The Co-operative Bank Holdings Limited, The Co-operative Bank plc and The Co-operative Bank Finance plc announce that the following document has today been submitted to the National Storage Mechanism and will shortly be available for inspection at:

www.morningstar.co.uk/uk/NSM

BASIS OF PRESENTATION

The Co-operative Bank Holdings Limited is the immediate parent company of The Co-operative Bank Finance p.l.c. and the ultimate parent company of The Co-operative Bank p.l.c. In the following pages the term 'Group' or 'consolidated group' refers to The Co-operative Bank Holdings Limited and its subsidiaries. The term 'Finance Group' refers to The Co-operative Bank Finance p.l.c. and its subsidiaries. The term 'Bank' refers to The Co-operative Bank p.l.c. and its subsidiaries which are consolidated within the Finance Group and then ultimately the Group. Unless otherwise stated, information presented for the Group equally applies to the Bank and the Finance Group.

The Co-operative Bank p.l.c. is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. The Co-operative Bank p.l.c. eligible customers are protected by the Financial Services Compensation Scheme in the UK, in accordance with its terms.

Statutory basis: Statutory information is set out on pages 150 to 251 within the published Annual Report and Accounts.
Underlying basis: The statutory results are adjusted to remove certain items that do not promote an understanding of historical or future trends of earnings or cash flows, which therefore allows a more meaningful comparison of the Group's underlying performance. A reconciliation from the underlying results to the statutory basis is shown below along with management's rationale for the adjustments.
Alternative performance measures: The Group uses a number of alternative performance measures, including underlying profit or loss, in the discussion of its business performance and financial position.

2019 ANNUAL REPORT AND ACCOUNTS

The Co-operative Bank ("the Bank") is pleased to provide an update on its performance in the 12 months to 31 December 2019. The full Annual Report and Accounts, plus other supporting information can be found at the following link:

www.co-operativebank.co.uk/investorrelations/financialresults

- **First phase of the turnaround successfully completed**
- **Separation of IT systems from the Co-op Group completed and further de-risking delivered**
- **Business performance has been resilient with strong franchise momentum in a challenging market**
- **Underlying loss in line with expectations at £19.7m**
- **Progress achieved in 2019 provides the foundations for future growth**
- **Delivery of second stage of turnaround underway, enabling future sustainable profitability as legacy issues are resolved**

Andrew Bester, Chief Executive Officer, said,

"In 2019 we successfully completed the first stage of our five year turnaround plan and our achievements have put in place a platform for growth for the years ahead. Our IT systems are now separated from the Co-op Group, we have a high-quality, low-risk loan book and our legacy assets are less than 5% of our balance sheet. While there is still work ahead, we have significantly improved our digital proposition and reinvested in our distinctive ethical brand. Our underlying losses are in line with expectations and the higher statutory loss reflects our investment in transformation and the impact of higher than expected levels of PPI claims felt industry-wide.

"Our core Retail and SME banking performance shows our resilience in a competitive market. We delivered controlled mortgage balance growth aimed at protecting margins, and saw increased retail deposits amongst our target customer base. Our SME business began a turnaround this year with deposit balances increasing in a competitive market. We believe this offers significant future growth potential and our funding award from the Banking Competition Remedies (BCR), together with investment of our own, is already helping us accelerate our plans. We are well positioned to extend our propositions to our retail and SME customers, and I am delighted our customer service ratings have improved and that we were recognised as Most Trusted Mainstream Bank.

"Having tackled the legacy issues of the past, we now have the foundations for the Bank to grow and our brand presents real potential in a market where consumers want to drive change by seeking greener and more ethical choices. I am proud of what we've achieved and we now look to the future well positioned for the opportunities ahead."

First phase of the turnaround successfully completed

- Separation of IT systems from the Co-op Group delivered successfully
- Highest current account NPS since 2013 of +29 and highest ever colleague engagement score achieved in 2019
- Voted 'Most trusted mainstream bank' by readers of Moneywise magazine and retained our position as '#1 Ethical bank' (Hall & Partners)
- Re-energised our SME business: deposit growth of 6 per cent, generating significant customer momentum
- Further progress made to de-risk the Bank
    - Further reduction in PRA Individual Capital Requirement ("ICR") to 6.54% of RWAs, reduced from 8.69%

- £200m issuance of Tier 2 debt in 2Q 19
- Legacy assets now represent less than 5% of the Bank's total assets

- Renegotiation of key contracts supporting our transformation, including Capita for mortgage servicing and IBM as our key IT strategic partner
- Continued investment in brand and marketing highlighting our position as 'The Original Ethical Bank'

Resilient business performance in a challenging market

- Underlying loss in line with expectations at £19.7m
- Strong retail mortgage growth continues with net balances up 5% driven by £3.8bn of new business completions and improved customer retention
- 6% growth in both franchise retail and SME deposits whilst optimising more expensive term balances
- Customer NIM reduced to 1.75% in line with guidance, reflecting sustained margin pressure
- Core customer cost of funds remains low at 60bps, 15bps below base rate
- Statutory loss before tax of £152.1m, including strategic investment of £96.6m to deliver transformation and PPI charge of £62.5m. In comparison to 2018; improvement of 11% excluding legacy PPI
- Strong CET1 ratio of 19.6% reduced in line with expectations

Enabling the future: 2020-23 stage of transformation plan

- Second phase of transformation underway; planned level of strategic investment spend reduces with focus shifting to improving customer propositions
- Investment will centre on brand, further enhancing our digital proposition, simplifying our mortgage and savings platforms and building our SME franchise
- Our focus on cost reduction and simplification continues, primarily in areas that do not directly impact on our customers
- Like other market participants, we expect ongoing market competition and planned issuance of further MREL-qualifying debt to continue to present headwinds for interest rate margins in 2020
- Transformation enables a path to sustainable profitability driven by a strong executive team, committed colleagues and the continued support of the Board and majority shareholders

Income statement – Underlying basis

	Year ended 31 December	
	2019	**2018**
Retail	**262.4**	290.4
SME	**55.5**	57.3
Core customer income	**317.9**	347.7
Treasury	**38.3**	32.1
Total core income	**356.2**	379.8
Legacy and unallocated	**2.7**	12.3
Total income	**358.9**	392.1
Operating costs	**(361.5)**	(355.4)
Continuous improvement spend	**(19.6)**	(18.6)
Operating expenditure	**(381.1)**	(374.0)
Impairment gains	**2.5**	5.5
Underlying (loss) / profit	**(19.7)**	23.6

A reconciliation to the statutory loss before tax is included in note 1 below
The basis of preparation for the income statement has been updated in 2019 and 2018 figures have been re-presented

Andrew Bester, (CEO) Chris Davis, (COO) and Nick Slape, (CFO) will host an investor call on 27th February 2020 at 2pm UK time followed by a short Q&A session. Details of the call can be found below:

United Kingdom (local): 0800 783 0906
All other locations: +44 1296 480 100
Call passcode: 338 383
Webcast: https://btevent.webex.com Event number: 849 526 249

Additional materials are available on the Bank's investor portal which can be found at the following address:
www.co-operativebank.co.uk/investorrelations

Investor enquiries:

investor.relations@co-operativebank.co.uk
Gary McDermott, Treasurer and Head of Investor Relations: +44 (0) 161 201 7805

Media enquiries:

Lesley McPherson, Director of Communications: +44 (0) 7725 903270
David Masters, Lansons: +44 (0) 7825 427514

PRIMARY FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

£million

	Year ended 31 December	
	2019	**2018**
Interest income calculated using the effective interest rate method	**466.4**	503.4
Other interest and similar income	**18.1**	2.6
Interest income and similar income	**484.5**	506.0
Interest expense and similar charges	**(174.5)**	(146.6)
Net interest income	**310.0**	359.4
Fee and commission income	**66.3**	63.5
Fee and commission expense	**(45.6)**	(43.3)
Net fee and commission income	**20.7**	20.2
Income from investments	**0.7**	0.1
Other operating income/(expense) (net)	**55.2**	(11.0)
Operating income	**386.6**	368.7
Operating expenses	**(477.7)**	(480.7)
Net customer redress charge	**(63.5)**	(34.2)
Total operating expenses	**(541.2)**	(514.9)

Operating loss before net credit impairment gains	**(154.6)**	(146.2)
Net credit impairment gains	**2.5**	5.5
Loss before taxation	**(152.1)**	(140.7)
Income tax	**(0.9)**	72.0
Loss for the financial year	**(153.0)**	(68.7)

Comparative information has not been restated on adoption of IFRS 16, as permitted by the standard.

The results above are for the consolidated group and wholly relate to continuing activities. More information regarding the basis of preparation can be found in note 1 to the full Annual Report and Accounts, which have been made available on our website.

The loss for the financial year is wholly attributable to equity shareholders.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

£million

	Year ended 31 December	
	2019	**2018**
Loss for the financial year	**(153.0)**	(68.7)
Items that may be recycled to profit or loss:		
Changes in cash flow hedges:	**(7.4)**	(16.0)
Net changes in fair value recognised directly in equity	**2.9**	2.8
Transfers from equity to income or expense	**1.2**	3.3
Income tax		
Changes in fair value through other comprehensive income:		
Net changes in fair value recognised directly in equity	**(51.6)**	9.1
Transfers from equity to income or expense	**39.2**	(14.1)
Income tax	**2.6**	0.5
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 gains/(losses) for the year	**37.6**	(69.5)
Income tax	**(9.7)**	(114.7)
Other comprehensive income for the financial year, net of income tax	**14.8**	330.3
Total comprehensive (expense)/income for the financial year	**(138.2)**	261.6

Comparative information has not been restated on adoption of IFRS 16, as permitted by the standard.

The results above are for the consolidated group. More information regarding the basis of preparation can be found in note 1 to the full Annual Report and Accounts, which have been made available on our website.

CONSOLIDATED BALANCE SHEET

£million	31 December 2019	31 December 2018
Assets		
Cash and balances at central banks	**2,153.5**	1,843.8
Loans and advances to banks	**474.3**	485.8
Loans and advances to customers	**17,918.4**	17,733.9
Fair value adjustments for hedged risk	**72.6**	53.4
Investment securities	**1,605.6**	1,935.0
Derivative financial instruments	**213.3**	192.2
Property, plant and equipment classified as held-for-sale	**0.8**	3.9
Equity shares	**44.5**	26.4
Investment properties	**1.8**	2.3
Other assets	**52.6**	54.7
Prepayments	**21.7**	31.8
Property, plant and equipment	**38.6**	40.8
Intangible assets	**75.3**	72.4
Right-of-use assets	**72.3**	-
Deferred tax assets	**-**	2.9
Net retirement benefit asset	**690.2**	623.5
Total assets	**23,435.5**	23,102.8

Liabilities		
Deposits by banks	**1,143.7**	1,433.5
Customer accounts	**18,996.8**	18,735.8
Debt securities in issue	**867.5**	617.6
Derivative financial instruments	**288.0**	260.6
Other liabilities	**53.5**	92.1
Accruals and deferred income	**59.0**	63.0
Provisions	**87.4**	103.6
Other borrowed funds	**204.2**	**-**
Lease liabilities	**71.2**	-
Deferred tax liabilities	**43.7**	38.9
Net retirement benefit liability	**8.6**	7.6
Total liabilities	**21,823.6**	21,352.7

Capital and reserves attributable to the Group's equity holders		
Ordinary share capital	**0.9**	0.9
Share premium account	**313.8**	313.8
Retained earnings	**(1,314.5)**	(1,161.5)
Other reserves	**2,611.7**	2,596.9
Total equity	**1,611.9**	1,750.1
Total liabilities and equity	**23,435.5**	23,102.8

Comparative information has not been restated on adoption of IFRS 16, as permitted by the standard.

The financial positions above are for the consolidated group. More information regarding the basis of preparation can be found in note 1 to the full Annual Report and Accounts, which have been made available on our website.

CONSOLIDATED STATEMENT OF CASH FLOWS

£million

	Year ended 31 December	
	2019	**2018**
Cash flows used in operating activities:		
Loss before taxation	**(152.1)**	(140.7)
Adjustments for non-cash movements:		
Non-cash movements on pension	**(13.9)**	4.4
Net credit impairment gains	**(2.5)**	(5.5)
Depreciation, amortisation and impairment of property, equipment, right-of-use assets and intangibles	**42.8**	33.5
Other non-cash movements including exchange rate movements	**86.7**	112.1
Changes in operating assets and liabilities:		
(Decrease)/increase in deposits by banks	**(289.8)**	310.8
Decrease/(increase) in prepayments and accrued income	**8.0**	(7.1)
Decrease in accruals and deferred income	**(4.0)**	(17.0)
Increase/(decrease) in customer accounts	**259.5**	(1,899.2)
Increase/(decrease) in debt securities in issue	**249.9**	(9.8)
(Increase)/decrease in loans and advances to banks	**(55.5)**	1.8
Increase in loans and advances to customers	**(210.3)**	(998.7)
Net movement of other assets and other liabilities	**(154.0)**	(58.9)
Income tax received	**-**	1.0
Net cash flows used in operating activities	**(235.2)**	(2,673.3)

Cash flows from investing activities:		
Purchase of tangible and intangible assets	**(34.5)**	(24.4)
Purchase of investment securities	**(1,048.1)**	(462.6)
Proceeds from sale of property and equipment	**5.9**	0.5
Proceeds from sale of shares and other interests	**13.2**	2.3
Proceeds from sale and maturity of investment securities	**1,363.2**	875.5
Proceeds from sale of joint venture	**-**	0.7
Proceeds from sale of investment properties	**0.5**	-
Dividends received	**0.7**	5.8
Net cash flows from investing activities	**300.9**	397.8

Cash flows from financing activities:		
Proceeds from issuance of Tier 2 notes (net of cost)	**197.3**	-
Interest paid on Tier 2 notes	**(9.5)**	-
Lease liability principal payments	**(10.8)**	-
Net cash flows from financing activities	**177.0**	-
Net increase/(decrease) in cash and cash equivalents	**242.7**	(2,275.5)
Cash and cash equivalents at the beginning of the year	**2,193.9**	4,469.4
Cash and cash equivalents at the end of the year	**2,436.6**	2,193.9
Comprising of:		
Cash and balances at central banks	**2,094.6**	1,789.6
Loans and advances to banks	**342.0**	404.3
	2,436.6	2,193.9

Comparative information has not been restated on adoption of IFRS 16, as permitted by the standard.

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

£million

	Year ended 31 December			
	Lease liabilities	**Other borrowed funds**	**Total 2019**	**Total 2018**
Balance at the beginning of the year	-	-	-	-
Changes from financing cash flows:				

Proceeds from issuance of Tier 2 notes	-	197.3	197.3	-
Interest paid on Tier 2 notes	-	(9.5)	(9.5)	-
Lease liability principal payments	(10.8)	-	(10.8)	-
	(10.8)	**187.8**	**177.0**	**-**
Other changes:				
Interest payable on lease liabilities and Tier 2 notes	2.5	13.0	15.5	-
Other non-cash movements	-	3.4	3.4	-
Recognition of lease liabilities	79.5	-	79.5	-
Balance at the end of the year	**71.2**	**204.2**	**275.4**	**-**

Comparative information has not been restated on adoption of IFRS 16, as permitted by the standard.

Lease liabilities arise from the adoption of IFRS 16 which came into force in 2019. In the current year, 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

Year ended 31 December 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 year	-	-	(9.8)	(3.3)	-	-	27.9	(153.0)	**(138.2)**
At 31 December 2019	**0.9**	**313.8**	**4.1**	**16.7**	**410.0**	**1,737.5**	**443.4**	**(1,314.5)**	**1,611.9**

Year 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

Comparative information has not been restated on adoption of IFRS 16, as permitted by the standard.

SELECTED NOTES TO THE FINANCIAL STATEMENTS

Note 1. 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 to 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 the prior year presentation has been restated, to report separately those 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. In 2018, the analysis was based on Retail, Corporate, Optimum, Treasury and Other. The table below shows the segmental information as reported in 2019, with comparatives on the following page as restated. A reconciliation is also shown on the following pages to show the impact of the change in segments.

	Core					
2019	**Retail**	**SME**	**Treasury**	**Total**	**Legacy & unallocated**	**Group**
Net interest income	248.8	38.9	22.9	**310.6**	(0.6)	**310.0**
Other operating income	13.6	16.6	15.4	**45.6**	3.3	**48.9**
Operating income	**262.4**	**55.5**	**38.3**	**356.2**	**2.7**	**358.9**
Net credit impairment (losses)/gains	(1.6)	3.3	-	1.7	0.8	**2.5**
Operating expenses						**(381.1)**
Underlying loss						**(19.7)**
Strategic project costs						**(96.6)**
Legacy net customer redress charge						**(63.5)**
Surrendered Loss Debtor revaluation						**14.6**
Gain on shares revaluation						**18.1**
Gain on share sales						**3.1**
Loss on asset sales						**(8.1)**
Statutory profit/(loss) before tax						**(152.1)**

	Core					
2018 (re-stated)	**Retail**	**SME**	**Treasury**	**Total**	**Legacy & unallocated**	**Group**
Net interest income	277.2	40.6	35.7	**353.5**	5.9	**359.4**
Other operating income/(expense)	13.2	16.7	(3.6)	**26.3**	6.4	**32.7**
Operating income	**290.4**	**57.3**	**32.1**	**379.8**	**12.3**	**392.1**
Net credit impairment (losses)/gains	(6.8)	9.7	-	2.9	2.6	**5.5**
Operating expenses						**(374.0)**
Underlying profit						**23.6**
Strategic project costs						**(94.3)**
Legacy net customer redress charge						**(31.7)**
Surrendered Loss Debtor revaluation						**(28.1)**
Gain on shares revaluation						**2.0**
Gain on share sales						**0.2**
Loss on asset sales						**-**
Guaranteed Minimum Pensions						**(12.4)**

Statutory profit/(loss) before tax	**(140.7)**

The re-allocation to report separately those business areas in run-off within legacy in 2018 is shown below:

2018	Retail	SME[1]	Treasury	Optimum	Legacy & unallocated[2]	Total
Segmental result as reported[3]	295.8	73.7	2.1	14.0	(526.3)	**(140.7)**
Re-allocation	(12.2)	(6.7)	30.0	(14.0)	2.9	**-**
Segmental result as re-stated[3]	283.6	67.0	32.1	-	(523.4)	**(140.7)**

1. The SME segment was previously named Corporate.

2. The Legacy & unallocated balance previously included Other and unallocated.

3. Segmental result is operating income less net credit impairment (losses)/gains. Expenditure is not allocated between segments.

The table below represents the reconciliation of the income statement on an underlying basis and the consolidated income statement on a statutory basis. The underlying result is the basis on which information is presented to the chief operating decision maker and is a non-statutory, alternative performance measure used to monitor progress against the strategy. It is described in more detail within the strategic report, including why this alternative measure is produced and the rationale for the adjustments on which it is based.

		Removal of:				
2019	**IFRS statutory**	**Volatile items[1]**	**Strategic projects**	**Legacy customer redress charges**	**Non-recurring[2]**	**Underlying basis**
Net interest income	310.0	-	-	-	-	**310.0**
Other operating income/(expense)	76.6	(32.7)	-	-	5.0	**48.9**
Operating income	**386.6**	**(32.7)**	**-**	**-**	**5.0**	**358.9**
Operating expenses	(477.7)	-	96.6	-	-	**(381.1)**
Net customer redress charge	(63.5)	-	-	63.5	-	**-**
Net credit impairment gains	2.5	-	-	-	-	**2.5**
Statutory (loss)/profit before tax	**(152.1)**	**(32.7)**	**96.6**	**63.5**	**5.0**	**(19.7)**

1. In the year ended 2019, this comprises the impact of the revaluation of the Surrendered Loss Debtor (£14.6m) and the revaluation gain on equity shares (£18.1m).

2. In the year ended 2019, this comprises the loss recognised on the sale of Optimum mortgage assets (£8.1m) offset by the gain on Vocalink shares (£3.1m).

		Removal of:				
2018 – re-stated	**IFRS statutory**	**Volatile items[1]**	**Strategic projects**	**Legacy customer redress charges**	**Non-recurring[2]**	**Underlying basis**
Net interest income	359.4	-	-	-	-	**359.4**

Other operating income/(expense)	9.3	26.1	-	(2.5)	(0.2)	**32.7**
Operating income	**368.7**	**26.1**	**-**	**(2.5)**	**(0.2)**	**392.1**
Operating expenses	(480.7)	-	94.3	-	12.4	**(374.0)**
Net customer redress charge	(34.2)	-	-	34.2	-	**-**
Net credit impairment gains	5.5	-	-	-	-	**5.5**
Statutory (loss)/profit before tax	**(140.7)**	**26.1**	**94.3**	**31.7**	**12.2**	**23.6**

1. In the year ended 2018, this comprises the impact of the revaluation of the Surrendered Loss Debtor (£28.1m) and the revaluation gain on equity shares (£2.0m).

2. In the year ended 2018, this comprises the impact of past GMP pension service costs (£12.4m) offset by the gains on sale of shares (£0.2m).

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

	Core					
2019	**Retail**	**SME**	**Treasury**	**Total**	**Legacy & unallocated**	**Underlying basis**
Segment assets	16,588.4	184.4	4,524.2	21,297.0	2,138.5	**23,435.5**
Segment liabilities	16,745.7	2,118.7	2,501.0	21,365.4	458.2	**21,823.6**

	Core					
2018 – re-stated	**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 for corporates due to the re-segmentation. SME liabilities are lower by £118.9m.

Note 2. Related party transactions

Parent, subsidiary and ultimate controlling party

As at 31 December 2019, the Group had two significant shareholders: SP Coop Investments, Ltd and Anchorage Illiquid Opportunities Offshore Master V L.P, each holding over 20% of the B shares of the Holding Company, and therefore considered to be related parties.

Certain funds managed by SP Coop Investments, Ltd and Anchorage Illiquid Opportunities Offshore Master V L.P collectively, hold 35% of the Tier 2 debt issued by The Co-operative Bank Finance p.l.c. during 2019. The contractual features of the Tier 2 debt are set out in note 3.

Total interest paid for the year on the Tier 2 debt to certain funds managed by SP Coop Investments, Ltd and Anchorage Illiquid Opportunities Offshore Master V L.P was £3.4m (2018: £nil). At 31 December 2019, the total outstanding balance payable (including accrued interest) to these related parties was £71.8m (2018: £nil).

A loan was recognised by Finance Company and Bank Company to achieve structural subordination of the Tier 2 MREL qualifying debt (the "internal MREL"). The terms of the internal MREL are the same as those of the external MREL qualifying Tier 2 debt. The total amount due from Bank Company to Finance Company at 31 December 2019 in this regard was £204.2m (2018: £nil) including accrued interest. The interest paid by Bank Company to Finance Company on the internal MREL instrument was £13.0m.

Transactions with other related parties

Key management personnel are defined as the Board of Directors and Executive Committee members.

The related party transactions with key management are disclosed below:

	2019	2018
Deposits and investments at the beginning of the year	**0.6**	0.1
Net movement	**0.5**	0.5
Deposits and investments at the end of the year	**1.1**	0.6

In addition, there were £0.5m (2018: £0.1m) relating to loans to key management personnel, arising in the normal course of business.

Key management personnel

	2019	2018
Total remuneration receivable by key management personnel	**10.6**	11.1

In 2019, the total number of key management personnel was 25 (2018: 27). Further information about the remuneration of senior management personnel and material risk takers is included in the directors' remuneration report.

Note 3. Significant events

On 25 April 2019, the Group issued £200.0m Fixed Rate Reset Callable Subordinated Minimum Requirement for own funds and Eligible Liabilities (MREL) qualifying 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.

RISK MANAGEMENT OBJECTIVES AND POLICIES

Our approach to risk management

Responsibility for risk management resides at all levels within the Bank and is supported by Board and management level committees. A three lines of defence model is deployed on the following basis:

- 1st line – are responsible for owning and managing all risks within defined appetites, complying with Risk Policies and Control Standards, ensuring supporting procedures are documented and maintained using the Bank's Risk and Control Self-Assessment (RCSA), and are responsible for reporting the performance, losses, near misses and status of risks through governance;
- 2nd line – the Risk function act as the 2nd Line of defence. The Risk Framework Owners (RFOs) are responsible for setting Risk Policies Control Standards, Bank-wide procedures and Risk appetite. RFOs sit within the 2nd Line with the exception of some specialist areas where the RFO sits within 1st Line (for example Legal, Financial Reporting and People Risk), the 2nd Line Risk Function will provide oversight over the RFO activities in such cases;
- 3rd line – the Internal Audit function assesses the adequacy and effectiveness of the control environment and independently challenges the overall management of the RMF.

Overview

The Board oversees and approves the Bank's Risk Management Framework (RMF) and is supported by the Risk Committee (RC) of the Bank. The RC's purpose is to review the Bank's principal risk categories and risk appetite; report its conclusions to the Board for approval; oversee the implementation of the RMF, whilst anticipating changes in business conditions. The purpose of the Risk Committee of the Board of the Holding Company, is to review and challenge the Bank's risk appetite and RMF. It should also approve the Holding Company's risk appetite and risk policy, which shall be aligned to the RMF.

There is a formal structure for identifying, reporting, monitoring and managing risks. This comprises, at its highest level, risk appetite statements which are set and approved by the Board and are supported by granular risk appetite measures across the principal risk categories. This is underpinned by an RMF which sets out the high level policy, standards, roles, responsibilities, governance and oversight for the management of all principal risks.

Material risks and issues, whether realised or emerging, inclusive of those documented in relation to the RMF itself are described within section further below.

Our risk management framework (RMF)

Our risk culture – set and guided by the Board, our core risk values cascade throughout the Bank

Risk management framework – set and approved by the Board

Risk management framework policy – overarching framework governing the management of risk – approved at Risk Committee

Risk appetite – appetite-setting process and articulation of Bank-wide and principal risk statements and tolerances – agreed by the Board

Principal risk policies – principles approved by relevant risk oversight committees for managing principal risks across the Bank

Control standards – define the minimum requirements needed to meet the policy principles and how they can be achieved – approved by risk framework owners

Operational procedures – procedures for the day-to-day management of risk supporting the requirements of the control standards – approved by first line key stakeholders

Risk management strategy and appetite

The Board has primary responsibility for identifying the key business risks faced, approving the Risk Management Strategy through the setting of risk appetite, which defines the type and amount of risk the firm is prepared to take both qualitatively and quantitatively in pursuit of its strategic objectives. In addition, the Board approves key regulatory submissions including the Internal Liquidity Adequacy Assessment Process (ILAAP) and the Internal Capital Adequacy Assessment Process (ICAAP).

Risk appetite is translated into specific risk measures which are tracked, monitored and reported to the appropriate Risk Committees. The risk appetite framework has been designed to create clear links to the strategic planning process whereby appropriate metrics and limits for each risk category are established, calibrated and reported.

Our risk culture

A critical supporting factor of the RMF is the Risk culture in the Bank, this is a shared set of values and behaviours that defines how all colleagues approach the management of Risk. This culture begins at the top of the organisation with the Bank's Executive team who lead by example with consistent and clear communication of their commitment to managing risk at all levels of the organisation. Risk management is included in every colleague's objectives each year and is embedded within the Bank scorecard against which performance is measured.

The Bank has committed to embedding a strong culture of risk management and provides regular training and opportunities for colleagues to refresh knowledge on the RMF and opportunities for leaders to share knowledge and experience in respect of risk management in their roles.

Evolution of the RMF in 2019

The Bank continually seeks to enhance and further embed its Risk Management Framework (RMF) to ensure effective risk ownership and management within risk appetite, supporting appropriate customer outcomes, and the delivery of its strategic plan.

During the year, a number of initiatives have further strengthened and embedded the RMF, bringing with them an increased commitment to and understanding of risk management amongst all Bank colleagues:

- Clearer alignment of first line ownership of principal risks to the Senior Manager and Certification Regime to create an integrated and consistent accountability matrix
- Internal training sessions promoted collaborative risk management across the Bank with two key areas of focus:
    - Targeted training delivered to specialist risk teams and colleagues with specific risk responsibilities across the three lines of defence, to allow them to fully leverage the tools available to them within the RMF
    - Materially improve colleagues' understanding of the link between effective risk management disciplines and the Bank's operational risk capital requirements.

Our risk governance

The Board is the key governance body and is responsible for strategy, performance, and ensuring appropriate and effective risk management. It has delegated the responsibility for the day-to-day running of the business to the CEO. The CEO has established the Executive Committee to assist in the management of the business and deliver against the approved strategic plan in an effective and controlled manner.

The Board has established board committees and senior management committees to oversee the RMF, including identifying the key risks faced and assessing the effectiveness of any risk management actions. In 2019, the Bank Restructuring Committee (BResCo) was reconstituted as the

Investment & Project Oversight Committee (IPOC) and two new Committees were formed, the People Committee and the Customer First Committee. The structure of committees in operation are outlined below. The committees which directly oversee the effective management and oversight of the RMF are highlighted in the table overleaf.

Each committee in the Bank's governance structure is required to manage and assess risk as part of its terms of reference; however, a number of these committees are specifically focused on risk. Further comment is provided below detailing the specific areas of risk on which each committee focusses.

Committee	Risk focus
Board	The Board has collective responsibility for the long term success of the Group and the Bank. Its role is to provide leadership of the Group within a framework of prudent and effective controls which enable risk to be assessed and managed. It sets the values and standards and ensures the obligations to its shareholders, customers and other stakeholders are understood and met. The Board sets the strategy and approves plans presented by management for the achievement of the strategic objectives it has set. It determines the nature and extent of the significant risks it is willing to take in achieving its strategic objectives and is responsible for ensuring maintenance of sound risk management and internal control systems.
Risk Committee (RC)	In conjunction with the Joint Audit Committee, the purpose of the Risk Committee is to review and challenge the risk appetite and RMF, and to approve the risk appetite and risk in alignment with the RMF.
Executive Committee (ExCo)	ExCo is responsible for defining and implementing the Board-approved strategy successfully by monitoring and managing delivery against Plan and applying appropriate risk management actions to emerging risks.
Asset and Liability Committee (ALCo)	ALCo is primarily responsible for overseeing the management of capital, market, earnings, liquidity and funding risks. Its responsibilities include identifying, managing and controlling the balance sheet risks in executing its chosen business strategy, ensuring the capital and liquidity position is managed in line with appropriate policies and that adequate capital is maintained at all times.
Executive Risk Oversight Committee (EROC)	EROC provides a mechanism to ensure all risks are reviewed, challenged and approved in line with decisions made at ExCo (with escalation to RC where required). EROC achieves some of its objectives through delegating responsibility to sub-committees: OCROC, MROC, PROC and CROC. EROC will escalate where appropriate, to the Board via RC.
Model Risk Oversight Committee (MROC)	MROC ensures, on an ongoing basis, that the model rating systems and material models are operating effectively. This includes providing Executive level review and challenge of the model risk and the impact of model risks on the Bank's business model and strategies. MROC also provides oversight of the Bank's IRB permissions, including the exemptions where the Bank applies the Standardised Approach to calculate Pillar 1 capital requirements.
Credit Risk Oversight Committee (CROC)	CROC is responsible for monitoring significant credit risks and issues within the entire credit lifecycle, the controls and management actions being taken to mitigate them and to hold to account the Executives responsible for actions. CROC continuously reviews the credit risk strategy on an ongoing basis, making recommendations to EROC as appropriate.
Operational, Compliance & Financial Crime Risk Oversight Committee (OCROC)	OCROC is responsible for monitoring significant operational risks and issues including significant conduct, regulatory, product, reputational, fraud and AML risks and issues, the controls and management actions being taken to mitigate them and to hold to account the Executives responsible for actions. OCROC oversees the current and emerging operational risk profile, ensuring key risk exposures are managed within risk appetite and reported to EROC as appropriate, including the monitoring of adherence to the RMF alongside a process for continuous improvement.
Pension Risk Oversight Committee (PROC)	PROC oversees all aspects of pension arrangements in which the Group or Bank is active or sponsors, to ensure cost, risk, capital, investment and employee requirements are met.

Principal risk categories

The following pages outline the key financial and non-financial risks as identified by the RMF and approved by the Board as risks that could result in an adverse effect on the business, operating results, financial condition, reputation and prospects.

Credit risk

Definition:

Credit risk is the risk to profits and capital arising from a customer's failure to meet their legal and contractual obligations. Credit risk comprises of Treasury, Retail, and Corporate.

Key themes:

Credit risk is a key part of the risk profile of the Bank. The exposure to this risk is reducing as higher-risk portfolios are deleveraged; however, as with all other banks, there remains an exposure to macroeconomic and market-wide risks such as issues with the housing market. The Bank's strategy assumes growth in new mortgage business volumes principally through mortgage intermediaries and is consequently exposed to risks relating to the relationships with such intermediaries. As a supplier of credit to the buy-to-let sector in the UK, there is a risk that many borrowers in the sector have yet to operate through an entire economic cycle, and any weakness in their credit quality may impact financial and operational performance.

Mitigating actions:

Credit risk is managed through a framework that sets out policies and procedures covering both its measurement and management. There is a clear segregation of duties between transaction originators and approvers. All credit exposure limits are approved within a defined credit approval authority framework. Credit exposures are managed through diversification.

Key indicators:

2019 Impairment Charge: The Group is in a net credit position (2018: same).

Year-on-Year reduction in 3 months in arrears from 0.2% to 0.1%.

Capital risk

Definition:

The Bank may be unable to maintain sufficient capital resources to meet its capital requirements now and in the future.

Key themes:

The introduction of the MREL framework in the UK requires the Bank to issue additional MREL qualifying capital (debt) to meet future requirements. These debt issuances are subject to investor appetite in a challenging political and economic environment and therefore are subject to heightened execution risk. The Bank continues to erode CET1 capital resources as a result of losses and therefore expects to see a reduction in capital resources before it is able to generate organic capital. Regulatory changes are expected in the capital landscape including the introduction of CRRII and CRDV and the Basel III reform.

Mitigating actions:

The Bank has embedded capital risk monitoring across the organisation and closely manages its current and future capital position from both a TCR and MREL perspective. Capital management activities at all levels of the Bank are overseen by 2nd and 3rd line.

Regular discussions are held with the Bank's regulator in respect of the capital position of the Bank and future expectations in relation to the Bank's capital compliance including meeting capital buffer requirements and the Bank's individual MREL requirements.

Key indicators:

CET1 Ratio: 19.6%

Total Capital Resources: 23.8%

Whilst the CET1 ratio has reduced since 2018, Total Capital Resources have increased following the recent Tier 2 issuance. Further information is included in note 3 to this announcement.

Model risk

Definition:

The Bank may suffer adverse consequences caused by models. Model risk can lead to financial loss, regulatory penalty or fine, poor business or strategic decision making, incorrect financial reporting, damage to reputation or adverse customer outcomes.

Key themes:

The Bank has permission to adopt the IRB approach for the majority of its exposures, which provides a significant capital benefit to the organisation relative to the Standardised Approach. A robust IRB attestation is completed annually to ensure this permission is retained. In 2019, the Bank has obtained PRA approval for the majority of its redeveloped IRB models and plans to deploy these through 2020. In 2020 and beyond, further development is planned to ensure compliance with upcoming regulatory changes. In 2019, the Bank has also deployed a suite of new and remediated IFRS 9 models.

Mitigating actions:

The Bank operates a robust model governance framework developed in recent years, including independent validation of all models within the Bank including new models.

Key indicators:

N/A

Pension risk

Definition:

The Bank may see capital or funds deterioration due to the scheme liabilities (to the extent they are not matched by assets) or in relation to the valuation of liabilities

Key themes:

The Group is the Principal Employer of the Bank Section of The Co-operative Pension Scheme (Pace) and Britannia Pension Scheme (BPS). Risks to the Bank arise from the valuation of each scheme on both the "funding basis", a deterioration in which could give rise to additional cash contributions into the scheme, and the "accounting basis" which could give rise to erosion of CET1 resources, if the scheme is determined to be in deficit on the accounting basis. Risks may arise if actual experience differs from the assumptions employed in the actuarial valuation on either basis, in particular as a result of changes to market and economic conditions and longer lives of members. Risks may also arise due to volatility in the valuation of scheme investments. There is also a risk that the Group's covenant weakens resulting in a deterioration in the scheme positions.

Mitigating actions:

In respect of both schemes, the majority of inflation risk and interest rate risk is hedged through the investment strategy, which is to invest in Liability-Driven Investments (LDI).

Continued assessment of CET1, and potential capital requirements will continue in line with regulatory guidance, with on-going oversight.

Key indicators:

The schemes are in a significant surplus position on an accounting basis. Further information is included in Retirement Benefits note to the Annual Report and Accounts.

Market risk

Definition:

The Bank may see reductions in capital or future earnings as a result of the value of financial assets or liabilities (including off-balance sheet instruments) being adversely affected by movement in market prices, interest rates or exchange rates.

Key themes:

The Bank's exposures to market risk include interest rate, basis, swap spread, currency and product option risks.

The Bank's business model results in a more limited exposure to market risk and as such, its main sources of market risk are mismatches between the profiles of mortgage lending assets and deposit liabilities. The Bank hedges its High Quality Liquid Asset (HQLA) portfolio however changes in credit spreads may expose the Bank to changes in the fair value of the portfolio.

Mitigating actions:

The Bank closely manages its market risk position with risk appetite limits in place to ensure any impact in relation to market movements is limited. Movements are monitored regularly to ensure the Bank tightly controls any evolving exposure.

The Bank seeks to hedge market risks where possible and appropriate, taking market risks only when these are essential to core business activities. Hedging may include matching of assets and liabilities as well as the use of derivative financial instruments (such as interest rate swaps).

Key indicators:

PV01: This measures the sensitivity of future cash flows to a 1-basis point shift in interest rates. Analysis of PV01 is provided in the Annual Report and Accounts, where we explain market risk exposures have reduced.

Reputational risk

Definition:

Reputational risk is damage to the Bank's reputation, or to the way The Co-operative Bank brand or image is perceived by its internal or external stakeholders as a result of its conduct, performance, the impact of operational failures, or other external issues.

Key themes:

The Group considers that its reputation as an ethically-led organisation is critical to the success of the Plan and actively seeks to manage and mitigate the risks that may impact its reputation. The Group and Bank continues to use the Co-operative name. The Co-operative Bank trademark belongs to the Bank; however in certain circumstances the right to use the term 'co-operative' could be challenged or removed. There is also a risk that its brand may be damaged as a result of matters affecting other co-operatives.

Mitigating actions:

The Group seeks to protect its reputation and brand territory through consensual discussions and legal means where necessary.

The Group also seeks to maintain an active dialogue with key stakeholders including Co-operatives UK and makes an active contribution to the co-operative movement.

Key indicators:

A range of indicators are used to qualitatively assess changes in this principal risk. For example, the number and nature of risk events, emerging conduct risks and their nature and also the nature of emerging external issues.

Liquidity and funding risk

Definition:

Liquidity and funding risk is the risk that the Bank is unable to meet its obligations as they fall due or can only do so at excessive cost.

Key themes:

The Bank is predominantly customer-funded, supported by wholesale funding sources.

The Bank seeks to maintain a diversified customer funding base, across Retail and SME segments, and using a range of products, including current account, demand and term. Inherently the focus on customer funding includes risk around customer behaviour and the behaviour of the savings market, with competition increasing the cost or reducing availability of funding. Risks associated with wholesale market access and volatility are also faced. The Bank has re-entered the UK RMBS market in 2019 to support the funding profile and provide access to alternative funding sources.

Mitigating actions:

Liquidity and funding risk is managed primarily with respect to the Bank's Liquidity Risk Appetite and LCR. The Bank prepares an annual Internal Liquidity Adequacy Assessment Process (ILAAP) to ensure that its liquidity risk framework remains appropriate and the Bank holds sufficient liquidity.

The Bank holds high quality liquid assets, alongside contingency funding actions which enable the Bank to raise or preserve liquidity in adverse conditions.

Key indicators:

Loan to Deposit Ratio: 94.3% (2018: 94.7%)

LCR eligible assets: £6,768.8m (2018: £7,025m)

Liquidity Coverage Ratio of 173.7% is higher than in 2018 (153.8%).

Operational risk

Definition:

The risk of loss resulting from inadequate or failed internal processes, people and systems or external events. Operational Risk has 13 sub-risks which are outlined in the following section.

Key themes:

Operational risk levels remain elevated due to a number of specific issues such as manual processes, legacy systems and processes for which remediation continues. The Bank has made significant improvements in its systems of control and continues to enhance and embed the RMF, ensuring a consistent and proactive approach to risk management across the organisation. In 2019 the Bank ensured risk and control activities remained an integral part of the business as usual activities.

Mitigating actions:

The Bank continues to enhance and embed the Risk Management Framework throughout the organisation. In 2019, the Bank delivered RMF training to key colleagues, focussed in particular on the link between the implementation of the RMF and the Bank's capital requirement. Enhancements are in train to ensure that the RMF is optimal for the size and nature of the Bank, while remaining in line with industry best practice.

Management, oversight and reporting of risk uses a risk reporting system; the management of risk and controls is reflected within all colleagues' performance objectives; and key measures of performance against the RMF are included in the Bank scorecard.

Key indicators:

Analysis of operational net losses is disclosed in our Pillar 3 report available on our website. In the current year, 81.6% of net losses arose from external fraud (2018: 51.4%).

As outlined above there are 13 sub-risks to operational risk which are outlined in the table below, subject to annual review. Each risk is managed individually and in line with the Bank's RMF, including having individual risk framework owners, risk policies and control frameworks.

- Regulatory
- Conduct
- Product
- Fraud
- AML
- Financial reporting
- Information and data
- Payments
- Legal
- Technology
- Change
- People
- Third party supplier

The Bank has embedded a robust risk identification and escalation process which where applicable, is escalated into Risk Committee through EROC. The process has been specifically designed to ensure that an individual at any level within the Bank has the opportunity and mechanism to raise concerns through to Board (if appropriate).

The Bank has classified its risks into two key categories and educated colleagues on these as follows:

Significant risks: A significant risk is a risk that, if crystallised, the residual risk (based on 5x5 probability versus impact matrix) is likely to cause a significant impact to the Bank's ability to operate, service customers, protect its reputation and sustain its viability.

Emerging risks: An emerging risk is a risk that has been identified but not yet sufficiently materialised to allow it to become a significant risk or issue that the Bank is actively managing.

Significant risks

Financial risks

Macroeconomic environment

Risks relating to the macroeconomic environment in which the Bank operates. In March 2017, the UK Government triggered the official process for withdrawing from the European Union under Article 50 of the Treaty of the European Union and on 31 January 2020 the UK exited the EU (unless an extension period is granted). The Bank manages these uncertainties by creating a range of base, upside and downside economic scenarios. Each of these scenarios is given a probability weighting, and the impact of each outcome is modelled. Each scenario is reviewed and approved as required, but at least annually. The outputs are used to generate the expected credit losses (ECLs) as part of the IFRS 9 modelling.

The worst downside scenario is representative of the impact the Bank might expect from a hard Brexit; therefore a specific economic scenario for Brexit is not required.

Net interest margin (NIM)

The Plan targets conservation of NIM over the medium-term, although a short-term reduction in NIM is anticipated. The Plan targets are most susceptible to interest rate changes and competitive pressures. "Lower for longer" interest rates (including the Bank of England base rate), will restrict the Bank's ability to increase NIM and, consequently, restrict organic capital generation and profitability, as well as any improvement in the Bank's underlying cost:income ratio. The Bank regularly reviews its central economic scenario to ensure that emerging risks are identified and understood.

There is a risk that base rates may not increase as soon, or as much as, the Bank has assumed, or may reduce. There is a risk that competitive pressures, and the need to maintain market share to maintain viable market volumes, could reduce the Bank's market share or that regulatory pressures constrain the anticipated growth in the Bank's business volumes. All of the above could have an impact on future income projections.

A failure to grow net interest margin as planned could have a significant material adverse effect on the overall financial condition, operating results and prospects which would further delay the Bank's return to profitability.

MREL

A core component of the Bank's strategy and the Plan is further capital issuances with £425m MREL-eligible debt planned in 2020. In addition, the Plan assumes the Bank will complete further MREL-qualifying debt issuances in 2021 so as to meet its ongoing MREL requirements. There are risks that the Bank will be unable to raise the required capital and MREL-qualifying debt on acceptable terms, when planned or at all, and the Bank will be unable to meet its MREL and capital buffers when planned, or at all. The Bank's Plan targets a surplus to the Bank's PRA Buffer within the planning period. To the extent the Bank does not perform in line with its strategy, and the Plan or regulatory requirements are increased for any reason, additional CET1 or other capital may be required over and above that assumed in the Plan. Any failure to raise such further capital could have a material adverse effect on the Bank's regulatory capital position, including its ability to maintain adequate loss-absorbing capacity.

A failure by the Bank to meet some of its regulatory capital and loss-absorbing capacity requirement will impact the actions that management are able to take to implement the Plan and may lead to the Authorities exercising some or all of their powers over the Bank, including, among other things, powers of intervention, the power to mandatorily write-down the Bank's capital instruments and the power to place the Bank within the Special Resolution Regime if it is considered that the Bank would otherwise be likely to fail.

Return to profitability

The successful development and implementation of the Bank's strategy requires difficult, subjective and complex judgements, including a range of factors which are not within the Bank's control, for example forecasts of economic conditions. Furthermore, the successful implementation of the Bank's strategy is contingent upon a range of factors which are beyond the Bank's control, including market conditions, the general business environment, regulation (including currently unexpected regulatory change), the activities of its competitors and consumers and the legal and political environment.

The targeted return to profitability relies on the ability to successfully mitigate the risks outlined above, particularly the ability to widen net interest margin and develop interest income, deliver the anticipated cost reduction and resulting underlying cost:income ratio. If any of the risks above do materialise, this may result in lower future returns and lower than targeted profits.

The ability to deliver the Plan is heavily influenced by external factors which may mean the internal assumptions underpinning the Plan may be incorrect and negatively impact performance. This may include an impact on profitability, RWAs and capital ratios. Many of these are similar to those faced by other financial institutions, for example:

- lower interest rates remaining lower for longer than forecast;
- deterioration in general economic conditions, instability of global financial markets including the effect of macro political conditions;
- the UK's impending departure from the EU;
- possible contraction of the UK mortgage market negatively impacting loan book growth;
- UK banks' reaction to the Bank of England unwind of the Term Funding Scheme and other liquidity schemes;
- higher unemployment and lower property prices increasing impairments;
- new conduct or legal risk provisions; and
- risks stemming from regulatory change for example the implementation of CRRII / CRDV and the Basel III reform.

Transformation delivery

The Plan assumes the ability, capability and capacity to deliver transformation/restructuring, remediation and change programmes and the cost reduction initiatives already underway without material deviation from planned timescales and costs. Historically, the Bank has had significant cost and delivery overruns when implementing complex large-scale change projects while not delivering the assumed planned benefits. Any deficiencies in governance and related programme management processes to assist with the delivery of cost-reduction or income-generation change activities could have an adverse effect on operating results and financial condition compared with those targeted in the Plan.

Technology risks

Risks relating to resilience and recoverability of critical IT systems and controls

Operations are highly dependent on the proper functioning of IT and communication systems which comprise a complex array of legacy systems and some newer in-house and third party IT systems. Any significant failure to remedy the existing IT estate and operate legacy and new IT systems to meet the requirements of the strategy may adversely affect the future operational and financial performance of the business.

Although a large proportion of the critical services are now supported by technology that was migrated to new hardware in an IBM environment in 2017, which evidenced the return to FCA Threshold Conditions, a proportion of the current systems and technology remain on extended support arrangements or are nearing end-of-life (meaning that there is limited or no support provided by the vendor or specialist third-party supplier).

Key transformation activity includes desktop transformation and IT separation from the Co-op Group, which concluded in 2019, and which is expected to reduce The Co-operative Bank's exposure in relation to technology risks; however, there remains exposure to potential service disruptions, security weaknesses and operational inefficiencies to the legacy infrastructure and those aspects of the IT estate requiring further remediation include, but are not limited to, the desktop IT environment, loss of support of hardware and/or software and the telephony systems.

Regulatory change

There are a number of significant regulatory changes that are expected to impact the Bank's capital position within the short/medium term. Of particular note are the introduction of CRRII and CRDV and the Basel III reform.

The introduction of CRRII and CRDV will mean that the Bank is bound by the leverage ratio framework from which it has been excluded for some time as a result of balance sheet size. This change may also impact the Bank's end-state MREL requirements.

The Basel III reform comes into force in 2022 and the Bank expects that on a fully-loaded basis, there will be a significant increase in RWAs due predominantly to the output floor. The Bank continues to consider this risk and it strategic implications for the Bank.

The broader regulatory change requirements continue to be substantial, which require further commitment of available resources to remain compliant.

Emerging risks

Updates to payment schemes

The emergence of a differentiated offering in relation to payment that creates an advantage in the market for the Bank's competitors.

Regulatory landscape change following Brexit

A period of regulatory uncertainty alongside the risk of significant changes being required post Brexit as industry standards and EU regulatory requirements are unwound.

Additional Capital Requirements Regulation

The risk that the PRA will increase capital requirements in addition to the currently known changes (Basel III reform / CRRII / CRDV).

Data protection/privacy

Current and future changes to Data Protection and Privacy legislation may cause issues with the Bank being able to market to customers.

Open Banking distribution model

The advancements of Open Banking beyond 2020 is currently unknown and may have an adverse impact on the Bank's ability to be competitive.

We remain alert to the risk that climate change may have an impact on our business and in 2020, we anticipate that this will feature on our Risk Management agenda.

END

FORWARD LOOKING STATEMENTS

This document contains certain forward looking statements with respect to the business, strategy and plans of the Group (including its 2020-2024 Financial Plan, referred to as the "Plan") and its current targets, goals and expectations relating to its future financial condition and performance, developments and/or prospects. In particular, it includes, but is not limited to, targets under the summary section of this presentation and the "Outlook for 2020" section of the key highlights and outlook in the annual report and accounts. Forward looking statements sometimes can be identified by the use of words such as 'may', 'will', 'seek', 'continue', 'aim', 'anticipate', 'target', 'projected', 'expect', 'estimate', 'intend', 'plan', 'goal', 'believe', 'achieve', 'predict', 'should' or in each case, by their negative or other variations or comparable terminology, or by discussion of strategy, plans, objectives, goals, future events or intentions.

Examples of such forward-looking statements include, without limitation, statements regarding the future financial position of the Group and its commitment to the Plan and other statements that are not historical facts, including statements about the Group or its directors' and/or management's beliefs and expectations. Any such forward-looking statements are not a reliable indicator of future performance, as they may involve significant stated or implied assumptions and subjective judgements, which may or may not prove to be correct. There can be no assurance that any of the matters set out in forward-looking statements are attainable, will actually occur, will be realised, or are complete or accurate. Past performance is not necessarily indicative of future results. Differences between past performance and actual results may be material and adverse.

For these reasons, recipients should not place reliance on, and are cautioned about relying on, forward–looking statements as actual achievements, financial condition, results or performance measures could differ materially from those contained in the forward-looking statement. By their nature, forward looking statements involve known and unknown risks, uncertainties and contingencies because they are based on current plans, estimates, targets, projections, views and assumptions and are subject to inherent risks, uncertainties and other factors both external and internal relating to the Plan, strategy or operations, many of which are beyond the control of the Group, which may result in it not being able to achieve the current targets, predictions, expectations and other anticipated outcomes expressed or implied by these forward-looking statements. In addition, certain of these disclosures are dependent on choices relying on key model characteristics and assumptions and are subject to various limitations, including assumptions and estimates made by management. No representations or warranties, expressed or implied, are given by or on behalf of the Group as to the achievement or reasonableness of any projections, estimates, forecasts, targets, prospects or returns contained herein. Accordingly, undue reliance should not be placed on forward-looking statements.