITIES

£million

	Six months ended 30 June			
	Lease liabilities	Other borrowed funds	Total 2019	Total 2018
Balance at the beginning of the period	-	-	-	-
Changes from financing cash flows:				
Lease liability principal payments	(5.4)	-	(5.4)	-
Net cash raised through Tier 2 issuance	-	197.9	197.9	-
	(5.4)	**197.9**	**192.5**	**-**
Other changes:				
Interest payable on other borrowed funds and leasing liabilities	1.2	3.5	4.7	-
Fair value adjustment for hedged risk	-	3.1	3.1	-
Transfer of lease liabilities for right of use assets	78.2	-	78.2	-
Balance at the end of the period	**74.0**	**204.5**	**278.5**	**-**

Lease liabilities arise from the adoption of IFRS 16 which came into force in 2019. In the current period, the Group has issued Tier 2 debt classified as other borrowed funds on the balance sheet. In 2018, the Group did not have any liabilities associated with financing activities.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

£million

Six months ended 30 June 2019	Share capital	Share premium	FVOCI reserve	Cash flow hedging reserve	Capital redemption reserve	Capital re-organisation reserve	Defined benefit pension reserve	Retained earnings	Total equity
At 1 January 2019	0.9	313.8	13.9	20.0	410.0	1,737.5	415.5	(1,161.5)	**1,750.1**
Total comprehensive (expense)/income for the period	-	-	(3.1)	3.9	-	-	25.1	(36.0)	**(10.1)**
At 30 June 2019	**0.9**	**313.8**	**10.8**	**23.9**	**410.0**	**1,737.5**	**440.6**	**(1,197.5)**	**1,740.0**

Six months ended 30 June 2018	Share capital	Share premium	Available for sale reserve	FVOCI reserve	Cash flow hedging reserve	Capital redemption reserve	Capital re-organisation reserve	Defined benefit pension reserve	Retained earnings	Total equity
As reported 31 December 2017	0.9	313.8	25.1	-	29.9	410.0	1,737.5	70.8	(1,082.4)	**1,505.6**
IFRS 9 transition adjustments	-	-	(25.1)	18.4	-	-	-	-	(10.4)	**(17.1)**
At 1 January 2018 adjusted for IFRS 9	**0.9**	**313.8**	**-**	**18.4**	**29.9**	**410.0**	**1,737.5**	**70.8**	**(1,092.8)**	**1,488.5**
Total comprehensive income/ (expense) for the period	-	-	-	0.7	(7.2)	-	-	406.0	41.4	440.9
At 30 June 2018	0.9	313.8	-	19.1	22.7	410.0	1,737.5	476.8	(1,051.4)	1,929.4

Twelve months ended 31 December 2018	Share capital	Share premium	Available for sale reserve	FVOCI reserve	Cash flow hedging reserve	Capital redemption reserve	Capital re-organisation reserve	Defined benefit pension reserve	Retained earnings	Total equity
As reported 31 December 2017	0.9	313.8	25.1	-	29.9	410.0	1,737.5	70.8	(1,082.4)	**1,505.6**
IFRS 9 transition adjustments	-	-	(25.1)	18.4	-	-	-	-	(10.4)	**(17.1)**
At 1 January 2018 adjusted for IFRS 9	**0.9**	**313.8**	**-**	**18.4**	**29.9**	**410.0**	**1,737.5**	**70.8**	**(1,092.8)**	**1,488.5**
Total comprehensive (expense)/income for the year	-	-	-	(4.5)	(9.9)	-	-	344.7	(68.7)	261.6
At 31 December 2018	0.9	313.8	-	13.9	20.0	410.0	1,737.5	415.5	(1,161.5)	1,750.1

The notes on pages 28 to 44 form part of these interim condensed consolidated financial statements.

All amounts are stated in £m unless otherwise indicated

1. Basis of preparation and significant accounting policies

1.1 Basis of preparation

The Interim Financial Statements for the Group are for the six month period ended 30 June 2019 and are unaudited. The Group Interim Financial Statements have been prepared in accordance with International Accounting Standard (IAS) 34 'Interim Financial Reporting'.

The Group Interim Financial Statements comprise the consolidated results and position of The Co-operative Bank Holdings Limited (Holding Company) together with its subsidiaries (together, the Group). On 11 February 2019 a group reconstruction was completed in readiness for issuing MREL qualifying debt in 2019 and beyond. The objective of the group reconstruction was to achieve structural subordination in order that any debt issued from a new intermediary holding company will meet MREL criteria. The group reconstruction was transacted as follows:

- On 1 October 2018, Balloon Street Issuerco Limited was incorporated as a wholly owned subsidiary of Holding Company with a share capital comprising one fully paid up £0.0001 share issued at par.

- On 21 January 2019 Balloon Street Issuerco Limited issued 9,029,130,200 shares of nominal value of £0.0001 each to the Holding Company in exchange for 100% of The Co-operative Bank plc issued share capital of 511,456,510 shares of £0.05 each, the consideration being equal to the carrying value of The Co-operative Bank plc in Holding Company's balance sheet. Hence, no profit or loss was recorded on the sale of The Co-operative Bank plc to Issuer Company. There was no impact on the consolidated position of Group as a result of this group reconstruction.

- On 7 February 2019 Balloon Street Issuerco Limited changed its name to The Co-operative Bank Finance Limited.

- On 11 February 2019, The Co-operative Bank Finance Limited became the immediate parent of The Co-operative Bank plc, with the Holding Company remaining the ultimate parent of The Co-operative Bank plc.

- On 18 March 2019 The Co-operative Bank Finance Limited became a public limited company, thus having its name changed to The Co-operative Bank Finance plc.

1.2 Going concern

The Board of Directors have conducted a thorough review of the Group's financial position, future plans and forecasts, considering current economic and market conditions and also the potential risks to the business as set out in the 2018 Annual Report and Accounts. The directors confirm that, based on the latest formal review undertaken in July 2019, they consider the Group has adequate resources to continue in existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing these Interim Financial Statements.

1.3 Significant accounting policies

The accounting policies, presentation and methods of computation are consistent with those applied by the Group in its audited 2018 Annual Financial Statements, which were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), with the exception of IFRS 16 which the Group adopted with effect from 1 January 2019 (see note 17 for the Group's IFRS 16 accounting policy and the impact on transition).

1.4 Standards and interpretations issued

Information on pronouncements that will be relevant in future periods is provided in the 2018 Annual Report and Accounts.

2. Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial information requires management to make judgements and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Assumptions and estimates are reviewed on an ongoing basis. The critical judgements and estimates of the Group are as set out within the 2018 Annual Report and Accounts. The accounting policies, presentation and methods of computation of critical accounting judgements and key sources of estimation uncertainty are consistent with those applied by the Group in the 2018 Annual Report and Accounts.

3. Segmental information

The Group provides a wide range of banking services within the UK. The Executive Committee (ExCo) has been determined to be the chief operating decision maker of the Group. The Group's operating segments reflect its organisational and management structures in place at the reporting date. The Executive Committee reviews information from internal reporting based on these segments in order to assess performance and allocate resources. The segments are differentiated by whether the customers are individuals or corporate entities. Treasury is identified as a separate segment on the basis that the risks are materially different to other segments.

The segmental basis of presentation has been changed and prior periods restated, to report business areas which are in run-off within legacy. Accordingly the Group has identified three segments: Retail Banking, SME Business Banking and Treasury as part of its core business. Whereas in 2018, the analysis was based on Retail, Corporate, Optimum, Treasury and Other.

	Core				Legacy &	Underlying
Six months ended 30 June 2019	**Retail**	**SME**	**Treasury**	**Total**	**unallocated**	**basis**
Net interest income	133.1	19.8	6.5	**159.4**	1.9	**161.3**
Other operating income/(expense)	7.4	8.1	14.5	**30.0**	(0.1)	**29.9**
Operating income	**140.5**	**27.9**	**21.0**	**189.4**	**1.8**	**191.2**
Operating expenses	-	-	-	-	(193.2)	**(193.2)**
Net credit impairment (losses)/gains	(3.6)	3.4	-	**(0.2)**	(0.6)	**(0.8)**
Underlying profit	**136.9**	**31.3**	**21.0**	**189.2**	**(192.0)**	**(2.8)**
Strategic project costs	-	-	-	-	(52.7)	**(52.7)**
Legacy net customer redress charge	-	-	-	-	(2.5)	**(2.5)**
Surrendered Loss Debtor revaluation	-	-	-	-	7.8	**7.8**
Gain on share sales	-	-	-	-	3.1	**3.1**
Pensions	-	-	-	-	8.6	**8.6**
Statutory profit/(loss) before tax	**136.9**	**31.3**	**21.0**	**189.2**	**(227.7)**	**(38.5)**

	Core				Legacy &	Underlying
Six months ended 30 June 2018 – re-stated	**Retail**	**SME**	**Treasury**	**Total**	**unallocated**	**basis**
Net interest income	138.2	20.1	11.0	**169.3**	4.6	**173.9**
Other operating income	8.6	7.9	1.1	**17.6**	1.4	**19.0**
Operating income	**146.8**	**28.0**	**12.1**	**186.9**	**6.0**	**192.9**
Operating expenses	-	-	-	-	(184.6)	**(184.6)**
Net credit impairment (losses)/gains	(2.3)	2.8	-	**0.5**	2.4	**2.9**
Underlying profit	**144.5**	**30.8**	**12.1**	**187.4**	**(176.2)**	**11.2**
Strategic project costs	-	-	-	-	(45.4)	**(45.4)**
Legacy net customer redress charge	-	-	-	-	(11.0)	**(11.0)**
Surrendered Loss Debtor revaluation	-	-	-	-	3.7	**3.7**
Gain on share sales	-	-	-	-	0.2	**0.2**
Pensions	-	-	-	-	1.8	**1.8**
Statutory profit/(loss) before tax	**144.5**	**30.8**	**12.1**	**187.4**	**(226.9)**	**(39.5)**

The re-segmentation to report business areas in run-off collectively within Legacy has resulted in a statutory loss before tax being transferred as follows:

Six months ended 30 June 2018	**Retail**	**SME[1]**	**Treasury**	**Optimum**	**Legacy & unallocated[2]**	**Total**
Statutory profit/(loss) before tax as reported	152.9	32.3	5.8	4.6	(235.1)	**(39.5)**
Transfer	(8.4)	(1.5)	6.3	(4.6)	8.2	**-**
Statutory profit/(loss) before tax as re-stated	144.5	30.8	12.1	-	(226.9)	**(39.5)**

1. The SME segment was previously named Corporate.
2. The Legacy & unallocated balance was previously named 'Other'.

3. Segmental information (continued)

The table below represents the reconciliation of the underlying basis and the segmental note to the consolidated income statement. The underlying basis is the basis on which information is presented to the chief operating decision maker and excludes the items below which are included in the statutory results.

Six months ended 30 June 2019	IFRS statutory	Removal of: Volatile Items[1]	Strategic projects	Legacy customer redress charges	Interest gross up (IFRS 9 & IFRS 16)[2]	Underlying basis
Net interest income	167.9	(8.6)	-	-	2.0	**161.3**
Other operating income/(expense)	42.1	(10.9)	-	-	(1.3)	**29.9**
Operating income	**210.0**	**(19.5)**	**-**	**-**	**0.7**	**191.2**
Operating expenses	(248.4)	-	52.7	2.5	-	**(193.2)**
Net credit impairment losses	(0.1)	-	-	-	(0.7)	**(0.8)**
(Loss)/profit before taxation	**(38.5)**	**(19.5)**	**52.7**	**2.5**	**-**	**(2.8)**

1. In the period ended 30 June 2019, this comprises the fair value unwind on interest arising from IAS 19 pensions (£8.6m), the impact of the revaluation of the Surrendered Loss Debtor (£7.8m) and the gain on sale of shares (£3.1m).
2. Under IFRS 9, the interest on stage 3 assets (£0.7m) is recognised on the gross customer advance less expected credit loss and under IFRS 16 interest expense (£1.3m) unwind is recognised through other operating income.

Six months ended 30 June 2018 – re-stated	IFRS statutory	Removal of: Volatile Items[1]	Strategic projects	Legacy customer redress charges	Interest gross up (IFRS 9 & IFRS 16)[2]	Underlying basis
Net interest income	174.5	(1.8)	-	-	1.2	**173.9**
Other operating income/(expense)	22.9	(3.9)	-	-	-	**19.0**
Operating income	**197.4**	**(5.7)**	**-**	**-**	**1.2**	**192.9**
Operating expenses	(241.0)	-	45.4	11.0	-	**(184.6)**
Net credit impairment gains/(losses)	4.1	-	-	-	(1.2)	**2.9**
(Loss)/profit before taxation	**(39.5)**	**(5.7)**	**45.4**	**11.0**	**-**	**11.2**

1. In the period ended 30 June 2018, this comprises the fair value unwind on interest arising from IAS 19 pensions (£1.8m), the impact of the revaluation of the Surrendered Loss Debtor (£3.7m) and the gain on sale of shares (£0.2m).
2. Under IFRS 9, the interest on stage 3 assets (£1.2m) is recognised on the gross customer advance less expected credit loss.

The table below represents the segmental analysis of assets and liabilities.

30 June 2019	Core: Retail	SME	Treasury	Total	Legacy & unallocated	Underlying basis
Segment assets	16,187.2	208.4	4,503.8	20,899.4	2,504.6	**23,404.0**
Segment liabilities	16,650.0	2,049.9	2,444.1	21,144.0	520.0	**21,664.0**

31 December 2018 – re-stated	Core: Retail[1]	SME[2]	Treasury	Total	Legacy & unallocated	Underlying basis
Segment assets	15,846.7	291.3	4,501.9	20,639.9	2,462.9	**23,102.8**
Segment liabilities	16,595.3	1,999.7	2,309.3	20,904.3	448.4	**21,352.7**

1. Retail assets are lower by £125.1m than as previously reported due to the re-segmentation. Retail liabilities are unchanged.
2. SME assets are lower by £872.0m than as previously reported due to the re-segmentation. SME liabilities are lower by £118.9m.

4. Net interest income

Interest income and similar income

	Six months ended 30 June 2019				Six months ended 30 June 2018			
	Amortised cost	FVOCI	Other	Total	Amortised cost	FVOCI	Other	Total
On financial assets not at fair value through profit or loss:								
Loans and advances to customers	**214.2**	**-**	**6.5**	**220.7**	218.5	-	6.9	225.4
Loans and advances to banks	**6.2**	**-**	**-**	**6.2**	8.9	-	-	8.9
Investment securities	**1.3**	**15.9**	**-**	**17.2**	0.7	22.1	-	22.8
Net interest income on net defined benefit pension asset	**-**	**-**	**8.7**	**8.7**	-	-	1.9	1.9
	221.7	**15.9**	**15.2**	**252.8**	228.1	22.1	8.8	259.0
On financial assets at fair value through profit or loss:								
Net interest expense on financial instruments hedging assets	**-**	**-**	**(7.0)**	**(7.0)**	-	-	(12.0)	(12.0)
Net interest income on financial instruments not in a hedging relationship	**-**	**-**	**4.4**	**4.4**	-	-	2.3	2.3
	221.7	**15.9**	**12.6**	**250.2**	228.1	22.1	(0.9)	249.3

Interest expense and similar charges

	Six months ended 30 June 2019			Six months ended 30 June 2018		
	Amortised cost	Other	Total	Amortised cost	Other	Total
On financial liabilities not at fair value through profit or loss:						
Customer accounts	**(55.3)**	**-**	**(55.3)**	(56.5)	-	(56.5)
Subordinated liabilities, debt securities in issue and other deposits	**(23.6)**	**(0.2)**	**(23.8)**	(19.1)	-	(19.1)
Interest on lease liabilities	**-**	**(1.2)**	**(1.2)**	-	-	-
Net interest expense on unfunded schemes	**-**	**(0.1)**	**(0.1)**	-	(0.1)	(0.1)
	(78.9)	**(1.5)**	**(80.4)**	(75.6)	(0.1)	(75.7)
On financial liabilities at fair value through profit or loss:						
Net interest income on financial instruments hedging liabilities	**-**	**3.8**	**3.8**	-	2.3	2.3
Net interest expense on financial instruments not in a hedging relationship	**-**	**(5.7)**	**(5.7)**	-	(1.4)	(1.4)
	(78.9)	**(3.4)**	**(82.3)**	(75.6)	0.8	(74.8)

5. Other operating income/(expense) (net)

	Six months ended 30 June	
	2019	2018
Profit on sale of investment securities	**0.7**	0.1
Gain on sale of shares	**3.2**	0.2
Fair value movement on loans and advances to customers designated at fair value	**2.6**	(5.1)
Income from derivatives and hedge accounting	**2.5**	2.5
Income from assets and liabilities held at fair value through profit or loss[1]	**16.4**	7.3
Foreign exchange gains	**4.1**	4.7
Other operating income	**1.5**	2.2
	31.0	11.9

1. Income from assets and liabilities held at fair value through profit or loss of £16.4m (30 June 2018: £7.3m) includes £7.8m gain on the Surrendered Loss Debtor (30 June 2018: £3.7m) and £8.1m gain on equity shares (30 June 2018: £4.6m).

6. Operating expenses

	Note	Six months ended 30 June 2019	2018
Staff costs		**81.5**	87.8
Depreciation, amortisation and impairment of fixed and intangible assets[1]		**20.7**	16.5
Provisions for liabilities provided in the period	11	**6.5**	7.8
Other expenses[2]		**137.2**	117.9
		245.9	230.0

1. Mainly comprises amortisation of intangible assets.
2. Other expenses mainly comprises IT and mortgage platform outsourcing services totalling £118.6m (2018: £100.0m).

7. Income tax

	Six months ended 30 June 2019	2018
Current tax credit	**(0.4)**	(1.0)
Deferred tax credit	**(2.1)**	(79.9)
Total current tax credit	**(2.5)**	(80.9)

In addition to the above, included within other comprehensive income is a deferred tax charge of £9.2m (2018: £133.3m).

The prior year deferred tax credit arose largely due to the recognition of the pension surplus at 30 June 2018. A deferred tax liability in relation to the pension surplus was recognised through other comprehensive income and an offsetting deferred tax asset was recognised through the income statement resulting in the deferred tax credit in the income statement.

The tax on the loss before taxation differs from the theoretical amount that would arise using the corporation tax rate in the UK as follows:

	Six months ended 30 June 2019	2018
Loss before taxation	**(38.5)**	**(39.5)**
Tax credit calculated at a rate of 19% (2018: 19%)	**(7.3)**	(7.5)
Effects of:		
Movement in unrecognised deferred tax	**7.6**	(54.5)
Non-taxable income	**(2.3)**	(0.6)
Impact of surcharge on deferred tax	**(0.7)**	(25.6)
Expenses not deductible for tax purposes	**0.4**	0.9
Adjustment in respect of prior period	**(0.4)**	-
Impact of corporation tax rate change	**0.2**	6.4
Total tax credit	**(2.5)**	(80.9)

Deferred tax assets totaling £374.8m (2018: £340.6m) have not been recognised where doubt exists over the availability of sufficient future taxable profits.

8. Loans and advances to customers

Analysis of the balance sheet

	30 June 2019	31 December 2018
Gross loans and advances	**17,931.1**	17,786.6
Less: allowance for losses	**(39.1)**	(52.7)
	17,892.0	17,733.9

Loans and advances to customers include £145.8m (31 December 2018: £148.5m) of financial assets designated at fair value through profit or loss to eliminate or significantly reduce a measurement or recognition inconsistency; of these, £61.9m (31 December 2018: £63.5m) are secured by real estate collateral. Exposure is predominantly within the UK.

For stage allocation and analysis, please refer to credit risk section of the Risk Management report.

Analysis of allowance for impairment losses

	Retail	SME	Legacy & unallocated	Total
At 1 January 2019	20.8	20.8	11.1	**52.7**
Changes in assets which transitioned during the period:				
To lifetime ECL	1.4	0.1	0.1	**1.6**
To credit impaired	3.0	0.1	0.6	**3.7**
To 12 month ECL	(0.5)	-	(0.2)	**(0.7)**
From credit impaired	(0.5)	-	-	**(0.5)**
Net changes in assets which transitioned during the period	**3.4**	**0.2**	**0.5**	**4.1**
Other charges/(releases):				
New assets originated or purchased	1.0	-	-	**1.0**
Other changes to risk parameters[1]	(0.6)	(3.0)	0.3	**(3.3)**
Net other charges/(releases)	**3.8**	**(2.8)**	**0.8**	**1.8**
Assets written off	(2.9)	(9.5)	(3.0)	**(15.4)**
At 30 June 2019	**21.7**	**8.5**	**8.9**	**39.1**

1. Includes repayments (other than those related to assets which transitioned during the period) and changes due to other model inputs.

Analysis of income statement

	Six months ended 30 June	
	2019	2018
Net other (releases)/charges	**(1.8)**	1.9
Amounts recovered against amounts previously written off	**1.0**	0.9
Adjustment to recognise interest on stage 3 assets based on their net carrying value	**0.7**	1.2
Provision against fair value adjustments for hedged risk	**-**	0.1
Net impairment (loss)/gain for the period as shown in the income statement	**(0.1)**	**4.1**

9. Investment securities

Analysis of investment securities

	30 June 2019				31 December 2018			
	Amortised cost	FVOCI	FVTPL	Total	Amortised cost	FVOCI	FVTPL	Total
Investment securities[1] (listed)	**84.4**	**1,749.2**	**3.9**	**1,837.5**	89.1	1,842.4	3.5	1,935.0

1. Investment securities were net of impairment in both periods.

Movement in investment securities

	30 June 2019				31 December 2018			
	Amortised cost	FVOCI	FVTPL	Total	Amortised cost	FVOCI	FVTPL	Total
At the beginning of the period	**89.1**	**1,842.4**	**3.5**	**1,935.0**	100.0	2,283.2	4.5	2,387.7
Acquisitions	**-**	**380.8**	**-**	**380.8**	-	462.6	-	462.6
Disposals and maturities	**(4.7)**	**(481.4)**	**-**	**(486.1)**	(10.7)	(862.0)	-	(872.7)
Fair value movements through equity	**-**	**(3.8)**	**-**	**(3.8)**	-	(5.0)	-	(5.0)
Fair value through profit or loss	**-**	**10.6**	**0.4**	**11.0**	-	(35.0)	(1.0)	(36.0)
Amortisation	**-**	**0.4**	**-**	**0.4**	-	1.1	-	1.1
Movement in interest accrual	**-**	**0.2**	**-**	**0.2**	(0.2)	(2.5)	-	(2.7)
At the end of the period	**84.4**	**1,749.2**	**3.9**	**1,837.5**	89.1	1,842.4	3.5	1,935.0

Included in investment securities are repurchase receivables of £188.9m. These receivables are gilts subject to repurchase transactions where the transferee has the ability to re-pledge or sell the assets. £174.7m of AAA rated Silk Road 4 securitisation notes have been pledged, with a 22% haircut, to the Britannia Pension Scheme and £243.5m AAA rated Silk Road 4 securitisation notes, with a 22% haircut, to the Pace Complete scheme, as additional security for the schemes. Such assets would only be accessed by the trustees in the event that the Group was unable to meet future contribution obligations.

Analysis of investment securities by issuer

	30 June 2019	31 December 2018
Investment securities issued by public bodies:		
Government securities	**935.8**	926.6
Other public sector securities	**304.6**	309.1
	1,240.4	1,235.7
Other debt securities:		
Other floating rate notes	**237.8**	207.3
Mortgage backed securities	**359.3**	492.0
	597.1	699.3
	1,837.5	1,935.0

Other floating-rate notes (FRNs) are Sterling denominated, with contractual maturities ranging from six months to seven years from the balance sheet date.

10. Other borrowed funds

On 25 April 2019, the Group issued £200.0m Fixed Rate Reset Callable Subordinated Tier 2 Notes (Tier 2 Notes) which:

- Are unsecured, subordinated, obligations of the Group, ranking pari passu without any preference among themselves and pari passu with other obligations of the Group which constitute Tier 2 capital of the Issuer on a winding-up;
- Have a contractual maturity of 25 April 2029, an optional call date of 25 April 2024 and a coupon of 9.5%; and
- Are listed on the London Stock Exchange.

The debt recorded in the balance sheet includes incremental, directly attributable transaction costs, accrued interest and the fair value adjustment for hedged risk.

11. Provisions

	Note	Property	PPI	Conduct/ legal	Other	Total
At 1 January 2019		15.7	67.8	8.7	11.4	103.6
Provided in the period:						
Operating expenses	6	0.1	-	0.7	5.7	**6.5**
Net customer redress charge		-	2.5	-	-	**2.5**
Utilised during the period		(1.8)	(31.6)	(3.1)	(6.9)	**(43.4)**
At 30 June 2019		**14.0**	**38.7**	**6.3**	**10.2**	**69.2**
Amounts falling due within one year		7.5	38.7	5.1	9.4	**60.7**
Amounts falling due after one year		6.5	-	1.2	0.8	**8.5**
		14.0	**38.7**	**6.3**	**10.2**	**69.2**

Property

The Group has a number of leasehold properties available for rent. Provisions are made when either the sub-lease income does not cover the rental expense or the property is vacant. The provision is based on the expected outflows during the remaining periods of the leases. In addition, dilapidation provisions are recorded to the extent that the Group has incurred dilapidations and/or the dilapidation clause within the contract has been invoked.

Payment Protection Insurance (PPI)

Provisions have been made in respect of potential customer compensation claims relating to past sales of PPI. Claims are investigated on an individual basis and, where appropriate, compensation payments are made. For a number of years the Group, along with many other financial services providers, sold PPI alongside mortgage and non-mortgage credit products. The Group stopped selling non-mortgage PPI in January 2009 and stopped selling mortgage PPI in March 2012.

An additional provision of £2.5m was recognised in the six months period to 30 June 2019 (30 June 2018: £12.3m), in respect of the total expected cost of carrying out work and paying compensation related to historical selling of PPI. The additional provision reflects an increase in the delivery cost associated with PPI redress following H1 2019 FCA clarification to the industry on certain redress timescales. As a result, the total provision recognised to date is £540.3m.

Conduct/legal provisions

The Group provided £0.7m in the six months period to 30 June 2019 (30 June 2018: £1.3m conduct-related release).

Other

Other provisions include a net charge of £5.7m (30 June 2018: £6.8m) which mainly comprises movements in the provisions for employee variable pay and severance costs during the period.

12. Retirement benefits

Details of the pension schemes operated by the Group are provided in the 2018 Annual Report and Accounts. The amounts recognised in the balance sheet in relation to defined benefit schemes are as follows:

	31 December 2018	Movement	30 June 2019
Funded defined benefit schemes:			
Pace Complete			
Retirement benefit assets	1,862.5	171.3	2,033.8
Retirement benefit liabilities	(1,385.1)	(128.5)	(1,513.6)
	477.4	**42.8**	**520.2**
Britannia Pension Scheme			
Retirement benefit assets	740.6	66.2	806.8
Retirement benefit liabilities	(594.5)	(53.7)	(648.2)
	146.1	**12.5**	**158.6**
Net retirement benefit asset	**623.5**	**55.3**	**678.8**
Unfunded defined benefit schemes			
Retirement benefit liabilities			
Actuarial loss on unfunded schemes	(7.6)	(1.0)	(8.6)
Net retirement benefit liability	**(7.6)**	**(1.0)**	**(8.6)**

The present value of the defined benefit obligation as at 30 June 2019 has been derived using assumptions that are consistent with those used for the 31 December 2018. Corporate bond yields have decreased over the first half of 2019, which has the effect of decreasing the discount rate and increasing liabilities. As a result of the hedging techniques employed within the schemes' investment strategies, this increase in liabilities has been more than offset by a corresponding increase in assets. The improvement in the net asset position further reflects £13.2m of employer contributions paid into the schemes during the period.

13. Contingent liabilities, contractual commitments and guarantees

The tables below provide the contractual amounts of contingent liabilities and commitments. The contractual amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk.

	30 June 2019	31 December 2018
	Contractual amount	Contractual amount
Contingent liabilities arising from customer transactions:		
Guarantees and irrecoverable letters of credit	**12.2**	12.4
Other commitments arising from customer transactions:		
Undrawn formal standby facilities, credit lines and other commitments to lend (includes revocable and irrevocable commitments)[1]	**1,900.0**	2,123.0
	1,912.2	2,135.4

1. Undrawn loan commitments include revocable commitments which are unused credit card limits of £1,047.0m (31 December 2018: £1,097.1m).

Other contingent liabilities, contractual commitments and guarantees

There have been no significant changes to the position of the Group's other contingent liabilities, contractual commitments and guarantees as disclosed in the 2018 Annual Report and Accounts.

13. Contingent liabilities, contractual commitments and guarantees (continued)

Encumbered and pledged assets

a) Assets pledged under repurchase agreements with other banks including the Bank of England

Assets are pledged as collateral under repurchase agreements with other banks including the Bank of England. The associated deposits which are included within deposits by banks and cash and balances with central banks, are not available to finance day-to-day operations.

	30 June 2019	31 December 2018
Investment securities sold under repurchase agreements		
Carrying amount of assets not derecognised	£0.3bn	£0.5bn
Carrying amount of associated liabilities	£0.3bn	£0.6bn

b) Other assets transferred but not derecognised

Loans and advances to customers include £1.2bn (31 December 2018: £1.2bn) pledged under securitisation and covered bond activities. Secured on these mortgage assets are £0.6bn (31 December 2018: £0.6bn) of fixed and floating rate notes. Further, cash of £39.7m (31 December 2018: £34.3m) held in ring fenced third party accounts which are attributable to securitisation and covered bond subsidiaries are not available to finance day-to-day operations of the wider Group.

c) Assets pledged under the Term Funding Scheme (TFS)

Investment securities and mortgage assets with a carrying value of £1.6bn (31 December 2018: £1.4bn) have been collateralised against the Group's TFS deposits and which now also covers ILTR funding.

d) Assets pledged under the Group's pension arrangements

As described in note 9, the Group has pledged assets for security under the Group's pension arrangements. Such security becomes enforceable in the event that deficit recovery payments are not met, as agreed with the relevant trustee, insolvency or the failure to adhere to the terms of the security deeds.

e) Other collateralised assets

Cash and investment securities totalling £0.3bn (31 December 2018: £0.2bn) and £0.1bn (31 December 2018: £0.1bn) respectively were collateralised under interest rate swap arrangements.

The Group also places cash and investment security collateral in support of transactions with banking payment system operators.

f) Bank of England Mandatory Reserve

Mandatory reserve deposits are also held with the Bank of England in accordance with statutory requirements.

14. Related party transactions

There were no changes to the nature of the related party transactions during the period to 30 June 2019 other than those disclosed in note 31 of the 2018 Annual Report and Accounts that would materially affect the position or performance of the Group.

15. Share capital

	30 June 2019		31 December 2018	
	No. of shares (millions)	Share capital	No. of shares (millions)	Share capital
Allotted, called up and fully paid				
At the beginning and end of the period	9,029.1	0.9	9,029.1	0.9
	9,029.1	**0.9**	9,029.1	0.9
Share premium account				
At the beginning and end of the period		313.8		313.8
		313.8		313.8

There are 9,029,130,200 A shares (2018: 9,029,130,200) and 82 B shares (2018: 82) in The Co-operative Bank Holdings Limited following the Restructuring and Recapitalisation in 2017. The holders of the ordinary A shares do not hold any voting rights but are entitled to participate in distributions and to receive a dividend on liquidation. The B shareholders have one vote for every share held and also benefit from certain governance, notification and approval rights with respect to the Holding Company, but have no rights to distributions, other than on exit in an amount of £25.0m in aggregate, subject to achieving a minimum valuation threshold.

16. Fair values of financial assets and liabilities

The methodology and assumptions for determining the fair value of financial assets and liabilities are consistent with those disclosed in the 2018 Annual Report and Accounts.

Balance sheet classification and measurement category
The tables below analyse the balance sheet carrying values of financial assets and liabilities by classification.

30 June 2019	Amortised cost	Measured at fair value FVOCI	FVTPL – designated	FVTPL – mandatorily measured	Derivatives in a hedging relationship	Total
Financial assets						
Cash and balances at central banks	1,848.2	-	-	-	-	**1,848.2**
Loans and advances to banks	483.7	-	-	-	-	**483.7**
Loans and advances to customers	17,744.3	-	145.8	1.9	-	**17,892.0**
Investment securities	84.4	1,749.2	-	3.9	-	**1,837.5**
Derivative financial instruments	-	-	-	170.4	70.0	**240.4**
Equity shares	-	-	-	34.5	-	**34.5**
Other assets[1]	20.7	-	-	41.1	-	**61.8**
	20,181.3	**1,749.2**	**145.8**	**251.8**	**70.0**	**22,398.1**
Financial liabilities						
Deposits by banks	1,283.3	-	-	-	-	**1,283.3**
Customer accounts	18,893.3	-	-	-	-	**18,893.3**
Debt securities in issue	635.1	-	-	-	-	**635.1**
Derivative financial instruments	-	-	-	188.2	134.7	**322.9**
Other borrowed funds	204.5	-	-	-	-	**204.5**
Other liabilities	54.4	-	-	-	-	**54.4**
	21,070.6	**-**	**-**	**188.2**	**134.7**	**21,393.5**

1. Other assets presented in this table include only items classified as financial assets and do not represent the total per the balance sheet category.

All other balance sheet categories represent non-financial assets and liabilities.

31 December 2018	Amortised cost	Measured at fair value FVOCI	FVTPL – designated	FVTPL – mandatorily measured	Derivatives in a hedging relationship	Total
Financial assets						
Cash and balances at central banks	1,843.8	-	-	-	-	1,843.8
Loans and advances to banks	485.8	-	-	-	-	485.8
Loans and advances to customers	17,583.1	-	148.5	2.3	-	17,733.9
Investment securities	89.1	1,842.4	-	3.5	-	1,935.0
Derivative financial instruments	-	-	-	130.9	61.3	192.2
Equity shares	-	-	-	26.4	-	26.4
Other assets[1]	21.8	-	-	32.9	-	54.7
	20,023.6	1,842.4	148.5	196.0	61.3	22,271.8
Financial liabilities						
Deposits by banks	1,433.5	-	-	-	-	1,433.5
Customer accounts	18,735.8	-	-	-	-	18,735.8
Debt securities in issue	617.6	-	-	-	-	617.6
Derivative financial instruments	-	-	-	144.3	116.3	260.6
Other liabilities	92.1	-	-	-	-	92.1
	20,879.0	-	-	144.3	116.3	21,139.6

1. Other assets presented in this table include only items classified as financial assets and do not represent the total per the balance sheet category.

16. Fair values of financial assets and liabilities (continued)

Valuation of financial assets and liabilities measured at fair value

The carrying values of financial assets and liabilities measured at fair value are analysed in the following tables by the three level fair value hierarchy defined as follows:

- Level 1 – Quoted market prices in active markets
- Level 2 – Valuation techniques using observable inputs
- Level 3 – Valuation techniques using unobservable inputs

		Fair value at end of the reporting period using:			
30 June 2019	**Category**	**Level 1**	**Level 2**	**Level 3**	**Total**
Non-derivative financial assets					
Loans and advances to customers	FVTPL – designated	-	143.5	2.3	**145.8**
Loans and advances to customers	FVTPL – mandatorily measured	-	-	1.9	**1.9**
Investment securities	FVOCI	1,478.3	-	270.9	**1,749.2**
Investment securities	FVTPL – mandatorily measured	-	-	3.9	**3.9**
Equity shares	FVTPL – mandatorily measured	0.4	-	34.1	**34.5**
Other assets	FVTPL – mandatorily measured	-	-	41.1	**41.1**
Derivative financial assets		-	240.4	-	**240.4**
Non-financial assets:					
Investment properties		-	-	1.9	**1.9**
		1,478.7	**383.9**	**356.1**	**2,218.7**
Derivative financial liabilities		-	322.9	-	**322.9**

		Fair value at end of the reporting period using:			
31 December 2018	**Category**	**Level 1**	**Level 2**	**Level 3**	**Total**
Non-derivative financial assets					
Loans and advances to customers	FVTPL – designated	-	145.7	2.8	148.5
Loans and advances to customers	FVTPL – mandatorily measured	-	-	2.3	2.3
Investment securities	FVOCI	1,443.1	-	399.3	1,842.4
Investment securities	FVTPL – mandatorily measured	-	-	3.5	3.5
Equity shares	FVTPL – mandatorily measured	0.4	-	26.0	26.4
Other assets	FVTPL – mandatorily measured	-	-	32.9	32.9
Derivative financial assets		-	192.2	-	192.2
Non-financial assets:					
Investment properties		-	-	2.3	2.3
		1,443.5	337.9	469.1	2,250.5
Derivative financial liabilities		-	260.6	-	260.6

Key elements of the valuation techniques, inputs and assumptions used in measuring the fair value of level 3 financial assets are as follows:

- **Investment securities**

  Investment securities comprise RMBS of £270.9m (FVOCI) and £3.9m (FVTPL – mandatorily measured) as at 30 June 2019 (31 December 2018: £399.3m FVOCI and £3.5m FVTPL). An independent third party valuation agent is used to provide prices for the rated RMBS obtained from large financial institutions. These prices are indicative values only and do not represent an offer to purchase the securities. These RMBS represent the Group's interests in unconsolidated structured entities. A 1% increase or decrease in the price of the notes will result in the value increasing or decreasing by approximately £2.7m respectively as at 30 June 2019.

16. Fair values of financial assets and liabilities (continued)

- **Equity shares**

  Equity shares comprise US Dollar denominated convertible preference shares in Visa International, which are classified as FVTPL – designated, with any movements in fair value being recognised in the income statement. The fair value of the Visa International shares has been calculated by taking the period end NYSE share price and discounting for illiquidity and clawback. If the illiquidity premium to the discount rate was assumed to be double, it would result in a reduction in the overall fair value of the equity shares of £9.5m (27.7%) as at 30 June 2019.

- **Other assets**

  Other assets comprise the Surrendered Loss Debtor of £41.1m as at 30 June 2019 (31 December 2018: £32.9m). The fair value was determined by discounting the expected cash flows under the terms of the agreement with Co-operative Group. Cash flows are discounted at a discount rate reflecting the yield of the longest maturity Co-operative Group bond in issue (adjusted to reflect the weighted average maturity of cash flows due from Co-operative Group), plus a premium to estimate the uncertainties associated with the matters set out in note 2.2.5 to the Group 2018 Annual Report and Accounts. The premium is calculated applying risk parameter estimation theory using observable inputs from related (but not identical) financial instruments or indices.

Scenario	Result
Deferral of receipt of payments applied in the payment forecast	If future payments from Co-operative Group are deferred by one year from the current estimates, the value of the Surrendered Loss Debtor decreases by £3.6m.
Changes in tax rates applied in the payment forecast	Increasing the corporation tax rate by 1% from 1 April 2020 throughout the life of the SLD increases the value of the Surrendered Loss Debtor by £2.8m.
Changes in the discount rate used to calculate the present value of the payment forecast	If the variables used to build up the discount rate change such that the total discount rate increases by 1%, the value of the Surrendered Loss Debtor decreases by £4.4m.

If the illiquidity adjustment was assumed to be 10% higher, this would not result in a material change in the value of the Surrendered Loss Debtor.

Movements in fair values of instruments with significant unobservable inputs (level 3) were:

	Fair value at 31 December 2018	Purchases and transfers in	Sales, transfers out and repayments	Other comprehensive income	Income statement	Fair value at 30 June 2019
Loans and advances to customers	5.1	-	(1.1)	-	0.2	**4.2**
Investment securities	402.8	-	(128.6)	(0.1)	0.7	**274.8**
Equity shares	26.0	-	-	-	8.1	**34.1**
Investment properties	2.3	-	(0.4)	-	-	**1.9**
Other assets	32.9	-	0.4	-	7.8	**41.1**
	469.1	**-**	**(129.7)**	**(0.1)**	**16.8**	**356.1**

16. Fair values of financial assets and liabilities (continued)

Fair values of financial assets and liabilities not carried at fair value

The carrying values of financial assets and liabilities measured at amortised cost are analysed in the following tables by the three level fair value hierarchy set out above.

		Fair value				
30 June 2019	Total carrying value	Level 1	Level 2	Level 3	Items where fair value approximates carrying value	Total
Financial assets						
Cash and balances at central banks	**1,848.2**	-	-	-	1,848.2	**1,848.2**
Loans and advances to banks	**483.7**	-	-	-	483.7	**483.7**
Loans and advances to customers	**17,744.3**	-	-	16,323.7	1,241.4	**17,565.1**
Investment securities	**84.4**	-	-	83.9	-	**83.9**
Other assets	**20.7**	-	-	-	20.7	**20.7**
Financial liabilities						
Deposits by banks	**1,283.3**	-	1,286.2	-	1.7	**1,287.9**
Customer accounts	**18,893.3**	-	-	4,078.6	14,830.7	**18,909.3**
Debt securities in issue	**635.1**	653.1	-	-	-	**653.1**
Other borrowed funds	**204.5**	-	203.4	-	-	**203.4**
Other liabilities	**54.4**	-	-	-	54.4	**54.4**

		Fair value				
31 December 2018	Total carrying value	Level 1	Level 2	Level 3	Items where fair value approximates carrying value	Total
Financial assets						
Cash and balances at central banks	**1,843.8**	-	-	-	1,843.8	**1,843.8**
Loans and advances to banks	**485.8**	-	-	-	485.8	**485.8**
Loans and advances to customers	**17,583.1**	-	-	16,112.3	1,291.2	**17,403.5**
Investment securities	**89.1**	-	-	87.3	-	**87.3**
Other assets	**21.8**	-	-	-	21.8	**21.8**
Financial liabilities						
Deposits by banks	**1,433.5**	-	1,436.4	-	2.5	**1,438.9**
Customer accounts	**18,735.8**	-	-	4,163.0	14,582.1	**18,745.1**
Debt securities in issue	**617.6**	640.8	-	-	-	**640.8**
Other borrowed funds	**-**	-	-	-	-	**-**
Other liabilities	**92.1**	-	-	-	92.1	**92.1**

There were no transfers between level 1, 2 and 3 during the period.

17. Right-of-use assets and lease liabilities

IFRS 16 (Leases) which supersedes IAS 17 (Leases) was effective from 1 January 2019. Under IFRS 16, a lessee recognises a 'right-of-use' asset for all leases, which represents its right to use the underlying leased asset for the period of the lease. At the commencement date of a lease, a lessee is required to recognise both a right-of-use asset and a lease liability.

Transition
IFRS 16 was adopted by the Group on 1 January 2019 and the modified retrospective approach was applied to transition. Under the modified retrospective approach, a lessee does not restate comparative figures; instead the cumulative effect of initially applying IFRS 16 is recognised as an opening adjustment to retained earnings. Further the permissible election was applied to all classes of leases to measure the right-of-use asset on transition at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments. On adoption on 1 January 2019, IFRS 16 increased total assets by £78.2m, increased total liabilities by £78.2m and had no impact on shareholders' equity. The weighted average Group incremental borrowing rate applied to lease liabilities at initial application was 3.4%. The £78.2m lease liability recognised on transition is lower than the £89.9m minimum operating lease commitments disclosed in the Group's 2018 ARA for the following reasons:
- The IFRS 16 lease liability is discounted whereas the total IAS 17 commitment was undiscounted; and
- The IFRS 16 lease liability excludes commitments related to low value leases and leases with a remaining life of less than 12 months.

Initial measurement
At the commencement date, the right-of-use asset is measured at cost which comprises:
- the amount of the initial measurement of the lease liability,
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease. The Group incurs the obligation for those costs either at the commencement date or as a consequence of having used the asset during a particular period.

The lease liability is measured initially at the present value of unpaid lease payments. At the commencement date, the lease liability is measured at the present value of the lease payments that are not paid at that date (discounted at the Group's incremental borrowing rate).

The following accounting policy choices have been applied:
- The requirements of IFRS 16 have not been applied to leases of less than 12 months and those of low value (such costs are recognised on a straight line or other systematic basis);
- IAS 17 lease assessments have been grandfathered (lease definition conclusions applied under IAS 17 have been carried forward on transition to IFRS 16);
- Lease liabilities are discounted at the Group's incremental borrowing rate;
- Non-lease components are not separated from lease components within the lease liability; and
- VAT is not included in the lease liability.

Subsequent measurement
The right-of-use asset is subsequently measured at cost less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability arising from a reassessment of lease term, revision to lease break assumptions or in-substance fixed lease repayments. The depreciation and impairment accounting policies applied to the right-of-use assets are consistent with those applied to the respective tangible asset categories.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payments made and adjusted to reflect any reassessment of lease term, revision to lease break assumptions or in-substance fixed lease repayments. The interest expense is recognised within Interest income and similar income in the Income statement.

The tables below present the assets and liabilities recognised on the balance sheet in relation to assets leased by the Group. Comparative information has not been provided for the reasons set out above. The amount expensed during the period in relation to short term and low value leases was £0.8m.

17. Right-of-use assets and lease liabilities (continued)

Right-of-use assets

Land and buildings	Cost	Accumulated depreciation	Total[1]
At 1 January 2019	80.3	-	**80.3**
Depreciation	-	(4.6)	**(4.6)**
At 30 June 2019	**80.3**	**(4.6)**	**75.7**

1. Reflects an amount equal to the lease liability on transition of £78.2m, adjusted for prepaid and accrued lease payments of £2.1m.

Lease liabilities

The undiscounted maturity analysis of lease liabilities future cash flows is included in the table below and relates solely to land and building leases.

	30 June 2019
Amounts falling due:	
Within one year	10.5
One to two years	10.0
Two to five years	26.6
Over five years	46.9
	94.0

The discounted lease liability as at 30 June 2019 was £74.0m.

There are no leases to which the Group is committed which have not yet commenced.

18. Events after the balance sheet date

On 9 July 2019, the Bank Company transferred the beneficial title of £583m retail mortgages to Silk Road Finance Number Five PLC to generate £500m AAA RMBS which were fully retained by Bank Company. These securities are expected to be utilised by the Bank in the future for collateral and/or funding arrangements. As the transfer of retail mortgages did not meet the de-recognition criteria of IFRS 9 and the Bank Company was concluded to control Silk Road Finance Number Five PLC and Silk Road Finance Holdings Number Five Limited (the holding company of Silk Road Finance Number Five PLC), this transaction had no impact on the consolidated result or position of the Group, except for recognition of expenses related to the Silk Road Five securitisation transaction.