The co-operative bank
for people with purpose

2020 Annual Report and Accounts

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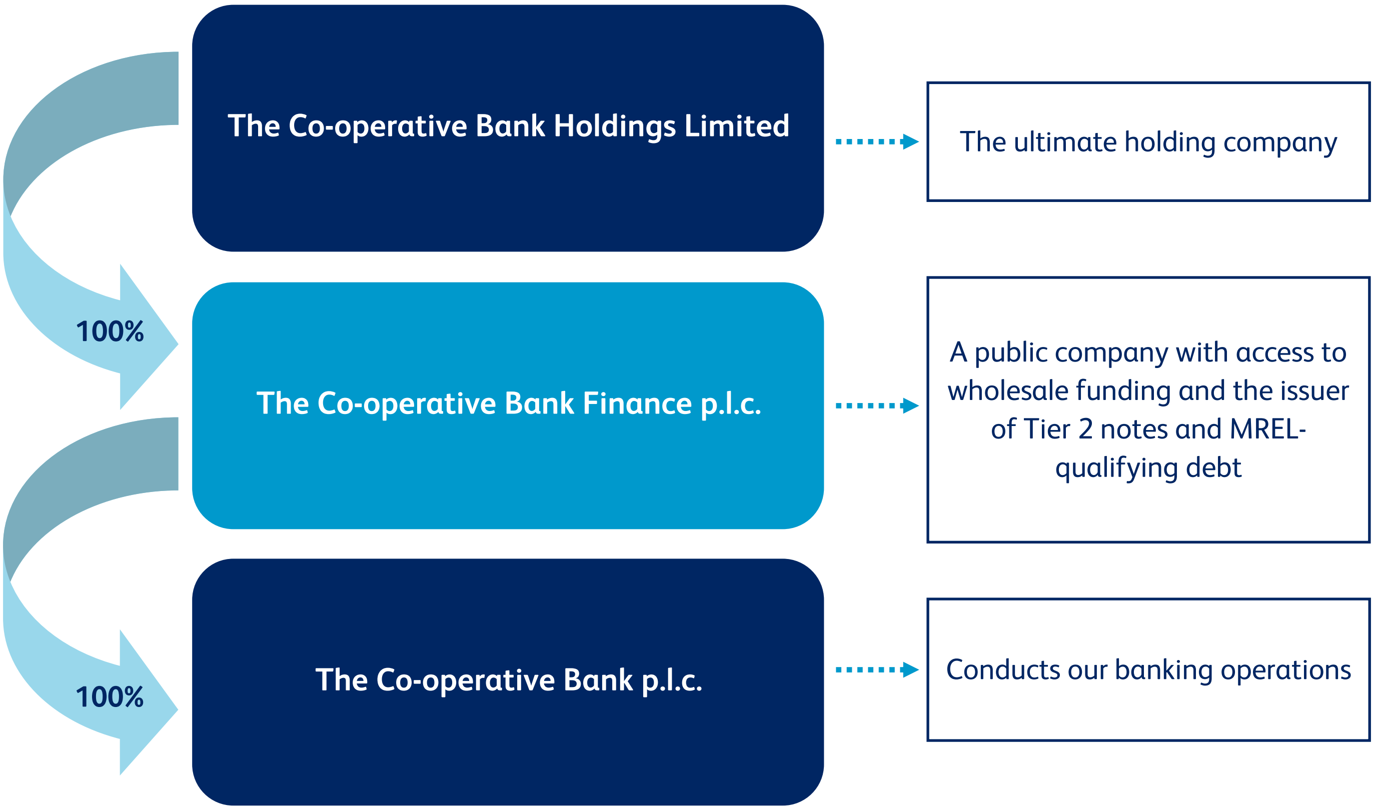
The original ethical bank
Come in and say hello...
The co-operative bank
for people with purpose

Our Group structure



In the following pages the term '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 to the Finance Group.

Further detail on the group structure is provided on page 50.

Find us here:

@CooperativeBank

@TheCooperativeBank

@thecooperativebank

The Co-operative Bank plc

View information about The Co-operative Bank at:

www.co-operativebank.co.uk/investorrelations

WINNER
Moneyfacts®
Awards 2020

Best Current Account Provider

A glossary of key terms used in this Annual Report and Accounts is available on the Bank's website by following the link above.

Company information

Registered office

P.O. Box 101
1 Balloon Street
Manchester
M60 4EP

Company numbers

The Co-operative Bank p.l.c.
Registered in England and Wales
Number: 00990937

The Co-operative Bank Holdings Limited
Registered in England and Wales
Number: 10865342

The Co-operative Bank Finance p.l.c.
Registered in England and Wales
Number: 11598074

Registrar for The Co-operative Bank Holdings Limited

Computershare Investor Services plc
The Pavilions
Bridgwater Road
Bristol
BS13 8AE

Independent auditor

Ernst & Young LLP
25 Churchill Place
Canary Wharf
London
E14 5EY

The Co-operative Bank at a glance

The Co-operative Bank's story began in 1872, as the Loans and Deposits department of Co-operative Wholesale Society, and we have worked hard ever since to provide our customers with a real alternative to the larger retail banks. We always put our customers at the heart of what we do and we are 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 which sets out the way we do business. This policy has been shaped by over 320,000 customer responses since 1992.

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 strategy

In December 2018 we launched our five-year strategy. Our strategy reflects three phases: fix the basics, which is now complete and provides a platform to enable the future and to create a sustainable competitive advantage as a successful bank, differentiated by values and ethics with a customer first focus, as a proud North West employer. We continue to execute our strategic plan; however, as a result of COVID-19, we have revisited our operational priorities to react to changes in the environment.

Our values

Our values reflect the values of the co-operative movement and ensure colleagues work co-operatively together. They enable us to be at our best for our customers, communities, stakeholders and each other:

- **Take responsibility**
- **Do the right thing**
- **Step up**
- **Stronger together**

Core customer segments

We offer products to both retail and business banking customers, which together are referred to as our core customer segments.

Retail

We offer high street, telephony and online services, including current accounts, savings, mortgages, personal loans and credit cards

81.7% of core income

73.2% of core assets

72.7% of core liabilities

Read more on page 34

SME

We offer banking services for small and medium-sized businesses, charities and social enterprises including current accounts, savings, loans, overdrafts and credit cards

18.2% of core income

1.9% of core assets

12.5% of core liabilities

Read more on page 37

We also have a treasury function which manages the Bank's portfolio of liquid assets, interest rate risk and wholesale funding to meet liquidity and capital requirements, as well as leading the day-to-day cash, clearing and collateral management for the Bank.

Read more on page 39

Business highlights

Resilient financial performance, despite challenging environment

Supporting our customers through COVID-19 has been a focus for the Bank during 2020. Our results for the year ended 31 December 2020 have been impacted by COVID-19 but are in line with our adjusted expectations. We anticipate the Bank returning to a position of sustainable profitability from 2021, in line with our strategic objectives, despite a challenging external environment.

Statutory loss before tax [1]	Underlying loss[1]	Customer net interest margin	Underlying cost:income ratio	Asset quality ratio
£(103.7)m	**£(63.9)m**	**1.46%**	**113.8%**	**12bps**
31 December 2019: £(152.1)m	31 December 2019: £(19.7)m	31 December 2019: 1.75%	31 December 2019: 106.2%	31 December 2019: net release of (1)bp

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 31.

Strong CET1 ratio and liquidity

We are well capitalised with a strong balance sheet and a low-risk credit profile. We successfully issued £200m MREL-qualifying debt in the fourth quarter of 2020.

Common Equity Tier 1 (CET1)[2]	Total Capital Ratio[2]	Liquidity Coverage Ratio	Risk Weighted Assets
19.2%	**23.7%**	**193.4%**	**£4.7bn**
31 December 2019: 19.6%	31 December 2019: 23.8%	31 December 2019: 173.7%	31 December 2019: £4.8bn
Regulatory minimum: 10.3%		Regulatory minimum: 100%	

2. Includes a benefit of approximately 0.7% from the change in treatment of software intangibles outlined in the EBA Technical Standards.

Supporting our customers through COVID-19

We have prioritised helping our customers to continue to access essential services and made a range of support measures available for those concerned about financial difficulties.

Continuing to provide lending to those who need it…

Net core residential lending	Net lending for SME
£841m	**£263m**

Total core customer assets have grown by 6.2% since 31 December 2019

…providing financial support to those facing difficulties

Mortgages	Loans and credit cards
17,353	**3,170**

Number of payment deferrals approved by 31 December 2020

We have introduced a range of support measures to help customers and colleagues

- £69.5m of Coronavirus Business Interruption Loans (CBILS) and overdrafts approved and £33.5m drawn down by 31 December 2020;
- £269.7m of Bounce-Back loans approved and £253.1m drawn down by 31 December 2020;
- Focussed on our vulnerable customers through proactive contact and temporary introduction of an emergency support fund;
- Supporting our many customers who work for the NHS, donating headsets to local GPs and care packages to local hospitals;
- Delivered agile product changes, with increased flexibility on savings account withdrawals and increased contactless payments limits;
- First bank to offer £500 interest-free overdrafts during the first national lockdown;
- Our branches stayed open for 99.9% of normal opening hours throughout 2020; and
- All non customer-facing colleagues working from home, enabled by technology improvements delivered as part of the 2019 transformation commitments.

Continuing to deliver positive outcomes for our customers and colleagues

Staying connected and working safely together through the pandemic.

Current account customer satisfaction (NPS)	Percentage of senior roles held by women	Gender pay gap (median)	BSB cultural survey overall result
+25	**42.3%**	**25.94%**	**75**
(retained 3rd place in the market)			(out of 100)
31 December 2019: +29	31 December 2019: 42.3%	31 December 2019: 22.62%	2019: 74
			Described further on page 75

- We exceeded our 2020 target of 40 % of senior roles held by women (42.3 % at 31 December 2020).
- Respect, shared purpose and competence were our strongest scores in the Banking Standards Board (BSB) cultural assessment survey.
- Our BSB scores reflect the Bank's response to COVID-19 as we performed strongly in the 'hot topic' questions, focussing on wellbeing and how the business responded to the pandemic, with 88 % of participants who agree or strongly agree that they are proud of the role the Bank has played in 'helping customers, clients or members during the coronavirus crisis'.

Making a difference in our communities

We are committed to tackling youth homelessness, economic and domestic abuse and human rights issues working with our charity partners Centrepoint, Refuge and Amnesty International UK. We make a difference to our customers' local communities through volunteering and fundraising for the charities and causes which are important to them.

Donations to charities in the year ended 31 December 2020 (including Everyday Rewards)

£1.6m

Here are some examples of the many ways we have continued to serve our communities in the last year

- Working with our charity partner Refuge to support those impacted by domestic and financial abuse during lockdown;
- Confirmed signatory of the United Nations Environment Programme Finance Initiative (UNEP FI) Principles of Responsible Banking from February 2020;
- Proud winner of the 'Changing Lives in the Community' award at the 2020 UK Card & Payments Awards;
- We campaigned to raise awareness of economic abuse through our 'Know Economic Abuse' campaign;
- We facilitated a one-off pledge to donate £650,000 to charitable causes. Further details are provided on page 23; and
- Colleagues raised almost £50,000 to help tackle youth homelessness, bringing our total donation to Centrepoint since 2017 to £1.7m.

Committed to tackling climate change for over 25 years

- Beyond carbon neutral since 2007
- We reduced our greenhouse gas emissions by 47 % year-on-year in 2020 (mainly due to restrictions enforced by COVID-19) and have targeted a 27 % reduction on our 2019 baseline emissions figure in 2021
- We don't provide banking services to businesses involved in fossil fuels extraction and refinement, environmentally harmful chemicals, or unsustainable harvest of natural resources
- We achieved our goal to send zero waste to landfill by the end of 2020

Strategic report

This strategic report was approved by the Boards of The Co-operative Bank Holdings Limited, The Co-operative Bank p.l.c. and The Co-operative Bank Finance p.l.c. on 24 February 2021 and signed on their behalf

By order of the Boards

Robert Dench
Chair of the Board
24 February 2021

Welcome to our Annual Report and Accounts for 2020

Chair of the Board’s welcome

I am pleased to present The Co-operative Bank’s Annual Report and Accounts for 2020.

By far the most important thing for me is to give my thanks to all our colleagues who have helped us deliver such a resilient performance. Given COVID-19, the UK’s exit from the EU and the very significant change programme we continue to pursue, being able to deliver results in line with expectations represents an excellent out-turn. The flexibility that our refreshed infrastructure gives us has allowed many colleagues to work remotely. Their willingness to do so, despite the significant challenges that working from home can entail, has allowed the Bank to continue to support and serve its customers according to its very best traditions. That flexibility has been mirrored right across the Bank, from the front line staff through to the Board. We have of course not ignored the need to ensure that colleagues, wherever they work, have been provided with advice and support at all times.

“We have continued to make strong progress with our strategic priorities.”

In November we issued £200m of MREL-qualifying debt, a key milestone in achieving compliance with our capital requirements for the foreseeable future. The interest rate at which it was issued and the fact that it was over-subscribed should not pass unnoticed. The Bank also continued to de-risk its legacy assets, including further deleveraging of the Optimum mortgage portfolio in the last quarter.

“We continue to see our franchise grow while providing support to our customers during these challenging times.”

At a time when our customers and consumers generally are increasingly conscious of the choices they are making, the values of the co-operative movement become ever more important to us and our partners in the wider co-operative movement. Our franchise continues to grow and we have attracted significant numbers of new customers, thereby allowing the Bank to continue to expand in key areas. This year we have been particularly proactive in the mortgage market, and also in respect of SME businesses. In terms of supporting customers, this year has seen significant activity in offering government-backed CBILS and Bounce-Back loans to our core small business customers. Payment deferrals for retail customers, to help them through the pandemic, also featured significantly this year.

Earlier this year, we announced a restructuring programme resulting in redundancies and the closure of some branches. These were difficult decisions to make and we are very much aware of the impact on colleagues and some customers. However, it is important that the business responds very quickly to the deep changes we see in the broader retail environment and how customers want to do business with us.

"After delivering key system developments, we now anticipate sustainable profitability from 2021."

In October, Andrew Bester who had served as Chief Executive Officer since 2018 stepped down, having successfully led the Bank through the first phase of a complex transformation programme. During his tenure we delivered the separation of IT systems from the Co-op Group and a much needed enhanced digital capability. We are grateful for his significant contribution and the progress achieved under his leadership. Andrew was succeeded by Nick Slape, who joined the Bank in 2018 as Chief Financial Officer. During his time at the Bank, Nick has played a pivotal role in the improvements the business has seen. The Board was delighted to appoint him to lead us through the next phase of the transformation plan. We now anticipate sustainable profitability from 2021 onwards, thereby beginning to repay the strong support our core shareholders have provided in recent years.

"We have refreshed the Board to support delivering our next phase of strategic development."

In welcoming Richard Slimmon and Sebastian Grigg as new Board members in 2021, we have refreshed its capability so as to provide the skills required to oversee the next phase of our strategic delivery and to meet the challenges of the current economic environment. In December 2020, Morteza Mahjour stepped down from the Board and I would like to thank him for his contribution during his time with the Bank.

I would like to offer my heartfelt thanks to all our Board members for their energy, challenge, insight and support throughout what has been a challenging but rewarding year in terms of progress made. We are pleased with what has been achieved during 2020 and, on behalf of the Board, I would like to express thanks to all our colleagues, not just for their relentless hard work, enthusiasm and commitment but also for the spirit in which they continue to work.

Finally, the strength of any business is ultimately reliant on the loyalty of its customer base. All of us here at The Co-operative Bank are acutely conscious of the close relationship the Bank has with its customers, which clearly goes beyond something which is purely commercial and is never taken for granted. We thank them for their loyalty and support.

Bob Dench
Chair of the Board

Resilient business performance in a challenging market

Chief Executive's review

In 2020 the impact of COVID-19 changed many aspects of our lives and created a more uncertain economic environment. Despite this backdrop, the Bank delivered a resilient financial performance and at the same time achieved a number of important strategic milestones. I was delighted to be appointed Chief Executive Officer at the end of October, and would like to join the Chair of the Board in expressing my thanks to my predecessor, Andrew Bester, for his significant contribution.

The pandemic continues to present challenges for many of our personal and small business banking customers. We are proud to play our part in supporting those customers, and of the way our colleagues have stepped up to help them. We helped 11,419 customers buy a new home and 11,074 move to a better mortgage deal. Mortgage balances have grown by £841m and mortgage completion margins have increased by 49bps compared with 2019. In retail deposits, we have seen a net increase in both current account customers and balances. 2020 was a pivotal year for our small business banking segment, which is a growth area for us. We opened 12,116 new business current accounts and 4,981 new savings accounts in 2020, and we were pleased to help all our customers navigate the challenges last year presented. Our co-operative values and ethics continue to resonate with customers and we are proud to be the UK's original ethical banking brand.

We are now well advanced with our five-year transformation plan, which was approved by the Board in late 2018. In early 2020, we concluded the primary 'fix the basics' phase by completing the separation of our IT systems from the Co-op Group.

We are now focussed on the second phase, 'enabling the future', continuing to simplify the Bank to better serve our customers. We have a resilient franchise, a low-risk credit book, strong CET1 ratio, stronger IT infrastructure and improved digital propositions for our customers.

Financial performance

Whilst we have reported an underlying loss, this was anticipated in our plan, and overall our business has performed well. Statutory loss before tax of £103.7m improved by 31.8% compared to 2019. This reflects that in 2019 we incurred a significant charge for PPI, and also reduced strategic project spend in 2020, which was partly offset by an increase in the underlying loss from £19.7m in 2019 to £63.9m, primarily due to the economic environment. Customer net interest margin reduced from 1.75% to 1.46%, as a result of continued revenue pressure, and we incurred higher impairments. Whilst the cost reduction measures we have put in place have partly offset these impacts in 2020, the full financial benefit of these actions will be evident from 2021 onwards. We estimate that COVID-19 adversely impacted our underlying loss by approximately £45m.

Despite this, we are pleased with our performance, with key financial indicators in line with, or exceeding, our latest guidance. Our cost:income ratio of 113.8% increased by 7.6ppts year-on-year, but improved during the second half of the year, and as a result we have enhanced our guidance for 2021. The Bank's low-risk lending profile is reflected in our asset quality ratio of 12bps and, although this figure increased by 13bps in 2020, reflecting an increased level of impairment, this was to be expected given the economic conditions presented by the pandemic.

Core customer assets increased by £1.0bn to £17.8bn. In our retail segment, we attracted strong demand for residential mortgages in the second half of the year. In our SME segment, our strong asset growth from £184.4m to £447.8m is largely driven by our support for small business customers with the provision of government-backed CBILS and Bounce-Back loans. Our increase in net lending allows us to access low-cost government funding from the Bank of England Term Funding Scheme with additional incentives for SMEs (TFSME) at a rate of 0.1 %.

The reduction in our legacy and unallocated assets from £2.1bn to £1.9bn reflects our continued strategy of reducing our legacy portfolio to enable us to redeploy capital to grow our core business, and we completed the sale of £133.9m of Optimum balances in December - which means this portfolio now represents just 0.1 % of our balance sheet.

Core customer liabilities increased by £1.4bn to £20.3bn, due to increased retail and SME deposits. Throughout 2020, we have seen lower levels of customer spending, resulting in higher average balances.

The Bank's capital position remains strong, with a CET1 ratio of 19.2 %, well above the regulatory minimum of 10.3 %. The Bank's Individual Capital Requirement has reduced year-on-year, reflecting progress we have made to reduce operational risk in line with planned strategic outcomes as well as changes in regulation.

In the fourth quarter, we successfully issued £200m MREL-qualifying debt, meeting our commitment to increase capital resources. The transaction means that we expect to remain compliant with MREL requirements for the foreseeable future. We welcome the Bank of England's ongoing discussions with regard to MREL requirements for mid-sized banks, and hope that the outcome helps achieve greater scope for heightened competition in the sector.

A customer case study

Leeds Bread Co-op

Leeds Bread Co-op is an independent artisan bakery and workers' co-operative. Their mission is to make slowly fermented sourdough bread with simple, high-quality ingredients, in an ethical and empowering workplace. The bakery was founded with the desire to make delicious and healthy bread available to people in and around Leeds, baking for wholesale, local markets, bread subscribers, local retailers and their own bakery shop.

Leeds Bread received a Bounce-Back loan from The Co-operative Bank and support from The Hive, a support programme for co-operatives created in partnership with Co-operatives UK, to help them adapt in the wake of the COVID-19 pandemic.

"We saw a massive drop in sales from our wholesale customers who had to close because of government restrictions in the spring of 2020. We decided to cease trading temporarily for the safety of our staff and local community and to give ourselves some breathing space whilst we collectively made some urgent decisions about our priorities and sought support from The Co-operative Bank and The Hive to help with our financial stability, modelling and restructuring.

The Co-operative Bank provided us with a loan as part of the Bounce-Back loans scheme which enabled us to maintain jobs and confidently reopen, with social distancing measures in place as well as a new click and collect and home delivery service. Support from The Co-operative Bank and The Hive was a lifeline and has enabled us to continue to trade in these challenging times as well as proceed with some critical investment in equipment that we had been working towards before the pandemic hit."

- Lizzie, Worker Owner at Leeds Bread Co-op

Our five-year strategy which sets out our ambitious plans for the Bank was approved in 2018. As we progress with the second phase 'enable the future' we are now focussed on continued simplification, targeted growth opportunities and expanded products and channels to enable the future and to move towards sustainable competitive advantage.

During 2020, in light of the increased economic uncertainty, we decided that certain strategic projects within our plan no longer generated sufficient value to justify the cost and therefore we reduced our planned level of strategic investment. This action, coupled with cost reduction plans, means that we anticipate returning the Bank to sustainable profitability from 2021 onwards.

Strong progress in strategy to enable the future

Retail banking

38
new digital releases in 2020

47,901
new retail current accounts

22,493
new residential mortgages

Awarded best retail current account provider by Moneyfacts

New and enhanced digital route for new account openings for retail customers

Upgraded our mortgage platform enabling enhanced service functionality

SME banking

12,116
new business current accounts

156
CBILS offered

9,659
Bounce-Back loans offered

Bounce-Back loans and CBILS launched

Share of Incentivised Switching Scheme at 12% (target 6%)

Launched a 35 day notice savings account and a business credit card for SME customers

Simplification and transformation

- Completed separation of our IT systems from the Co-op Group in January 2020
- Simplified our infrastructure by exiting five out of eleven data centres as part of transition to cloud technology
- Rationalised our supplier base from over 600 to under 400
- 69% of all sales are now completed online
- Balance sheet simplification:
  - progressed PPI settlements;
  - converted a proportion of Visa shares to cash; and
  - settled surrendered losses for cash in early 2021

Creating a strong platform in 2021 for continued cost reduction

Setting the ESG agenda with co-operative values

The Co-operative Bank has always been at the forefront of setting an environmental and social agenda in the UK banking sector. We have refused to provide our banking services to companies involved in fossil fuel extraction since 1992, and we were the first UK bank to sign the Paris Pledge not to finance coal mining in 2015. This commitment continues today, and in 2020 we continued to say no to companies involved in oil and gas industries. Our carbon-offsetting programme in conjunction with ClimateCare means our bank has been 'beyond carbon neutral' since 2007 and we continue to reduce our GHG emissions year-on-year.

Supporting and developing co-operative organisations across the UK is central to our heritage. Our Hive partnership in collaboration with Co-operatives UK offers business support for new and growing co-operatives and provided a lifeline to many co-operatives during the pandemic. In 2020 we extended our sponsorship of The Hive with a donation of £625k, bringing the total investment to £1.7m since 2016, and helping over 1,000 co-operatives and groups with support including direct business advice, workshops, training and mentoring. Our funding has also helped develop a digital registration service for co-operative start-ups - a first for the sector - and we continue to provide free business banking to co-operatives.

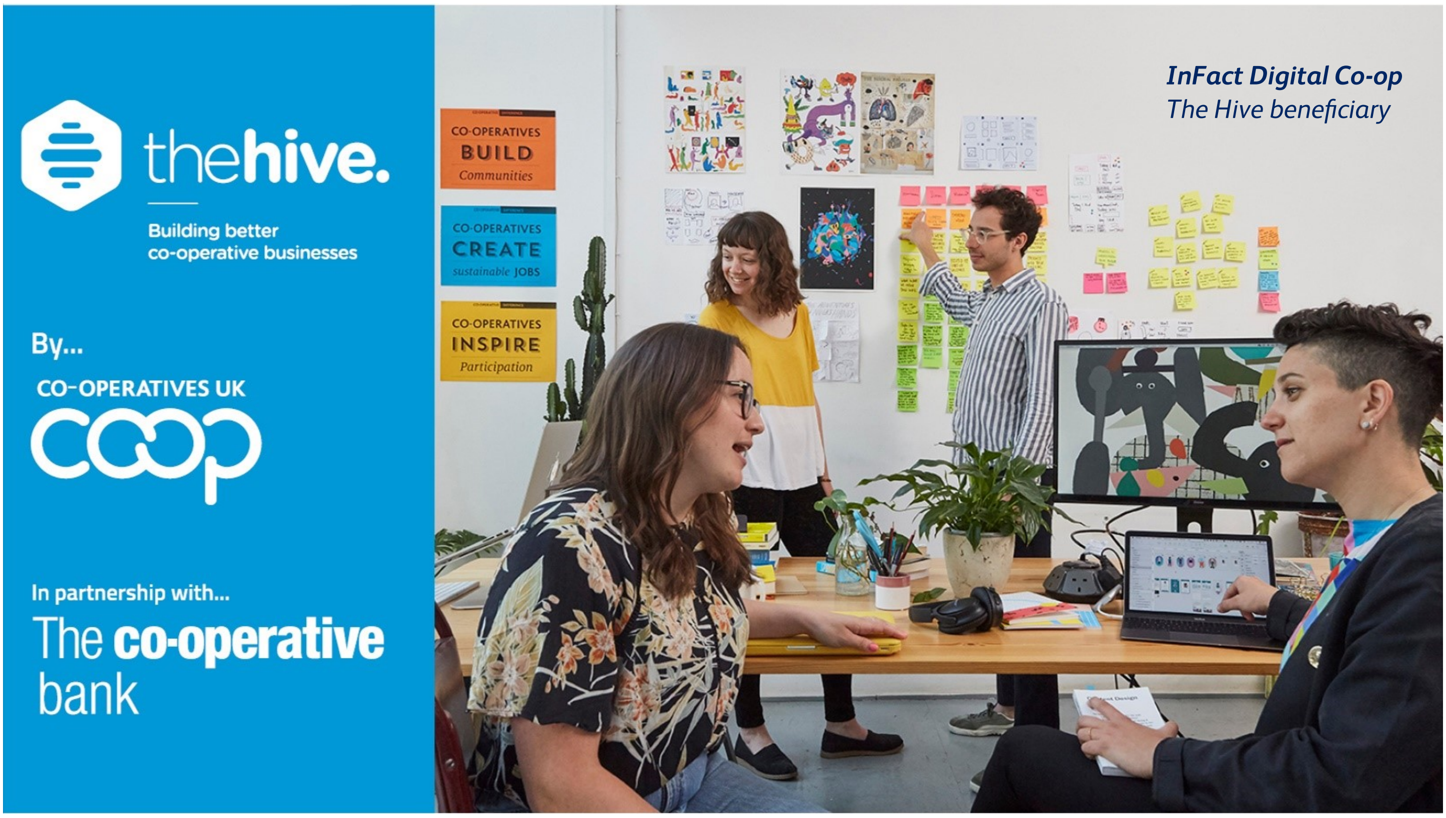
Following a reported increase in domestic abuse during lockdown, we renewed our campaign to raise awareness of economic abuse in partnership with Refuge, with the publication of our 'Know Economic Abuse' report attracting widespread media coverage.

Our partnership with youth homelessness charity Centrepoint has seen colleagues and customers together raise £1.7m since 2017, funding a national helpline that has supported over 6,000 young people in 2020, and provided specialist mental health services for young people in Manchester and the North West.

We continued our partnership with Amnesty International UK, with our Rise Up programme developing campaigning skills in young people, enabling them to make a positive difference in their communities. We also facilitated Amnesty's 2020 Write for Rights campaign through our digital and branch channels.

Some of our achievements in 2020:

- **£625k donation to continue to support The Hive**
- **Cash donations to 106 community organisations involved in delivering local responses to the pandemic**
- **Colleagues organised support packages for NHS workers needing essential office or telephone equipment for virtual appointments**
- **For every new mortgage sold, we donate £5 to Centrepoint**



InFact Digital Co-op
The Hive beneficiary

People with purpose

2020 has been an unprecedented year - the COVID-19 pandemic has disrupted lives and our communities, both through its direct impact and also the impact of government measures to control the spread of the virus.

The Bank has supported customers through this challenging time, putting in place payment deferrals for 20,523 of our borrowers on lending to the value of over £2.2bn, and by advancing £286.6m of CBILS and Bounce-Back loans to 9,815 of our business banking customers, providing additional funds through these uncertain times.

Our colleagues have adapted to new ways of working with the majority of head office colleagues now able to work from home, and by establishing 'virtual teams' we have continued to focus on supporting customers and continuing to deliver great service.

Although our branches remained open throughout 2020, adapting to incorporate social distancing measures to serve our customers safely, there has been a significant shift in customer demand for telephone, online and mobile banking services, and we continue to invest in accelerating and improving our digital services.

Outlook

As we look to 2021, although the UK's vaccination programme may lead to an easing of lockdown restrictions, the economic environment remains uncertain as government support schemes which have supported the economy come to an end. As a result, many of the risks we have faced in 2020 may continue through 2021 and beyond. However, we are well-positioned with a low-risk loan book, positive capital position, resilient franchise and committed colleagues to continue to build a strong and sustainable Co-operative Bank. We have progressed well with our five-year strategy and our achievements in 2020 have renewed our confidence in our business model.

During 2021 we will accelerate our plans within the 'enable the future' phase of our transformation to ensure we can move to the third phase of our transformation, 'sustainable competitive advantage'. In doing so we will continue to focus on creating greater efficiencies, improving digital services for our customers, and reinforcing our ethical brand positioning.

As a result, we have enhanced our outlook for 2021 with an improved cost:income ratio, stable customer NIM and a growing franchise. As we look to the future with continued determination to complete our turnaround plan, I would like to take this opportunity to thank all of our colleagues for their hard work in supporting our customers in these difficult times, and to thank our customers for their continued loyalty.

Nick Slape
Chief Executive Officer

UK retail banking market overview

We are operating in an intensely competitive and highly regulated market which has endured continuing economic uncertainty throughout 2020. Environmental and ethical concerns are gathering ever more increasing attention among consumers, and The Co-operative Bank's heritage and commitment to ethical banking continues to differentiate us. The current environment presents opportunities and challenges that influence our long-term priorities.

Economic and political overview

We operate only in the UK and therefore our economic outlook is aligned to that of the UK economy, which itself is also impacted by global economic trends and developments.

The UK's departure from the EU continued to create significant political and economic uncertainty throughout 2020. On 31 December 2020, the transition period out of the EU ended in an orderly manner and the UK entered into a free trade agreement with the EU.

2020 has been significantly impacted by the effects of COVID-19

At the start of 2020 the COVID-19 pandemic hit the UK, resulting in a series of national and local lockdowns to control the spread of the virus and leading to the biggest economic stress since the Great Depression in the 1930s, driving the UK into a recession. The pandemic has so far caused a large contraction in the economy, lower inflation, an increase in unemployment and historically low levels in the Bank of England base rate. We expect the UK to remain under lockdown restrictions throughout the first quarter of 2021, before slowly easing restrictions once the benefits of the COVID-19 vaccination programme become evident and the rate of infection reduces. A divergence from these expectations, or a slower recovery than anticipated, could further stress the UK economy, and further adversely affect unemployment, inflation, house prices, base rate and economic growth.

The support measures introduced by the government have reduced the level and impact of economic stress seen in 2020, with the Coronavirus Job Retention Scheme mitigating the rise in unemployment along with support measures for affected businesses. The government also introduced the stamp duty moratorium on properties valued up to £500k, which has helped drive house prices up, with prices ending 2020 at significantly higher levels than expected.

The Co-operative Bank's business model, described further on page 18, is low-risk, with low loan-to-value lending. As a result, we are well placed to withstand a downturn in the economy. However, we remain alert to these risks generally and more information is provided in our principal risk categories disclosed on pages 90 to 99.

UK mortgage and savings market

The UK mortgage market is extremely competitive and government schemes such as the Term Funding Scheme (TFS) drove mortgage rates lower in 2017, 2018 and during 2019. The impact of 'ring-fencing' regulation on large UK banks led to greater available liquidity in the mortgage market, which also caused lower lending rates. This trend continued at the start of 2020; however, through the second half of 2020 there has been an increase in mortgage rates market-wide as banks look to mitigate income risks from the low interest rate environment, as well as factor in credit risks that may arise as a result of the COVID-19 pandemic.

Increase in balances in variable accounts as customers seek easier access to cash

As a result of these low rates and the current economic and political uncertainty, many customers are choosing to fix their mortgage over longer terms or to sign up to a new fixed rate mortgage as their current deal expires, meaning that fewer customers are on variable rate products or on the standard variable rate. The opposite is true in the savings market, where we have seen a move towards lower-term funding and an increase in balances in variable accounts through 2020, as customers prefer to have more ready access to cash as a result of ongoing economic uncertainty.

Additionally, the stamp duty moratorium described earlier, together with pent-up purchase demand from the first lockdown and a general desire to move out of cities for more space created unprecedented demand for mortgages during late summer of 2020 to the end of the year. Government intervention to support the economy through the TFSME programme, where banks are able to access central bank funding at base rate, has enhanced the ability of lenders to mitigate net interest income risks from the recent low interest rate environment. TFSME is described further on page 40.

Regulatory environment

Payments

Due to the COVID-19 pandemic, the compliance date to further extend authentication to e-commerce transactions under the second Payment Services Directive - PSD2 (often referred to as 'card not present') was extended to September 2021. The Bank remains in line with the banking industry and will implement these requirements by the new deadline, offering further protection to customers.

The Bank will implement Confirmation of Payee (CoP) in early 2021, further protecting customers from authorised push payment scams and preventing payments being accidentally sent to an incorrect account.

In addition to CoP, the Bank has signed up to the Contingent Reimbursement Model Code (CRM Code), providing customers with support in the prevention of fraud. The Bank remains actively engaged with the Lending Standards Board (LSB) who have published a consultation to review the CRM Code.

Prudential

In line with many other UK banks, we continue to prepare for a number of regulatory reforms. Over the medium term, the Minimum Requirements for own funds and Eligible Liabilities (MREL) will impact the whole industry, and in December 2020 the PRA published a discussion paper as the first stage of its MREL review. As a result of the review, the PRA confirmed that, for mid-tier firms, end-state requirements would be delayed by 12 months to 1 January 2023. The MREL review is due to conclude by the end of 2021 and will also allow the PRA to consider the outcome of the review of the UK Leverage Ratio Framework and its interaction with MREL. In addition, changes to Basel III are likely to increase capital requirements in the longer term for many, in particular the introduction of floors for those using an Internal Ratings Based (IRB) approach to credit risk, and the extension of the minimum leverage ratio to apply to all firms. Managing the financial risks from climate change is a key imperative for both the regulatory bodies, the Bank and the industry as a whole. The Bank is continuing to deliver plans to manage the potential impacts from climate change on its strategy and customers in both the short and long term.

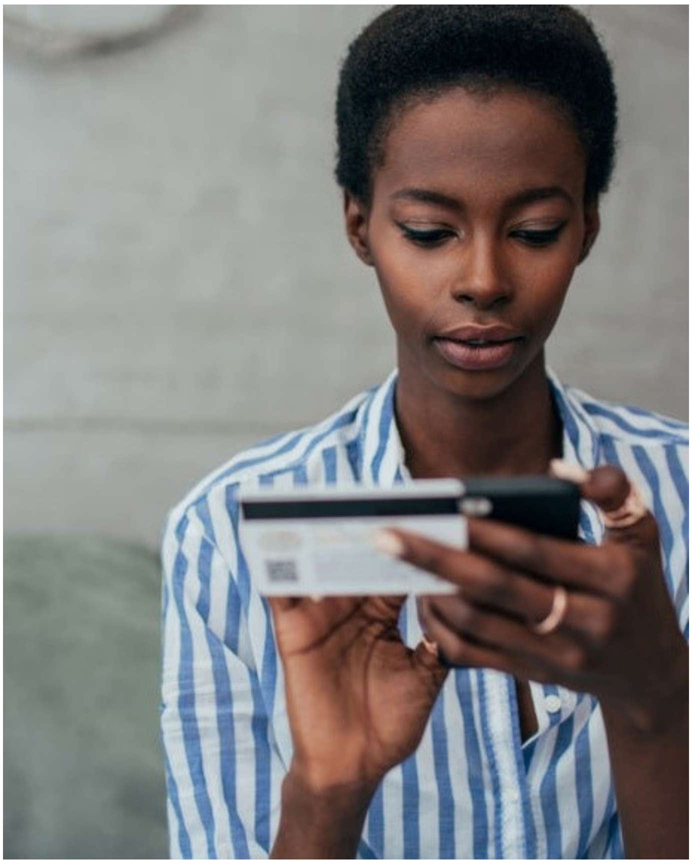
You can read more about the regulatory environment in our principal risk categories section on pages 90 to 99 and in the Risk Committee report on pages 66 to 69

Regulatory Framework Review

HM Treasury are continuing to consult on their Future Regulatory Framework (FRF) Review in light of the UK's exit from the EU. The FRF Review is considering how the UK's regulatory framework in financial services could change in order to be fit for the future. This consultation sets out a general blueprint of the division of responsibilities between parliament, government and the regulators. The outcomes remain uncertain as to whether the UK retains equivalence or diverges, which may impact how the Bank operates.

Consumer trends

The COVID-19 pandemic has influenced consumer behaviour in a number of ways. As a result of the periods of national and local lockdowns and tier restrictions in place during the year, there has been an acceleration of the trend towards digital usage, which we have supported and responded to as we outline later.



With consumers spending more time at home, and hospitality and travel options constrained, we have seen reduced credit card spending and an increase in retail deposits throughout the year. As well as offering payment deferral options to mortgage, loans and credit card holders, we have sought to support our customers more broadly with increased information on managing money, which we will continue to do in 2021.

The pandemic has also seen a continuation of the trend for consumers being conscious of the impact that their decisions, and the behaviour of businesses, have on today's and future generations. This has manifested in a greater consumer interest in socially conscious brands, and consumers giving greater consideration to shopping locally and supporting their local communities. Climate change and social impact have continued to feature in the media agenda and in the minds of consumers.

At The Co-operative Bank, prioritising a positive social and environmental impact continues to be fundamental to the way we do business and our strategic priorities. As the UK's original ethical bank, our customer-led Ethical Policy has defined the business decisions we have made for over 25 years.

Throughout 2020 we have continued to ensure our Ethical Policy makes a positive difference to our customers and the communities in which we live and work, and to promote what The Co-operative Bank represents. We made a difference not just through fundraising but also through active engagement in campaigning on issues we know are important to our customers, described in more detail on pages 28 to 29. Our commitment to the success of the co-operative movement in the UK is key to our plans, and our partnership with Co-operatives UK on The Hive played a key role in supporting co-operative businesses through the pandemic in 2020, as outlined on page 26. Consumer trends now present us with the opportunity to connect to a wider audience whose interests align with ours, and we will continue to develop this potential.

Developments in technology

Digital access and usage for our customers has featured strongly in our strategic priorities in recent years and digital transformation will continue to be a priority as we deliver our plan in the future. Open banking and developments in digital apps provide customers with greater freedom of choice and more control over their money. We aim to maximise the opportunities this presents for our customers, while still retaining a 'multi-channel' offering so that customers have options for how they interact with us. For more information on our strategic project investment in technology, please refer to pages 20 to 21.

Customers increasingly want and expect personalised and tailored information and are also increasingly aware of their data and its value, wanting easier comparisons and faster switching. Analysis of behavioural attributes that drive customer decisions is likely to be a key driver in further technological advances.

Whilst responding to evolving customer expectations, UK banks are focussed on developing pragmatic approaches to removing legacy dependencies and technology simplification. Increased automation, cloud hosting and developing API-led architectures are central to both improving customer propositions and experiences, whilst moving towards a simplified and agile technology estate. Leveraging these key technology enablers will be central to the Bank's transformation agenda in 2021 and beyond.

While many of the advances represent opportunities to improve efficiencies, or to make the customer experience better, we are alert to the changing nature of criminal activity via cyber threats or fraudulent attempts on customer accounts. As people moved more of their transactions to digital channels in 2020, as a result of the COVID-19 pandemic, there was an associated increase in the threat from criminal activity. The Bank continues to invest strongly in its cyber security defences and in the introduction of new steps to protect our customers. We are also working to increase fraud awareness amongst customers by providing them with the information they need to recognise the threat and take action to protect themselves from fraudsters.

How we create value - our business model and strategy

At The Co-operative Bank, our purpose is to pioneer banking that makes a positive difference to the lives of our customers and communities.

We are driven by this purpose, and were the first UK bank in 1992 to have a customer-led Ethical Policy. We remain today the only bank in the UK to have a customer-led Ethical Policy and it guides the business decisions we take on a day-to-day basis.

The Co-operative Bank came together nearly 150 years ago to stand up for the ideal of co-operative values and principles and to build a better society for all.

Read more about the difference we have made on pages 25 to 29

We are a UK bank, with all of our operations based in the UK. We lend money to fund home ownership in the UK and to local small and medium-sized businesses. We support charitable causes close to our customers' hearts.

As the original ethical bank, we represent a real alternative for those aligned to our values. Our five-year strategy, originally set at the end of 2018, remains the right approach to delivering our long-term goals. Our current phase of the strategy targets specific growth opportunities along with a relentless focus on simplification.

Grow our franchise

- Focus on mortgage growth
- Focus on SME banking growth

Expand our products and digital capability

- Improving our retail and SME banking proposition for customers, focussing on simplifying our processes and building out our digital capability

Simplify and transform

- Cost savings driven by supplier rationalisation and continued simplification
- Transforming legacy mortgage and savings platforms

What we do

We provide mortgages through intermediaries for homeowners and landlords. Our lending model is low-risk, with low average loan-to-value assets.

We also provide unsecured lending via credit cards, or loans through intermediaries.

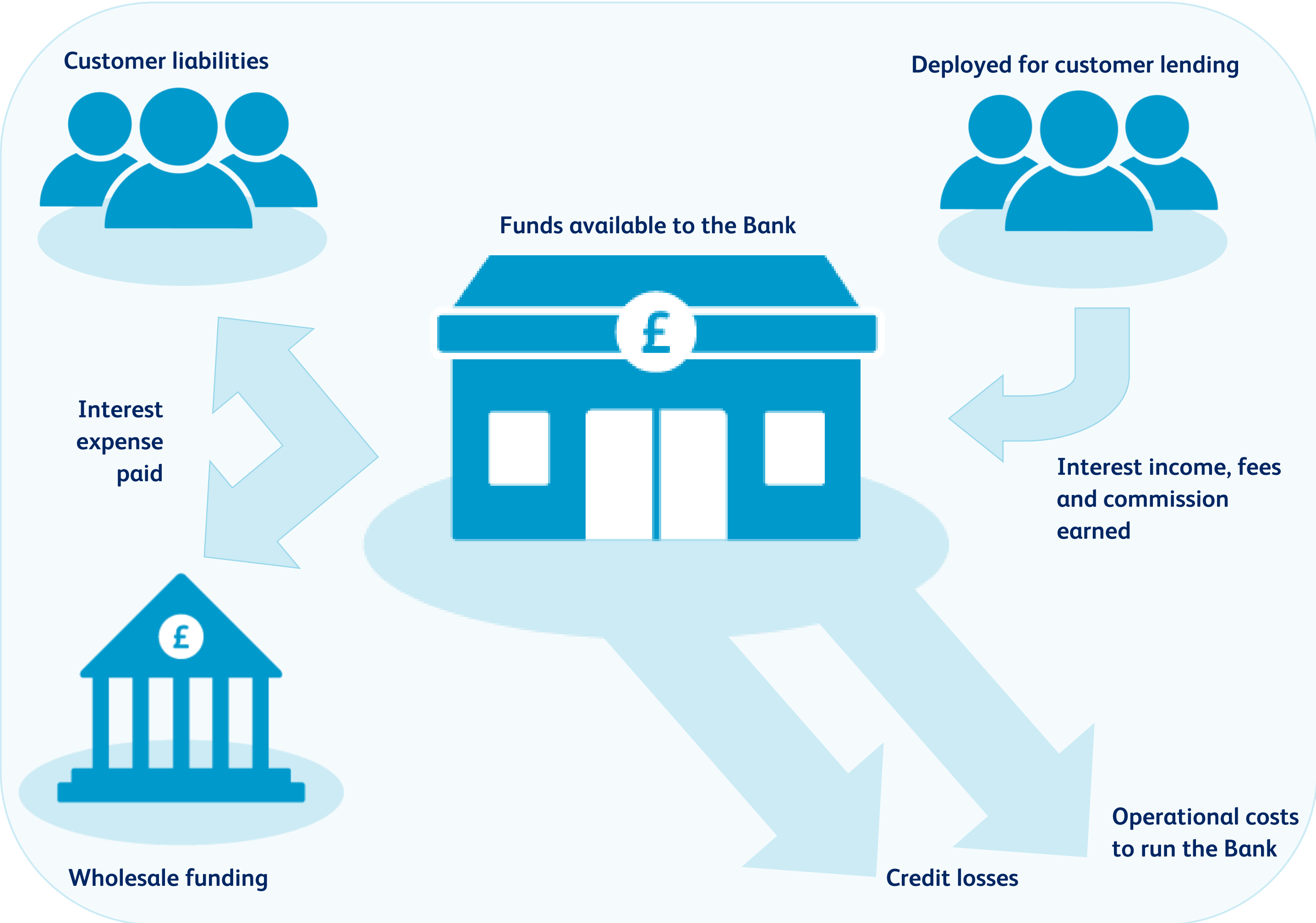
This is funded by customer deposits through current accounts and savings products. It is also funded by wholesale funding to keep our costs low so that we can provide lending at competitive rates.

We provide straightforward, value-for-money products to our UK-based business customers, including transactional banking, overdrafts, credit cards and loans.

People with purpose

To get the most value from our business, we maximise the key inputs and relationships. The areas that contribute to our success include our trusted brand and the choices we make to deploy our capital resources. Our stakeholders are also vital, including our highly engaged colleagues; our strong relationships with regulators, mutually rewarding partnerships with key suppliers and our collaboration with charity partners where we work together for positive action.

How we generate revenue and incur cost for the benefit of the business



Focus for 2021

In 2021, we will continue to respond to changes in the external environment, ensuring that our approach remains aligned to supporting our customers through the pandemic and to our co-operative values, which is the reason why many of our customers choose to bank with us.

As we look to the second half of our strategic plan, we must further digitise the Bank to drive additional cost efficiencies and improve the experience of our customers and colleagues.

In addition, we must continue to simplify and transform our IT architecture in order to create an agile Bank, scalable for future growth opportunities.

Our transformation agenda

Enabling the future of the Bank

Final technical separation from the Co-op Group was completed in early January 2020. All business and cyber security services have now been migrated into our own strategic data centres, and we have exited from all Co-op Group data centres. Through remediation activities undertaken as part of the separation programme, we have increased the resilience of critical infrastructure and data platforms, as well as removed network weaknesses and complexity. The culmination of several years of financial investment has given the Bank full control of its IT infrastructure. This major milestone allowed the Bank to progress into the next phase of its five-year transformation plan, focussed on enabling the future of the Bank. The increased and enduring economic pressures of COVID-19 have amplified imperatives to simplify and optimise costs, whilst continuing to enhance our digital propositions. Through our investment programmes, we have focussed on the following during 2020:

Modernising our SME proposition

In 2020, we have made excellent progress against our Capability and Innovation Fund programme commitments. Our focus has been to build features and functionality to help customers access the necessary products and services at their convenience. We have launched new products including a 35 day notice savings account and SME business credit card (January 2021), as well as Bounce-Back loans and Coronavirus Business Interruption Loans (CBILS) to support customers impacted by COVID-19. We are continuing to modernise our SME proposition through ongoing customer migrations to our upgraded online banking portal, same day onboarding journeys and the imminent launch of the SME mobile application in 2021.

Digital development

We have increased functionality and invested in improvements to our digital customer journeys. Our customers now see digital as their primary service channel, with 87 % of all channel interactions in 2020 being via digital. 93 % of all payment transactions are now digital. Our digital transformation programme has been a driver for significant growth in the past two years. In alignment with our customer first approach, we have delivered a total of 38 releases within the year.

Key highlights include:

- New and optimised digital account opening journeys - 69 % of all sales are now completed online;
- Enhancements to our customer online banking authentication experience;
- Push notifications introduced via our mobile app, keeping customers informed of their transactions and account status;
- Responding to the COVID-19 pandemic by building new online application forms for payment deferrals, overdrafts and business interruption loans;
- Statement availability within our mobile app;
- Development of a strategic cloud platform, as a key enabler for future digital transformation;
- Enhancing our capability and SME customer service delivery significantly with support from the Banking Competition Remedies (BCR) Capability and Innovation Fund, including same day account opening for our business customers; and
- Development of specific SME fraud training modules which we have made available to all our business customers on our business banking website.

We remain committed to evolving customer journeys, simplifying our IT estate to optimise services, and to continuing to respond to a changing environment

Upgrading our strategic platforms

Laying the foundations for future transformation and simplification of our IT estate, we have upgraded our core mortgage platform for Co-operative branded mortgage accounts. The successful upgrade enables enhanced servicing functionality, in conjunction with process improvements with our mortgage partner Capita. The upgrade represents a significant milestone in transforming our mortgage business which will be a key focus in 2021 and beyond.

Simplifying the Bank

Simplification remains central to the Bank's transformation agenda. During 2020 we have leveraged our strategic partnerships and continued to consolidate our legacy technology estate. As a result of these simplification initiatives, we have managed to achieve:

- Removal of 102 IT applications across the Bank;
- Significant reduction in legacy server and database technologies, with software licence rationalisation;
- A rationalised supplier base, reduced from 645 to 395;
- A total of five data centre exits (out of 11) as a result of separation from the Co-op Group and migrations away from other non-strategic data centres; and
- Simplified colleague and customer processes, creating a more agile way of working.

The combination of customers seeing digital as their primary channel and our delivery of simplification initiatives has supported our review of our channel strategy and operating costs. Although the increasing use of our digital channel has been accelerated by the pandemic, we do not believe this trend will reverse. As a result, in 2020 we reduced our branch network to 50 locations and announced the redundancy of c.350 employees.

Maintaining compliance and reducing risk

We have continued to maintain regulatory compliance, whilst mitigating potential risks to the Bank and its customers. This includes:

- Compliance with payment scheme rules through the successful completion of SWIFT standard upgrades and a reduction in Faster Payments processing time of 70% (within six minutes);
- Responding to regulatory reporting (PSD2 and Securities Financing Transaction Regulation - SFTR) and compliance (Digital Tax and GDPR) requirements;
- Introducing overdraft pricing changes;
- Completing our 2020 cyber security programme through a combination of process improvements and risk mitigations to protect the Bank and its customers;
- By the end of the first quarter of 2021 all of our public-facing websites will have been re-built onto new content management platforms, reducing the risk associated with content change at pace;
- Commencement of upgrades to the Bank's core mainframe platform and remediation of the legacy technology estate; and
- Tier 1 service availability was maintained at an average of 99.98%.

Supporting our customers through COVID-19

During the pandemic we have re-focussed our internal processes and resources to provide customers with the support they need. Previous investments in desktop upgrades mean that all non customer-facing colleagues have the capability to work from home, which has expanded to include the majority of front-line colleagues in the fourth quarter of 2020. We also sought to rapidly implement a number of initiatives including:

- Introduction of contactless cards to Cashminder customers for the first time;
- Contactless payment limit increase from £30 to £45;
- Removal of standard current account fees and charges;
- Process changes and automation to support more than 17,000 mortgage payment deferrals
- Online credit card and loan payment deferrals forms; and
- Development of a COVID-19 customer hub visited >770,000 times and a new FAQ capability on the Bank website.

Environmental, social and governance reporting

In a time when environmental and ethical concerns are increasingly important to consumers, investors and other stakeholders, our commitment to values and ethics remains at the heart of everything we do. Some key highlights of our environmental, social and governance performance for 2020 are shown below:

Environmental

Protecting the environment has been a key commitment within our Ethical Policy since 1992.

We have reported our greenhouse gas (GHG) emissions since 1998 and continue to see a downward trend in our carbon footprint. In addition, since 2007 we have offset our carbon emissions plus an additional 10 % to address the historic impact of our business activities. Our 'beyond carbon neutral' status allows us to support environmental projects across the world.

We continued to source our electricity from renewable energy suppliers and the restrictions of the COVID-19 pandemic meant that business travel was minimal this year. As 2020 was such an extraordinary year, we've set a target to reduce our carbon emissions in 2021 to no more than 5,400 tCO2e (a reduction of 27 % on our 2019 baseline emissions figure) and to keep our carbon intensity (the amount of carbon produced per employee) at 1.9 tCO2e.

In 2020, we declined banking services to 21 businesses whose activities were considered to be in conflict with our Ethical Policy statement on the extraction and production of fossil fuels due to involvement in the oil and gas sector.

We continue to focus on our values and ethics strategy, which aims to deliver on the commitments within our Ethical Policy, along with the following areas:

- Developing our green finance strategy;
- Building on our existing environmental commitments not to finance the fossil fuels industry and reducing our operational impact on the environment;
- Demonstrating our ongoing commitment to the co-operative movement;
- Driving positive social change through our charity partnerships;
- Supporting vulnerable customers and campaigning on economic abuse; and
- Playing an active role in our community.

Greenhouse gas emissions by source

	Total emissions (tCO2e)	
Source of emissions	**2020**	**2019**
Fuel combustion	**845**	876
Electricity consumption [1, 2]	**2,786**	5,811
Refrigerant leakages [3]	**230**	312
Business travel	**100**	423
TOTAL	**3,961**	7,422
Carbon intensity (tCO2e/FTE) [4]	**1.4**	2.4

Additional environmental metrics and targets

	2021 target	2020	2019
% waste to landfill	0 %	**0%**	25 %
Lending to renewable energy sector	Ongoing investment	**£19m**	£24m
Total paper usage (reams)	4,000	**1,973**	20,246
% energy sourced from renewables [5]	100 %	**100%**	100 %

We achieved our target to send zero waste to landfill by the end of 2020

In 2019 we challenged ourselves to improve our environmental credentials and do more to protect our planet by sending zero waste to landfill by the end of 2020. Like many initiatives this year, the pandemic presented a risk to our plans as specialist recycling companies were forced to close. However, restrictions were lifted in time for us to implement the programme across all our branches and offices.

As of the end of 2020, colleagues across our sites are now recycling up to 41 % of waste, with the remaining 59 % sent to energy recovery facilities. We've set ourselves an ambitious target of 60 % by the end of 2021.

1. The GHG emissions associated with electricity usage are calculated using the UK average GHG emissions figure. 100 % of electricity sourced by The Co-operative Bank is from renewable sources, therefore the annual GHG emissions associated with electricity usage are significantly lower than stated.
2. GHG emissions per unit of electricity are calculated by DEFRA and updated annually.
3. Refrigerant gas data includes major occupancy properties only.
4. Average number of full time equivalent (FTE) employees for the year.
5. All electricity sourced by The Co-operative Bank is from renewable sources.

Social

We are committed to keeping co-operative principles at the heart of our business and to demonstrating the co-operative values through everything we do. Our impact on society goes beyond the people to whom we are providing banking services, as we seek to drive positive social change through our community initiatives and in co-operation with the co-operative movement and our charity partners. This table sets out a snapshot of some of the ways we measure our impact on society.

Key metrics	2020	2019
Total charity donations	**£1,564,783**	£997,996
Number of co-operatives, charities and credit unions who bank with us	**787** co-operatives **4,128** charities **163** credit unions	805 co-operatives 4,416 charities 194 credit unions
Support for the co-operative movement through funding for The Hive	**£625,000**	£158,700
Supporting our local communities through colleague volunteering	**611 hours**	4,759 hours
% of colleagues who have taken part in a volunteering activity	**4%**	26 %
Number of customers we've helped to buy their first home	**4,209**	3,304
Number of customers supported through our partnership with Citizens Advice Manchester	**536**	418

Supporting our customers and communities through a challenging year

We know our customers and communities need us now more than ever, so our colleagues have continuously stepped up to support those in need. The impact of the COVID-19 pandemic has been felt by our retail and small business customers and by the many charities and community organisations we support and who bank with us.

We have put in place a range of support measures to help our customers and communities through this difficult time. Whether working in customer-facing roles, or working from home, colleagues have also identified creative ways of raising money for our charity partners and sent out care packages to support our customers who work for the NHS.

Due to the pandemic, volunteering opportunities have been limited as charities have needed to reduce the number of people on site and take extra precautions to maintain social distancing and strict hygiene procedures. However, some colleagues have taken part in volunteering, either remotely or in person, and we are proud that several colleagues have now stepped up to assist with the pandemic vaccination programme, acting as marshals and volunteer vaccinators.

We are proud to support national and local charities through the pandemic

At a time when charities are experiencing the impact of a fall in donations and increased demand for their services during the COVID-19 pandemic, we also facilitated the distribution of an additional £650,000 charity donation from liquidated SPV retained profits.

Refuge
For women and children. Against domestic violence.

AMNESTY INTERNATIONAL

NHS CHARITIES TOGETHER

the trussell trust
Stop UK Hunger

centre point

hospice UK

Governance

The co-operative values and Ethical Policy are incorporated in the Bank's Articles of Association and established at the heart of our constitution.

The Values and Ethics Committee provides Board level oversight of the delivery of our Ethical Policy and values and ethics strategy, ensuring effective governance and accountability. It will continue to review the development of our ESG reporting over time. This will include the recommendations of the Financial Stability Taskforce on Climate-related Financial Disclosures (TCFD) as we assess how we can fully implement the recommendations into future years' reporting. The Values and Ethics Committee met four times in 2020 and will continue to meet on a quarterly basis in 2021. The Values and Ethics Committee report for 2020 can be found on pages 70 to 73.

Key metrics	2020	2019
Total number of business current accounts opened	**12,116**	7,473
Total number of applications referred for further Ethical Policy screening (see page 25 for more information)	**438**	223
% of women in senior positions	**42.3%**	42.3 %
In 2016 we set our target to increase the number of women in senior positions from 32% to 40% and developed a five-point plan to drive the improvement. As we have exceeded our target we will continue to deliver against the five-point plan, ensuring we maintain the position and remain focussed on improving our gender inclusion and balance at all levels.		
Gender pay gap (median)	**25.94%**	22.62 %
BSB cultural survey overall result (out of 100)	**75**	74

The 2020 reportable gender pay gap shows some improvement compared to 2019 in all areas apart from the median hourly rate and the mean bonus figures. Like many financial services firms, our Bank employs more women than men and a higher proportion of women than men in our customer-facing roles, which influences the gap. Our median position on fixed pay has worsened in 2020, largely due to the reducing population at the Bank. We are confident that in the long term our focussed work on gender inclusion and balance at all levels will result in the gap narrowing.

ESG statements and policies

Modern slavery and human trafficking statement

We are committed to ensuring that our business and our suppliers are free from modern slavery and human trafficking and uphold the principles of our Ethical Policy. Our modern slavery and human trafficking statement sets out the steps we are taking to prevent modern slavery.

www.co-operativebank.co.uk/aboutus/ourbusiness/Human-Trafficking-Statement

Freedom of association

We formally recognise the trade union **Unite** and work closely with them to ensure the voices of our colleagues are heard. We take a proactive approach to understand the needs of our colleagues and their members.

Bribery and corruption policy

The Bank has a zero tolerance stance on bribery and corruption and the policy is included within the Bank's code of conduct. All colleagues must complete training on the code of conduct once a year and confirm their understanding of the requirements within the policy.

Taxation policy

We are signatories to the HM Revenue & Customs Code of Practice for the Taxation of Banks and are committed to ensuring that nothing in our tax affairs is contrary to UK tax legislation.

www.co-operativebank.co.uk/assets/pdf/bank/aboutus/ourbusiness/the-co-operative-bank-tax-strategy.pdf

Living wage

As an accredited Living Wage employer since 2015, we know all our colleagues are paid a fair wage that reflects the real cost of living.

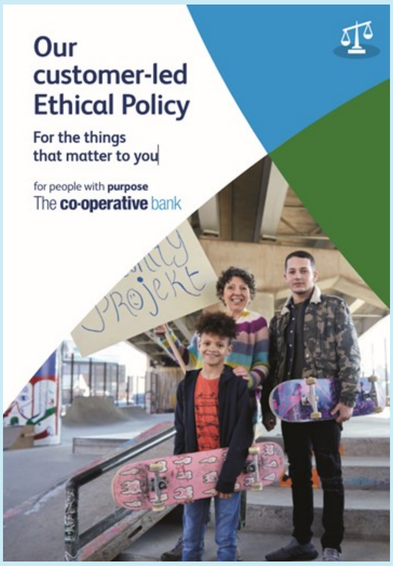
Read more at:

www.livingwage.org.uk

We are a Living Wage Employer

Our co-operative values and ethics in action

Our customer-led Ethical Policy provides the blueprint for our ethical banking brand. We are the 'original ethical bank'. Our co-operative brand reflects the way we do business and the progress made in 2020 across all areas has ensured that our commitment to the co-operative values and principles on which we were built is stronger than ever.



Our Ethical Policy is comprised of five pillars:

Pillar 1
Ethical banking
We do not provide banking services to businesses and organisations that conflict with our Ethical Policy.

Pillar 2
Ethical products and services
We seek to offer products and services that reflect our values and ethics.

Pillar 3
Ethical business
We endeavour to behave ethically in how we run our business, including our relationships with suppliers and external organisations.

Pillar 4
Ethical workplace and culture
Our workplace culture reflects our co-operative values and ethics.

Pillar 5
Ethical campaigns
We campaign for social and economic change in line with our values and ethics.

1. Ethical banking

Our Ethical Policy reflects our views on a comprehensive range of issues and includes commitments to uphold human rights, support the least advantaged in society and fair payment of tax.

Since the Ethical Policy was launched in 1992, we have asked all business customers to complete an ethical questionnaire as part of the application process for a new account or service, as well as conducting regular screening to ensure ongoing compliance with the Ethical Policy. Business customers are screened based on their responses to make sure we don't provide banking services to any business whose activities conflict with the views of our customers. In 2020, 438 businesses were referred for enhanced screening and as a result, 21 applicants were not accepted as Co-operative Bank customers.

Did you know?

- We were the first UK bank to sign the 2015 Paris Pledge not to finance the coal industry
- We are the only UK-based bank in the Don't Bank on the Bomb report Hall of Fame (October 2019) and the Worldwide Investments in Cluster Munitions report Hall of Fame

DON'T BANK ON THE BOMB

BANKS: DO THE PARIS PLEDGE TO QUIT COAL

2. Ethical products and services

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.

Our customers support five leading UK charities: Amnesty International UK, Refuge, Oxfam, Hospice UK and Woodland Trust through our Everyday Rewards current account product, which gives customers the option to donate their Everyday Rewards of up to £5 per month. In 2020, donations totalled over £300,000, bringing the total donations to our Everyday Rewards charity partners to more than £1m since the product was launched in 2016.

We donate £5 to Centrepoint for every completed mortgage and product switch through our Co-operative Bank and Platform brands. Combined with other fundraising, we have now raised over £1.7m for Centrepoint since the start of our partnership in April 2017.

£1.7m raised

centre point give homeless young people a future

Supporting personal and small business customers through COVID-19

Our ethical products and services have resonated with customers during the COVID-19 pandemic which has impacted all members of society. Like most organisations we are adapting to serve customers flexibly through virtual appointments and by establishing a support function for customers facing financial hardship.

We've long been a champion for small businesses and we're proud that we've been able to offer practical help and support.

In 2020 we launched our enhanced digital service for SME customers and we're excited that work on our new mobile app for small businesses is progressing well.

In March we launched The Business Exchange, an online resource full of help and advice for business customers, including SMEs, co-operatives, charities and not-for-profit organisations.

We've been able to support more than 9,800 of our existing small business customers via the Bounce-Back loan scheme and Coronavirus Business Interruption Loan Scheme, vital lifelines that were launched to help businesses survive the pandemic. For example, the Leeds Bread Co-op received financial support which helped them equip their business to adapt and continue to operate through the pandemic.

Our commitment to the co-operative movement in support of UK co-operatives

We support the UK's co-operative sector by offering free business banking to co-operative businesses. In 2020, we renewed our support of The Hive with a further £625k investment, bringing our total investment in the programme to date to £1.7m. This unique business support programme created by Co-operatives UK in partnership with The Co-operative Bank gives co-operative businesses from all sectors of the economy access to the expert advice and guidance they need to thrive.

Since the start of the programme to the end of 2020 1,171 groups have benefitted from technical advice, peer mentoring, training and introductory workshops. A number of these groups went on to obtain over £6m of community investment.

This year we've worked with The Hive to make sure that co-operative businesses impacted by the COVID-19 pandemic have had access to free resources and guidance to help them to adapt and survive this challenging time. The Hive Assist Package was launched in response to the economic challenges and was accessed by 10 co-operative businesses.

On the road supporting customers in the community

In October we were excited to take our bank on the road and into our communities with the launch of our fully electric pop-up branch van. The van has been visiting town centres across the North West, with the team on hand to offer advice and support on all of the accounts and services we offer, such as setting up a new account, making bank transfers, amending standing orders, or updating contact details.

The team have also been helping out in our communities, spending time with local charities and community organisations and lending a helping hand wherever it's needed.

3. Ethical business

Our Ethical Policy has always committed the Bank to protecting the environment and promoting sustainable development. We refuse to provide banking services to businesses whose core activities contribute to global climate change via the production of fossil fuels. We support organisations that make a positive impact on the environment and we take steps to reduce the environmental impact of our own operations too.

Last year we set a target to reduce our carbon emissions by 10% in 2020. By the end of the year, our total carbon emissions were 47% lower in 2020 than in 2019, although this was mainly driven by restrictions due to the COVID-19 pandemic. The Co-operative Bank has been 'beyond carbon neutral' since 2007. We can make this claim because we offset our carbon emissions plus an additional 10% to address the impact our business activities have had in the past. Offsetting allows us to turn our emissions into carbon credits which are used to invest in environmental projects around the world. We will offset 1,492 tonnes of operational greenhouse gas emissions (1,356 tonnes + 10%) for 2020.

We offset our carbon by donating to ClimateCare, a climate and development expert charity which supports projects around the world that have a positive impact on the environment and the local population and which are in line with our Ethical Policy. In 2020, we supported the Gola Rainforest Conservation project in Sierra Leone and the Aqua Clara project in Kenya.

4. Ethical workplace and culture

Our Ethical Policy shapes our approach to being an ethical employer, which includes our commitment to the HM Treasury Women in Finance Charter, our colleague engagement activities and how we support and develop our colleagues.

Our colleagues are encouraged to take two paid volunteering days each year and, despite lockdown challenges, in 2020 they have continued to make a difference through remote volunteering activities. 137 colleagues took part in the programme, donating a total of 611 hours to their local communities.

In October, we were delighted to become the first financial services organisation to gain membership status of the Greater Manchester Good Employment Charter.

GREATER MANCHESTER GOOD EMPLOYMENT CHARTER

The aim of the Good Employment Charter is to improve employment standards across the North West region and contribute towards a thriving and productive economy, with members like us committed to paying the real living wage, enabling flexible working and supporting the health and wellbeing of colleagues.

5. Ethical campaigns

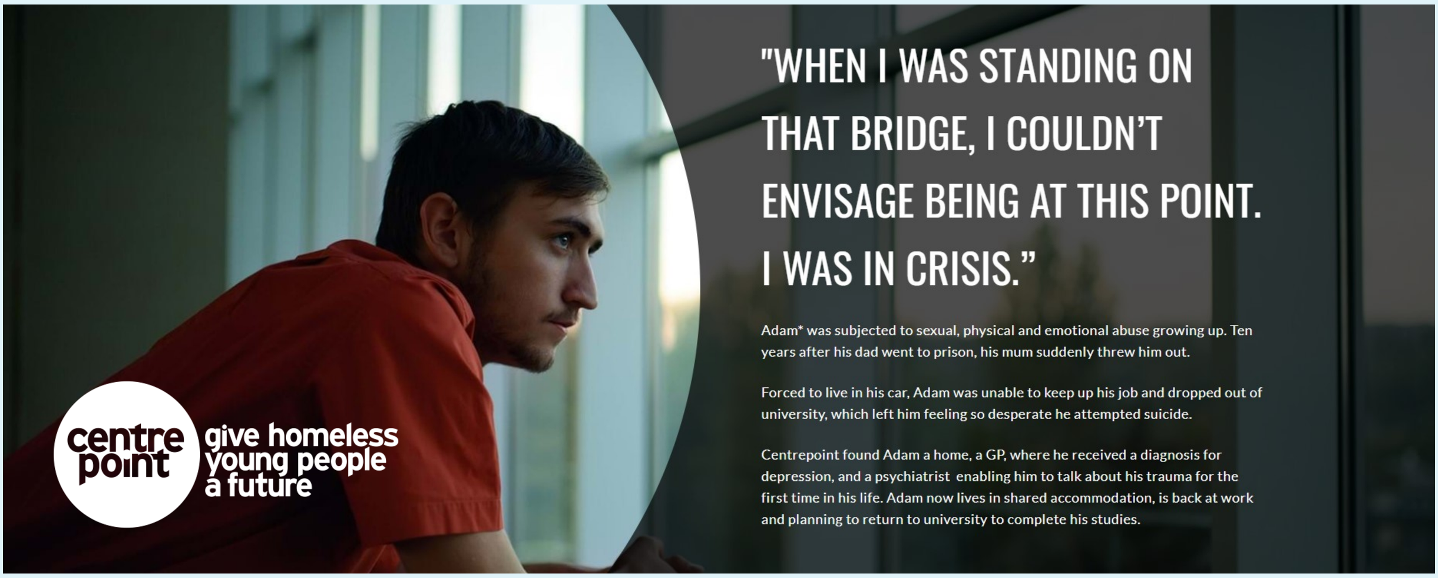
Tackling youth homelessness with Centrepoint

Our continued focus on tackling youth homelessness became especially relevant in 2020, when young people were particularly affected by the economic impact of COVID-19, with research estimating that up to 1.8 million young people could face homelessness as a result of the pandemic. Centrepoint received a record number of calls to their national helpline this year, with our funding helping to support 6,053 young people in 2020.

We're incredibly proud that our fundraising total since the start of the partnership in 2017 is now an amazing £1.7 million. This total includes over £210,000 raised by colleagues and customers, plus over £1 million raised through our mortgage products. We'll continue to donate £5 on our customers' behalf for every new mortgage completion and product switch throughout 2021.

"For the young people Centrepoint supports and as an organisation, the year 2020 was the most challenging ever, as COVID-19 wreaked havoc around the country. We were acutely aware that every organisation and their customers, including The Co-operative Bank, were facing the same challenges. Yet, the Bank rose up wonderfully to offer tremendous support, without which it would not have been possible for Centrepoint to help thousands of young people through the crisis. I look forward very much to working together next year to give even more young people the opportunity to change their stories for the better, once and for all."

– Seyi Obakin OBE, Chief Executive of Centrepoint



Supporting human rights defenders of the future with Amnesty International UK

We have a long-standing partnership with Amnesty International UK and a shared commitment to promoting human rights and equality. Our support enabled AIUK to launch Rise Up, a fully funded pilot youth training programme to empower young people across the UK to create change in their communities. The programme has led to meaningful change with participants taking their first steps in launching activism campaigns.

We are proud to be the first corporate organisation to establish a recognised Colleague Amnesty Group, which meets on a monthly basis to drive forward key Amnesty campaigns internally including marking International Human Rights Day, Write for Rights, Pride Inside 2020 and monthly urgent actions for varying causes.

We were also delighted to once again support AIUK's Write for Rights campaign in December 2020, promoting the campaign to our colleagues and customers to send messages of support to tackle human rights injustice across the world.

"The ongoing support of The Co-operative Bank has helped us to navigate a challenging 2020, with their support we've been able to keep human rights on the agenda. Putting pressure on governments to protect vulnerable people and frontline workers in the UK and abroad during the pandemic whilst continuing to support those around the world who continue to shed a light on human rights abuses."
– Kate Allen, Director of Amnesty International UK

Campaigning on the impact of economic abuse in partnership with Refuge

The 'My Money, My Life' campaign with Refuge highlighted the issue of economic abuse in relationships and was the first to look at this issue in detail. This previous campaign was the most impactful investigation of its kind into the scale of economic abuse in the UK and generated a powerful call to action, the Financial Abuse Code of Practice, which provides a framework for all banks to follow when dealing with instances of economic abuse and has had broad adoption across the industry.

Throughout 2020, we partnered with Refuge once again to conduct a new study into the extent of economic abuse in the UK and the impact of the COVID-19 pandemic on this issue, with our 'Know Economic Abuse' campaign. As part of this, we developed a five-point plan of action to increase the support available for those who are experiencing economic abuse or have experienced economic abuse in the past, and to help prevent economic abuse from happening.

"Refuge and The Co-operative Bank have a long history of working together to raise awareness of economic abuse, enacting meaningful change within the financial sector, and helping customers to spot the signs and access information and support. Over the past year, our partnership has helped to highlight the relationship between the pandemic and levels of economic abuse in the UK and bring greater attention to the effects that long-term debt has on survivors. We look forward to continuing our work with The Co-operative Bank, putting pressure on the government and financial sector to adopt our five-point plan for change, and ensuring better protection and support for survivors across the country."

– Dr Carole Easton OBE, Interim CEO of Refuge

Financial performance

2020 has been an unprecedented year with COVID-19 having an extremely disruptive impact on the global economy and which, in the UK, has resulted in a range of government and Bank of England responses. These included two UK base rate reductions in March 2020, availability of a new Term Funding Scheme - TFSME, business support loans and payment deferrals to support consumers through this crisis. Mortgage lending activities have been disrupted and customer spending behaviours have changed. The economic environment remains uncertain; however, we remain on track to achieve our long-term goals within the five-year financial plan.

Alternative performance measures

The Group uses a number of alternative performance measures, including underlying profit or loss, to monitor its financial performance relative to the Group's five-year strategy. The statutory result, a loss before tax of £103.7m, which is defined by accounting rules, is also monitored for the Group overall.

Underlying performance

Underlying performance is monitored by management on a segmental basis – retail, SME and treasury, which together reflect our core business. The remainder of the Group relates to legacy operations which the Group is looking to exit, or is attributable to the Group overall and not allocated to any particular segment. The Group's segmental presentation reflects the organisational and management structure at the reporting date. Further information is provided in note 3 to the consolidated financial statements.

Year ended 31 December 2020	Core					
£m	Retail	SME	Treasury	Total	Legacy & unallocated	Group
Net interest income	236.8	41.2	(7.1)	270.9	(4.0)	**266.9**
Other operating income	17.6	15.6	7.3	40.5	(0.1)	**40.4**
Operating income	**254.4**	**56.8**	**0.2**	**311.4**	**(4.1)**	**307.3**
Credit impairment losses	(15.6)	(3.2)		(18.8)	(2.8)	**(21.6)**
Operating costs – staff						**(115.4)**
Operating costs – non-staff						**(227.0)**
Continuous improvement projects						**(7.2)**
Operating expenses						**(349.6)**
Underlying loss						**(63.9)**

Year ended 31 December 2019	Core					
£m	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**
Credit impairment losses	(1.6)	3.3	-	1.7	0.8	**2.5**
Operating costs – staff						**(124.6)**
Operating costs – non-staff						**(236.9)**
Continuous improvement projects						**(19.6)**
Operating expenses						**(381.1)**
Underlying loss						**(19.7)**

The Group has made an underlying loss of £63.9m (2019: £19.7m). Income generated by core segments (retail, SME and treasury) of £311.4m is 13% lower than in 2019, reflecting the challenging low-rate UK retail banking market conditions which have prevailed during the year, further exacerbated by COVID-19-driven reductions in base rate and increased credit impairment losses. This has continued the previously reported trend of reduction in net interest margin, in addition to the full year cost of Tier 2 debt (issued in April 2019) and the MREL-qualifying debt issuance in November 2020. However, we have seen our net interest margin in the second half of 2020 increase to 1.51%, compared to 1.41% in the first half, driven by widening margins across our mortgage portfolio and deposit repricing actions. Income from legacy operations has reduced as the Group continues to exit those products and services.

Credit impairment losses have risen in the year due to the effects of COVID-19. The Group has increased its provision coverage of Platform mortgages from 6bps to 12bps across 2020 in response to payment deferral risk. The Group will continue to review the credit quality of its assets and will adjust provisions accordingly.

During the same period, operating expenses have decreased by 8.3%. At the start of the year we deferred investment spend considered non-essential or which no longer delivered a positive business case due to the changing economic circumstances, and continued to rationalise third party and discretionary spend. Given the severe economic impact from COVID-19, we have also taken further cost reduction actions to help mitigate the impact. During the second half of the year we took the difficult decision to close 18 branches and announce staff redundancies. The benefit of these decisions on our cost:income ratio will be largely seen in 2021.

The reported underlying loss of £63.9m has been adversely impacted by COVID-19; we estimate that the impact has been to increase the underlying loss by approximately £45m. Approximately £24m relates to the lower income as a result of the reduction to base rate from 0.75% to 0.10% in March 2020, £4.8m relates to the EIR write-down associated with the base rate reduction and c.£16m reflects the incremental impairment charges relating to additional credit risk. In addition to these factors directly associated with the pandemic, the underlying loss is also affected by an £8.2m increase to property provisions for lease costs where the property is not fully occupied. More information on the results by segment is given on pages 34 to 40.

Income statement – reconciliation to IFRS basis

Year ended 31 December £m	2020	2019
Underlying loss	**(63.9)**	(19.7)
Strategic project costs	**(25.9)**	(96.6)
Restructuring programme	**(19.9)**	-
Legacy net customer redress charge	**(2.0)**	(63.5)
Surrendered Loss Debtor revaluation	**-**	14.6
Revaluations on shares	**16.7**	18.1
Other non-recurring items	**(8.7)**	(5.0)
Statutory loss before tax	**(103.7)**	(152.1)

The statutory loss before tax reported for 2020 has improved by £48.4m or 32% compared to 2019, despite the challenging market conditions driving a higher underlying loss as described on the previous page.

In 2020, the level of strategic project spend (i.e. projects not reflective of the recurring level of investment) has significantly reduced as we have completed our initial phase of our turnaround plan. Levels of customer redress have also reduced as the PPI remediation programme is largely complete, following the significant charges in 2019 due to the impact of the PPI time-bar.

The restructuring charges of £19.9m in 2020 relate to the impact of branch closures and staff redundancies which will drive a cost benefit from 2021.

In 2019, we benefited from a £14.6m revaluation gain on the Surrendered Loss Debtor, which was non-recurring in nature and has not repeated in 2020. This asset can be volatile and generate both gains and losses due to external factors. Subsequent to the year end, we have reached agreement with the Co-op Group to settle this asset in cash at its fair value of £47.8m, and this continues our progress to reduce the complexity in our balance sheet and to bring our underlying and statutory results into greater alignment by reducing our exposure to volatile items.

The Group holds preference shares in Visa Inc., the value of which has increased by £6.0m during the year. The Group has also gained from selling the proportion of these shares which converted earlier in the year to ordinary shares, resulting in a gain of £10.4m in 2020. Such items, along with non-recurring gains and losses can be volatile in nature and are therefore excluded from the underlying result. In 2020, other non-recurring items included a £5.2m charge for the impact of the covered bond refinance exercise and a £3.5m expense related to the net impact, post-provision release, of the Optimum sale. Non-recurring items in 2019 relate to asset sales.

Balance sheet

As at 31 December 2020 £m	Core				Legacy & unallocated	Group
	Retail	SME	Treasury	Total		
Assets	**17,360.7**	**447.8**	**5,900.9**	**23,709.4**	**1,890.1**	**25,599.5**
Liabilities	**(17,300.0)**	**(2,964.4)**	**(3,536.8)**	**(23,801.2)**	**(323.9)**	**(24,125.1)**

As at 31 December 2019 £m	Core				Legacy & unallocated	Group
	Retail	SME	Treasury	Total		
Assets	16,588.4	184.4	4,524.2	21,297.0	2,138.5	23,435.5
Liabilities	(16,745.7)	(2,118.7)	(2,501.0)	(21,365.4)	(458.2)	(21,823.6)

Core segment assets have increased by £2,412.4m, driven by growth of retail and SME lending as well as higher cash balances within Treasury. Core segment liabilities have also grown by £2,435.8m over the same period to fund asset growth. The growth in liabilities has been seen across all three segments.

Legacy and unallocated assets have decreased by 11.6 % (£248.4m) as they continue to run-off and following the sale of £133.9m of Optimum assets in December 2020. As the legacy business runs-off, we re-deploy the capital for the benefit of our core business. Legacy and unallocated liabilities have decreased in the year. Legacy liabilities represent the customers which the Group is seeking to exit but, whilst remaining with the Group, such deposit balances can fluctuate month-on-month. Legacy and unallocated liabilities reduced by 29.3 % (£134.3m) between December 2019 and December 2020.

Capital as at 31 December

The tables below include the regulatory change in 2020 to allow software intangibles that are not fully amortised to be eligible within regulatory capital.

£m	2020	2019
CET1 and total Tier 1 capital	**900.3**	939.6
Tier 2 capital	**210.0**	205.3
Total capital resources	**1,110.3**	1,144.9
Other MREL-qualifying funds	**199.4**	-
MREL-qualifying resources	**1,309.7**	1,144.9

Total capital resources

CET1 resources have decreased by £39.3m since 31 December 2019, principally due to the loss incurred in 2020, partially offset by the regulatory change relating to software intangibles. Uncapped Tier 2 resources have remained broadly stable, with minor volatility as a result of movements in the underlying carrying value of the instrument and accrued interest.

MREL-qualifying resources

The Group's total MREL-qualifying capital has increased by £164.8m following the successful issuance of £200m MREL-qualifying debt in November 2020. The absolute amount of £199.4m is driven by movements in the underlying carrying value and accrued interest of the debt instrument.

£m unless stated	2020	2019
Capital ratios and other capital metrics		
CET1 ratio	**19.2%**	19.6 %
Total Capital Ratio	**23.7%**	23.8 %
Total Capital Requirement (TCR)	**640.7**	698.5
Overall Capital Requirement (OCR)	**757.8**	866.6
Risk weighted assets		
Credit risk	**4,189.9**	4,346.0
Operational risk	**493.8**	457.7
Total risk weighted assets	**4,683.7**	4,803.7

The CET1 ratio and Total Capital Ratio include a benefit of approximately 0.7 % from the change in treatment of software intangibles outlined in the EBA Technical Standards. The Group expects the current regulatory treatment of software intangibles to reverse based on the PRA's anticipated consultation on eligibility as CET1 resources. The reported CET1 ratio of 19.2 % (2019: 19.6 %) remains well above the regulatory minimum. The Group has a Total Capital Requirement (TCR) of 13.68 % of RWAs (or £640.7m) which is required to be met by a minimum of 10.3 % of CET1 capital resources, and a maximum of 3.4 % Tier 2 capital resources. At the end of 2020, the Group had Pillar 1 requirements equivalent to 8.0 % (2019: 8.0 %) of total risk weighted assets (RWAs) and an Individual Capital Requirement (ICR) equivalent to 5.68 % of total RWAs (2019: 6.54 %). The reduction in ICR, and consequently TCR, arises from both regulatory changes in light of COVID-19 to set ICR as a fixed amount of 31 December 2019 RWAs, and also due to feedback on the Group's Individual Capital Adequacy Assessment Process (ICAAP). 2020 MREL requirements are equal to TCR plus £200m. From January 2021 the Group's requirement is aligned to TCR plus £400m.

The Bank of England released a statement in 2020 announcing the delay to end-state MREL requirements for mid-tier banks, which includes the Group, to 1 January 2023. This extension enables us to re-evaluate our MREL issuance schedule to optimise the delivery of our strategic commitments as we strive towards organically generating capital.

The Group currently has an Overall Capital Requirement (OCR) of 2.5 % of RWAs (or £117.1m) above the TCR. This has reduced from the 2019 position of 3.5 % due to the reduction of the Countercyclical Buffer to nil. The Group is targeting compliance with the PRA buffer within the five-year planning period and the surplus to OCR contributes towards meeting this target. The PRA buffer is a Bank-specific requirement which is assessed as part of the ICAAP and reflects the impact of an economic stress not already captured in the CRD IV buffer.

Risk weighted assets (RWAs)

Total RWAs, which include both credit and operational RWAs, have declined throughout the year by £120.0m. Credit risk weighted assets have reduced in all segments and also in relation to legacy and unallocated balances. In retail, credit RWAs have reduced by £91.4m, largely the net impact of increased mortgage balances being more than offset by the impact of the new secured IRB model and lower credit card balances. In SME, RWAs have reduced by £11.8m - asset growth has been largely due to CBILS; however, CBILS attract an 80 % discount to their exposure at default (EAD) and Bounce-Back loans attract a 100 % discount to their EAD due to the government guarantees that underpin these loans, resulting in reduced RWAs. The introduction of regulatory relief through the SME supporting factor has also benefitted risk weighted assets. The £36.1m increase in operational RWAs reflects an increase in the Bank's three-year average gross income.

Leverage ratio

The leverage ratio (i.e. CET1 resources divided by leverage exposures) of 3.4 % (2019: 3.9 %) has reduced, mainly as a result of an increase in gross exposures and reductions in CET1 resources. The Bank is not bound by a minimum leverage ratio currently, since its retail deposits are less than £50bn. The leverage ratio includes a benefit of approximately 0.2 % from the change in treatment of software intangibles described above.

Liquidity

Liquidity remains strong driven by increased customer deposits and the drawdown of TFSME funding. As a result, the Group has seen a 19.7 % increase in its Liquidity Coverage Ratio (LCR) to 193.4 % (2019: 173.7 %).

Segment update: retail

Our retail segment encompasses the services we provide to our personal banking customers and includes retail lending (mortgages, overdrafts and credit cards which together reflect our retail customer assets) and retail deposits (current accounts and savings products, together comprising our retail customer liabilities). Our retail business only provides services to UK-based customers.

Segmental income - retail

£m	Year ended 31 December 2020	2019	Change
Net interest income	**236.8**	248.8	(4.8%)
Other operating income	**17.6**	13.6	29.4%
Operating income	**254.4**	262.4	(3.0%)
Credit impairment losses	**(15.6)**	(1.6)	(>100%)
Income net of impairment	**238.8**	260.8	(8.4%)

Segmental assets and liabilities - retail

£m	At 31 December 2020	2019	Change
Secured	**17,108.1**	16,267.0	5.2%
Unsecured	**252.6**	321.4	(21.4%)
Customer assets - lending	**17,360.7**	16,588.4	4.7%
Customer liabilities - deposits	**17,300.0**	16,745.7	3.3%
Risk weighted assets (credit)	**2,462.1**	2,553.5	(3.6%)

Lending

As explained on page 14, the UK mortgage market has continued to be very competitive during 2020. Mortgage margins have remained narrow given the trend seen over the last few years for customers opting to move away from standard variable rate products in favour of lower fixed rate products. This has driven a reduction in net interest income from £248.8m to £236.8m. However, there has been a widening of margins in the second half of the year which has also been seen across the market. We have priced our new business to mitigate the risk from the low interest rate environment, to factor in credit risk and also to manage demand. Mortgage completion margins have increased from 1.04% in 2019 to 1.53% in 2020.

Our mortgage balances have grown by £841.1m, reflecting pent-up demand from the first national lockdown, along with customers capitalising on the stamp duty moratorium and the Bank's pricing agility to manage demand described above.

We have benefited from our close partnership with Capita to manage the high mortgage volumes by increasing capacity. We still have a strong pipeline of mortgages into 2021.

A significant priority has been to provide support for our customers through these unprecedented times, particularly those who are, or may be, facing financial difficulties.

In 2020, we have approved:

- 17,290 (17,353 including Optimum) mortgage payment deferrals (12% of retail book); and
- 1,937 payment deferrals for credit cards (0.6% of cards book).

The economic future remains uncertain, but our credit impairment provision reflects our best estimate for future losses. This has resulted in a 2020 charge of £15.6m. Our mortgage book remains low-risk and has been resilient despite the challenges that have arisen because of the pandemic. Average loan-to-value (LTV) is 56.1% (2019: 57.2%), which continues to provide the Group with significant protection from potential house price reductions. We are well diversified geographically: of the total portfolio, 36.6% (2019: 39.2%) is secured on properties based in London and the South East which has the lowest LTV of all the regions (53.0% average LTV at the end of 2020).

£m	2020
Secured lending	
Gross lending at the start of the year	16,267
Maturities	(3,201)
Retention	2,001
New mortgage completions	3,443
Other movements[1]	(1,402)
Net residential lending	841
Gross lending at the end of the year	**17,108**

1. Other movements predominantly relates to repayments

Early in 2020, we removed 90% and 95% LTV lending in order to ensure we did not have significant numbers of high LTV products in our pipeline whilst physical valuations were paused during the first lockdown. With valuations now moving to a digital solution for lower LTVs which meet certain criteria, and with physical valuations now possible, we have resumed our 90% LTV lending.

With regard to how our customers are managing through these difficult times, their payment behaviours reflect our low-risk customer base. Of the 19,227 payment deferrals referred to above, 92% of the balances have resumed their repayment profile, 1% of balances are in arrears and 7% of the balances remain live.

Our unsecured balances have decreased by £68.8m to £252.6m (2019: £321.4m). With successive lockdown periods and a very uncertain economic environment we have seen reduced spend activity on credit cards, while our customers also choose to focus on repaying their balances. This has reduced average customer balances to £711 (2019: £851).

Deposits

Total deposits have grown 3.3% since 2019, to £17.3bn, a continuation of the growth the Group achieved in 2019. As we have set out on page 14, the pandemic and associated economic uncertainty have influenced customer behaviour and spending patterns, and this has led to increased current account average balances of £3,792 (2019: £3,299). This trend is more pronounced when comparing the 2020 year end position with that as at 2019. The decrease in term deposits is a result of a continuation of our strategy to move away from high cost, rate sensitive customers to long-term relationship customers.

£m unless otherwise stated	2020	2019	Change
Deposits			
Current accounts	5,327	4,305	23.7%
Savings	9,166	8,845	3.6%
Total franchise	**14,493**	**13,150**	**10.2%**
Term deposits	2,807	3,595	(21.9%)
Total	**17,300**	**16,745**	**3.3%**
Growth in franchise (%)	10.2%	5.7%	
Prime customers (% of total)	47.5%	48.0%	
Acquisitions of new customers (number)	41,901	30,107	
Net switching (number)	(10,702)	(24,142)	

Our resilient franchise performance reflects:

- 7% increase in the monthly average number of ‘new to bank’ customers compared to 2019; and
- 20,307 Online Saver sales in 2020, which was a 105% uplift on 2019, due to delivery of the mobile app.

During the year, we took steps to reduce the savings rates on our variable products and, whilst we do not take these decisions lightly, it has been necessary to take this action in light of the unprecedented reduction in base rates.

Customer service

Because of our continued focus on our customers' experience with us we are delighted with our latest customer satisfaction measures (such as NPS), particularly at a time when our customers need us most. The Bank's NPS now stands at +25 for current accounts and we remain in third place amongst peers. We continuously strive to make it easier and simpler to bank with us and we are proud to have been awarded winner of the 'Best current account provider' at the 2020 Moneyfacts awards. At the 2021 awards we also received the award for the 'Best branch network of the year' for the fourth consecutive year.

The social impact of COVID-19, of national and local lockdowns and social distancing, has accelerated the growth of the digital channel. Our customers now see digital as their primary service channel so it is imperative that we also provide continual development in digital in order to deliver an improving customer experience. During 2020 we:

- saw a 26 % increase in average transactions per month using our mobile app;
- saw annual digital sales increase from 54k last year to 76k now;
- launched new IT releases to increase straight-through processing for our customers; and
- launched a new online overdraft application form which provides customers with a simpler and more efficient journey.

On our fixed rate savings products, we honour the re-investment rates printed in a customer's maturity letter at least up to the maturity date, even if rates decrease. If customers have provided their intention to re-invest and we increase rates before their maturity date, we will automatically move them to the higher rate.

Our focus is to continually make it easier to become a savings and current account holder with the Bank. Along with the support measures highlighted above, key highlights for 2020 include the launch of our Everyday Extra product to new customers and our student account.

Supporting our customers through COVID-19

- **We have sent over 3 million communications to reassure customers in 2020;**
- **We were the first bank to automatically offer the first £500 of approved overdrafts as interest-free;**
- **We have created an 'emergency fund' to support the most vulnerable;**
- **Our branches remained open for 99.9% of normal opening hours throughout 2020;**
- **We have engaged with over 11k of our current account customers who work for the NHS; and**
- **We made contactless cards available for the first time for our Cashminder customers.**

We pride ourselves on our long-lasting relationships with customers who choose to bank with a bank differentiated by its values and ethics. We are therefore trialling a 'recommend a friend' current account scheme so our loyal customer base can be rewarded for introducing like-minded customers who value the ethical alternative we provide in the UK banking market.

We continued to improve our interaction with customers coming to the end of their mortgage term through 2020, with proactive and regular communications with our customers and enhancements to our propositions. We have seen a 3.9 % increase in Platform and a 5.9 % increase in direct mortgage retention compared to 2019.

Our customers support charities through our Everyday Rewards current account product, which gives customers the option to donate their Everyday Rewards of up to £5 per month to our chosen charity partners. More than £1m has been donated since the product was launched in 2016.

We also donate £5 to Centrepoint for every completed mortgage and product switch through our Co-operative Bank and Platform brands.

Adapting to serve our customers

We've adapted to serve our customers flexibly, with virtual appointments and the launch of our fully electric pop-up van, helping communities and supporting customers when and where they need us most. Our pop-up van team can open and service customer accounts and have a focus on attracting and retaining customers, fraud education and awareness and demonstrating our 'people with purpose' brand. They have been helping to establish a presence in towns where we no longer have branches and build on existing community relationships across the North West, regularly getting involved in local charity and community work which we share across social media.

Some of our activities have been limited because of the COVID-19 restrictions but, once lifted, we're looking forward to building on this activity, with plans to:

- attend more town centres and shopping centres;
- support more charities and local communities;
- attend large scale events, including marathons and flower shows;
- provide educational visits to colleges, universities and prisons; and
- visit expos and trade shows.

Segment update: SME

We provide straightforward, value for money products to our SME customers, including transactional banking, overdrafts, credit cards and loans. Our SME banking business has gained significant momentum in 2020, as we continue our investment in the SME franchise supported by the Capability and Innovation Fund, whilst also supporting customers through the COVID-19 pandemic. Our SME business only provides services to UK-based customers.

Segmental income - SME

£m	Year ended 31 December 2020	2019	Change
Net interest income	**41.2**	38.9	5.9 %
Other operating income	**15.6**	16.6	(6.0 %)
Operating income	**56.8**	55.5	2.3 %
Credit impairment (losses)/gains	**(3.2)**	3.3	(>100 %)
Income net of impairment	**53.6**	58.8	(8.8 %)

Segmental assets and liabilities - SME

£m	At 31 December 2020	2019	Change
Customer assets - lending	**447.8**	184.4	>100 %
Customer liabilities - deposits	**2,964.4**	2,118.7	39.9 %
Risk weighted assets (credit)	**175.0**	186.8	(6.3 %)

The SME business remains a core focus for growth for the Group as it represents a cost-effective source of funding. We have achieved significant growth in our lending as we support customers during the pandemic with CBILS and Bounce-Back loans. Our balances grew by 143 % (£263.4m growth from £184.4m to £447.8m). Similarly our liabilities balances grew by 40 % in 2020 (£845.7m growth from £2,118.7m to £2,964.4m) as businesses build a safety net to help with the impact. New current account volumes have grown during 2020 primarily due to the Incentivised Switching Scheme and demand from businesses looking to access financial support through the CBILS and Bounce-Back loans. We have outperformed our targets from the Incentivised Switching Scheme as we attracted 12 % of switching against a target of 6 %.

Throughout 2020 we have opened 12,116 new current accounts and 4,981 new savings accounts, which represent increases of 62 % and 100 % respectively compared with 2019.

Risk weighted assets have decreased despite the growth in lending as banks have received regulatory relief (SME supporting factor) to reduce risk weights by asset type, plus CBILS attract an 80 % discount to their EAD and Bounce-Back loans attract a 100 % discount to their EAD, resulting in reduced RWAs.

£m unless otherwise stated	2020	2019
SME deposits		
Current accounts	2,465	1,757
Savings	499	362
Total franchise	**2,964**	**2,119**
New current accounts opened (number)	12,116	7,473
New savings accounts opened (number)	4,981	2,493

SME remains a core area of transformation

We have continued to make good progress with the transformation of our SME business by utilising the £15m grant awarded by the BCR in 2019, supported by the Bank's own investment. We have put in place the core infrastructure which provides the foundations for us to launch changes to our proposition and make significant improvements to our onboarding process and product offering. We have already launched Bounce-Back loans, CBILS, a 35 day notice savings account and our new credit card proposition. Our mobile app and same day onboarding are expected soon, ahead of a number of further new developments in 2021.

Our SME proposition continues to gain momentum as we remain on track to re-establish our brand as the leading ethical digital bank in the SME market. Whilst we have reviewed our strategic portfolio in light of the current economic environment, we remain committed to our plans to invest in the small business banking proposition and to improving online banking and service levels for our customers.

Our SME business operations remain resilient

In the face of unprecedented customer demand and operational challenges because of COVID-19, our account opening NPS in the fourth quarter of 2020 was –6, a slight improvement from –7 in the fourth quarter of 2019. This is a strong performance in the context of unprecedented new application volumes. Despite the challenging environment of high CBILS and Bounce-Back loans volumes, we continued to accept new business throughout 2020 while other banks temporarily chose not to.

All new customers continue to go through our ethical screening process which ensures that none of our SME customers are involved in industries or practices which conflict with our Ethical Policy. We support our community customers, including co-operatives, with free everyday banking and we continue to provide community funding for special projects and fundraising through our Customer Donation Fund, through which the Bank has donated £937,000 to 1,072 community organisations since 2003.

We were proud to be announced as the 'Best charity banking provider' at the 2020 Business Moneyfacts awards. We have also continued to support co-operative businesses through The Hive, renewing our support as discussed on page 26.

Supporting our customers through COVID-19

Our strength in SME business banking has shown significant resilience during COVID-19, moving at pace to launch both CBILS and Bounce-Back loans whilst maintaining strong customer satisfaction scores. We have provided over £280m of business support loans to over 9,800 customers.

	CBILS	Bounce-Back loans
Loans approved	£69.5m	£269.7m
Customer agreements (number)	156	9,659
Value drawn down	£33.5m	£253.1m
Average value per application	£446k	£28k

What are CBILS and Bounce-Back loans?

CBILS and Bounce-Back loans are new government schemes designed to provide financial support to smaller businesses affected by COVID-19.

The Coronavirus Business Interruption Scheme (CBILS)

- Available for lending of £50,001 to £5m
- Variable rate loans or overdrafts available
- No fees or interest to pay for 12 months
- The government guarantees 80% of the lending

More information is available on our website:

www.co-operativebank.co.uk/business/coronavirus

Bounce-Back loans scheme

- Available for lending of £2,000 to £50,000
- A 2.5% fixed rate loan for six years, with the option to extend to ten years
- No early repayment penalties
- No repayment due in the first 12 months
- The government guarantees 100% of the lending
- 'Pay as you grow' options to help SMEs manage their recovery

Segment update: treasury

Our treasury segment reflects the activity to manage the Bank's liquidity position, market risk and wholesale funding with £5.9bn of non-customer assets and £3.5bn of non-customer liabilities at 31 December 2020. We aim to maintain liquidity and market risk within appetite and manage wholesale funding activity.

Segmental income - treasury

£m	Year ended 31 December 2020	2019	Change
Net interest (expense)/income	**(7.1)**	22.9	(>100 %)
Other operating income	**7.3**	15.4	(52.6 %)
Operating income	**0.2**	38.3	(99.5 %)

Segmental assets and liabilities - treasury

£m	At 31 December 2020	2019	Change
Assets	**5,900.9**	4,524.2	30.4 %
Liabilities	**3,536.8**	2,501.0	41.4 %
Risk weighted assets	**200.7**	220.0	(8.8 %)

Net interest income on treasury assets and liabilities decreased by £30.0m to report an overall expense of £7.1m. Treasury continues to be impacted by lower yields across asset holdings as a result of a reduction in the BoE base rate and a changing asset mix (£20.1m), higher interest charges arising from the Tier 2 debt issuance in April 2019 (£4.9m), secured funding issuance in December 2019 (£2.8m) and MREL-qualifying debt issuance in November 2020 (£1.8m). A further £6.0m reduction relates to internal recognition of higher reward for greater deposit balances (net impact to Group results of £nil). These reductions to net interest income are partially offset by funding cost reductions on repurchased covered bonds (£3.7m) and Term Funding Scheme (£5.5m) due to management action to refinance at lower market rates.

Other operating income largely reflects balances which may be volatile or non-recurring and has reduced by £8.1m in the year. The driver is mainly a £12.2m reduction in gains on sales of gilts and mortgage-backed securities compared to 2019.

As described on page 32, treasury assets have increased since December 2019, mainly due to higher levels of cash as customer current account and deposit balances increased due to lower spending, together with £1.75bn of drawings from the Bank of England Term Funding Scheme with additional incentives for SMEs (TFSME) to support continued positive net lending to customers. Liabilities have also increased predominantly due to the drawings from the TFSME scheme and the successful issuance of £200m of MREL-qualifying debt in November 2020, which has enhanced our capital base, providing further security and capital resilience as we continue to navigate the COVID-19 pandemic.

As previously referenced, as a support package from the Bank of England (BoE) in response to COVID-19 the BoE has issued new wholesale funding support measures including TFSME - which we explain further on page 40. It is estimated that the Bank's maximum drawing allowance will be approximately £4.4bn. This is based on planned asset growth during 2021. We have used TFSME funding to refinance other more expensive forms of funding such as part of the covered bond in issue, reducing our liability by £117m, and the full early repayment of the Term Funding Scheme balance (£960m).

Treasury highlights in 2020 include:

Information on liquidity can be found on page 33

- Maintained liquidity and market risk positions within risk appetite;
- Raised £200m of MREL-qualifying debt;
- Completed further deleverage activity on legacy assets, including the sale of £133.9m of Optimum mortgages, with the remaining Optimum balance now £25m;
- Execution of a partial refinancing exercise on a more expensive form of wholesale funding (the Group's covered bond - £117m); and
- Treasury's gross exposure to LIBOR-linked instruments reduced by £9.4bn (45 % reduction across the year) as the Group progresses its LIBOR-SONIA transition - further information is available on page 40.
- As the Group looks forward, it plans to issue further MREL and public securitisations to supplement its retail funding, and maintain a low and stable wholesale funding ratio over time.

Spotlight on wholesale funding

Whilst the Bank is majority funded by retail deposits, it diversifies its funding sources through accessing capital markets (wholesale funding). Wholesale funding represents 13.5% of the funding base at 31 December 2020 and comprises a mix of secured (securitisations, a covered bond, Bank of England Term Funding Scheme with additional incentives for SMEs) and MREL-qualifying debt transactions (including Tier 2 debt). During the year the Bank has drawn down £1.75bn of TFSME funding and repaid £1.3bn of other wholesale funding. These drawdowns enable the Bank's net lending to customers to continue to be positive in 2020.

What is meant by…?

MREL-qualifying debt

Resolution authorities, including the Bank of England in the UK, impose minimum requirement for own funds and eligible liabilities (MREL) requirements on supervised banks. MREL-qualifying debt consists of own funds and certain debt in issue from a bank group's wholesale liabilities. Therefore, if a bank fails and goes into resolution, the MREL acts as a buffer to absorb losses and to provide new capital to the failing bank.

Bail-in

MREL debt specifically acts as a cushion of debt that can be 'bailed-in' to protect the broader depositor base. A bail-in is the opposite of a bail-out, which involves the rescue of a financial institution by external parties, typically governments, using taxpayers' money for funding. In a bail-in, it is the MREL debt that provides relief to a financial institution rather than external parties.

Both are resolution schemes used in distressed situations, but bail-in schemes are being broadly considered across the globe to help reduce the use of taxpayers' funds in supporting distressed entities.

TFSME

The Term Funding Scheme with additional incentives for SMEs (TFSME) provides four-year funding with a base borrowing allowance of at least 10 % of participants' stock of customer lending as at 31 December 2019 at interest rates at, or very close to, bank base rate. Additional funding is then available for banks that increase lending over a defined period, especially to small and medium-sized enterprises (SMEs). Banks can draw down TFSME funding until 31 October 2021 under the current terms.

The intention of the scheme is to support passing back the reduction of base rate from 0.75 % to 0.10 % onto customers and to provide a low-cost source of funding to banks to support additional lending to the real economy. It provides additional incentives for banks to support lending to SMEs that typically bear the brunt of contractions in the supply of credit during periods of heightened risk aversion and economic downturn.

Tier 2

Tier 2 capital is the secondary layer of a bank's capital within its overall capital resources. It has lower loss-absorbing capacity than Tier 1 because it ranks above equity in the creditor hierarchy. For the Bank, Tier 2 takes the form of subordinated debt with a minimum of five years to call. Subordinated means it ranks below customer deposits and secured funding and senior liabilities in the creditor hierarchy and therefore carries a higher coupon cost.

Optimum

The Bank's closed pre-2009 'Optimum' portfolio is a mix of buy-to-let, self-certified, adverse credit, and higher LTV 'prime' borrowers. This has been significantly deleveraged to reduce the Bank's risk exposures (potential future loss) and to improve resilience. This is held within legacy and unallocated.

Securitisations

Where the Bank receives funding (Mortgage Backed Securities - 'MBS') that is backed (secured) by a pool of mortgage collateral, typically for three to five years. MBS recourse is to the cash flows from the underlying mortgages and not the Bank. The mortgages and the debt issued are 'ring-fenced' in a Special Purpose Vehicle (SPV), which is a separate legal entity. The collateral and structuring reduce risk for the creditor, and so the cost of this type of funding compared to wholesale funding that is not secured is lower. The cost of securitisations ranks comparably with long duration retail term deposits, offering access to a different funding market.

Secured sources of funding

This includes securitisations as above, but also other forms such as repos and covered bonds. The principle is the same in that the funding is backed by a pool of assets to support the debt should a default event occur, and to lower risk for the creditor. The type of asset used as the security can vary, together with the term of the funding and the terms and conditions on which the investor may call upon the security. In the case of covered bonds, the investor is also protected for losses by the Bank and so benefits from dual recourse, hence a safer investment and a lower cost of funds to the Bank.

LIBOR to SONIA transition

The regulator requires banks to remove their exposure to LIBOR by December 2021, replacing the rate referenced on treasury and customer exposures with an alternative interest rate benchmark. This alternative is typically SONIA (Sterling Overnight Index Average) in wholesale markets, although it could potentially be base rate for some customer lending. The regulator is phasing out LIBOR and replacing it with SONIA as SONIA is based on actual overnight interest rates in active and liquid wholesale cash and derivative markets. This makes SONIA more robust and less volatile than LIBOR. It is also managed by the Bank of England, so it is not subject to risks of limited contributors or manipulation.

Board focus in 2020

In addition to overseeing the delivery of the five-year strategic plan, approved by the Board in late 2018, and delivering the financial strategy, the Board has focussed on the following items in 2020:

- Discussed regular updates from the Chief Executive Officer on business progress and the challenges faced by management, overseeing the implementation of enhanced monitoring of the COVID-19 environment.
- Additional meetings were held to assess the development, and to approve, the Group's reforecast of the financial plan in light of COVID-19, and the actions to address the key risks arising. The Board debated at length various economic scenarios which might arise out of the pandemic, so as to understand the capital requirements over the life of the strategic plan, and the impact on strategic priorities.
- The Board spent considerable time ensuring that plans produced by management to support customers during COVID-19 were appropriate, including:
    - Ensuring a safe banking and working environment for customers and colleagues, including supporting the health and wellbeing of our colleagues, offering more flexible working arrangements;
    - Implementing mortgage and credit card and loan payment deferrals for customers;
    - Supporting SME customers via the introduction of CBILS and Bounce-Back loans; and
    - Overseeing the management of the risks associated with initiatives introduced in response to COVID-19 and ensuring that the risk management framework (RMF) was able to adapt to these.
- The regulatory agenda, including the annual review and approval of the RMF and the Group's risk appetite.
- Reinforcing the Bank's capital position through the successful issuance of £200m of MREL-qualifying debt in the fourth quarter of 2020, reflecting growing market confidence.
- Overseeing franchise growth across both retail and SME aligned to our customer first principles, enhancing the Bank's offering to its SME customers via the introduction of improved digital banking facilities.
- Ensuring surplus liquidity was deployed, including the covered bond repurchase exercise in September 2020 to buy back and cancel a portion of the outstanding bonds.
- The continued de-risking and deleveraging of the Bank's balance sheet, including the reduction in ICR and the Optimum sale in December 2020.
- A significant amount of time and attention has been invested by the Board on oversight of operational resilience levels, including approval of the cyber security strategy and the management of technology risk, as the Board debated and considered changes to the investment portfolio to simplify the Bank, driving continued cost reduction with a leaner technology estate.
- Reviewed and approved the 2019 Annual Report and Accounts, the quarterly trading updates and half-year Interim Financial Report and associated financial information, receiving updates from the Chair of the Joint Audit Committee. It also approved the Bank's tax strategy and continuing adoption of the HMRC Code of Practice on Taxation for Banking.
- Oversight of progress on diversity targets and other leadership and colleague matters, including approval of the Diversity Policy, Code of Conduct, Modern Day Slavery Statement and other policies. The Board reviews the results of the employee engagement survey and those action plans developed as a result, as well as the independent Banking Standards Board survey.
- Reviewed and discussed people matters, including approving the remuneration policy, and earlier payment of variable pay to colleagues to provide additional financial security in the early days of the pandemic, and the decision to delay payment of the variable pay to Executives and senior leaders until later in the year. The Board also oversaw changes to the Executive team, including the changes in Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Director of Internal Audit and the Company Secretary, taking advantage of well-developed internal succession plans. The Board also oversaw the appointment of two new Non-Executive Directors in January 2021.

In addition, the Board has overseen the continued commitment to co-operative values including those matters specifically referred to on pages 42 to 43 with regard to Section 172 obligations.

Statement by the Directors - s172

Statement by the Directors in performance of their statutory duties in accordance with s172 (1) Companies Act 2006

The successful delivery of the five-year plan to generate sustainable competitive advantage relies on key inputs and positive relationships with a wide variety of stakeholders, as described in our business model on page 18.

Engaging with these stakeholders to deliver long-term success is therefore an area of focus for the Board on an ongoing basis, the key elements of which are set out on the previous page.

To ensure that the Board's decision-making reflects a wide perspective, the views of other stakeholders are gathered by management and where relevant, reflected within the Board papers and those of the relevant Committees. In all papers and in the discussions based on those papers, it is a specific requirement to consider the impact on our strategy and on our customers, as well as set out how management has considered our values and ethics in relation to the topic being discussed. Whilst not all outcomes will benefit all stakeholders, the Board's priority is to ensure that Directors have acted both individually and collectively in the way they consider, in good faith, would be most likely to promote the success of the Group for the benefit of its members as a whole with regard to all its stakeholders and to the matters set out in paragraphs a-f of section 172 of the Companies Act 2006 (s172). These details are set out below:

a) The likely consequences of any decision in the long term;

and

e) The desirability of the company maintaining a reputation for high standards of business conduct;

The Board's strategy remains aligned to the 2019-2023 strategic plan, approved by the Board in late 2018. The Bank has successfully 'fixed the basics' and the focus in 2020-2021 is to 'enable the future' by targeting growth opportunities and simplifying the Bank - driving continued cost reduction with a leaner technology estate. 2021 will provide a firm foundation for the final stage of the five-year plan, where the Bank will seek to 'establish a sustainable advantage' from 2022.

As part of the review process, the Directors consider the long-term consequences of the plan. In doing so, the Board oversees the strategic priorities over the short term and long term, including the level of funding required to deliver the strategic priorities and the availability of capital to meet requirements over the period. The Board also considers how the Bank's values and ethics have been incorporated in the strategic plan and its alignment with the Bank's Ethical Policy (as seen on the Bank's website), compliance with the requirements of Co-operatives UK and maintenance of its reputation for high standards of business conduct. Further information on the Bank's Ethical Policy and how this informs strategic activity can be found on pages 70 to 73.

All discussions held by the Board and its Committees within their scheduled meetings are supported by documented papers.

The Board requires that the impact or potential impact on the strategy is considered within those papers and this is embedded within the required templates. This ensures that the long-term impact of the decision that may be made in these meetings is discussed and considered, and that the consequences for long-term business resilience is understood. These mandatory points for consideration are also reflected in the requirements for papers produced for the Executive Committees.

b) The interests of the company's employees;

The Directors understand that the Bank's employees are fundamental to the long-term success of the Bank, and the Bank aims to be a responsible employer in its approach to pay and benefits. The health, safety and well-being of the Bank's employees is a primary consideration for the way in which the Bank conducts its business and promoting an ethical workplace is one of the five pillars within our Ethical Policy. Further information on the Bank's engagement with its employees and how it promotes an ethical workplace can be found in the Directors' Report, on pages 75 to 76 and in the strategic report on pages 25 to 29. During the year, the Directors spent time reviewing the arrangements put in place by management to ensure safe working conditions for employees during the COVID-19 pandemic, including home working. The Directors also carefully considered restructuring, which resulted in some redundancies and the closure of some branches, and engaged with the Unions and employees as appropriate. As set out within the Joint Audit Committee report on page 61, there is a process through which employees can formally raise a concern at work on a confidential basis. There is an annual review by the Joint Audit Committee which considers, amongst other things, whether the policy remains appropriate and effective.

c) The need to foster the company's business relationships with suppliers, customers and others;

The Directors consider how the Bank maintains positive relationships with all of its stakeholders, including suppliers, customers and others. A key part of promoting the long-term success of the organisation is the way in which our values and ethics are intrinsically linked to our brand, and why our customers choose to join us. More information on customer engagement can be found on page 26. Due to COVID-19 the Group deferred the refresh of its Ethical Policy, which will now be conducted in 2021 by consulting with customers on those areas about which they wish us to represent their views and causes they wish us to champion.

The Directors recognise the impact of the supply chain on the long-term success of the Group and the way in which our suppliers impact our customer and colleague experience. During the year, the Group continued its review of all its supplier contracts. Extensive financial and operational diligence was performed to consider a range of alternative options when reaching these decisions. This included consideration of how the suppliers' objectives align with those of the Group and of our customers. Our customer-led Ethical Policy also guides with whom we choose to do business. More information on our approach to supplier selection and management more widely can be found in the Directors' Report on page 77.

The principal risks and uncertainties described in the risk management report set out a number of risks which could impact the long-term success of the Group along with how other stakeholders impact those risks, or are impacted by those risks. In many cases, good communication with, and understanding of, these stakeholders aligns closely with a strong risk management framework and a positive risk culture. As a result, the Board actively seeks information to assist the Directors in reaching conclusions about the risks faced by the Group and how these are reflected within the strategy.

d) The impact of the company's operations on the community and the environment;

Throughout the strategic report, we have outlined how the Bank and its staff consider the way in which we impact the environment and the society around us. The Board mandates that when matters are discussed, the papers supporting these discussions specifically consider the alignment to our values and ethics. The Board's role in promoting and embedding the continuous commitment to these co-operative values is set out in more detail within the Values and Ethics Committee report on pages 70 to 73. Our purpose is to pioneer banking that makes a positive difference to the lives of our customers and communities and the five-year strategic plan places significant emphasis on how we intend to serve that purpose and the Board-approved priorities that will be funded to make a positive difference, and how performance against these expectations will be monitored via the Bank's scorecard metrics. During the year, targets have been set, both qualitatively and quantitatively, in relation to the impact on the environment and social matters.

f) The need to act fairly as between members of the company.

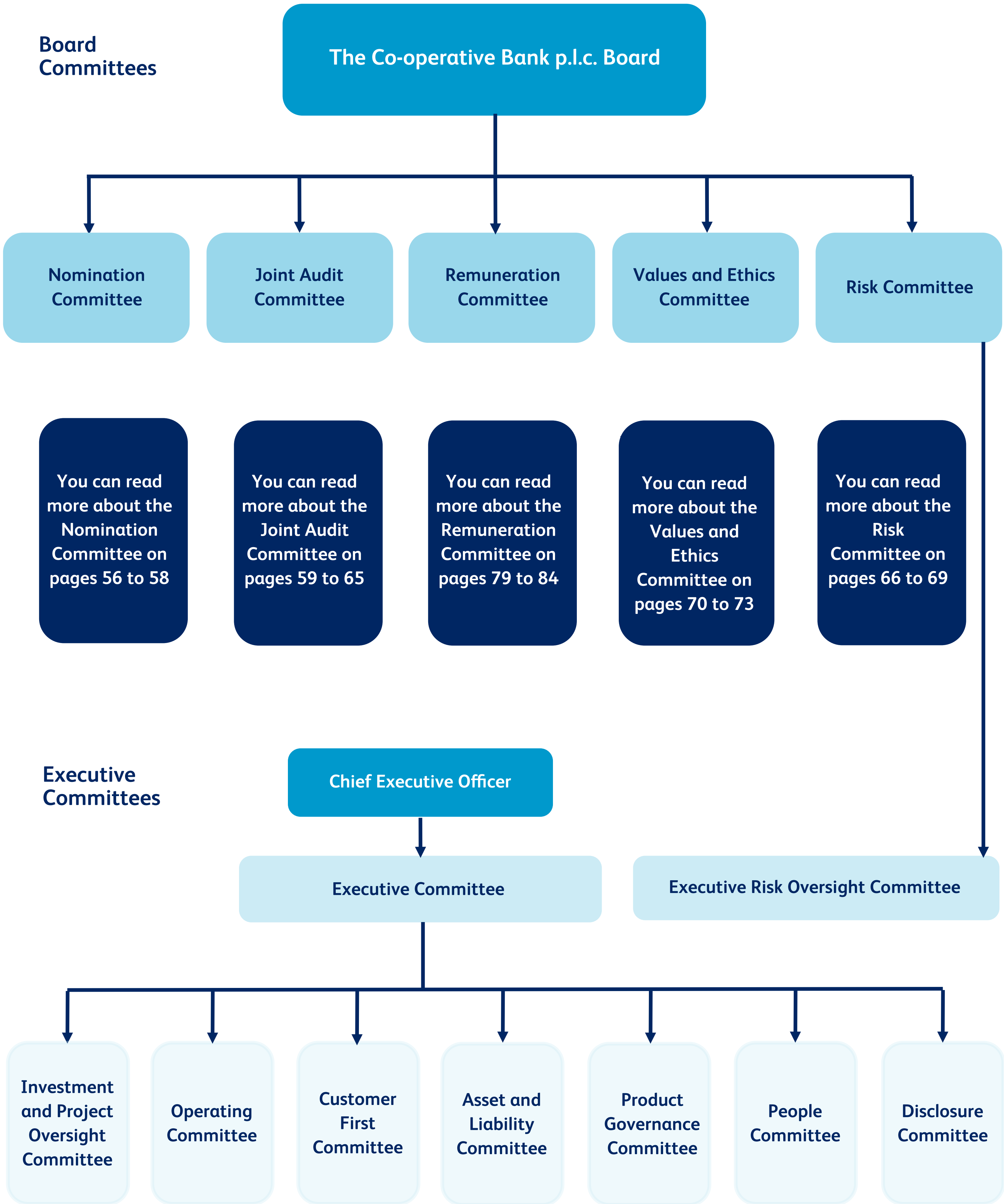
The Bank Company and Finance Company are owned by a single shareholder. The Group structure is set out on page 1 of this report. Their Boards ensure that matters are referred to their respective shareholders in line with each company's Articles of Association and relevant statutory requirements. The Holding Company itself has a number of A shareholders and the Group's Disclosure Committee reviews all information shared with the shareholders. The Disclosure Committee reviews all information to see whether it is inside information that needs to be publicly disclosed to comply with the European Market Abuse Regulation 596/2014 (as applied into UK law and amended) in the context of the Bank's covered bond and the Finance Company's listed £200m fixed rate callable subordinated Tier 2 notes due in 2029 and £200m fixed rate reset callable notes due in 2025. Further information on relations with shareholders can be found in the ownership section of the corporate governance report on page 50 and on the investor relations page of the Bank's website.

Corporate governance

Nick
North West Tow Bars Ltd
Co-operative Bank business customer

Corporate governance framework

The structure of the Board and its Committees is set out below, along with the Executive Committees.



Board of Directors

At the date of the approval of the Annual Report and Accounts, the Board of Directors was comprised as follows:

Key

	Committee Chair	VE	Member of Values and Ethics Committee
A	Member of the Joint Audit Committee	N	Member of Nomination Committee
R	Member of Risk Committee	RE	Member of Remuneration Committee

Bob Dench

Chair of the Board

Independent: On appointment

N VE

Bob joined the Bank Board on 1 February 2018 and was appointed as Chair on 14 March 2018. Bob has enjoyed a long career in banking, and was Chair of Paragon Banking Group plc from 2007 until May 2018, having joined its Board in 2004. He chaired Paragon through the financial crisis and oversaw a reconfiguring of the business model as Paragon obtained its banking licence. Previously, he served on the boards of AXA UK and Ireland from 2004, as Senior Independent Director of AXA UK until December 2016 and Chair of AXA Ireland from 2007 to 2017. He was also Chair of AXA PPP Healthcare Limited from 2013 to 2017. Prior to that, he spent 28 years at Barclays, in a number of senior executive roles across the group in the UK, US and Australia.

Derek joined the Bank Board in July 2014 and was appointed Chair of the Risk Committee on 26 January 2016. He was appointed as Senior Independent Director on 5 April 2018. He has over 25 years of financial services experience, holding a range of senior positions in corporate and commercial banking. During this time he held posts, both in the UK and internationally, at Barclays Bank plc and Royal Bank of Scotland plc, including being the Managing Director responsible for Commercial Banking in the UK for Royal Bank of Scotland plc. Derek is currently a Non-Executive Director of Motherwell Football Club Community Trust and a Director of Kerrach Limited. Derek is also a Director of Halo Urban Regeneration Company Limited.

Derek Weir

Senior Independent Director

Independent: Yes

R A N RE

Glyn Smith

Non-Executive Director

Independent: Yes

A R VE RE

Glyn joined the Bank Board in October 2016 as Chair of the Audit Committee. He has over 40 years of experience in the financial services sector, most notably in a number of senior executive roles in Barclays Bank and as Group Finance Director of the Portman Building Society. Since 2003, he has held numerous Non-Executive Directorships and chaired the Audit Committees of organisations across both the public and private sectors. These have included Coventry Building Society, Domestic & General Group and Stroud & Swindon Building Society in the financial services sector. Glyn is a Chartered Accountant and is currently also Senior Independent Director and Chair of the Audit and Risk Committees of Reclaim Fund Ltd and Chair of West Bromwich Building Society Pension Trustees.

Sue joined the Bank Board in May 2019. She has held senior executive positions in the financial services and retail sectors, most recently at Lloyds Banking Group (LBG) as Group Audit Director and the Group's Financial Control Director. Prior to that, she was the Finance Director of LBG's Retail Bank and Finance Director of Cheltenham & Gloucester. She was Managing Director Finance at Standard Life and formerly Head of Corporate Development and Group Treasurer of Marks & Spencer. She is a former Non-Executive Director of Bank of Ireland UK, Abcam plc (an AIM listed biotech company), St. James's Place, Chair of the Finance and Audit Committees at Mencap (the leading charity for people with a learning disability) and Chair of Trustees of KCP Youth. Sue was chair of the Audit and Assurance Council and a member of the Codes and Standards Committee at the Financial Reporting Council.

Sue was recently appointed to the board of Clarkson plc as a Non-Executive Director, where she became the Chair of the Audit and Risk Committee on 1 November 2020. She is a Non-Executive Director of Schroders & Co. Limited and Chair of the Audit and Risk Committee of Schroder's Wealth Management Division. She is also a Non-Executive Director of Barclays Pension Funds Trustees Limited, FNZ (UK) Ltd and Wates Group Limited.

Sue Harris

Non-Executive Director

Independent: Yes

VE R A

Sir Bill Thomas

Non-Executive Director

Independent: Yes

RE R N VE

Sir Bill joined the Bank Board in October 2013. He is a former Senior Vice President of Hewlett-Packard and served as a corporate officer on the Executive Committee of EDS plc as Executive Vice President. He has IT expertise and is an experienced leader and general manager with a track record in leading major change in large organisations. He has extensive commercial and operational experience, working domestically and internationally with both public and private sector organisations. He served as a member of the Council and President of the Alumni Association at Cranfield University and chaired the School of Management advisory board. He serves as the Chair of the Royal Navy and Royal Marines Charity, as the Chair of Spirent Communications plc and as the Chair of Clarkson plc. Additionally, he is an advisor to FireEye Inc and Non-Executive Director and Chair of Chiron Topco Limited, (registered in Jersey), for which Node 4 Limited (private equity IT services) is the main trading company in the group. He is also a partner in Hopton Estates.

Sally-Ann Hibberd

Non-Executive Director

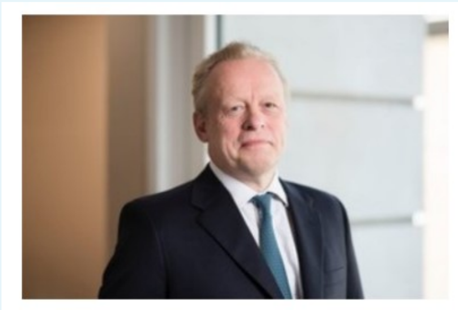
Independent: Yes

R A RE

Sally-Ann joined the Bank Board in August 2019. She has a broad background in financial services and technology. She previously served as Chief Operating Officer of the International division and, latterly, as Group Operations and Technology Director of Willis Group, and held a number of senior executive roles at Lloyds TSB.

Sally-Ann is currently a Non-Executive Director and Chair of the Risk Committee at Equiniti Group plc; a Non-Executive director and Chair of the Environmental, Social and Governance Committee at IG Group plc; and a non-executive member of the governing body of Loughborough University. She previously served as a Non-Executive Director of NFU Mutual and Shawbrook Group Plc.

Richard joined the Bank Board in January 2021. He has significant Board level strategic and financial experience including mergers and acquisitions, equity and debt capital structuring. He has worked in investment banking for nearly three decades focussing on providing strategic advice to companies in the financial services sector. He has held a number of senior roles at Deutsche Bank and Merrill Lynch in their respective Financial Institutions Groups. He is currently Chairman, Financial Institutions Group at Gleacher Shacklock LLP.



Richard Slimmon

Non-Executive Director

Independent: No

RE

Sebastian Grigg

Non-Executive Director

Independent: No

R N

Sebastian joined the Bank Board in January 2021. He was an investment banker with Goldman Sachs and then Head of UK Investment Banking at Credit Suisse. He led the Credit Suisse team that advised Her Majesty’s Treasury on the recapitalisations of The Royal Bank of Scotland and Lloyds Banking Group in 2008 and the subsequent Bank Asset Protection Scheme.

He is a Director of South Molton Street Capital Limited in London and Cordenka GmbH in Germany, a manufacturer of biodegradable rayon fibre.

Nick was appointed to the Board in December 2019, having joined the Bank in October 2018 as Chief Financial Officer. Nick assumed the role of Chief Executive Officer from 31 October 2020. He has worked in the financial services sector in the UK and overseas for more than 30 years and has extensive operational and financial experience in strategic and financial planning and control. Throughout his career he has worked at a number of investment banks including Lehman Bros, Dresdner Bank, Deutsche Bank and Merrill Lynch. Most recently he spent five years as Chief Financial Officer of the Commercial Division at Lloyds Banking Group. Nick is a Fellow of The Chartered Institute of Management Accountants.

Nick Slape

Chief Executive Officer

Chris joined the Bank on 3 June 2019 and was appointed to the Board on 23 July 2019. He has over 30 years of banking experience and is the Chief Operating Officer at The Co-operative Bank. Immediately prior to this, Chris was Vice President at IBM responsible for the Banking consulting practice. Previously Chris held a series of high profile banking COO roles at Ulster Bank, RBS and Williams & Glyn. He has a proven track record in start-ups/challenger banks, business turnarounds, cost reduction, strategy, managing operations, transformation programmes, account/relationship management, payments and technology. He is a Certified Bank Director and previously served as a Non-Executive Director at Chetwood Financial Limited and as Chair of Ulster Bank Commercial Services Limited.

Chris Davis

Chief Operating Officer

Louise joined the Bank in November 2018 as Chief Accounting Officer, responsible for all aspects of financial control and reporting, and was promoted to Chief Financial Officer from 31 October 2020. Prior to joining the Bank, Louise was deputy CFO at one of the UK's largest pension funds - Universities Superannuation scheme, and its investment management subsidiary, having previously spent 13 years at Deloitte LLP as an external auditor. Louise is a fellow of The Institute of Chartered Accountants in England and Wales. Subject to regulatory approval, Louise will join the Board on 1 March 2021.

Louise Britnell

Chief Financial Officer

Corporate governance report

Ownership

The Co-operative Bank p.l.c. (Bank Company) is a public limited company with debt securities listed on the London Stock Exchange. Its equity is not listed. It has listed covered bonds with a maturity date of 2021. On 11 February 2019, The Co-operative Bank Finance Limited (Finance Company), became the immediate parent of the Bank Company, re-registering as a public company on 18 March 2019 under the name of The Co-operative Bank Finance p.l.c. See note 33 to the consolidated financial statements for further details.

The Finance Company is a public limited company with Fixed Rate Reset Callable Subordinated Tier 2 Notes with a contractual maturity date of 2029 and Fixed Rate Reset Callable MREL-qualifying notes with a contractual maturity date of 2025 that are listed on the London Stock Exchange. Its equity is not listed. As at 31 December 2020, the Finance Company's sole shareholder is The Co-operative Bank Holdings Limited (Holding Company), which is a private company limited by share capital. The Holding Company is the ultimate parent company of the Bank Company.

The Holding Company's share capital is divided into Class A ordinary shares of £0.0001 each and Class B redeemable preference shares of £0.01 each. The A shares are entitled to dividends to be paid out of the profits of the Holding Company, but the B shares do not carry any right to participate in the profits of the Holding Company, except as provided for on a Bank Company exit (any transaction or arrangement which results in the Holding Company ceasing to be the Bank Company's direct or indirect holding company or ceasing to hold directly or indirectly substantially all of the assets of the Bank Company) or IPO exit (admission of the A shares of the Holding Company to a securities exchange, as defined in the Articles of Association of the Holding Company (Holding Company Articles)).

On a return of capital on liquidation, dissolution or winding up, the surplus assets of the Holding Company are applied, first, in respect of each B share, an amount equal to the nominal value (and if such proceeds are insufficient, allocated between them pro rata to the aggregate amount due to each), and second, the balance remaining (if any) shall be distributed to the A shareholders pro rata by reference to the number of A shares held by them respectively.

No A shareholder is entitled to receive notice of, nor attend to vote at a general meeting of the Holding Company, save where a resolution is to be proposed at such meeting: abrogating or varying any of the rights or privileges attached to the A shares; for the winding up or dissolution of the Holding Company; in respect of the purchase or redemption (save for the redemption of B shares) of any share capital of the Holding Company; or in respect of a Bank Company exit, or IPO exit. Each and every B shareholder is entitled to receive notice of, attend and vote at a general meeting of the Holding Company, with one vote in respect of each B share registered in the name of the holder.

Member Matters (as defined in the Bank Company's Articles of Association) may only be taken by the Board of the Bank Company, with the approval of the Finance Company by ordinary resolution. The Board of the Finance Company may only take Member Matters (as defined in the Finance Company's Articles of Association) with the approval of the Holding Company by ordinary resolution.

B shareholder Matters (as defined in the Holding Company Articles) may only be undertaken by the Board of the Holding Company, or approved for implementation at Bank Company level, with the prior written approval of the holders of more than 50 % of the B shares in issue.

The B shareholders are entitled to appoint up to two Directors to the Board of the Holding Company, and the Holding Company is entitled to appoint up to two Directors to the Board of the Finance Company, and the Finance Company is entitled to appoint up to two Directors to the Board of the Bank Company, who are designated as B Directors of the Holding Company, the Finance Company and the Bank Company.

Paul Copley stepped down as a B Director on 31 December 2019 but remained as an advisor until 31 March 2020. Morteza Mahjour was appointed as a B Director on 12 December 2019, the only B Director throughout 2020, and stepped down on 31 December 2020. On 11 January 2021, Richard Slimmon and Sebastian Grigg were appointed as B Directors.

On 1 September 2017, the Holding Company and the B shareholders (as set out in Schedule 1 to the B Shareholders Agreement, and any person who executes a Deed of Adherence in the form set out in Schedule 2 to the B Shareholders Agreement) entered into a B Shareholders Agreement for the purpose of setting out the Exit Premium principles in accordance with the Holding Company Articles. Subject to other provisions of Holding Company Article 12, if at any time an A shareholder (together with its affiliates):

- is the registered holder of equal to, or greater than, 10 % of the A shares then in issue (the B Threshold);
- has been and is approved by the PRA as a Controller of the Holding Company; and
- executes a deed of adherence to the B Shareholders Agreement, together the 'Qualifying Conditions',

such A shareholder shall be deemed a 'Qualifying Shareholder' and the Holding Company shall have the power to allot and issue to them, one B share for every 1 % held of the A shares then in issue (rounded down to the nearest whole percentage point).

As at 24 February 2021, the B shareholders of the Holding Company (and their percentage B shareholding) were:

Anchorage Illiquid Opportunities Offshore Master V.L.P	24.10 %
SP Coop Investments, Ltd	22.89 %
Goldentree Asset Management Lux S.A.R.L	16.86 %
Cyrus Opportunities Master Fund II, Ltd	12.05 %
Invesco Asset Management Limited for and on behalf of its discretionary managed clients via The Bank of New York Nominees Limited	12.05 %
Blue Mountain Cayman SP for and on behalf of Balloon SP	12.05 %

Values and ethics

Under the Holding Company's, Finance Company's and Bank Company's Articles of Association, there is a requirement for the Holding Company, Finance Company and Bank Company to promote and conduct the Bank's business to the extent practicable, in a manner informed by the established values of the co-operative movement, in particular with regard to:

- how it relates to, communicates with, balances the interests of, and otherwise deals with its stakeholders; and
- how it applies the profits of the Bank, in accordance with the dividend policy set out in its Articles of Association.

Board composition

During the year, there have been changes to the Board of the Holding Company, to the Board of the Finance Company and to the Board of the Bank Company (the Boards). Details of the members of the Boards, their biographies and length of service are set out from page 46.

Andrew Bester resigned from the Boards as an Executive Director on 31 October 2020 and Morteza Mahjour resigned from the Boards as a Non-Executive B Director on 31 December 2020. On 11 January 2021, Richard Slimmon and Sebastian Grigg joined the Boards as B Directors.

All the Non-Executive Directors have considerable experience and make valuable contributions to the Group. The Non-Executive Directors constructively challenge and help to develop proposals on strategy and bring strong, independent judgement, knowledge and experience to the Boards' deliberations.

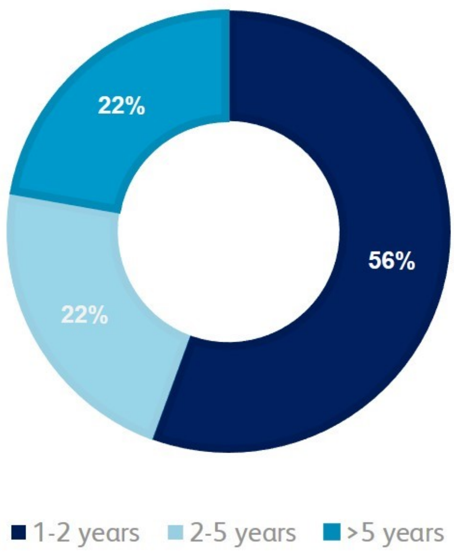
The Non-Executive Directors are of sufficient calibre and number such that their views carry significant weight in the Boards' decision making.

Role and responsibilities of the Board of the Holding Company, the Board of the Finance Company and the Board of the Bank Company

The Boards have collective responsibility for the long-term success of the Holding Company, Finance Company and Bank Company. Their role is to provide leadership within a framework of prudent and effective controls which enable risk to be assessed and managed. They set the values and standards and ensure that their obligations to shareholders, customers, employees and other stakeholders are understood and met. The Board of the Bank Company sets the Bank's 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 principal risks it is willing to take to achieve its strategic objectives, and is responsible for ensuring maintenance of sound risk management and internal control systems.

The Board and shareholders have approved a schedule of Matters Reserved for the Board and authorities delegated to the Chief Executive Officer. Both the Matters Reserved for the Board and the Chief Executive Officer's delegated authorities have been revisited by the Board and have been re-adopted for 2021. Implementation of the strategy set by the Board of the Bank Company and the management and day-to-day running of the Bank is delegated to the Chief Executive Officer, with oversight by the Board, with the exception of the Matters Reserved for the Board. The Board has approved the division of responsibilities between the Chair and Chief Executive Officer, and this can be found on the Bank's website, along with the Matters Reserved for the Board.

Length of tenure as Director of Bank as at 31 December 2020



Board changes

During 2020, there were no further Directors appointed to the Boards of the Holding Company, the Finance Company and the Bank Company, and two Directors stood down from these Boards.

On 11 January 2021, Richard Slimmon and Sebastian Grigg were appointed as B Directors.

Current members of the Boards		Independent	Appointed (Holding Company)	Appointed (Finance Company)	Appointed (Bank Company)
Bob Dench	Chair	On appointment	1 Feb 2018[1]	1 Feb 2019	1 Feb 2018[1]
Derek Weir	Senior Independent Director	Independent	1 Sep 2017	1 Feb 2019	25 Jul 2014
Sue Harris	Non-Executive	Independent	7 May 2019	7 May 2019	7 May 2019
Sally-Ann Hibberd	Non-Executive	Independent	1 Aug 2019	1 Aug 2019	1 Aug 2019
Glyn Smith	Non-Executive	Independent	1 Sep 2017	1 Feb 2019	10 Oct 2016
Sir Bill Thomas	Non-Executive	Independent	1 Sep 2017	1 Feb 2019	28 Oct 2013
Nick Slape	Chief Executive Officer	N/A	9 Dec 2019	9 Dec 2019	9 Dec 2019
Chris Davis	Chief Operating Officer	N/A	23 Jul 2019	23 Jul 2019	23 Jul 2019
Richard Slimmon	Non-Executive	Not independent	11 Jan 2021	11 Jan 2021	11 Jan 2021
Sebastian Grigg	Non-Executive	Not independent	11 Jan 2021	11 Jan 2021	11 Jan 2021

1. Chair since 14 March 2018

Members of the Boards stepping down since 1 January 2020		Independent	Appointed to Holding and Bank Company Boards	Appointed to Finance Company Board	Ceased to be a Director of these Boards
Morteza Mahjour	Non-Executive	Not independent	12 Dec 2019	12 Dec 2019	31 Dec 2020
Andrew Bester	Chief Executive Officer	N/A	9 Jul 2018	1 Oct 2018	31 Oct 2020

Appointment and reappointment of Directors

All Non-Executive Directors are appointed to the Boards for an initial term of three years but, under the terms of their appointment, are required to submit themselves for annual re-election at the Holding Company's, Finance Company's and Bank Company's Annual General Meetings (AGMs). All Directors will offer themselves for election or re-election at the AGMs in 2021. The terms of appointment of the Non-Executive Directors are available for inspection on request to the Secretary.

The biographical details of all Directors are discussed on pages 46 to 49 and can also be found on our website at:

www.co-operativebank.co.uk/aboutus/governance/Directors

Attendance

The following table sets out the attendance at the scheduled Holding Company, Finance Company and Bank Company Board and Bank Committee meetings during 2020:

Attended[1] (entitled to attend)[2]	Board	Joint Audit[3]	Risk	Values and Ethics	Remuneration	Nomination
Bob Dench	8 (8)	3 (3)		4 (4)		2 (2)
Derek Weir	8 (8)	7 (7)	5 (5)		7 (7)	2 (2)
Glyn Smith	8 (8)	7 (7)	5 (5)	4 (4)	7 (7)	
Sir Bill Thomas	8 (8)		4 (5)	2 (2)	7 (7)	2 (2)
Sue Harris	7 (8)	7 (7)	0 (1)	4 (4)		
Sally-Ann Hibberd	7 (8)	3 (4)	4 (5)		6 (7)	
Andrew Bester	6 (6)					
Chris Davis	8 (8)					
Nick Slape	8 (8)					
Morteza Mahjour	8 (8)		5 (5)		5 (7)	2 (2)

1. Business as usual scheduled meetings.
2. The Director concerned was entitled to attend because he/she was a member of the Board or Committee at the time of the meeting.
3. The Bank's Audit Committee was reconstituted as a Joint Audit Committee of the Holding Company, Finance Company and Bank Company Boards on 21 May 2019 following Board and Shareholder approval at the AGMs.

Number of Bank Company Board and Committee meetings in 2020

In addition to the above scheduled Board and Committee meetings there were also ad-hoc meetings to support COVID-19, strategic and other ad-hoc matters. Total meetings held were as follows:

Board meetings	30
Joint Audit Committee meetings	8
Risk Committee meetings	8
Values and Ethics Committee meetings	4
Remuneration Committee meetings	11
Nomination Committee meetings	8

Where Directors are unable to attend Board meetings, usually for reasons of illness or a requirement to hold these at shorter notice than is usual, the Chair encourages Directors to provide their views, questions and comments directly to him.

Information to Directors

Directors and usual attendees of Board and Committee meetings use a Board portal and an electronic tablet as their primary method for the receipt of papers. The electronic tablet provides access to additional materials to support Directors in their preparations for Board and corporate activity, including constitutional documents and the materials from previous meetings.

In the ordinary course of scheduled Board and Board Committee meetings, the aim is to provide the Directors with access to Board and Committee papers seven days before a meeting.

Board Committees

The Bank Board has established Board Committees, namely: the Risk Committee, the Values and Ethics Committee, the Remuneration Committee and the Nomination Committee. Following the AGMs on 21 May 2019, the Bank's Audit Committee was reconstituted as a Joint Audit Committee of the Holding Company, Finance Company and Bank Company.

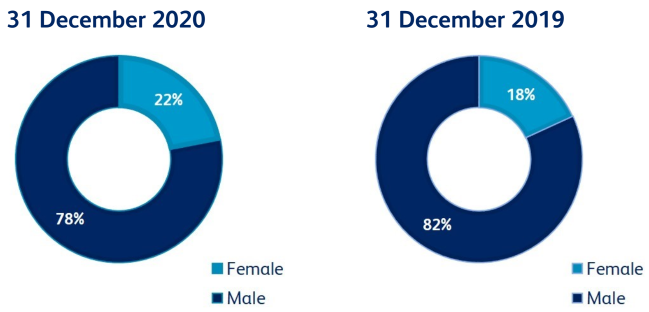
All Board Committees have terms of reference, describing the authority delegated to it by each Board. Each of these Committees has a role in ensuring the effective oversight by the Boards of the Holding Company, the Finance Company, the Bank Company and their subsidiaries.

The terms of reference for the Joint Audit Committee, Risk Committee, Values and Ethics Committee, Remuneration Committee and Nomination Committee can be found at:

www.co-operativebank.co.uk/aboutus/governance/terms-of-reference-for-Board-Committees

The Boards receive the minutes of all Committee meetings. During the year, each of the Committees reviewed its terms of reference.

Gender split of Directors



In addition to formal Board meetings, the Board conducted 'deep dives'/training on the following topics:

- IRB model awareness;
- What it means to be a co-operative;
- Digital technology and cyber risk;
- SME;
- Treasury, including funds transfer pricing;
- Health and safety;
- Climate change;
- Diversity and inclusion; and
- Senior Managers and Certification Regime.

Information on the Committees can be found on the following pages:

	Page
Joint Audit Committee	59
Values and Ethics Committee	70
Risk Committee	66
Nomination Committee	56
Remuneration Committee	81

Board effectiveness

Performance evaluation

Effective relationships between the Executive Directors and the Non-Executive Directors are critical to the operation of the Boards. The Board agendas will continue to balance the need to provide oversight and governance across the business and to provide challenge where appropriate.

The Bank Board and its Committees undertook an internal self-assessment during the fourth quarter of 2019 based on a questionnaire completed by each Director. The outcomes from these various reviews were considered by the Bank Board and its respective Committees in February 2020 and action was taken where appropriate, including amongst others, trialling for 2020, dedicating full days to Board training rather than at the end of Board meetings, to maximise its effectiveness. The decision has been taken to undertake these self-assessments every two or three years, with external reviews generally taking place every three years. The next external review is due to take place during 2022.

Induction and continuing professional development

All newly appointed Directors undertake a structured induction programme, which is designed to provide them with key business information about the Group, and includes briefing sessions with members of the Executive team and a branch visit where possible.

As part of the process, an individual training needs profile is designed for each Director, which is reviewed periodically. Throughout 2020 the Board continued to hold collective training sessions, which took place in April and September 2020. In addition to formal training sessions, the Directors, where appropriate, have one-to-one sessions with members of the Executive. An electronic 'Knowledge Area' is available as a resource to enable all Directors to access, revisit and review copies of presentations and materials from formal development sessions.

The Chair's role is to address the development needs of the Boards as a whole, with a view to developing their effectiveness. He ensures that the Directors' professional development needs are identified and that they are adequately informed about the Group and their responsibilities as Directors.

Senior Managers and Certification Regime (SMCR)

The Bank continues to deliver robust compliance with its governance over the Senior Managers and Certification Regime as set out in the Directors' Report on page 77. Directors have been briefed extensively and received further training on 24 September 2020 in connection with the requirements set out in the SMCR.

Conflicts of interest

Pursuant to the Companies Act 2006, the Directors have a duty to avoid situations in which they have or may have interests that conflict with those of the Bank Company, Finance Company and Holding Company unless that interest is first authorised by the other Directors. The Bank Company, Finance Company and the Holding Company's Articles of Association allow the Boards to authorise such potential conflicts and there is a procedure to deal with actual or potential conflicts. Directors are reminded, at each Board meeting, of their duty to report actual or potential conflict as soon as they become aware of any such events. All potential conflicts approved by the Boards are recorded in the Conflicts of Interest Register which is reviewed at each Board meeting to satisfy itself that all potential conflicts are appropriately considered and have been approved. The Boards have determined that a Director with a potential or actual conflict will not be permitted to form part of the quorum or vote upon the matter giving rise to the conflict. The Boards have put in place protocols to address potential conflicts arising from the appointment of the Non-Executive Directors who are not independent for the purposes of the Companies Act 2006. Prior to taking up any external appointment or responsibilities, Directors are asked to consult with the Company Secretary and the Chair of the Board.

Directors and their interests

No Director had a material interest at any time during the year in any contract of significance, other than a service contract, with the Holding Company, Finance Company, Bank Company or any of its subsidiary undertakings. No Director had a beneficial interest in any shares in the Holding Company, Finance Company or Bank Company.

Insurance and indemnities

During 2020 the Holding Company maintained appropriate Directors' and officers' liability insurance on behalf of all Group entities in respect of legal action against their Directors and officers. Various officers had, and continue to have, the benefit of indemnities from the Bank Company in relation to losses and liabilities they may incur in their employment. In addition, qualifying third party indemnity provisions (as defined by section 234 of the Companies Act 2006) were in operation during 2020 and are in force for the benefit of the Directors in relation to certain losses and liabilities which they may incur in connection with their appointment.

Professional advice and Board support

A number of external consultants provide professional advice to the Boards from time to time. There is a procedure in place by which, with prior agreement, the Directors may take independent professional advice at the Group's expense in furtherance of their duties.

Statutory disclosures information

Share capital structure, transfer restrictions and takeover bid related disclosures

The Bank's total issued share capital of ordinary shares of £0.05 each are all owned by the Finance Company. The Finance Company's total issued share capital of ordinary shares of £0.05 each are all owned by the Holding Company. The Holding Company's share capital is divided into Class A ordinary shares of £0.0001 each and Class B redeemable preference shares of £0.01 each. For further information relating to ownership, please see the corporate governance report on page 50.

Transfer of shares

The shareholder of the Bank Company and Finance Company may transfer any shares in any manner which is permitted by law and is from time to time approved by the Board of the Bank Company and Finance Company respectively. The A ordinary shares in the Holding Company are freely transferable save that they may not be transferred to a commercial competitor without the sanction of a special resolution of the Holding Company. Restrictions on the transfer of the B redeemable preference shares can be found within the Holding Company's Articles of Association and further details are shown in the corporate governance report on page 50.

PRA approval is required if a person intends to acquire or increase its 'control' of a UK authorised person (which includes the Bank). Acquiring 'control' includes where a person first holds 10% or more of the shares or voting power in the Bank directly or indirectly via the Holding Company. Increasing control means when an existing shareholder increases their shareholding or entitlement to voting power from a holding below certain thresholds to a holding above them. The thresholds are 10%, 20%, 30% or 50% of shares or voting power.

Voting rights

Subject to the Bank's Articles of Association and to any special rights or restrictions as to voting for the time being attached to any shares, the provisions of the Companies Act 2006 shall apply in relation to voting rights of the Bank's shares.

Ordinary shareholders are entitled to vote at general meetings and appoint proxies. On a show of hands, every member or proxy has one vote. On a poll, every member present in person or by proxy has one vote for every share held. Ordinary shareholders may receive: (1) dividends; (2) assets upon the liquidation of the Bank; and (3) capital payments through the capitalisation of reserves as provided in the Bank's Articles of Association.

Subject to the Finance Company's Articles of Association and to any special rights or restrictions as to voting for the time being attached to any shares, the provisions of the Companies Act 2006 shall apply in relation to voting rights of the Finance Company's shares.

Ordinary shareholders are entitled to vote at general meetings and appoint proxies. On a show of hands, every member or proxy has one vote. On a poll, every member present in person or by proxy has one vote for every share held. Ordinary shareholders may receive: (1) dividends; (2) assets upon the liquidation of the Finance Company; and (3) capital payments through the capitalisation of reserves as provided in the Finance Company's Articles of Association.

Subject to the provisions in the Holding Company's Articles of Association, no A ordinary shareholder shall be entitled to receive notice of, nor attend or vote at a general meeting of the Holding Company, save for resolutions being proposed in respect of:

- abrogating or varying any respective rights or privileges attaching to the A ordinary shares;
- for the winding up or dissolution of the Holding Company;
- in respect of the purchase or redemption (save for the redemption of the B shares in accordance with the Articles of Association) of any share capital of the Holding Company; or
- in respect of a Bank Exit or IPO Exit.

B redeemable preference shareholders are entitled to receive notice, attend and vote at a general meeting of the Holding Company in accordance with the Holding Company's Articles of Association.

Where shareholders of the Holding Company are entitled to vote at a general meeting on a show of hands every holder or proxy shall have one vote and on a poll, shall have one vote in respect of each respective share registered in the name of the holder.

Nomination Committee report

Increased diversity and promotion from within underpins the succession planning for senior Executive appointments

Dear Stakeholder

One of the roles of the Nomination Committee is to ensure the 'bench strength' of the management team is sufficient to maintain the right balance between external hires and internal promotions. For the Bank this is of particular importance in respect of maintaining its corporate culture as it goes through its change programme, whilst at the same time ensuring new entrants are brought in to rejuvenate the team.

During 2020, amongst other personnel changes, the Nomination Committee was pleased to be able to recommend to the Board that the vacant Chief Executive Officer position should be filled by the Chief Financial Officer and that the resulting Chief Financial Officer vacancy should be filled by the Chief Accounting Officer. The Chief Risk Officer role and that of the Director of Internal Audit also fell vacant and were filled by internal promotions. As part of the process, the candidates for the above roles were benchmarked against the external market.

The Bank's SME business has been growing in both scale and importance. The departure of the Managing Director of the SME business led to a search for a candidate who had to be experienced enough to be able to continue safely growing the business as well as transforming how it operated. The external candidate recommended to the Board has now joined us and is already making an excellent impact.

Robert Dench, Nomination Committee Chair, 24 February 2021

Purpose of the Nomination Committee

To lead the process for Board and senior Executive appointments by comprehensively reviewing and making recommendations on the Board and Executive Committee composition, succession planning for Executive Directors, Non-Executive Directors and certain senior Executives, identifying and nominating candidates for Board vacancies and evaluating candidates for the Board.

Committee membership	Date of appointment	Date of resignation
Bob Dench (Chair)	14 Mar 2018	
Sir Bill Thomas	26 Sep 2017	
Derek Weir	14 Mar 2018	
Morteza Mahjour	1 Jan 2020	31 Dec 2020
Sebastian Grigg	11 Jan 2021	

During 2020, the Nomination Committee met eight times and focussed on new appointments to the Executive Committee and the overall strengthening of the Board to meet the needs of the business and to be responsive to the regulatory environment in which the Bank operates.

Full regard to the benefits of diversity in all its elements, including gender diversity and ethnicity, is given. The Executive Committee has approved the enforcement of 50:50 male:female shortlists with the Bank's recruitment agencies. The Bank encourages the executive search consultancies engaged in the search process to reflect diversity in the lists of candidates nominated for the consideration of the Board. During 2020, the number of women on the Bank's Board remained as two. In 2016, the Board set a target to have a minimum of three women on the Board, which remains.

Principal responsibilities of the Nomination Committee

Regular review of the structure, size and composition of the Board.

Identify and nominate, for approval by the Board, candidates to fill Board vacancies having regard to the balance of skills, knowledge, independence, experience and diversity on the Board.

Review the leadership needs, both executive and non-executive, and consider proposals in respect of these.

To review the independence, effectiveness and commitment of each of the Non-Executive Directors.

Formulate succession plans for Directors and Non-Executive Directors, senior Executives and Senior Management Function role holders, including the reappointment of any Non-Executive Director at the conclusion of their specified term of office taking into account the skills and expertise needed on the Board in the future and the continued ability of the organisation to compete effectively in the marketplace.

Annually review the diversity policy, and the measure of objectives set in implementing the policy, and progress on achieving the objectives.

Make recommendations to the Board on membership of the Audit, Remuneration and Risk Committees, and any other Board Committees.

Review the results of the Board performance evaluation including the time required from Non-Executive Directors.

The election or re-election of Directors by shareholders at the AGM.

Key areas discussed and reviewed by the Nomination Committee in 2020

Board composition	Review of the structure, size and composition of the Board along with the skills, knowledge and experience of its members to ensure that Directors remain able and have sufficient time to discharge their duties and responsibilities effectively and to the high standard required.
Board and senior Executive succession planning	During 2020 the Nomination Committee considered nominations at both Board and senior Executive level and reviewed succession plans. The B shareholders of the Holding Company are entitled to appoint up to two Directors to the Board of the Holding Company, and the Holding Company is entitled to appoint up to two Directors to the Board of the Finance Company, and the Finance Company is entitled to appoint up to two Directors to the Board of the Bank Company, who are designated as B Directors of the Holding Company, Finance Company and the Bank Company. Morteza Mahjour stepped down as a Non-Executive B Director on 31 December 2020 following the successful completion of the desktop and separation programmes, amongst other elements of the transformation programme. Richard Slimmon and Sebastian Grigg were appointed as Non-Executive B Directors on 11 January 2021, having been put forward by the Bank's external recruitment agency and recommended by the B shareholders. Both candidates have the skills and expertise appropriate to the challenges and opportunities within the current market. Bob Dench and Derek Weir have extended their respective terms of office for a further three years. Following the departure of Andrew Bester, Nick Slape was appointed as Chief Executive Officer, taking on full responsibilities from 31 October 2020, and Louise Britnell assumed the role of Chief Financial Officer, stepping up from her role as Chief Accounting Officer. Succession planning for the Board, Executives and Material Risk Takers was reviewed in detail in 2020, including identification of internal successors and potential external candidates for senior vacancies which arose in 2020. This resulted in the internal promotion of a new Chief Risk Officer, Company Secretary and Director of Internal Audit to these critical roles. The Nomination Committee also oversaw the successful external recruitment of a new Managing Director, SME, with extensive experience of delivering transformation and change and leading businesses through periods of ambitious growth, complex restructuring and driving cost efficiencies.
Diversity policy	The Board adopted the Board Diversity Policy, which was expanded to specifically refer to ethnicity as well as gender diversity, as refreshed and recommended to the Nomination Committee in July 2020.
Committee membership	During the year, the Nomination Committee considered and made recommendations to the Board on committee composition across all Board Committees, with further appointments made to the Joint Audit, Risk and Values and Ethics Committees. The two new Non-Executive B Directors were appointed to the Remuneration, Risk and Nomination Committees on their appointment in January 2021.
Performance evaluation	The Bank Board and its Committees undertook an internal self-assessment during the fourth quarter of 2019 based on a questionnaire completed by each Director. The outcomes from these various reviews were considered by the Bank Board and its respective Committees in February 2020 and action was taken where appropriate. The decision has been taken to undertake these self-assessments every two or three years, with external reviews generally taking place every three years. The next external review is due to take place during 2022. The Directors conducted their first skills self-assessment in late 2015 and the Board has completed one each year since then. The skills self-assessment for 2020 was undertaken towards the end of 2020. The summary Board skills matrix produced will be used to underpin the Directors' annual appraisal process conducted by the Chair and to inform generic skills gaps and individual development needs for 2021. The training needs identified for 2020 included digital and treasury, and the Board received such training along with training on SME, health and safety, climate change, diversity and inclusion on 24 September 2020.
Election and re-election	The Committee reviewed the position of Directors offering themselves for election and re-election at the 2020 AGM.

Joint Audit Committee report

The Joint Audit Committee ensures that internal and external audit services are effective. It is responsible for the integrity of the financial statements

Dear Stakeholder

The Joint Audit Committee continues to provide oversight and informed challenge over the systems of financial reporting and control, accounts preparation and internal and external audit processes. During 2020, the Committee focussed particularly on those areas most sensitive to the impact of COVID-19 to ensure the accuracy and integrity of the Bank's financial reporting, including, but not limited to, the credit impairment provision and operational resilience. The Committee also received regular updates from the Internal Audit function as part of its oversight of changes in the business arising as a result of COVID-19. It also satisfied itself that the Internal Audit plan had been appropriately adapted to deal with this increased oversight whilst ensuring continuing oversight of areas not specifically affected by COVID-19. The Committee has continued to oversee the Bank's Concern at Work (Whistleblowing) arrangements.

Glyn Smith, Joint Audit Committee Chair, 24 February 2021

Purpose of the Joint Audit Committee

To monitor, review and report to the Boards on the formal arrangements established by the Boards in respect of the financial and narrative reporting of the Group, the internal controls and the RMF, the internal audit and the external audit processes.

Committee membership	Date of appointment	Date of resignation
Glyn Smith (Chair)	10 Oct 2016[1]	
Derek Weir	9 Dec 2014	
Bob Dench	14 Mar 2018	5 May 2020
Sue Harris	7 May 2019	
Sally-Ann Hibberd	5 May 2020	

1. Chair since 26 October 2016

Meetings of the Joint Audit Committee are generally attended by the Chief Executive Officer, Chief Financial Officer, invited members of the Finance and Risk teams and the Director of Internal Audit, none of whom attends as of right. The external auditor attends Joint Audit Committee meetings, and private meetings are held with internal and external auditors and with the Risk function as necessary to afford them the opportunity of discussions without the presence of management. The Committee met eight times during the financial year. The Chair of the Joint Audit Committee reports back to the Board on the outcome of meetings and the Board receives the minutes of all Committee meetings.

Alignment with Risk Committee

The Joint Audit Committee recognises the common interest in issues relevant to both Committees. To support the co-ordination of information between the Committees, the Chair of each of the Joint Audit and Risk Committees is a member of both committees. Both the Joint Audit Committee and Risk Committee welcome attendance by representatives of Internal Audit and the external auditor at their meetings.

The principal responsibilities and key areas of discussion of the Joint Audit Committee are set out below:

Principal responsibilities of the Joint Audit Committee	Key areas discussed and reviewed by the Joint Audit Committee in 2020
Financial and narrative reporting	
Review the content of the financial statements included in this Annual Report and Accounts ('the financial reports') and advise the Boards on whether, taken as a whole, they are fair, balanced and understandable and provide the information necessary for shareholders to assess the performance, business model and strategy. Monitor the integrity of the financial statements. Review and challenge where necessary: • the consistency of, and any changes to, significant accounting policies both on a year-on-year basis and across the financial statements; • the methods used to account for significant or unusual transactions where different approaches are possible; • whether appropriate accounting standards have been followed and appropriate estimates and judgements made, taking into account the views of the external auditor; • the assumptions or qualifications in support of the going concern statements and the disclosures made about the assessment; and • the clarity and completeness of disclosure in the financial reports and the context in which statements are made.	The Joint Audit Committee allocates a number of meetings in its calendar to focus on the preparation for and review of the financial statements. During 2020, the review process included a detailed review of significant accounting judgements and accounting policies and formal reporting from the external auditor. The Joint Audit Committee receives regular updates relating to key accounting judgements made and changes to existing, or implementation of new, accounting policies. The Joint Audit Committee also reviews the financial statements process to ensure that financial reporting risk is adequately managed. Key judgements discussed as part of the 2020 accounts process are detailed on pages 63 and 64, including reports by the external auditor throughout the year. The Boards receive a report from the Joint Audit Committee prior to the Board meetings, which considers the content of the financial statements. Compliance with accounting standards and the completeness of disclosures are also discussed. The Joint Audit Committee reviewed and challenged the quarterly financial reports for the first and third quarters of 2020, the Interim Financial Report and the Annual Report and Accounts and recommended them to the Boards for onward circulation to the shareholders. As part of this review, it conducted quarterly going concern assessments. The Joint Audit Committee discussed the going concern conclusions in detail, and the way in which the basis of conclusion was disclosed in the financial reports.
Internal controls and risk management systems	
Review the adequacy and effectiveness of internal financial controls and internal control and risk management systems and statements in the Annual Report and Accounts concerning internal controls and risk management. Review the Bank's arrangements for the deterrence, detection, prevention and investigation of fraud and receive and consider special investigation reports relating to fraud or major breakdowns in internal controls or major omissions including remedial action by management.	During 2020 the Joint Audit Committee considered the recommendations of Internal Audit and the external auditor in respect of internal control mechanisms and monitored progress against those recommendations. Both the Director of Internal Audit and the Chief Risk Officer attended Joint Audit Committee meetings throughout the year. During 2020 the Joint Audit Committee considered reports on risk management, internal controls and other reports from management in relation to the Bank's Risk Management Framework or in relation to the Annual Report and Accounts. During 2020 the Joint Audit Committee requested an additional review of management's ability to maintain effective financial controls in a remote working environment.

Principal responsibilities of the Joint Audit Committee	Key areas discussed and reviewed by the Joint Audit Committee in 2020
Raising a concern at work (whistleblowing)	
Review the adequacy and security of the arrangements for employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters and annually review and approve the Bank's Raising a Concern at Work (Whistleblowing) Policy. Annual review of the Concern at Work report.	The Joint Audit Committee received regular updates on incidents reported under the Bank's Raising a Concern at Work (Whistleblowing) Policy. In November 2020, the Joint Audit Committee carried out an annual review of the Concern at Work report and review and re-approval of the Policy.
Terms of reference	
Review the Joint Audit Committee's terms of reference and monitor its execution.	The Joint Audit Committee conducted an annual review of its terms of reference and reviewed its deliveries against these.
Internal audit	
Review and approve the Charter of the Internal Audit function and ensure that the function has the necessary resources and access to information to enable it to fulfil its mandate, has unrestricted scope and is equipped to perform in accordance with appropriate professional standards for internal auditors. Ensure the Director of Internal Audit has direct access to the Chair of the Board and to the Chair of the Joint Audit Committee, and is accountable to the Joint Audit Committee, ensuring that Internal Audit is independent of the Executive and able to exercise independent judgement. Review and assess the annual Internal Audit work plan and the reasons for any significant change or delay to this plan, ensuring that it includes the evaluation of the effectiveness of the Risk, Compliance and Finance functions. Receive reports on the results of the internal auditor's work. Review and monitor management's responsiveness to the internal auditor's findings and recommendations. Meet with the Director of Internal Audit at least once a year without the presence of management. Monitor and review the effectiveness of the Bank's Internal Audit function, in the context of the overall risk management system and consider whether an independent, third party review of internal audit effectiveness and processes is appropriate. Approve the appointment or termination of appointment of the Director of Internal Audit.	The Joint Audit Committee reviewed the Internal Audit function's self-assessment against the Chartered Institute of Internal Audit's Guidance on Effective Internal Audit in Financial Services. During 2020, the Committee provided a review and challenge of the Internal Audit Charter, the resources of the function and the plan of activities taking place during the year. In accordance with the Bank's Internal Audit Charter, an external assessment is conducted at least every four years, and an independent review was conducted by Independent Audit Limited in 2016. The next external assessment was due in 2020. However, given the need for additional Internal Audit oversight in response to the COVID-19 pandemic, the Joint Audit Committee took the decision to delay an external audit of the function to 2021. The Joint Audit Committee regularly received and challenged changes to the Internal Audit plan to ensure an appropriate level of oversight. The Committee considered the initial change from a full coverage approach to a more dynamic planning cycle and then went on to consider further changes to the plan in light of COVID-19 following guidance from our internal audit co-source providers. The Joint Audit Committee receives all 'red' rated internal audit reports and invites management to present findings and remedial actions. During 2020, it also received and considered the findings of a number of internal audit reports requested by the regulator. During the year, in camera sessions were held with the Director of Internal Audit. At its November 2020 meeting, the Joint Audit Committee recommended for approval by the Bank Board the resignation of the Director of Internal Audit and the appointment of his successor.

Principal responsibilities of the Joint Audit Committee

Key areas discussed and reviewed by the Joint Audit Committee in 2020

External audit

Principal responsibilities of the Joint Audit Committee	Key areas discussed and reviewed by the Joint Audit Committee in 2020
Consider and make recommendations to the Boards, to be put to shareholders for approval at the AGMs, in relation to the appointment, reappointment and removal of the external auditor.	The Joint Audit Committee recommended the reappointment of Ernst & Young LLP (EY) to the Boards and the relevant member(s) at the Annual General Meetings.
Ensure that at least once every ten years the audit services contract is put out to tender and oversee the selection process.	The Joint Audit Committee liaised closely with the external auditor in respect of their views on the most significant of the key accounting judgements and findings.
If an auditor resigns, investigate the issues leading to this and decide whether any action is required.	The Joint Audit Committee reviewed the external audit plan.
Oversee the relationship with the external auditor and review the findings of the audit with the external auditor; approve their remuneration including fees for both audit and permitted non-audit services.	In the course of making a recommendation to the Boards in respect of representations to the auditor, the Joint Audit Committee reviewed and challenged management assurances supporting management representation letters to the external auditors.
Develop and implement policy on the supply of non-audit services by the external auditor specifying the types of non-audit service for which use of the external auditor is pre-approved and the requirement to authorise provision of any non-audit services by the external auditor to avoid any threat to auditor objectivity and independence, taking into account any relevant ethical guidance on the matter. Reporting of the use of non-audit services should include those subject to pre-approval.	The Joint Audit Committee considered the external auditor's management letter containing observations arising from the annual audit leading to recommendations for control or financial reporting improvement and monitored progress.
Annually assess the independence and objectivity of the external auditor and compliance with all applicable independence requirements.	The Joint Audit Committee reviewed and approved the policy for the supply of non-audit services by the external auditor in February 2020 and approved the 2020 fees for audit and non-audit services.
Review any representation letter(s) requested by the external auditor before they are signed by management; review the management letter and management's response to the auditor's major findings and recommendations.	The Joint Audit Committee reviewed the independence of the external auditor and the objectivity of the audit engagement partner and audit staff using self-assessments from the external auditor and based on a review conducted by Internal Audit to review the independence and objectivity of the external auditor and their effectiveness, which the Committee considered in February 2021.
Meet regularly with the external auditor and at least once a year without the presence of management.	

1. Significant accounting matters considered by the Joint Audit Committee

In relation to the 2020 financial statements, the Joint Audit Committee considered the following significant accounting issues, matters and judgements. The disclosure and presentation of these matters were discussed and debated with management and the external auditors (EY).

1.1 Going concern

The Group has used the most recent long-term forecast as the basis of its assessment in evaluating whether adopting the going concern basis of accounting is appropriate for the Group, Bank, Holding Company, Bank Company, Finance Group and Finance Company. This assessment included a detailed review of projected profitability, forecast liquidity position, capital ratios and regulatory capital considerations. The assessment also considered further, more pessimistic scenarios, that could reasonably possibly occur. Appropriate consideration has been given to the principal risks and uncertainties that could impact future performance and the most relevant regulatory requirements.

The assessment of the going concern basis of preparation has been subject to a thorough process involving analysis and discussion by management, Executive and Board Committees and the Board, in line with our governance processes.

The Joint Audit Committee considered and recommended to the Board that the going concern basis of accounting be adopted and the disclosures prepared by management form part of note 1 to the consolidated financial statements.

1.2 Impairment of loans and advances to customers

The economic backdrop and uncertainty generated by COVID-19 has led to a significant amount of scrutiny on the forecasting of credit impairment losses, and has underscored the need for robust governance and challenge around these highly judgemental estimates. The Joint Audit Committee reviewed detailed papers prepared by management, focussing particularly on:

- the impact of the Group's economic forecasts when applied to the credit impairment models, and the appropriateness of any judgemental post-model adjustments subsequently applied to counteract changes in modelled impairment provisions incongruent with the specific risk profile of the Group's credit exposures;
- additional COVID-19-specific post-model adjustments designed to quantify the risks associated with customers on payment deferrals, and corporate sectors deemed to be particularly vulnerable to the impacts of the pandemic; and
- the overall ECL coverage ratios and benchmarking comparisons to support conclusions reached on provision adequacy.

As in previous years, the Joint Audit Committee also reviewed the justifications for and valuations of new and existing non-COVID-19-specific model adjustments designed to compensate for specific model limitations, as well as management's governance and controls over the provisions. The Joint Audit Committee also carefully considered evidence in the post balance sheet period as to whether additional provisions were required relative to conditions existing at the balance sheet date.

1.3 Effective interest rate

Management presented a paper on behavioural lives, economic assumptions and the fees and costs which are considered when calculating the carrying value of the Group's fixed rate mortgage portfolio under the effective interest rate (EIR) method, as well as outlining a number of simplifications introduced into the calculation approach during the year. The Joint Audit Committee reviewed the impact of changes in customer behaviour during 2020 on the EIR assumptions at the 2020 year end and concurred with the appropriateness of the simplifications made to the calculation approach, the year end value of the EIR asset and the judgemental assumptions set out within the paper.

1.4 Pensions

The Joint Audit Committee considered the accounting treatment of both of the principal defined benefit pension schemes, Pace and the Britannia Pension Scheme. The key judgements also considered by the Joint Audit Committee included the ability of the pension surplus to be recognised on balance sheet, the accounting for GMP equalisation related to historic transfers out of the schemes following the November 2020 ruling in the Lloyds GMP equalisation case, and the pension assumptions adopted within the IAS 19 valuation.

1.5 Surrendered Loss Debtor

The Joint Audit Committee discussed the valuation of the Surrendered Loss Debtor (SLD) due from the Co-op Group in relation to tax losses surrendered in 2012-13. The fair value at 2020 year end was based on an agreed settlement price with the Co-op Group. In previous quarters the valuation had relied on judgements around assumptions about the Co-op Group's capacity to realise the benefit of the tax losses surrendered, the accuracy of the repayment profile information provided by the Co-op Group, the extrapolation of the repayment profiles provided by the Co-op Group and future changes to tax legislation.

1.6 Unconsolidated structured entities

The Joint Audit Committee considered the paper prepared by management covering the accounting treatment applied to the Warwick and Avon Special Purpose Entities (SPE) and concluded that the SPEs should not be consolidated in the Group's accounts.

1.7 Other accounting matters

The Joint Audit Committee considered papers presented by management covering the following matters and concurred with the conclusions:

- methodology to determine the fair value of financial instruments for disclosure in the Annual Report and Accounts;
- embedding the EU carve out as a solution to capacity restrictions in the Bank's current cash flow hedge programme;
- the impairment review of tangible and intangible assets;
- the accounting judgements applied in the classification and measurement of the MREL debt issued during the year;
- conduct risk and legal provisioning, noting the lower exposure in this area following the completion of the majority of PPI work during the year;
- the accounting and disclosure implications of impending IBOR reform amendments; and
- the adequacy of restructuring provisions made by the Group following announcements in 2020.

1.8 Unadjusted errors

The external auditors reported to the Joint Audit Committee the misstatements identified in the course of their work, including in respect of prior years; there were no unadjusted errors that were material individually, or in aggregate, to the financial statements.

1.9 Fair, balanced and understandable

The Joint Audit Committee considered whether the Annual Report and Accounts 2020 are fair, balanced and understandable. The Joint Audit Committee satisfied itself that there was a robust process of review and challenge to ensure balance and consistency. This process included internal verification of the document and senior level review of the document both on an individual and committee basis prior to a meeting of the Joint Audit Committee held to review and consider the Annual Report and Accounts in advance of approval by the Board.

2. Governance over accounting policy and judgements

The Joint Audit Committee considered the governance to support financial reporting risk including the process through which accounting judgements were reviewed, challenged and ratified.

3. Performance evaluation

3.1 External audit

The Joint Audit Committee is responsible for oversight of the external auditor, including reviewing the audit strategy and, on behalf of the Board, approving the audit fee.

EY was appointed as the Bank's statutory auditor with effect from the 2014 financial year. Michael-John Albert of EY is the Senior Statutory Auditor and was appointed to this role with effect from the 2019 financial year.

The Joint Audit Committee has developed and implemented a policy on the supply of non-audit services by the external auditor to avoid any threat to auditor objectivity and independence, taking into consideration any relevant guidance on the matter. Non-audit services are normally limited to assignments that are closely related to the annual audit or where the work is of such a nature that existing knowledge and understanding is necessary. Management regularly provides the Joint Audit Committee with reports on audit, audit-related and non-audit expenditure, together with proposals of any significant non-audit related assignments.

Total auditor's remuneration for the year amounted to £2.5m (2019: £2.7m). Details of the auditor's remuneration can be found in note 4 to the consolidated financial statements. The Joint Audit Committee is satisfied that the remuneration payable to the auditor is not material relative to the income of the external audit officers and firm as a whole, and did not impair the objectivity and independence of the external auditor.

The Joint Audit Committee evaluated the performance since appointment, independence and objectivity of EY and also reviewed their effectiveness as external auditor, taking into account the following factors:

- the competence with which the external auditor handled the key accounting and audit judgements and communication of the same with management and the Joint Audit Committee;
- the external auditor's compliance with relevant regulatory, ethical and professional guidance on the rotation of partners;
- the external auditor's qualifications, expertise and resources and their own assessment of their internal quality procedures;
- the external auditor's assessment of any potential threats to independence that were self-identified and reported by EY;
- the external auditor's response to FRC quality reviews of EY; and
- the stability that would be provided by continuing to use EY.

During 2020, the external auditor provided the Joint Audit Committee with a management letter summarising its main observations and conclusions arising from the 2019 year end audit, and any recommendations for enhancements to reporting and controls. Mitigating actions were identified for implementation. Internal Audit have been monitoring and tracking the implementation of these actions, with regular reporting to the Joint Audit Committee on progress made.

3.2 Internal controls

The Board is ultimately responsible for the system of internal controls and it discharges its duties in this area by ensuring management implements effective systems of risk identification, assessment and mitigation. These risk management systems are designed to manage, rather than eliminate, the risk of failure to achieve business objectives and cannot provide absolute assurance against material misstatement or loss.

Management is responsible for establishing and maintaining adequate internal controls over financial reporting, including the consolidation process. Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes. A strategic planning, budgeting and forecasting process is in place. Monthly financial information is reported to the Board and management. The Executive Committee reviews performance against budget and forecast on a monthly basis and senior financial managers regularly carry out an analysis of material variances. Responsibility for reviewing the effectiveness of the internal controls has been delegated to the Joint Audit Committee by the Board.

The Joint Audit Committee uses information drawn from the following sources to carry out this review:

- the Internal Audit function provides objective assurance – their annual work plan is developed in conjunction with management and approved by the Joint Audit Committee, focussing on key risks and key internal controls. In the light of the Internal Audit function's recommendations, management develops and implements corrective action plans, which are tracked to completion by Internal Audit, with the results reported to Executive management and to the Joint Audit Committee;
- the Risk Management Framework for reporting and escalation of control issues; and
- further objective assurance is provided by external specialists.

3.3 Internal audit

The Joint Audit Committee monitors the independence of the Internal Audit function and the Director of Internal Audit reports directly to the Chair of the Joint Audit Committee and administratively to the Chief Executive Officer.

The Joint Audit Committee receives a summary of internal audit reports on a quarterly basis and considers the major findings of significant internal audits, along with management's action plans in response. Audit reports are issued to Executive management, with high and medium-rated audit issues tracked to completion by Internal Audit. Where audit issues are overdue, these are reported to Executive management, the Executive Risk Oversight Committee (EROC) and the Joint Audit Committee.

The Joint Audit Committee annually assesses the effectiveness of the Internal Audit function, and considers on a quarterly basis whether it has appropriate resources and skills (supported by external subject matter experts where appropriate). The Joint Audit Committee evaluates whether the function meets the Chartered Institute of Internal Auditors' (CIIA) International Standards. During the current year the Joint Audit Committee concluded that the function remains effective.

Periodically an independent External Quality Assessment (EQA) is conducted, with the next EQA scheduled for early 2021 after having been postponed in 2020 due to COVID-19. The last EQA was performed in 2016. There were no high priority issues raised and all of the suggested areas for improvement have been actioned.

The Joint Audit Committee assesses the coverage of the audit plan over key risks and areas of the Bank. The plan is approved by the Joint Audit Committee and shared with the regulator. Internal Audit uses a dynamic risk assessment through a Full Coverage Variable Intensity Approach (FCVI). This approach means that all areas of the Bank are subject to assurance activity each year, at different levels of intensity based on risk. Internal Audit produces an annual control opinion covering all activities of the Bank, and has concluded that the control framework effectively identifies and mitigates the majority of risks across the Bank. Whilst there are areas where controls require strengthening, plans are in place to address these. Internal Audit's view is that this aligns with the Bank's priorities of enabling our future in 2020-21 to provide a platform for the Bank's continued development.

The Joint Audit Committee report should be read in conjunction with the Independent Auditor's reports to the members of each company which can be found on the following pages:

The Co-operative Bank p.l.c.	**136**
The Co-operative Banking Holdings Limited	**147**
The Co-operative Bank Finance p.l.c.	**151**

Risk Committee report

The Risk Committee has responsibility for the oversight of the operation of the Bank's Risk Management Framework

Dear Stakeholder

The strength of the Bank's Risk Management Framework was demonstrated by the Bank's response to the changes required due to COVID-19. During the first half of the year, the Risk Committee received COVID-19-specific risk reporting to ensure the correct level of oversight was maintained while the business adapted at pace to the changes introduced by the government in relation to retail and SME banking. Through the second half of the year, the Risk Committee received reporting on how the Bank was incorporating COVID-19-specific measures into the new 'business as usual' to enable continuity for customers. The Risk Committee also received updates on measures put in place by the Bank to keep customers and colleagues safe during the pandemic. Monitoring of key risk areas, such as credit risk, was debated extensively. Other areas of focus for the Risk Committee during 2020 included detailed discussions on cyber security measures and the Bank's management of its IT.

Derek Weir, Risk Committee Chair, 24 February 2021

Purpose of the Risk Committee

The purpose of the Risk Committee of the Bank is to review and challenge the Bank's risk appetite and report its conclusions to the Board for approval, and oversee the implementation of the Bank's RMF, taking a forward-looking perspective and anticipating changes in business conditions.

Committee membership	Date of appointment	Date of resignation
Derek Weir (Chair)	30 Sep 2014[1]	
Sir Bill Thomas	1 Jan 2014	
Glyn Smith	10 Oct 2016	
Sally-Ann Hibberd	1 Aug 2019	
Morteza Mahjour	1 Jan 2020	31 Dec 2020
Sue Harris	29 Jul 2020	
Sebastian Grigg	11 Jan 2021	

1. Chair since 26 January 2016

The Risk Committee met in total eight times during the financial year. In performing its duties, the Risk Committee has access to the services of the Chief Risk Officer, the Chief Executive Officer, the Chief Financial Officer and the Director of Internal Audit, as well as external professional advisors. To support the alignment between the role of the Risk Committee and the Joint Audit Committee, the Chair of the Joint Audit Committee is a member of the Risk Committee and the Chair of the Risk Committee is a member of the Joint Audit Committee.

Derek Weir, Sir Bill Thomas, Sally-Ann Hibberd and Glyn Smith are also members of the Remuneration Committee.

The principal risks and uncertainties faced are described in the risk management section on pages 90 to 99

This provides the cross-over between the work of the Remuneration and Risk Committees and ensures that qualitative and quantitative advice is provided to the Remuneration Committee on risk weightings to be applied to performance objectives incorporated in setting levels of Executive remuneration.

During 2020 the Risk Management Framework has been, and continues to be, refined to reflect the changing nature of the risks the Bank is exposed to. The Risk Committee has worked closely with the Joint Audit Committee to monitor risk management and internal controls and during 2020, the external auditor attended the Risk Committee as an observer and contributed when requested by the Chair.

Principal risks and the level of acceptable risks are determined by reference to what is stipulated in the risk appetite statements, aiming to ensure that there is an adequate system of risk management and that the levels of capital and liquidity held are consistent with the risk profile of the business. Exposure to credit and other risk types such as market, liquidity, operational, pension, reputational, financial risk from climate change and other risks that are inherent in our industry such as strategy, product range and geographical coverage, and the processes for managing those risks, are described in detail on pages 90 to 99.

The principal responsibilities and key areas of discussion of the Risk Committee are set out below:

Principal responsibilities of the Risk Committee	Key areas discussed and reviewed by the Risk Committee in 2020
Risk Management Framework (RMF)	
Review and challenge the design, implementation and effectiveness of the RMF and make recommendations to the Board for approval. At least annually, review and approve all new policies and those which have changed materially, supporting the RMF. Ensure the remit of the risk management function has: • adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards; and • adequate independence, being free from management or other restrictions. Review the capability to identify, assess, and manage new risk types.	The Risk Committee actively discussed the RMF and an update was provided to each meeting of the Risk Committee. The Bank Risk Report was refreshed during 2020 and includes an RMF Dashboard, Credit Asset Quality Dashboard, as well as summaries of significant risks, issues under management and emerging risks, for the Risk Committee to review and challenge at each business as usual meeting. In the first half of 2020, the Bank Risk Report was updated to incorporate changes made to risk management processes as a result of the COVID-19 pandemic. As the Bank moved to a new business as usual in July 2020, the COVID-19-specific reporting was incorporated into business as usual reporting. The Risk Committee reviewed and recommended the RMF Policy and Strategy to the Board for approval, and reviewed all new policies and those which had changed materially, supporting the RMF Policy. The Risk Committee considered a report which reviewed the remit, independence and effectiveness of the Risk and Compliance functions.
Risk culture	
Review, promote and challenge the risk culture, and seek assurance to satisfy itself that an appropriate risk culture prevails in the organisation. Provide qualitative and quantitative advice to the Remuneration Committee on risk weightings to be applied to performance objectives incorporated in Executive remuneration.	At each meeting of the Risk Committee, the Chief Risk Officer presents the Bank Risk Report described above which provides a holistic view of risks, including a summary of the key risk appetite trends, significant risks and emerging risks. Individual detailed risk appetite returns and credit risk metrics are also presented to the Risk Committee at each meeting as set out above. As part of the Bank's response to COVID-19, the Chief Risk Officer introduced a weekly governance forum to provide risk oversight of the changes made to processes and systems in response to the pandemic. The Chief Risk Officer provided an update on this activity to the Risk Committee until the weekly meetings ceased and were incorporated into business as usual reporting. The Risk Committee reviewed the embedding of risk into performance objectives and role profiles, so that all employees have at least one risk-related objective for 2020. The Chief Risk Officer has reviewed risk weightings applying to Executive remuneration structures and provided analysis to support Remuneration Committee activities in this area.

Principal responsibilities of the Risk Committee	Key areas discussed and reviewed by the Risk Committee in 2020

Risk appetite, limits and tolerances

Review, challenge and recommend to the Board for approval all new risk appetite statements and at least annually, or more frequently as required, the risk appetite.

Review, challenge and approve any material changes to the risk appetite measures, tolerances and limits.

Review, challenge and exercise oversight of capital and liquidity management and advise the Board on strategy for capital and liquidity management.

Annually review, challenge and recommend to the Board for approval the ICAAP.

Annually review, challenge and recommend to the Board for approval the ILAAP.

Review, challenge and recommend to the Board for approval submissions to competent authorities to be submitted in the Board's name.

During 2020 the Risk Committee has continued to work with the Chief Risk Officer to refine the quality of data reporting seen at Committee and Board levels in order to assist the Risk Committee in its oversight of the monitoring of risk appetite, of risk acceptances and of risk events.

The Risk Committee reviewed, challenged and recommended to the Board for approval, the risk appetite during 2020, and changes to market risk and liquidity risk appetite as part of the RMF.

The Risk Committee reviewed and challenged the utilisation of delegated lending within the boundaries of the Lending Discretion Framework during 2020.

The Risk Committee reviewed, challenged and recommended sections of the ICAAP, ILAAP and Recovery Plan interim submission to the Board for approval.

A regular progress update was provided on model risk to each business as usual meeting of the Risk Committee during 2020.

Prior to recommending to the Board for approval, the Risk Committee reviewed all material submissions to be provided to regulatory bodies.

Business strategy

Provide detailed review and challenge of proposed business strategy, giving consideration to the impact on the risk profile, and make recommendations to the Board.

Ensure appropriate due diligence is carried out focussing on risk aspects and implications for risk profile and appetite when advising the Board on strategic acquisitions or disposals.

The Risk Committee, throughout 2020, discussed and monitored the principal risks and uncertainties faced.

The Risk function reviewed the 2021 budget and most recent long-term forecast and reported its findings to the Board in December 2020.

Risk monitoring

Consider, oversee and advise the Board on, and provide challenge on the Bank's exposure to, all principal risks to the business, and dedicate clear and explicit focus to current and forward-looking aspects of risk exposure, especially where those risks could undermine strategy, reputation or long-term viability.

Review and challenge management's risk mitigation and control remediation actions.

In co-operation with the Joint Audit Committee, monitor identified control failings and weaknesses that raise systemic risk issues and management actions taken to resolve them.

Review reports on any material breaches of risk limits and the adequacy of proposed action.

Consider risks posed by the current and prospective macroeconomic and financial environment, drawing on financial stability assessments such as those published by the Bank of England, the Prudential Regulation Authority, the Financial Conduct Authority and other authoritative sources that may be relevant for the Bank's risk policies when preparing advice for the Board.

The Risk Committee monitors all principal risks to the business using the Bank Risk Report which provides a holistic view of risk, including significant and emerging risks and risk appetite trends. The Bank Risk Report was adapted to provide specific reporting on new risk areas following the implementation of new government lending schemes in response to COVID-19.

During 2020, the Risk Committee reviewed reports on potential breaches of risk appetite and proposed actions to resolve them.

The Risk Committee considered key corporate exposures in terms of consolidated exposures and large exposure positions and risk mitigation.

The Risk Committee has received regular reporting to help it review IT risk and the remediation programme.

The Risk Committee has considered reporting of emerging risks during the year, together with regulatory feedback given to the Bank by the Prudential Regulation Authority and the Financial Conduct Authority and the plans agreed with regulators published to the market from time to time.

Principal responsibilities of the Risk Committee	Key areas discussed and reviewed by the Risk Committee in 2020
Regulatory risks and compliance	
Review and approve the annual Risk Assurance Plan and the reasons for any significant changes to the Plan, taking into account the regulatory risks identified from time to time. Review, consider and challenge regular reports from the Director of Compliance and Financial Crime and keep under review the adequacy and effectiveness of the Regulatory Risk and Compliance function. Receive prompt notification of any material adverse reports or sanctions by any competent authority.	The Risk Committee has challenged the development of certain risk models to support the attestation of, and achieving compliance with, the Capital Requirements Regulation. The Risk Committee reviewed, challenged and approved the 2020 Risk Assurance Plan which provides coverage of principal risks including conduct, regulatory, fraud and AML. The Chief Risk Officer and Director of Compliance and Financial Crime attended Risk Committee meetings during the year providing regular reporting analysis. During 2020 the Risk Committee considered a report which reviewed the remit, independence and effectiveness of the Risk and Compliance functions.
Bribery prevention, anti-money laundering/terrorist financing and Code of Conduct	
Review and challenge the adequacy and effectiveness of the systems and procedures for the prevention of bribery and annually review and approve the Bank's Anti-Bribery and Corruption Control Standard. Review and challenge regular reports from the Money Laundering Reporting Officer and the adequacy and effectiveness of the anti-money laundering and counter-terrorist financing systems and controls. Review and recommend to the Board for approval the Code of Conduct and the Personal Investment Dealing Policy.	The Bank's Anti-Bribery and Corruption Control Standard was reviewed in June 2020 by the Operational, Compliance and Financial Crime Risk Oversight Committee (OCROC) and no material changes were required. The Risk Committee considered reporting from the Money Laundering Reporting Officer during the year. The Risk Committee reviewed and recommended the Code of Conduct and Personal Investment Dealing Policy to the Board during the year.
Risk reporting	
Receive reports, findings and recommendations from the Executive Risk Oversight Committee, noting significant issues. In co-operation with the Joint Audit Committee, review and approve the statements to be included in the Annual Report and Accounts concerning internal controls and risk management.	Through the reporting from the Chief Risk Officer, the Risk Committee continued to have access to the findings and recommendations of the Executive Risk Oversight Committee on matters referred to the Risk Committee or to the Board. The Risk Committee continues to work closely with the Joint Audit Committee in determining the Group's annual reporting.
Chief Risk Officer	
Recommend to the Board the appointment and/or removal of the Chief Risk Officer. Meet at least once a year with the Chief Risk Officer without the presence of management.	The Committee Chair regularly met with the Chief Risk Officer without the presence of management during the year. Private sessions were held regularly between the Risk Committee and the Chief Risk Officer. During 2020 the Risk Committee considered a report which reviewed the remit, independence and effectiveness of the Risk and Compliance functions. In July 2020, the members of the Risk Committee recommended to the Board that it accept Richard Lees standing down as Chief Risk Officer and the appointment of Gareth Jones as his replacement.

Values and Ethics Committee report

Our customer-led Ethical Policy defines our Bank and in 2020 we continued to reinforce our ethical difference

Dear Stakeholder

Our co-operative brand reflects the way we do business. The Values and Ethics Committee provides Board-level oversight to ensure the continuous commitment to co-operative values and our Ethical Policy. Despite the challenges of the pandemic, the Bank's commitment to delivering its Ethical Policy was as strong as ever in 2020. The work of Bank colleagues, in collaboration with our charity partners, made a significant positive difference to our customers and communities throughout the UK and at a time when it's been needed most.

The governance and implementation of co-operative values and our Ethical Policy have been key areas of focus for the Value and Ethics Committee. Our oversight focussed on reinforcing and embedding ethics within Bank operational processes, including ensuring that screening our business suppliers and SME customers continues to be robust.

Our colleagues and customers have helped to effect positive social change through continued support for charities and campaigned to raise awareness of issues affecting the homeless, or those suffering from financial abuse and human rights injustices.

Our support for the co-operative sector is a key priority for us. In 2020 we renewed our sponsorship of The Hive, a business support programme for people looking to start or grow co-operatives or community enterprises – which we hope will play a vital role as the UK looks to recover from the impact of the pandemic.

I am proud of what colleagues have delivered together.

Sue Harris, Values and Ethics Committee Chair, 24 February 2021

Purpose of the Values and Ethics Committee

The purpose of the Values and Ethics Committee is to recommend to the Board, for its approval and adoption, the co-operative values and ethical policies of the Bank, and to advise the Board of conformity to such values and ethics in our operations and activities.

Committee membership	Date of appointment	Date of resignation
Sue Harris (Chair)	7 May 2019[1]	
Glyn Smith	26 Sep 2017	
Bob Dench	14 Mar 2018	
Sir Bill Thomas	5 May 2020	

1. Chair since 1 August 2019

The Values and Ethics Committee was constituted on 1 November 2013 to demonstrate the Bank's commitment to promoting and conducting its business in accordance with its established values and ethics. The Chief Executive Officer attends the Values and Ethics Committee.

The values and ethics of the co-operative movement have always been central to our customers, and in 1992 we became the first UK bank to have a customer-led Ethical Policy. This policy has now been in place for over 25 years and remains unique in UK banking because it is shaped by our customers and embodies the values of the co-operative movement.

The Values and Ethics Committee's terms of reference require it to meet four times a year. In line with its refreshed terms of reference in 2020, the Values and Ethics Committee focussed on review of performance against co-operative values and its ethical policies, implementation of the Bank's values and ethics strategy and reinforcement of the Bank's ethical difference. Consideration of values and ethics is a mandatory requirement for all reports to the Board and its Committees.

The principal responsibilities and key areas of discussion of the Values and Ethics Committee are set out below:

Principal responsibilities of the Values and Ethics Committee	Key areas discussed and reviewed by the Values and Ethics Committee in 2020
Values and ethical policies	
Recommend to the Board for approval and adoption the values and ethical policies. Represent, monitor and advise the Board on matters concerning the interests of all stakeholders in their dealings with the Bank in line with the Articles of Association having regard to: i) the legal and regulatory requirements applicable; ii) the need to be commercially sustainable and profitable; and iii) the desirability of maintaining and enhancing image and public reputation.	The Values and Ethics Committee oversaw the continued adherence to the Bank's Ethical Policy, the latest version of which was launched in January 2015, and considered the steps necessary to update the Policy, which will now be updated in 2021 due to the impact of COVID-19. The Values and Ethics Committee discussed the Bank's activities to support positive social change, including our commitment to eliminating youth homelessness, support those suffering from economic abuse and Amnesty's campaign Write for Rights.
Statement to Co-operatives UK	
Monitor compliance with the statement[1] to Co-operatives UK and report on this at least annually to the Board. 1. The statement underpins our commitment to promote co-operative activities and to operate in line with co-operative values.	The Values and Ethics Committee monitored the Bank's compliance with its statement to Co-operatives UK at each meeting. Regular meetings continue between management and Co-operatives UK to monitor compliance with the statement. The Values and Ethics Committee monitored progress against the commitment to the partnership with Co-operatives UK for The Hive, a business support programme to promote social and economic development and enterprise in accordance with co-operative values.

Our Ethical Policy is published on the Bank's website at:

www.co-operativebank.co.uk/values-and-ethics

Key initiatives reviewed by the Committee

Supporting co-operatives

Support for co-operatives and the co-operative sector continues to be a key focus and we have committed support for The Hive, the development programme for new and existing co-operatives, to the end of 2023. The programme has been in place since 2016 and to date 1,171 groups have benefited from technical advice, peer mentoring, training and introductory workshops. In partnership with the Bank, Co-operatives UK adapted the programme over recent months to develop the Hive Assist to support co-operative businesses through the pandemic.

We have worked closely with Co-operatives UK during the pandemic to share resources and reach as many businesses and co-operatives as possible through our respective communication channels. At the start of the pandemic The Hive realigned its resources to form the Hive Assist programme, supporting existing co-operative businesses through the COVID-19 crisis. The programme is supporting these co-operatives with information, guidance and support to access available funding through grants and government schemes.

As well as direct support, The Hive has successfully raised the profile of co-operatives. There have been more than 10,000 downloads of free and comprehensive website resources with a social media reach of more than 2 million. These businesses span all sectors of the UK economy, creating jobs and delivering goods and services in a sustainable way.

October Books was able to access the Assist Package launched by The Hive to help co-operative businesses experiencing difficulties during the pandemic. They teamed up with Hive provider Nathan Brown, who lent his expertise to help the bookshop respond to the pandemic, remain resilient and find a way forward.

Supporting our NHS and our charity customers

In supporting our customers through the pandemic, colleagues stepped up to help many of our customers who work for the NHS, providing spare IT equipment and care packages where needed. We were also able to support 106 community groups that bank with us, with cash donations totalling nearly £100k. Many of these groups were directly involved in responding to the community impact of the pandemic.

Supporting human rights defenders

We have a long-standing relationship with Amnesty International UK and are committed to supporting human rights defenders of the future. Our support enabled Amnesty to launch Rise Up, a fully funded pilot youth training programme to empower young people across the UK to create change in their communities. The programme has led to meaningful change in participants themselves, with some taking their first steps in launching campaigns and others exploring ways to make the most of their new sense of confidence and skills, developing their activism. The programme supported diverse activists aged 16-24 with increased knowledge and skills in strategic campaigning, mobilising and organising, in order to empower them to achieve human rights change. Due to restrictions arising from COVID-19, the last training session was held online at the end of September 2020 and we will continue to support the young people while they take their next steps putting their learning into actions next year.

In December 2020 we once again supported Amnesty's Write for Rights campaign, promoting the campaign to our colleagues and customers, sending messages of support to tackle human rights injustice across the world. We also won the 'Changing Lives in the Community' category at the UK Card & Payments Awards for our campaign to tackle youth homelessness in partnership with Centrepoint.

Our Ethical Policy is published on the Bank's website at:

www.co-operativebank.co.uk/values-and-ethics

Tackling youth homelessness in partnership with Centrepoint

Throughout 2020, we have continued our work to end youth homelessness in partnership with leading youth homelessness charity Centrepoint and continue to donate £5 for every new and switched mortgage sold. This initiative raised £190,000 of funding in 2020, bringing the total raised so far since the start of our partnership to £1.7m.

Funding from the Bank will continue to support Centrepoint's national helpline, which helped over 6,000 young people facing the terrifying realities of homelessness in 2020. In October 2020, we sponsored Centrepoint's Stay Up event, which took place instead of their Sleep Out events. Colleagues across all areas of our business took part and helped to raise £50,000 on the night.

Supporting victims of economic abuse

Following our successful 'My money, my life' campaign in 2015, in October 2020 we launched the 'Know Economic Abuse' campaign, in partnership with Refuge.

This campaign aimed to raise awareness of the scale of economic abuse in the UK, including the effects of the pandemic and the long-term impact of economic abuse on survivors in terms of debt, credit-scoring and ongoing financial health. Together with Refuge, we have formed a five-point plan of action to increase the support available for those who are experiencing economic abuse or have experienced economic abuse in the past, and to help prevent economic abuse from happening. We are also working with the banking industry as well as credit reference agencies to become more involved in supporting survivors of economic abuse.

Refuge
For women and children. Against domestic violence.

Reducing our environmental impact

Our environmental commitments within our policy continue to differentiate us from our competitors. Our unique customer-led Ethical Policy commits that we won't provide banking services to businesses who are involved in the extraction or refinement of fossil fuels. As demonstration of this commitment, in February 2020 we signed up to the UNEP FI Principles of Responsible Banking.

We have been 'beyond carbon neutral' since 2007 as we continue to offset our carbon emissions through environmental projects around the world. In 2020, we achieved our ambitious but worthwhile goal of sending zero waste to landfill.

The Values and Ethics Committee will continue to oversee the delivery of the values and ethics strategy throughout 2021 and beyond. Our ongoing commitment to upholding co-operative values and with our Ethical Policy at the heart of everything we do will ensure we will continue to meet our customers' expectations to provide an ethical alternative to other UK banks.

Directors' Report

The Directors of The Co-operative Bank Holdings Limited, The Co-operative Bank Finance p.l.c. and The Co-operative Bank p.l.c. (the Directors) present their report and audited accounts for the year ended 31 December 2020.

The Co-operative Bank Holdings Limited (Registered number 10865342), The Co-operative Bank Finance p.l.c. (Registered number 11598074) and The Co-operative Bank p.l.c. (Registered number 00990937) and its subsidiaries provide a range of banking and financial services in the United Kingdom. See page 18 for a full description of our business model and focus.

Dividends

The Directors do not recommend payment of a dividend for 2020 and do not expect to pay dividends in the near future.

Business review, future developments, post balance sheet events and financial risk management objectives and policies

The business review and future developments, key performance indicators, principal risks and uncertainties are referred to in the strategic report or the information on pages 6 to 43. Financial risk management objectives and policies can be found as detailed below:

	Pages
Detailed financial review	30 to 33
Risk management objectives and policies	86 to 89
Principal risks and uncertainties	90 to 99

Post balance sheet events

On 5 February 2021 the Group signed a deed of termination and settlement relating to the Surrendered Loss Debtor with the Co-op Group. Under the terms of the deed the Bank received full and final settlement of all amounts which were payable by the Co-op Group in relation to the tax losses surrendered in 2012-2013. The asset was settled at carrying value of £47.8m and no profit or loss was recorded.

Going concern

The assessment of the appropriateness of the going concern basis of accounting for The Co-operative Bank Holdings Limited, The Co-operative Bank Finance p.l.c. and The Co-operative Bank p.l.c. in the 2020 Annual Report and Accounts has been subject to thorough consideration, involving analysis and discussion by management, Executive and Board Committees and the Board, in line with our governance process.

The Directors have assessed the going concern status using a framework focussing on forecast capital, liquidity and profitability as set out within the Group's most recent long-term forecast. The Directors have also considered the principal risks and uncertainties, along with the most relevant regulatory requirements, in addition to any other relevant and material information. After making enquiries of management and considering the long-term forecast, in particular for the 18-month period following year end, the Directors have a reasonable expectation that the Group, Finance Company and Bank will have adequate resources to continue in business over this period.

For these reasons, they continue to adopt the going concern basis in preparing these financial statements. For more details see note 1 to the consolidated financial statements.

Political donations

There is a policy that no donations are made for political purposes, and none have been made.

Directors' details

Details of Directors, including appointments and resignations during the financial year, and changes since the end of the financial year, are provided on page 52 of the corporate governance report. Details of the Directors offering themselves for election and re-election at the 2021 Annual General Meeting are provided on page 52.

Directors' third party and pension scheme indemnity provisions

Details of insurance and indemnities in place for the benefit of the Directors are provided within the corporate governance report.

Related parties

Details of related party transactions are set out in note 32 to the consolidated financial statements, note 25 to the Bank Company financial statements, note 26 to the Finance Company financial statements and note 5 to the Holding Company financial statements.

Corporate responsibility

Corporate responsibility activities are outlined on pages 70 to 73.

CO_2 emissions

The greenhouse gas emissions report is detailed on page 22.

Anti-bribery and corruption

Based upon the business activity, strategy and UK focus of the Group, it is assessed as being an inherently low-risk organisation in terms of bribery and corruption. For 2020, there are no anti-bribery matters to disclose and no material risks have been identified. The Group has a comprehensive Anti-Bribery and Corruption Control Standard, part of which requires due diligence on new third party suppliers and treasury counterparties during the onboarding process and is supplemented by annual due diligence of existing suppliers. In addition, annual training is provided to all colleagues on their anti-bribery and corruption obligations.

Our people

Our customer-led Ethical Policy shapes our continued focus to create an ethical workplace. In 2020, as the Bank sought to respond quickly and fairly to the pandemic, this remained at the heart of how we treated our colleagues and how our colleagues treated our customers.

Our response to the pandemic was underpinned by our values and behaviours, which ensure we are all moving in the same direction and delivering in the right way. We expect all colleagues to hold themselves and each other to account so we all demonstrate the values consistently, ensuring we are at our best for our customers, communities, stakeholders and each other.

We completed the Banking Standards Board cultural assessment survey in October 2020. 75% of colleagues took part in the survey and our overall culture result was 75 (out of 100). Bank-wide we saw improvements across a number of the cultural characteristics measures compared to 2019. Respect, shared purpose and competence were our strongest scores. This year the survey included additional questions focussed on managing culture in a crisis, which encompassed questions on wellbeing, perception of leadership and customer focus. The Bank performed strongly in these questions with 82% of colleagues agreeing or strongly agreeing that the Bank treated employees fairly across all levels during the coronavirus crisis and 88% agreeing or strongly agreeing that they are proud of the role the Bank played in helping customers during the coronavirus crisis.

Leadership and succession planning

Good leadership is integral to shaping the right culture for our Bank. In 2020 our leaders responded to the challenges of the pandemic and the broader impacts of this with resilience and care, and the positive response to how this was received in the workplace was demonstrated in the BSB survey results.

The work that the Bank continued through 2020 with our leadership development programme Growing Great Leaders and our Career Confidence programmes has maintained our focus on leadership development, helping colleagues to translate ambition into action through personal development opportunities.

Our leadership focus sits alongside our performance management framework that looks at both what is achieved and, equally importantly, how it is achieved. This approach to performance, along with a focus on nurturing talent across the Bank and robust succession planning, meant we were able in the latter half of 2020 to make some key changes in our Executive team through internal moves to support structure and operating model changes.

Entry talent and development

We continued to run our existing graduate scheme programmes throughout 2020, with a number of graduates successfully securing permanent roles within the Bank. Whilst we have not opened a new graduate scheme in 2020, the 2019 Banking Leadership cohort of graduates continue with their programme, undertaking rotational placements across a variety of business functions.

We have 70 colleagues studying towards an apprenticeship programme across a number of areas, including customer service, risk and compliance, finance, accounting and taxation professional qualifications.

We remain focussed on supporting the development of all our people through the provision of high-quality development opportunities, as well as a suite of mandatory training modules including: risk, conduct and inclusion and diversity.

Inclusion and diversity

The Co-operative Bank came together nearly 150 years ago to stand up for the ideal of co-operative values and principles to build a better society for all. Our fair, diverse and inclusive culture is underpinned by our inclusion networks, run by colleagues for colleagues. Each network has its own area of focus and associated activities, but they collaborate wherever possible. All networks are open to all colleagues regardless of their demographics, and all actively welcome allies. We have worked closely with our inclusion networks throughout 2020: Access, supporting colleagues with disabilities, long-term health conditions and caring responsibilities; Reach, our race, ethnicity and cultural heritage network; Proud Together, our LGBT network; Elevate, our women's career network; and, new for 2020, Futures, our early careers network.

The networks seek to:

- encourage a diverse workforce which represents our communities and customers; and
- promote an inclusive work environment which engages the talents, beliefs, backgrounds, capabilities and ways of working of all individuals to create a culture of belonging, ensuring everyone has equality of opportunity regardless of personal characteristics. This includes, but is not limited to, gender, pregnancy and maternity, ethnicity, culture, age, physical and mental ability, sexual orientation, gender identity, religion or belief, marital and civil partnership status, education and those with a caring responsibility.

Despite a challenging year with limited ability to connect face-to-face, the networks have come together to support their members across a range of activities, and have used their collective resources to collaborate on events and activities to support their members and non-members across a range of areas, all aimed at making the Bank a great place to work. 2020 saw the launch of our Futures network, which seeks to support those who may face challenges at the start of their career.

The networks have started hosting monthly lunch and learn sessions to help build broader business knowledge for network members, as well as running a series of blogs on the colleague intranet, 'colleague career stories' exploring different career paths across the Bank. Our Reach network has been involved in raising awareness through activities such as taking part in a virtual careers day for a local high school and creating an internal colleague network discussion forum 'Let's Talk About Race'. These are examples from just two of our networks of the continued effort put in to raise awareness and support our colleagues.

We continue to prioritise gender balance across all areas of our Bank, in particular striving to increase the number of women in our senior roles. This work underpins our HMT Women in Finance Charter commitments. Our target was to increase female representation in our senior leaders to 40 % by 2020 and we achieved this target, reaching 42.3 % at year end. One of the main reasons we have achieved our initial target is the work we have done on encouraging and supporting women to put themselves forward for progression opportunities alongside their male colleagues.

Our gender pay gap figures in 2020 have shown some improvement in all areas except median. We are reporting 25.94 % (median) and 27.95 % (mean) (2019: 22.62 % (median) and 32.96 % (mean)). Like many financial services firms, our Bank employs more women than men and a higher proportion of women than men in our customer-facing roles, which influences the gap. We are confident that in the long term our focussed work on gender inclusion and balance at all levels will result in the gap narrowing.

We are a Disability Confident certified employer and are committed to recruiting and retaining people with disabilities or health conditions for their skills and talent. Under this commitment, interviews are offered to all candidates with a disability who meet the minimum criteria for the role. Policies and processes are in place to support disabled colleagues and we are dedicated to making reasonable adjustments for new colleagues, and for those who develop disabilities whilst in our employment. Our Access network continues to support us with our focus here.

A great place to work

We recognise that health and wellbeing at work are vital. COVID-19 has elevated the need for our inclusion and diversity networks more than ever, and both our networks and Bank leaders have supported colleagues through challenging times as many colleagues adjusted to working from home. The Bank put in additional measures to support colleagues through the unexpected first lockdown. These included additional leave for school closures, the Bank colleagues support scheme and, where operationally viable, home working. We have had roughly half of our colleagues working from home since March; this importantly has created space in our offices allowing colleagues in roles that needed to remain on site to work safely.

Wellbeing services include access to an external Employee Assistance Programme (EAP) which provides free expert advice to colleagues on a wide range of matters including health and wellbeing, personal and work-related concerns, money and debt, child/elder care and trauma. Occupational health support is also provided.

We work closely with our trade union Unite. Regular informal and formal consultations take place with the union and they are fully consulted where organisational change and other issues may affect colleagues. The union worked closely with the Bank through the early months of the pandemic with regards to the Bank's response and support provided to colleagues.

In 2020 we continued with our commitment as part of our Ethical Policy to pay colleagues no less than the real living wage as set out by the Living Wage Foundation. We were also the first bank to become a member of the Greater Manchester Good Employment Charter in September 2020, and in October 2020 we were accredited for the Mayor of London's Good Work Standard. Our portfolio of evidence resulted in us achieving one of the highest scores for a private sector organisation. We received the highest 'excellence' level across all four pillars – Fair Pay & Conditions; Workplace Wellbeing; Skills & Progression and Diversity & Recruitment.

HR key performance indicators

Gender diversity (Headcount) as at 31 December

2020	Female No.	Female %	Male No.	Male %	Grand total No.
Board[1]	2	22 %	7	78 %	9
Executive management team[2]	4	50 %	4	50 %	8
Other employees	1,619	58 %	1,191	42 %	2,810
Grand total	**1,625**	**57%**	**1,202**	**43%**	**2,827**

2019	Female No.	Female %	Male No.	Male %	Grand total No.
Board[1]	2	18 %	9	82 %	11
Executive management team[2]	4	33 %	8	67 %	12
Other employees	1,952	59 %	1,352	41 %	3,304
Grand total	**1,958**	**59%**	**1,369**	**41%**	**3,327**

1. Board: Includes Executive and Non-Executive Directors.
2. Executive management team: Includes senior managers who have responsibility for planning, directing or controlling the activities of the business. Members of the Executive management team who are al-o part of the Board are not included here.

Split of full and part time employees by gender as at 31 December

2020	Full time	Part time	Grand total
Female	1,036	589	1,625
Male	1,154	48	1,202
Grand total	**2,190**	**637**	**2,827**

2019	Full time	Part time	Grand total
Female	1,271	687	1,958
Male	1,304	65	1,369
Grand total	**2,575**	**752**	**3,327**

Senior Managers and Certification Regime (SMCR) and whistleblowing

The Group continues to deliver robust compliance with its governance over the Senior Managers and Certification Regime. The HR, Risk and Secretariat departments co-ordinate efforts to ensure that regulatory requirements are met, at the same time seeking a smooth process for those impacted by, for example, fitness and propriety checks. Conduct (COCON) Rule compliance is overseen by an independent panel. The Group's whistleblowing oversight is similarly reviewed to ensure that all relevant disclosures are captured and reported, and that whistleblowers are not subjected to detriment. The Group has a nominated whistleblowing champion who is a Board member and deals with all such concerns confidentially whilst ensuring appropriate investigation and follow-up procedures are conducted.

Engagement with suppliers

2020 saw a significant reduction in the number of third party relationships the Bank holds via a programme of supplier consolidation.

We also reviewed our Modern Slavery and Human Trafficking Statement for the Bank. This included a full review of our supply chain and their compliance with our Ethical Policy through the Sustainable Procurement and Supplier Policy (SPSP).

In order to ensure continuously improving adherence to our cost controls, staff involved in buying decisions and the payment of suppliers continue to receive regular training on our procure to pay (P2P) processes. We also communicated with all of our suppliers in 2020 to ensure their ongoing support of these processes.

Despite the impact of COVID-19, our suppliers continued to deliver goods and services to the Bank to meet our requirements. We established a third party co-operation forum that met frequently throughout the year to ensure best practice was shared in relation to managing the pandemic including resource constraints, industry themes and organisational responses to working from home.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and Accounts and the consolidated financial statements of The Co-operative Bank Holdings Limited and its subsidiaries (the Group), the consolidated financial statements of The Co-operative Bank Finance p.l.c. and its subsidiaries (Finance Group), the consolidated financial statements of The Co-operative Bank p.l.c. and its subsidiaries (the Bank) and parent company financial statements for The Co-operative Bank Holdings Limited (the Holding Company), parent company financial statements for The Co-operative Bank Finance p.l.c. (the Finance Company) and parent company financial statements for The Co-operative Bank p.l.c. (the Bank Company) in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group, Finance Group, Bank, Holding Company, Finance Company and Bank Company financial statements for each financial year. Under that law they have elected to prepare the Group, Finance Group, Bank, Holding Company, Finance Company and Bank Company financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group, Finance Group, Bank, Holding Company, Finance Company and Bank Company and of their income statements for that year.

In preparing each of the Group, Finance Group, Bank, Holding Company, Finance Company and Bank Company financial statements, the Directors are required to:

- select suitable accounting policies in accordance with International Accounting Standard 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in international accounting standards in conformity with the requirements of the Companies Act 2006 is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the financial performance; and
- state that the Group, Finance Group, Bank, Holding Company, Finance Company and Bank Company have complied with international accounting standards in conformity with the requirements of the Companies Act 2006, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's, Finance Group's, Bank's, Holding Company's, Finance Company's and Bank Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group, Finance Group, Bank, Holding Company, Finance Company and Bank Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group, Finance Group, Bank, Holding Company, Finance Company and Bank Company and to prevent and detect fraud and other irregularities.

The Directors are also responsible for preparing, in accordance with applicable laws and regulations, a strategic report, Directors' Report and corporate governance statement that complies with that law and those regulations. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website.

Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Disclosure of information to the auditor

So far as the Directors are aware, there is no relevant audit information of which the Group's, Finance Group's and Bank's auditor is unaware, and the Directors have taken all steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Group's, Finance Group's and Bank's auditor is aware of that information. We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and income statement of the Group, Finance Group and Bank and of the undertakings included in the consolidations taken as a whole;
- the strategic report includes a fair review of the development and performance of the business and the position of the Group, Finance Group, Bank, Holding Company, Finance Company, Bank Company and the undertakings included in the consolidations taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's, Finance Group's, Bank's, Holding Company's, Finance Company's and Bank Company's performance, business model and strategy.

Corporate governance statement

The revised UK Corporate Governance Code was published by the Financial Reporting Council in July 2018 (the 2018 Code). The Group reviewed the 2018 Code, and is comfortable that its corporate governance framework reflects many of the principles and provisions set out in the 2018 Code, even though the Group is not required to and does not comply with the 2018 Code.

The Directors recognise the need for sound corporate governance arrangements at all levels of the Group and continue to review, as required, the Group's governance arrangements to ensure that the necessary high standards are promoted, paying particular attention to The Companies (Miscellaneous Reporting) Regulations 2018 (the Corporate Governance Regulations) which came into effect for accounting periods beginning on or after 1 January 2019; the recommendations of the Brydon Review issued on 18 December 2019; and any other relevant publications.

This responsibility statement was approved by the Board of Directors of the Holding Company, Finance Company and Bank Company on 24 February 2021 and is signed on its behalf:

By order of the Boards for The Co-operative Bank p.l.c., The Co-operative Bank Holdings Limited and The Co-operative Bank Finance p.l.c.

Robert Dench
Chair of the Board
24 February 2021

Directors' Report on remuneration to the shareholder

Recognising and rewarding our colleagues for their exceptional commitment to our customers

Dear Stakeholder

I am pleased to present an overview of the key developments relating to remuneration in 2020 together with The Co-operative Bank Pillar 3 remuneration disclosure for 2020. Our full Executive Directors' remuneration policy remained unchanged in 2020 and can be found at:

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

Looking back on 2020

As with all businesses, the Bank has been responding and adapting to the challenges brought about by the COVID-19 pandemic.

A number of early decisions were taken concerning pay for both senior leaders and the wider colleague population in response to the impacts of COVID-19. We delayed the payment of 2019 bonuses to Material Risk Takers for a period of six months and committed to applying a downwards discretionary adjustment to our 2020 bonus pool following the final assessment of performance against the scorecard to ensure it reflected the impact that COVID-19 has had upon the Bank. Consideration of cost, fairness, government guidance and other stakeholder interests have all been taken into account when making these decisions.

After careful consideration, however, we felt it was important that we continue to use appropriate variable pay schemes available to us, to motivate and retain colleagues during this difficult period. The reward strategy and variable pay disciplines we put in place during 2019 were, therefore, maintained during 2020. In addition, the Committee supported the Bank Executive team in establishing and implementing initiatives to protect our most vulnerable and impacted colleagues during this period.

There were further Executive team changes during 2020. These resulted in internal appointments of a new Managing Director of Customer and People and Chief Risk Officer early in the year. Later, following the Chief Executive Officer's departure, the Bank implemented a number of its other succession plans with further internal promotions, by appointing a new Chief Executive Officer and Chief Financial Officer. The Remuneration Committee approved the remuneration for the new Chief Executive Officer and Chief Financial Officer along with remuneration packages for other new and changed Executive roles. The changes also accelerated the transition of Executive pay to a normalised structure, including the phasing out of role-based allowances and alignment of pension provision with the wider Bank employee population.

Meanwhile, the Remuneration Committee has continued to monitor closely Executive performance in 2020 against the Bank's balanced scorecard, whilst also considering the impact of the COVID-19 pandemic and the risks it introduces to delivering against the Bank's short and longer-term plans.

Scorecard performance – what does it measure?

The scorecard sets out five performance areas:

- Our customers;
- Our people;
- Building our future;
- Our financial performance; and
- Risk and control performance.

More detail on these performance areas is included on page 80.

Overall 'on target' performance is 100% with a maximum for out-performance across all measures of 200%.

Each metric is weighted equally, so 'on target' performance on each of the five measures will contribute 20% towards the overall performance.

The performance achieved is monitored on a monthly basis and the annual results, in the context of variable pay awards, are subject to review by the Remuneration Committee.

By the end of the year, overall performance achieved was 83.8% against all measures, where target performance is 100% and maximum performance 200% for all measures. Within the scorecard, each area carries a target weighting of 20% and, in this regard, the overall performance reflects the following achievement in each area:

- Performance for our customers was measured at 23.9%;
- Performance for our people was measured at 6.3%;
- In building our future, performance was measured at 20.0%;
- Our financial performance was measured at 14.2%; and
- Risk and control performance was measured at 19.3%.

Integral to this focus on performance is the Remuneration Committee's continued attention to risk issues and considerations and it was particularly pleasing to see operational improvements against our Risk Management Framework through the year.

Once the final performance for 2020 was determined, the Remuneration Committee oversaw the distribution of variable pay, including annual bonuses for all employees and long-term incentive awards to selected staff, for the 2020 performance year. Awards varied subject to both corporate performance, by reference to Bank-wide and functional scorecards, and individual performance against agreed personal objectives. Appropriate consideration was, therefore, given to the underlying performance of the Bank, in accordance with regulatory requirements and our commitments to make adjustments due to COVID-19. In this respect a discretionary adjustment to the bonus pool was applied, taking the overall scorecard result down to 70.0%. In addition, a further discretionary adjustment to the bonus pool for the Executive team was applied, taking the overall scorecard result against which their bonuses were awarded down to 35.0%.

This downward adjustment primarily took into consideration the impact of COVID-19 on our customers and the future impact the pandemic is expected to have on the long-term performance of the Bank. The Committee believes that the final adjusted scorecard result and subsequent bonus pool are a fair reflection of delivery against a number of key financial and non-financial objectives across 2020, with our colleagues providing exceptional support to our customers during this crisis under challenging professional and personal circumstances. All awards remained within the parameters set out in the approved policy.

Towards the end of the year, with an updated strategic plan for the Bank in place and a new Executive team, during what continues to be an uncertain period for our business, the Remuneration Committee started to give consideration to a retention strategy for key people across the organisation who are critical to the successful delivery of the Bank's strategy during the coming year.

Meanwhile, following the publication of CRD V, a review of the regulatory changes was undertaken to assess the impact upon the Bank. This review was supported by our external remuneration advisor, PwC, and the Bank decided to be an early adopter of the changes that impact the approach to identifying its Material Risk Takers (MRTs). All other changes as a result of the introduction of CRD V will come into effect for the 2021 performance year. Whilst minimising the disruption for this population and simplifying the communication process, this also ensured that the Material Risk Taker population reflected the changing Bank structure, providing clear and transparent accountability. The changes that impact the treatment of MRTs remuneration will be effective for the 2021 performance year.

We have also continued to embed the work previously undertaken to strengthen our policy and process documentation to support the Bank's ongoing compliance with remuneration regulations.

Remuneration Committee agenda for 2021

In 2021 the Remuneration Committee will continue to oversee the development and implementation of the Bank's remuneration policy and practices, including the determination and distribution of variable pay, comprising annual bonuses for all employees and long-term incentive awards to selected staff. We remain committed to ensuring that our reward framework continues to align Executive performance with shareholder expectations, as well as with the customer experience, while ensuring that pay remains competitive to retain the right talent and aligned to the strategy of the Bank over the short and long term. The Remuneration Committee will continue to consult with both the Risk Committee and the Values and Ethics Committee on certain aspects of remuneration policy.

We are seeking to re-align our incentive plans in 2021 to our key financial targets, whilst at the same time ensuring that we maintain our ethical difference as a bank with our customers and potential customers. Diversity remains a key area of focus for the Bank and through its focussed work on gender diversity, in particular for internal promotions, we are making good progress in increasing the number of senior management roles being occupied by women. At the end of 2020 over 42% of our senior management roles were occupied by women. The Remuneration Committee will continue to monitor progress towards this objective and will also review the Bank's gender pay gap reportable data on an annual basis and ensure that our reward policies remain gender neutral.

On behalf of the Remuneration Committee, I would like to thank you for your continued support.

Sir Bill Thomas
Remuneration Committee Chair
24 February 2021

The Co-operative Bank CRD IV Pillar 3 Disclosures as at 31 December 2020

Introduction

The following disclosure explains how the Bank has complied with the regulatory requirements under the PRA and FCA implementation of the Capital Requirements Directive (CRD).

Remuneration governance

The Bank has an established Remuneration Committee consisting of Non-Executive Directors. The Remuneration Committee met eleven times in 2020. Its responsibilities include recommending to the Board for approval the overarching principles and parameters of the remuneration policy across the Bank, and applying the necessary oversight to ensure that a coherent approach to remuneration is implemented for all employees, whilst ensuring that arrangements are consistent with effective risk management.

The members of the Remuneration Committee are as follows:

Committee membership	Date of appointment	Date of resignation
Sir Bill Thomas (Chair)	26 Sep 2017[1]	
Sally-Ann Hibberd	11 Dec 2019	
Derek Weir	26 Sep 2017	
Glyn Smith	27 Mar 2019	
Morteza Mahjour	1 Jan 2020	31 Dec 2020
Richard Slimmon	11 Jan 2021	

1. Chair since 19 December 2017

In setting remuneration policies, the Remuneration Committee seeks to:

- link reward to business and individual performance, ensuring that performance metrics are balanced so as not to encourage undue/inappropriate risk;
- ensure that the remuneration of senior management can be justified clearly by reference to independently sourced market data on comparable organisations, and is set in a manner broadly consistent with the systems used to determine pay for employees elsewhere in the Bank, taking into account quantum, market comparators and affordability;
- determine the specific conditions for variable annual and longer-term pay so that these are financially prudent, directly aligned to approved strategic plans and thus support and drive long-term sustainability; and
- establish measures which explicitly reward the ongoing support for co-operative values and ethics.

The Remuneration Committee received support and advice during the year from PwC, its external advisor. PwC are members of the Remuneration Consultants Group and, as such, voluntarily operate under the code of conduct in relation to 'executive remuneration consulting in the UK'. The role and activities of the Remuneration Committee are further detailed in the Remuneration Committee's terms of reference (which are available on the Group's website).

The Remuneration Committee continues to consult regularly with management on aspects of remuneration and benefits, corporate governance and risk. For these purposes, management includes the Chief Executive Officer, the Managing Director of Customer and People and the Chief Risk Officer. The Remuneration Committee also works closely with the Chairs of the Risk Committee, Joint Audit Committee, Nomination Committee and Values and Ethics Committee.

The Remuneration Committee is satisfied that the Group's remuneration approach is in line with regulatory requirements. The Bank is a Level 2 firm under the PRA Rulebook and FCA guidance on proportionality for CRD IV.

Material Risk Taker criteria

The Remuneration Committee oversees remuneration for staff identified as Material Risk Takers (MRTs). In 2020, 65 MRTs were identified within the Bank, according to the qualitative and quantitative criteria contained within the Regulatory Technical Standards published by the EBA and the Bank's own assessment of individuals who can create material risks through their professional activities. The process for identification and the final list of MRTs was approved by the Remuneration Committee.

Material Risk Takers are subject to the PRA and FCA Remuneration Code provisions which are applied to their remuneration arrangements.

Link between pay and performance

Components of remuneration

Employee remuneration, including that of Material Risk Takers, consists of fixed and variable remuneration. The Committee reviews individual pay decisions and outcomes for all employees deemed to be MRTs in any given year.

The Bank's variable pay arrangements aim to reward individual and collective performance achieved in a manner consistent with its values and ethics and within its risk appetite. Senior colleagues (Executive Committee and certain other senior colleagues) are eligible for grants under a Long-Term Incentive Plan (LTIP), as provided under our approved policy. Recognising the continuing progress being made since the Bank's Restructuring and Recapitalisation in 2017 and with that the easing of constraints under the requirements of CRD IV regulations, the Committee approved the grant of awards in 2020 under such an LTIP. A one-off Management Incentive Plan (MIP), which was implemented in late 2018, continued to operate, aligning certain senior colleagues with long-term value creation, subject to maintaining sound risk management. Full details can be found in the 2018 Directors' remuneration report in the 2018 Annual Report and Accounts.

Fixed remuneration

Fixed remuneration, which includes salary for all employees (and other cash allowances for Executives and certain other senior roles) is set having regard to individual roles, scope of responsibilities and experience, and internal and external benchmarks.

Variable remuneration

Both the annual and long-term variable pay arrangements incorporate the use of a balanced scorecard which is directly aligned to the Bank's strategic plan and includes metrics that measure performance related to:

- Our customers (including brand strength and digital adoption);
- Our people (including employee engagement);
- Building our future (including performance against the Bank's key strategic priorities);
- Our finances (including performance against our KPIs including profitability, operating costs and CET1 ratio); and
- Our risk and control environment (including consideration of operational losses, timely reporting and remediation of risk issues and internal audit findings, effective AML controls, overall compliance with the regulatory environment and productive relationships with the Bank's regulators).

This scorecard includes non-financial measures to ensure that there is compliance with the Risk Management Framework and no encouragement of inappropriate risk taking. Furthermore, awards may not be made if underlying capital conditions are not met. Variable remuneration awarded to employees whose roles have a material impact on the Bank's risk profile meets with CRD IV requirements. This includes appropriate deferral of awards and risk adjustment through malus and clawback provisions as set out in the PRA Rulebook and FCA Handbook.

The Chief Risk Officer's bi-annual report to the Committee also provides a summary of year-to-date risk performance, including:

- an overview of risk key performance indicators (KPIs) used to monitor risk, including key metrics, tolerances, outcomes for the year to date and any trends or significant movements, covering all the Bank's principal risks identified through the Risk Management Framework;
- a commentary on the strength of the risk governance and control environment, together with the cultural attitude to risk within the Bank;
- an outlook on emerging issues that are likely to present new risks to the Bank over the next year, areas requiring further enhancement and any planned changes to be made during the next performance year;
- a discussion of any risk events and issues identified; and
- a commentary on other, difficult to quantify risks, such as significant regulatory correspondence and cultural or behavioural issues.

Accordingly, annual bonus pools are adjusted for risk indicators:

- according to performance against Bank scorecard measures;
- having regard to decisions and actions in relation to risk appetite and the potential future impact;
- in the light of risk events which have already happened and which are reported through to Remuneration Committee via the Bank's People Committee and Risk Adjustment Forum; and
- at the discretion of the Remuneration Committee, having regard to the Bank's overall performance and the experience of shareholders and customers.

Individual adjustments to variable pay may then be made, having regard to material risk events that have been reported to the Remuneration Committee, which looks at the individual impact and accountability for such issues.

Individual performance assessment, deferral, malus and clawback

Bonus allocations to individuals are calculated as a percentage of base salary, determined according to an individual's overall performance rating for the performance period, against a set of financial and non-financial measures and including risk management considerations in the assessment of individual performance. Variable pay for control functions is based on role-specific objectives, independent of the performance of the business units that they oversee, and final outcomes for senior control functions are approved by the Remuneration Committee.

Deferral of incentive awards is a key mechanism to retain talent which is primarily achieved through annual incentive deferral. The following is applied to employees' (including MRTs') annual incentives:

- the deferral of at least 40-60% of their variable remuneration over a period of at least three years;
- the delivery of at least 50% of their variable remuneration in the form of shares or share-linked instruments;
- risk adjustment of any variable remuneration award, including malus/clawback on the Annual Incentive Plan, Deferred Bonus Plan, Management and Long-Term Incentive Plan awards. For any award made on or after 1 January 2015, clawback may apply for up to seven years following the award; and
- malus and clawback may be exercised in the event of a material misstatement of the Group's audited financial results, material error in assessing a performance condition, a material failure of risk management, reputational damage to the Bank, a material downturn in financial performance, misbehaviour, misconduct or material error by an individual or any other similar circumstances the Remuneration Committee deems appropriate.

Ratio between fixed and variable remuneration

Under the Bank's remuneration policy, variable remuneration for Material Risk Takers cannot exceed twice the amount of their fixed remuneration. Shareholder approval for the maximum '2 x fixed remuneration' ratio, which was received in May 2014, continues to apply.

Quantitative remuneration disclosure

1. Aggregate remuneration – all employees

Total number of employees[1]	2020 Total fixed remuneration £m	Total variable remuneration £m	Total remuneration £m
2,827	**100.4**	**4.2**	**104.6**

1. Figures are based on the Bank's employee population as at 31 December 2020.

2. Aggregate remuneration[1] – Senior Management and other Material Risk Takers by business area

2020	Number of employees	Remuneration	Customer functions £m	Corporate functions[2] £m	Internal control functions £m
Senior management[3]	31	Fixed	1.5	5.6	1.6
		Variable	0.1	0.7	0.1
Other MRTs	34	Fixed	1.2	3.2	0.9
		Variable	0.1	0.2	0.1
Total	**65**		**2.9**	**9.7**	**2.7**

1. Aggregate remuneration is the amount of remuneration paid during the year i.e. pro-rated for joiners and leavers, and includes pension contributions.

2. Chief Executive Officer and Non-Executive Directors are included in corporate functions.

3. Senior management consists of those in a Senior Management Function (SMF) role under the Senior Managers Regime plus any other Non-Executive Directors, Executive Directors or Executive Committee members.

Chief Executive Officer remuneration

The total 2020 remuneration for Andrew Bester up to his leaving date at the end of October was £1.56m. This was made up of the following:

Fixed remuneration	£000s
Basic salary	1,083
Allowances and benefits	158
	1,241
Variable remuneration	
2020 bonus	319

In addition he continues to be paid his basic salary only for the remaining nine months of his notice (November 2020 to July 2021 inclusive).

The total remuneration for Nick Slape during 2020 was £0.82m. This was made up of the following:

Fixed remuneration	£000s
Basic salary	528
Allowances and benefits	155
	683
Variable remuneration	
2020 bonus	135

Note: this table is based on Nick Slape holding the position of Chief Financial Officer for ten months of the year and Chief Executive Officer for two months of the year.

Risk management

Bhupendra
Kamla Foundation
Co-operative Bank business customer

1. RISK MANAGEMENT OBJECTIVES AND POLICIES

1.1 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 acts 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 Risk Management Framework (RMF).

COVID-19 update

It is clear that the COVID-19 pandemic has had a significant impact on the Group and may continue to present further risks and challenges in both the short and medium term.

In H1, we reviewed the principal risks in light of the COVID-19 pandemic and concluded that there were no changes to the nature of risks faced by the Group and therefore the list of principal risk categories remains unchanged. However, the COVID-19 pandemic creates additional challenges and increases the likelihood of the principal risks manifesting themselves given the external environment and the increased pressure on the internal processes to operate remotely. We have included detail on what we consider to be the most significant and emerging risks from a principal risk perspective in section 1.8.

To adapt to the unprecedented nature of the circumstances this year, the Group responded rapidly to fast-moving external changes whilst maintaining the fundamental principles and approach to risk management. The initial strategy to deal with the pandemic, which was underpinned by the objective of keeping our customers and colleagues safe, included intensive incident management to plan and respond to changes required to our procedures and operational activities. With restrictive social measures coming into effect in the regions worst affected by a 'second infection wave' in September, culminating in a second national lockdown in November and swiftly followed by the current national lockdown, the Bank has continued to adapt and operate in an agile way with the same objective in mind: to keep customers and colleagues safe.

Incident management teams closely monitor whether these procedural actions are effective, by the regular monitoring of early warning indicators and key metrics. The Group's response during 2020 to the risks posed by the COVID-19 pandemic included (but is not limited to):

- Implementing measures to support customers, including payment deferrals (including the implementation of payment deferral extensions), overdraft buffers, removal of late fees on certain products, participation in the CBILS and Bounce-Back loan scheme;
- Redeploying skilled colleagues to customer-facing roles to ensure that our customers can speak to us or visit us in branch when they need to;
- Operational changes to implement social distancing in our buildings or to support colleagues working from home where possible to ensure the safety of our colleagues and customers;
- Implementing additional monitoring activities (to complement – not replace – existing governance) in order to respond to the speed of change resulting from the COVID-19 pandemic. This ensures that key decisions are made in a controlled way, quickly and based on relevant information tailored to the current environment to allow the Group to continue to support its customers as the unprecedented conditions evolve;
- Updating our financial plan to reflect the significant changes to the market conditions in the UK banking industry and the wider UK economy, including changes to our capital and liquidity forecasts, income and cost projections and the level of investment spend in light of potential deterioration in economic benefit in the short to medium term (see pages 30 and 31);
- Evaluating the potential impacts on financial reporting risks, establishing the potential impact of changes to the recognition or valuation of assets and liabilities in light of COVID-19 under accounting standards and applicable UK laws and regulations, including potential impacts on provisions, income recognition and the associated valuation of assets and their risk weights for capital purposes; and
- Evaluating the basis of the Group's participation in the Term Funding Scheme with additional incentives for SMEs (TFSME) government scheme, which is described further on pages 38 and 39.

The recent development of a COVID-19 vaccine and the commencement of a nationwide vaccination programme have been encouraging, particularly in relation to the effect on market conditions in the short term. However, the duration and severity of the risks arising from COVID-19 are continuing to develop and are not yet fully crystallised; these remain potentially wide-ranging in impact across the financial services industry both in the short term and medium term. The Bank continues to assess risk factors both internally and externally such as the regulatory environment, the macroeconomic environment and the credit risk portfolio, which if deteriorated sufficiently and concurrently, could pose concerns to business model viability of many mid-tier banks.

1.2 OVERVIEW

The Board oversees and approves the Bank's 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 and 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, control 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 along the lines of principal risks within section 1.8.

1.3 OUR RISK MANAGEMENT FRAMEWORK (RMF)

1.4 RISK MANAGEMENT STRATEGY AND APPETITE

The Board has primary responsibility for identifying the key business risks faced and 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 appetite measures which are tracked, monitored and reported to the appropriate Risk Committees (refer to section 1.7). 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.

1.5 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. Culture is measured through continued monitoring of the Risk section of the CEO scorecard, the RMF dashboard which includes metrics on Risk process adherence through RMF-focussed 2nd line of defence assurance reviews and through 2nd line of defence oversight and feedback.

1.6 EVOLUTION OF THE RMF IN 2020

The Bank continually seeks to enhance and further embed its RMF to ensure efficient and effective risk ownership and management within risk appetite, supporting appropriate customer outcomes and the delivery of its strategic plan. In an unprecedented year in which there have been major changes to colleagues' ways of working (with significant numbers of colleagues working from home and implementation of social distancing measures in front-line teams), the RMF has remained robust and fit for purpose.

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:

- Continued clarity of the alignment of first line ownership of principal risks to the Senior Managers and Certification Regime to create an integrated and consistent accountability matrix;
- Internal training sessions promoted collaborative risk management across the Bank with focus on the role of the Risk Framework Owner;
- Continued 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;
- Improvements to the way business as usual operational risks and operational risks arising from change and transformation are interlinked; and
- Improvements to key operational risk processes, for example, the risk acceptance process in order to drive further efficiencies.

1.7 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 Chief Executive Officer (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 2020, the Bank's Executive governance framework was reviewed and the following changes were made to the formal governance structure:

- Executive Risk Oversight Committee (EROC) now reports directly into the Risk Committee (RC), rather than the Executive Committee (ExCo), as a Tier 3 Committee;
- Product Governance Forum (PGF), Bank Design Authority (BDA) and a number of other forums reconstituted as the Product Architecture and Design Committee (PADCo);
- Removed Cost Management Committee (CMC) with all cost discussions included at the Operating Committee (OpCo); and
- Business Resilience Committee formed and reports directly to OpCo.

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 focussed 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)	The purpose of the Committee is to review and report its conclusions to the Board on the Bank's risk appetite and propose for approval by the Board and oversee the implementation of a Risk Management Framework, taking a forward-looking perspective and anticipating changes in business conditions.
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 is responsible for oversight of the risk profile of the Bank (within the agreed Board risk appetite). The Committee reviews and challenges the risks associated with the Bank's business strategy, plans and overall management of risks. 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 the 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 is responsible for oversight of all aspects of pension arrangements which the Bank either sponsors or participates in, to ensure cost, risk, capital, investment and employee requirements are met.

1.8 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.

Capital risk

Definition:
The risk that the Bank's regulatory capital resources are inadequate to cover its regulatory capital requirements.

Key themes:
The macroeconomic environment - We have previously indicated that the ability to maintain sufficient capital resources now and in the future was dependent on the return to profitability and issuances of MREL-qualifying debt within external capital markets. Here, we highlight that the successful implementation of the Bank's strategy and its return to profitability are contingent upon a range of external factors, 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. All of these factors have been subject to greater uncertainty as a result of the COVID-19 pandemic. Despite all of these challenges, based on our revised economic forecasts the Bank anticipates sustainable profitability from 2021, which will allow organic capital growth.

The range of economic support packages brought out by the UK government (and implemented through the banking industry) earlier in the year to support the country through a series of national and local restrictive measures has provided essential support to our customers. More recently, the breakthrough COVID-19 vaccine and the start of a national vaccination rollout in the UK has had a positive effect on markets. Despite this, the Bank is mindful of the reducing level of government support to consumers and businesses and the low base rate environment as we progress through 2021.

MREL compliance - The introduction of the MREL framework in the UK requires the Bank to issue additional MREL-qualifying capital to meet future requirements. These capital issuances are subject to investor appetite in a challenging 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.

In the fourth quarter of 2020, the Bank successfully completed a £200m MREL transaction which involved issuing £200m of debt, with the majority placed with third party investors. This issuance is in addition to the Bank's £200m Tier 2 issuance in 2019. Whilst the increased level of debt creates further downward pressure on its net interest income, this represents another significant step for the Bank in reaching future state MREL requirements and demonstrating capital resilience. The Bank is now well-positioned in the current uncertain economic environment, as we focus on providing the support our customers need and delivering our strategy to return to profitability.

In December 2020, acknowledging the challenges that have been faced by some banks in debt issuance and to enable the review of the leverage ratio framework to be taken into consideration, the BoE issued a discussion paper outlining their plans to undertake a review of MREL. As a result of this, the Bank's MREL requirements were delayed by one year to 1 January 2023, in line with other mid-tier banks.

Our shareholders continue to be supportive of our business, and we are committed to achieving any end-state MREL obligations. For planning purposes, we continue to work on the basis that the maximum MREL requirement will be applicable to the Group from 1 January 2023 and remain fully committed to meeting requirements. In the meantime, the Group will provide a response to the specific points raised in the discussion paper, which will be followed by a consultation in summer 2021 once responses to the discussion paper are collated and further progress has been made on the implementation of the UK leverage ratio framework.

ICAAP - The Bank received the results of its Internal Capital Adequacy Assessment Process (ICAAP) in the fourth quarter of 2020 which confirmed a reduction of the Bank's ICR by £48m (c.15%) to £266m, equivalent to a reduction of 0.99% of RWAs at December 2019. This reduction demonstrates the increasing robustness of the RMF and confidence in the way in which the Bank is managing its risks. The Bank is focussed on further reducing its risk profile and therefore its capital requirements in 2021.

Risk weighted assets - Our risk weighted assets (RWAs) at 31 December 2020 total £4,683.7m. RWAs reflect our risk adjusted assets factoring in probability of default, loss given default and exposure at default. This calculation is used to derive the capital requirement of the Bank. Increases in RWAs are driven either by increases in the underlying assets or increases in the risk weighting (or density) assigned to these assets. Our RWAs are expected to increase in 2021 due to economic uncertainty, increases in unemployment and HPI decline. In addition, regulatory change is expected to increase the Bank's secured RWAs, in particular PS11/20 (Credit Risk: Probability of Default and Loss Given Default estimation) and CP14/20 (Internal Ratings Based UK mortgage risk weights: Managing deficiencies in model risk capture) which are effective from 1 January 2022.

Pensions - There is a risk that further contributions could be required in relation to the defined benefit schemes. Where this arises due to pension fund risks, this is described on page 96 under pension risk. However, this risk may also crystallise, despite a well-funded scheme, if the Bank and the trustees seek to pursue full risk transfer of liabilities, which is not considered likely in the short term.

Mitigating actions:
The Bank anticipates sustainable profitability from 2021, which will allow organic capital growth. This is reliant on successful implementation of the Bank's strategy which is subject to significant oversight and monitoring, including by the Board.

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

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.

In line with many of our peers, our RWAs are expected to increase in 2021, reflecting the increased risk profile in light of the COVID-19 pandemic. The Bank manages its RWA position predominantly through its financial planning processes which consider any expected increases and the impacts these may have on capital adequacy.

Emerging risks:
Financial regulatory changes - The response to the COVID-19 pandemic has resulted in a number of immediate changes to the regulatory landscape, including reducing the Countercyclical Capital Buffer and amending the Bank's Individual Capital Requirement (ICR) to a nominal amount. One of the most significant changes to the regulatory environment is the Basel III reform which has been delayed by 12 months as a result of the COVID-19 pandemic.
The following regulatory changes are upcoming:

- Basel III reform;
- Introduction of CRRII and CRDV; and
- Leverage ratio implementation.

Key indicators:
CET1 ratio – 2020: 19.2% (2019: 19.6%)
Total Capital Resources – 2020: £1,110.3m (2019: £1,144.9m)
Leverage ratio – 2020: 3.4% (2019: 3.9%)

Credit risk

Definition:
Credit risk is the risk to profits and capital that arises from a customer's failure to meet their legal and contractual payment obligations. Credit risk applies to retail, SME and treasury.

Key themes:
Managing the profile of lending on new or existing customers is key to the ongoing management of the Bank's exposure to credit risk. This involves the continual optimisation of its strategies across all portfolios, using both internal and external customer performance data, as well as ensuring the appropriate oversight of their performance. The Bank's strategy continues to focus on growth in new mortgage business volumes principally through mortgage intermediaries and is consequently exposed to risks relating to the relationships with such intermediaries. SME deposit balances in 2020 increased as a result of the Incentivised Switching Scheme, plus the improvements delivered through the use of the £15m grant from the Banking Competition Remedies (BCR). The SME business continues to offer significant future growth potential and continues to be a key cornerstone of the Bank's strategy. The financial health of our SME customers will continue to be closely monitored within the context of significant economic uncertainty in 2021 and beyond.

During 2020 and as a direct result of the COVID-19 pandemic, a number of measures were introduced across the different portfolios in order to support our customers, including payment deferrals and for SME the participation in both the Bounce-Back loan and CBILS schemes. With these measures being industry-wide, the credit performance of our customers has effectively been masked from both an internal and external perspective. Alongside this, other government support measures such as the Coronavirus Job Retention Scheme have also been put in place, which potentially provide a temporary easing on the impact of the pandemic on unemployment and a challenge in undertaking affordability assessments.

Key risks in 2021 relate to the macroeconomic impacts from unemployment and house price movements. In addition, the ongoing uncertainty for many SME customers as a result of the pandemic is likely to impact many customers. These risks in turn will result in increased arrears across the portfolios, hence crystallising in increased losses to the Bank.

Mitigating actions:
Credit risk is managed within an agreed set of risk appetite measures for each portfolio, which are monitored through a clearly defined risk management framework. All credit exposure mandates are approved within a clearly defined credit approval authority framework.

The impact of the significant measures put in place has had an uncertain impact on credit scoring. The Bank has taken a prudent approach and increased score cut-offs (minimum scores needed to be accepted) across all the residential LTV segments to manage the quality of applications and mitigate the risk of house price deterioration stemming from the economic uncertainty. In addition, the use of income received from the Coronavirus Job Retention Scheme has been under continuous review and, in line with industry standard, was no longer accepted for mortgage affordability assessments from September 2020. To further mitigate against the risk from affordability, any mortgage pipeline cases using furloughed income, along with all applications from self-employed customers, are referred to the Bank's underwriting team for manual review.

Whilst the housing market has remained relatively buoyant in 2020, somewhat supported by the stamp duty moratorium in place until March 2021, to protect against a potential downturn resulting from the consequences of the pandemic the Bank ceased offering 95% LTV lending at the end of March 2020.

The profile of customers making use of measures such as payment deferrals has been closely monitored, with performance feeding into future arrears forecasting. The performance of SME customers is also being closely monitored with new data from the credit reference agency Experian supporting this. There are also strategies in place to identify and contact 'at risk' customers.

Emerging risks:
There is a risk that customers that have made use of support measures such as payment deferrals cannot sustain their restarted payment, having built a temporary buffer during the six months of non-payment. So far, the Bank's secured and unsecured assets remain high quality, with arrears volumes rising only marginally. Of the total 20,523 mortgage and unsecured payment deferrals, 92% of the balances have resumed their repayment profile, 1% of balances are in arrears and 7% of the balances remain live. The volume of SME customers that drew down support from the CBILS and Bounce-Back loans schemes but will be unable to meet their payment obligations following the first 12 months is under close review as this poses an operational risk to the Bank.

Key indicators:
2020 impairment charge: £21.6m (2019: £(2.5)m release). See note 3 – Segmental.
3 months in arrears: 0.14% (2019: 0.14%)

Operational risk

Definition:
Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or external events.

Operational risk has 13 sub-risks as part of the Bank's RMF. These sub-risks are focussed on individually in the commentary below. All sub-risks are subject to annual review and each risk is managed individually and in line with the Bank's RMF, including having individual risk framework owners, risk policies and control frameworks.

Key themes:
Operational risk levels remain elevated due to a number of issues such as reliance on manual processes and legacy IT systems. The COVID-19 pandemic, which poses risks to multiple operational areas, has further elevated operational risks, especially related to supplier and people risks. The most significant operational risk themes are outlined below.

The Bank continues to focus on strengthening its systems and control environment by leveraging the RMF. The RMF was adapted through the early stages of the COVID-19 pandemic to enable quicker governance and create a register of temporary risk decisions due to the exceptional circumstances. This has demonstrated the maturity of the RMF to adapt and aid the Bank in times of crisis.

Anti-money laundering (AML) - The AML Bank scorecard position remains amber due to limitations across existing AML systems. Transaction monitoring effectiveness, provision of management information, AML system limitations and system testing are all key issues under management identified via the annual AML regulatory risk assessment in 2020. A transaction monitoring system working group was established and delivered key enhancements, improving the overall risk appetite measure for AML within the Bank. Enhancements to management information have been delivered throughout 2020 and will be enhanced further through system upgrades. System upgrades, along with migration of customer feeds, will remain a key focus into 2021 in order to drive enhanced AML controls which protect the Bank and its customers.

Government support schemes - As a result of the COVID-19 pandemic and economic uncertainty, we have reacted to our customers' need for payment deferrals and government-backed loan schemes. Particularly relevant for customers exiting payment deferrals, we have and will continue to support our customers with forbearance treatments to ensure they do not suffer harm and are treated fairly. The Bank has implemented and interpreted these customer support mechanisms in line with regulatory expectations and remained transparent with the FCA at all times.

For our SME customers who have accessed the Bounce-Back loans scheme, pay as you grow measures which were announced by the Chancellor in September 2020 include:

- Extending the length of the loan from six years to ten years;
- Making interest-only payments for six months, with the option to use this up to three times throughout the loan;
- Request a six-month repayment deferral once during the term of the loan; and
- Having the option to fully repay their loan early and facing no early repayment charges for doing so.

Acknowledging that the implementation of these measures will be challenging from an operational perspective, they provide essential flexibility during an incredibly tough period for many of our SME customers. The Bank is committed to ensuring these measures are implemented robustly and monitor any potential issues closely.

Fraud - Fraud losses have been a significant contributing factor to operational losses in 2020. Sophistication in scams to target customers to enable authorised push payment fraud continues to be a risk to fraud and operational loss. Improvements in controls are in plan and will be delivered through 2021, including a confirmation of payee solution to be delivered for retail which will mitigate risk in relation to some authorised push payment scams, the rollout of a PSD2 compliant card not present solution, enhancements to screening within payment fraud systems and a number of digital enhancements. There is also an increased risk of fraud in SME due to the Bank's participation in the Bounce-Back loans scheme. The controls the Bank has implemented for the Bounce-Back loans scheme align to industry and scheme standards and should mitigate the impacts of any fraud identified and potential loss to the Bank. The Bank is engaged in industry calls on this topic to track any issues that are raised by our peers and the position will be closely monitored through 2021. The Bank will continue to invest in controls to mitigate risk of fraud loss.

COVID-19 impact on our people - Staff absence and resourcing levels across the Bank have been impacted by the COVID-19 pandemic. Close monitoring of early warning indicators, such as daily absence reporting, is in place to monitor operational impacts. In addition, actions have been taken to increase the number of colleagues who are able to work from home.

Third party supplier management - The Bank continues to be dependent on suppliers to support or provide key bank services. This presents a heightened risk exposure due to the impact of the COVID-19 pandemic. The Bank has taken steps to ensure that its suppliers can continue to operate in the resultant challenging economic conditions.

Technology debt - As IT systems age, and support arrangements for those systems diminish, there are significant challenges in ensuring they remain fit for purpose from an availability and functionality perspective. As with many other organisations, the Bank is reliant in some areas on end-of-life IT systems to provide key services (meaning that there is limited or no support provided by the vendor or specialist third party supplier).

There are persistent risks to the Bank from cyber attacks due to an ever-evolving threat landscape. Current threats are from exposures through suppliers and as a result of technical debt. However, the Bank has an improving control position as evidenced by external benchmarking assessments undertaken on behalf of the Bank by specialist third parties. The cyber strategy is to attain a Cyber Maturity Framework benchmark that would position the Bank as among the best when compared to peer organisations.

Emerging risks:

Operational resilience - Approaches to disciplines such as business continuity and disaster recovery are being revisited to take a more holistic approach to ensuring continuity for Bank services under operational resilience. In 2021 the regulator will issue new requirements as to how it expects financial institutions to demonstrate their operational resilience capabilities. The Bank will adopt the improvements made across business continuity and recovery to evidence compliance with regulator requirements with plans in place to address known gaps.

COVID-19 - As noted earlier in this section, it is expected that the various impacts of the COVID-19 pandemic will continue to affect our customers' physical and financial health, which is likely to have a knock-on impact onto the Bank's credit risk profile and capital position. From an operational risk perspective, the Bank will continue to monitor the impacts of COVID-19 on financial crime. The Bank will continue to monitor exposures and leverage the RMF to enable effective decision-making and provide robust governance.

Regulatory change - Further AML regulatory changes are expected throughout 2021, which aim to further strengthen the EU's attempts to combat money laundering and provide greater clarity and harmonisation across EU member states. The UK is likely to implement those changes post-Brexit to meet global standards. Implementation of a standalone UK financial sanctions framework and UK sanctions list became effective on 31 December 2020.

Other pieces of regulation on the horizon include:

- HMT Breathing Space (conduct risk)
- PSD2 – Card Not Present (payment risk)
- Climate Change (prudential risk)
- LIBOR to SONIA (conduct risk)
- PRA OCIR Updated Policy (prudential risk)
- FCA & PRA Building Operational Resilience: Impact Tolerances (prudential risk).

Mitigating actions:
Across the three lines of defence there has been ongoing management, oversight and reporting of key risks and controls. In addition, a combined assurance approach has been adopted for certain assurance activities across the three lines of defence to minimise impact on resource and maximise quality of reviews.

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's scorecard.

Key indicators:
Analysis of operational net losses is disclosed in our Pillar 3 report (table 34). In the current year, 82.1 % of net losses arose from external fraud (2019: 67.9 %).

There are 13 sub-risks to operational risk which are outlined 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.

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 maintained a strong level of liquidity through 2020, against regulatory minimum but also recognising the potential for changes in customer profiles and market conditions given the uncertainties of COVID-19. The Bank of England liquidity support to the industry through TFSME has provided the Bank with an additional funding source to support its lending activities, funding profile and liquidity resources.

The Bank remains predominantly customer-funded, continuing to grow retail and SME franchise deposits. Customer behaviours and balances have remained relatively stable despite COVID-19 and other economic factors. Trends toward demand deposits, with reduced appetite for term products, continued in 2020, reflecting both historically low interest rates and higher average balances in response to COVID-19 spending patterns.

Wholesale funding comprises secured and unsecured debt issuances as well as participation in the Bank of England TFSME. The availability of TFSME reduced the Bank's wholesale funding activity in 2020, outside of required MREL issuance for capital purposes. Further funding actions sought to reduce future refinancing risks, through repayment of existing TFS funding and partial buyback of Moorland Covered Bonds notes.

Mitigating actions:
Liquidity and funding risk is managed primarily with respect to the Bank's Liquidity Risk Appetite and Liquidity Coverage Ratio. 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 resources.

The Bank holds a portfolio of high-quality liquid assets, alongside contingency funding actions which enable the Bank to raise or preserve liquidity in adverse conditions, and assets available for BoE facilities.

Emerging risks:
Whilst the Bank's liquidity and funding position is strong, the Bank recognises that the continued market volatility relating to the COVID-19 pandemic and the ongoing impact of the UK's withdrawal from the EU may impact the level of liquidity and funding risk in the future. The impact of wholesale market conditions on the Bank's liquidity and funding position is limited, as TFSME remains available in 2021 and reduces the Bank's reliance on these external markets. The anticipated unwind of COVID-19 measures, including the Coronavirus Job Retention Scheme, payment deferrals and government business support loans, creates the potential for uncertainty in customer behaviour.

Key indicators:
Loan to deposit ratio: 91.6% (2019: 94.3%). The Bank's loan to deposit ratio is expected to move above 100% in 2021 as the Bank continues to draw down on TFSME funding to support positive net lending to our customers.
Primary liquidity resources: £4,099.4m (2019: £3,226.2m)
Liquidity Coverage Ratio: 193.4% (2019: 173.7%).

Market risk

Definition:
Market risk is the risk of loss as a result of the value of assets or liabilities being adversely affected by movements in market prices, interest rates or exchange rates.

Key themes:
The Bank's business model and market risk framework mean that its main exposure to market risk is through potential mismatches between the profiles of customer assets and deposit liabilities. This risk has increased in 2020 as mortgage markets have been more volatile as a result of the COVID-19 pandemic, including impacts of lockdown periods and the stamp duty moratorium as well as underlying economic uncertainties. The introduction of various government support schemes and payment deferrals in 2020 has required actions to ensure market risk continues to be appropriately managed. Market conditions, with historically low interest rates as well as volatility in response to the COVID-19 pandemic and Brexit, have presented challenging conditions in which to manage the Bank's market risk exposures. In addition, the Bank has increasingly focussed on LIBOR to SONIA transition requirements.

Mitigating actions:
The Bank has a clear market risk framework with risk appetite limits in place to monitor and manage exposures and impacts of market movements. The Bank seeks to hedge market risks where appropriate, including matching of assets and liabilities where possible, as well as use of derivative instruments (interest rate swaps). The framework has provided

a structure in 2020, alongside increased monitoring and management of risks, to adapt to changing conditions and continue to appropriately manage the Bank's overall exposure to market risk.

Emerging risks:
The Bank recognises the potential for further volatility in market conditions, in response to ongoing COVID-19 developments and the continuing impact of the UK's withdrawal from the EU. Specific risks to be managed included the continued activity to complete SONIA transition, customer behaviours across lending products, but particularly with respect to customer repayment options on Bounce-Back loans, mortgage prepayment rates, as well as mortgage market conditions and pipeline risk as the stamp duty moratorium ends and mortgage markets and performance respond to underlying economic conditions.

Key indicators:
PV01: measures the sensitivity of future cashflows to a one basis point shift in interest rates. See Risk Management – Market Risk 4.2.

Model risk

Definition:
Model risk is the potential for 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 a bank's reputation or adverse customer outcomes.

Key themes and emerging risks:
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 permission is retained. The Bank has obtained PRA approval for the majority of its redeveloped IRB models, including the Bank's secured models, which were implemented during 2020, representing a key milestone for the Bank. Subject to PRA approval of the credit card models, the remaining redeveloped models are planned for implementation in 2021.

The COVID-19 pandemic has presented unprecedented conditions that have proved challenging to model accurately, particularly in the case of the Bank's IFRS 9 models. The Bank has increasingly relied on the use of model adjustments to reflect these challenges. In addition, the effects of the COVID-19 pandemic on the suppression of defaults, related forbearance activity during 2020 and the anticipated future defaults arising from the macroeconomic effects of the pandemic during 2021 and beyond are likely to impact on the performance of key models and the potential for model recalibration or redevelopment.

Mitigating actions:
The Bank operates a robust model governance framework, including independent model validation of all models, including new models, as well as ongoing monitoring of model performance.

Key indicators:
N/A.

Pension risk

Definition:
Pension risk is defined as the risk to Bank capital and company funds from exposure to defined benefit scheme liabilities (to the extent that liabilities are not covered by scheme assets), associated funding commitments and risks inherent in the valuation of scheme liabilities. Uncertainty in the estimated size of the liabilities and volatility in future investment returns from the assets may cause volatility in the pension fund deficit.

Key themes and emerging risks:
The Group is the Principal Employer of the Bank Section of The Co-operative Pension Scheme (Pace) and Britannia Pension Scheme (BPS) and the funding position of both schemes remains strong. The Bank continues to assess the funding and accounting positions of both schemes, including any unexpected impact of COVID-19 with a particular focus on any potential erosion of capital resources due to additional funding requirements or changes in the IAS 19 accounting valuation.

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, potentially resulting in a perceived deterioration in scheme funding and a request from the Trustee for additional cash contributions.

Mitigating actions:
The majority of the schemes' inflation risk and interest rate risk are hedged through the investment strategy which is to invest in liability-driven instruments (LDI) and therefore minimise the overall volatility in the scheme. The Bank regularly monitors and stresses its pension scheme positions to understand potential volatilities.

Key indicators:
The schemes are in a significant surplus position on an accounting basis. Further information is included in the retirement benefits note to the consolidated financial statements.

Reputational risk

Definition:
Reputational risk is the risk of 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:
It is critical to the success of the Bank's plan that reputational risks are identified, managed and mitigated. The Bank continued to maintain a strong 'customer first' culture, responding to our customer's needs during the COVID-19 pandemic with branches remaining open and the introduction of an agile governance structure enabling safe customer-focussed decisions to be made quickly.

The Bank has continued to win awards for customer service, improve external benchmark measures, including NPS, and remains the UK's number one rated ethical bank.

The Bank occasionally experiences unfavourable media coverage and social media sentiment relating to matters such as speculation relating to the Bank's ownership, decisions to close branches and digital outages.

The impact of the COVID-19 pandemic and how the banking industry transitions to 'business as usual' as temporary financial measures are unwound represents a key area of focus. Throughout the pandemic the Bank has maintained effective communications and dialogue with all its customers and regulators, which will continue throughout 2021.

Consumer groups and external stakeholders from time to time identify causes or individual customer examples that can result in media enquiries or coverage. The Bank takes its customer and ethical difference seriously, engaging transparently and openly with interested groups, the FOS and the FCA to ensure customers receive fair outcomes.

The Bank is taking steps to ensure climate change continues as a priority across its strategic activities.

Mitigating actions – including anything relevant from 2020:
An active dialogue has been maintained with all key stakeholders throughout the year. The Bank continues to invest in channel offerings, including enhancing digital capabilities allowing customers to bank more flexibly and at their own convenience. In addition, the Bank has been successful in launching a 100% electric mobile branch, providing services to customers across the customer base. Investing in technology to improve resilience has remained a focus, whilst utilising multiple communication channels to keep customers informed during outages.

The Bank signed up to the Contingent Reimbursement Model Code (CRM Code), providing customers with the appropriate support in relation to the prevention and reimbursement of fraudulent activity. The Bank continues to educate customers creating awareness of authorised push payment (APP) scams and how to protect themselves.

Emerging risks:
The Bank continues to use the 'co-operative' name and attests to Co-operatives UK on an annual basis that co-operative values are embedded within the Bank. The Bank from time to time experiences external interest in its ownership and speculation about potential buyers which can generate negative media coverage; however, the Bank remains committed to its co-operative heritage and Ethical Policy, which are critical to the Bank's strategic plan.

Key indicators:
A range of indicators continue to be used to assess changes in this principal risk. These include, but are not limited to, the number and nature of reputational risks, social media sentiment and the Bank's ongoing adherence to co-operative values.

1.9 CLIMATE CHANGE RISK

Introduction:
We are dedicated to ensuring that values and ethics are at the heart of our governance as a business. Our commitment to safeguarding the environment and promoting sustainable development have been central elements of our customer-led Ethical Policy for over 25 years.

As well as refusing to provide banking services to organisations that conflict with our customers' views on a comprehensive range of issues including the environment, we seek to support small businesses and organisations whose activities promote a healthy environment, including those involved in:

- Recycling and sustainable waste management;
- Renewable energy and energy efficiency;
- Sustainable natural products; and
- The pursuit of ecological sustainability.

Climate change is a real risk and we remain committed to ensuring we continue our track record as one of the leading voices in the industry at the forefront of supporting climate change initiatives. Culturally, the Board has a key role to play in setting the tone and building awareness for climate risk management, in addition to continuing to develop the Bank's existing ESG framework through its values and ethics. The Bank's Board and senior Executive teams are focussed on taking a strategic and long-term approach to considering how climate-related risks might impact all aspects of the Bank's risk profile.

Industry focus:
Climate change and the steps society is taking to respond to it present financial risks for banks, insurers and the broader financial system. In 2019, we saw climate change and its associated social impacts moving to the top of the global agenda, featuring heavily in the media and resonating in the mind of consumers. Particularly within the context of the UK government's pledge of nurturing a 'green economy' from the economic damage caused by the COVID-19 pandemic in 2020, it is clear that climate change remains at the top of the agenda for policymakers, consumers and businesses in the short and long term. To manage the risks of climate change, the PRA expects firms' boards and senior leaders to consider how climate-related risks might impact all aspects of their risk profiles and take action in specific areas, set out in PS11/19 and SS3/19 (Enhancing banks' and insurers' approaches to managing the financial risks from climate change) and be able to evidence this by December 2021.

Whilst not included as a principal risk in its own right, the Bank recognises the significance of climate change on its risk profile and that it impacts the majority of principal risk categories including, but not limited to, credit and capital risk.

For instance, evaluations of certain climate change factors such as flood and coastal erosion risk undertaken on the retail credit risk portfolio could, in turn, influence credit risk exposures and subsequent calculation of capital requirements.

Approach to date:
The Bank has taken the following action to understanding and mitigating climate change risk:

- The Chief Risk Officer was assigned SMF responsibility for climate change which includes performing the initial risk assessment and oversight of the formulation and delivery of plans to identify and address the financial impacts of climate change.
- The Bank has established a climate change working group, made up of representatives from across the business, firstly to ensure a common understanding of how climate-related risks might impact all aspects of the Bank's risk profile and secondly to ensure a comprehensive implementation of the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD). The Bank is committed to meeting end-state compliance with regulatory expectations by December 2021. The working group has been supplemented by the creation of four principal workstreams to address the key areas of focus:

Financial impacts of climate change:
The financial impacts of climate change will arise through two main sources: i) physical risks and ii) transition risks.

i) Physical risks arise from both acute and chronic shifts in climate patterns, which can lead to damage to assets, business disruption and changes in individuals' health and incomes, driving financial losses and impaired asset values. For banks, these could manifest themselves primarily as credit, market, operational and reputational risks. There is an expectation from the PRA that they will see evidence from individual firms to identify and manage these risks and, in doing so, help to reduce the potential impact on their firm, its customers and the wider financial system.

The Bank periodically assesses the risks of exposure to flooding and coastal erosion in the mortgage portfolio. We will continue to evolve our approach and explore new ways to assess our credit exposures as more data and techniques become available.

ii) Transition risks relate to the risk of loss in the transition to a low carbon economy. This is influenced by factors such as regulation, legislation and guidelines to reduce the impact or level of climate change, as well as developments in technology and changing consumer and market sentiment. These may drive changes in the value of assets and liabilities for banks and insurers, increase the cost of business for SMEs and result in changes to consumer spending habits which could have a material impact on the profitability of certain industries. There is also the risk of climate-related lawsuits, which could impact firms and/or customers.

Protecting the environment and promoting sustainable development have always been cornerstones of our Ethical Policy. The Bank has been 'beyond carbon neutral' since 2007, offsetting our carbon emissions plus an additional 10% to cover historic emissions by supporting environmental projects across the world (see page 27 for more information). The Bank also signed up to the United Nations Environment Programme Finance Initiative (UNEP FI) Principles for Responsible Banking in February 2020. The Principles provide the framework for a sustainable banking system and help the industry to demonstrate how it makes a positive contribution to society.

Our initial assessment identified that the types of business that will require support and assistance to transition to a low carbon economy are very similar to types of business to which we have refused to provide banking services, on the basis that their core activity contributes to global climate change via the extraction or production of fossil fuels (oil, coal, gas and shale gas), or where they are involved in the distribution of those fuels that have a higher global warming impact (e.g. tar sands and certain biofuels).

Whilst we believe we have less exposure to businesses with high carbon emissions than many of our peers, we will continue to assess the potential financial impacts from climate change and develop policies to support customers and manage the financial impacts in the transition to a low carbon economy.

Approach to managing climate change risk:

Scenario analysis

- Key risk drivers
- Scenario testing
- Modelling and impact estimation
- Time horizons and forecasting

Governance and strategy

- Board challenge
- Training for the Board and senior management
- Senior management oversight

Risk management

- Identification, measurement and management
- Monitoring
- Embedding climate change within the Bank's established RMF
- Mitigating controls
- Reporting and management information

Disclosures

- Aligned to TCFD guidance
- Disclose material risks
- Improve transparency

1.10 RISK PROFILE OF THE BANK

This table shows the business activities of each of the divisions of the Bank and the RWAs which reside in each division.

Retail	**Business activities:** • Deposits • Lending to retail (secured, credit cards and overdrafts)	**Loans and advances to customers (L&A to customers)[1] (£m)** 17,404.3	**RWAs (£m)** Credit risk: £2,462.1m Operational risk: £376.8m
SME	**Business activities:** • Corporate lending including business banking • Deposits to the SME sector	**L&A to customers[1] (£m)** 441.7	**RWAs (£m)** Credit risk: £175.0m Operational risk: £107.4m
Treasury	**Business activities:** • Cash flow, liquidity management, FX	**Credit risk balances[2] (£m)** 1,874.6	**RWAs (£m)** Credit risk: £200.7m Operational risk: £5.9m
Legacy and unallocated	**Business activities**: • Closed books of corporate, unsecured and residential (Optimum) lending. Activity relating to bank-wide operations or not associated with a particular segment.	**L&A to customers[1] (£m)** 836.5 **Other assets[2] (£m)** 188.9	**RWAs (£m)** Credit risk L&A: £567.3m Non-customer Assets[3]: £784.8m Operational risk: £3.7m

1. L&A to customer balances include other accounting adjustments and total £18,682.5m (2019: £17,918.4m) as per note 14.
2. Combination of loans and advances to banks, investment securities and derivative financial instruments and other assets.
3. RWAs include unallocated items such as other assets, Surrendered Loss Debtor and deferred tax assets.

2. CAPITAL RISK

Overview *(unaudited)*
Capital resources are held to protect depositors, to cover inherent risks, to absorb unexpected losses, and to support the development of the business.

Capital adequacy is managed and calculated in accordance with Capital Requirements Directive (CRD) IV, implemented in the European Union through publication of Capital Requirements Regulation and a further iteration of the CRD. Together this package of requirements is known as CRD IV and came into force from 1 January 2014. CRD IV disclosures in this and related documents are based on the Bank's interpretation of final published rules, including related EBA Technical Standards.

The strategic report and the 2020 Pillar 3 (Section 3 Capital Adequacy) report provide further detail on the capital risk and common leverage rate disclosures.

3. CREDIT RISK

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

3.1 Overview
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 in the businesses and the approvers in the risk function. All credit exposure limits are approved within a defined credit approval authority framework. Credit exposures are managed through diversification across products, regional spread (UK), clients and customer segments.

3.1.1 Credit exposure

(audited) 31 December 2020	L&A to banks	L&A to customers	Investment securities	Derivative financial instruments	Other assets	Total
Analysis of credit risk exposure						
Gross customer balance	536.2	18,621.2	1,148.5	189.9	189.0	**20,684.8**
Credit commitments	-	2,548.4	-	-	-	**2,548.4**
Gross customer exposure	536.2	21,169.6	1,148.5	189.9	189.0	**23,233.2**
Less: allowance for losses	-	(42.9)	-	-	(0.1)	**(43.0)**
Net customer exposure	**536.2**	**21,126.7**	**1,148.5**	**189.9**	**188.9**	**23,190.2**
Gross exposure for ECL calculation						
Gross customer exposure	536.2	21,169.6	1,148.5	189.9	189.0	**23,233.2**
Less Fair Value Through Profit and Loss (FVTPL)[1]	-	(109.8)	(3.5)	(189.9)	(47.8)	**(351.0)**
Net customer exposure for ECL calculation	**536.2**	**21,059.8**	**1,145.0**	**-**	**141.2**	**22,882.2**
Reconciliation of customer to accounting balances						
Net customer exposure	536.2	21,126.7	1,148.5	189.9	188.9	**23,190.2**
Less credit commitments	-	(2,548.4)	-	-	-	**(2,548.4)**
Plus accounting adjustments	-	104.2	-	-	-	**104.2**
Gross loans and advances – notes 13, 14, 15, 16, 18	**536.2**	**18,682.5**	**1,148.5**	**189.9**	**188.9**	**20,746.0**

(audited) 31 December 2019	L&A to banks	L&A to customers	Investment securities	Derivative financial instruments	Other assets	Total
Analysis of credit risk exposure						
Gross customer balance	474.3	17,846.6	1,605.6	213.3	52.6	20,192.4
Credit commitments	-	2,105.0	-	-	-	2,105.0
Gross customer exposure	474.3	19,951.6	1,605.6	213.3	52.6	22,297.4
Less: allowance for losses	-	(26.7)	-	-	-	(26.7)
Net customer exposure	474.3	19,924.9	1,605.6	213.3	52.6	22,270.7
Gross exposure for ECL calculation						
Gross customer exposure	474.3	19,951.6	1,605.6	213.3	52.6	22,297.4
Less Fair Value Through Profit and Loss (FVTPL)[1]	-	(117.0)	(4.2)	(213.3)	(47.8)	(382.3)
Net customer exposure for ECL calculation	474.3	19,834.6	1,601.4	-	4.8	21,915.1
Reconciliation of customer to accounting balances						
Net customer exposure	474.3	19,924.9	1,605.6	213.3	52.6	22,270.7
Less credit commitments	-	(2,105.0)	-	-	-	(2,105.0)
Plus accounting adjustments	-	98.5	-	-	-	98.5
Gross loans and advances – notes 13, 14, 15, 16, 18	474.3	17,918.4	1,605.6	213.3	52.6	20,264.2

1. Some FVTPL balances are contained within the accounting adjustments (see 3.2.1).

All balances except L&A to customers are stage 1 (2019: stage 1) and did not transfer during the year. L&A to customers is further analysed in the credit risk management section below.

3.2 Credit risk management

3.2.1 Loans and advances to customers

The loans and advances to customers is analysed by the following business segments:
3.2.1.1 Retail - secured residential mortgages and unsecured credit risk;
3.2.1.2 SME credit risk; and
3.2.1.3 Legacy credit risk.

The risk function manages and reports through gross customer balances and exposure by impairment classification. For accounting purposes, we reflect balances which include other adjustments (for example accrued interest, fair value adjustments and effective interest rate adjustments). A reconciliation between the two is included in the next table.

Customer exposures are within the UK (see section 4 - Market risk).

An expected credit loss (ECL) is calculated for the drawn element of the book (gross loans and advances) plus an ECL for the undrawn (credit commitments excluding the derivative). The drawn and undrawn ECL is set against the gross loans and advances balance to give the net loans and advances (see note 14).

The disclosures in the sections below are based on:
- Gross customer balance;
- Gross customer exposure (which includes the gross customer balance plus credit commitments); and
- Allowance for losses (which includes drawn ECL and undrawn ECL).

Tables showing the movement in opening and closing customer exposure and allowance for losses are shown for each business segment. The basis of calculation for the reconciliation of opening and closing balances and the allowance for loan losses are calculated in the sequential order of the tables. The calculation of the reconciliation of transfers between stages is performed by comparing 1 January opening values to closing 31 December values. New assets originated or purchased in the table below include loan commitments. Changes to risk parameters (model inputs) in the table below include repayments. Assets derecognised disclosed in the table below only includes write-offs. All repayments, including those related to assets which transferred stages during the year, are reflected within other changes to risk parameters.

There has been impact due to the macroeconomic scenarios with further discussion around the COVID-19 impact below. There has been some refinement of the data inputs throughout the year.

Retail unsecured products are all subject to an allowance being calculated and allocated under the ECL models. None are excluded on the basis of low LTV.

Impairment

The Bank assesses the ECL on a forward-looking basis for debt instruments carried at amortised cost and FVOCI, for exposures related to loan commitments and financial guarantee contracts.

The modelling of credit risk impairment is subject to a number of sensitivities (see note 2.2 Key sources of estimation uncertainty) including:
- Change in the indexed collateral value;
- Change in the forced sale discount applied; and
- Assumptions around discount rate.

Changes to the above parameters can have a significant impact on the allowance for losses provision.

See the explanatory information to the consolidated financial statements for the recognition criteria applicable to each of the three stages.

Below is a summary of the Loans and advances to customers analysed by business segment.

(unaudited)	Core		Legacy &		Of which:
31 December 2020	Retail	SME	unallocated	Total	FVTPL
Analysis of credit risk exposure					
Gross customer balance	17,360.7	447.8	812.7	**18,621.2**	109.8
Credit commitments	2,280.0	106.8	161.6	**2,548.4**	-
Gross customer exposure	19,640.7	554.6	974.3	**21,169.6**	109.8
Less: allowance for losses	(29.3)	(8.1)	(5.5)	**(42.9)**	(2.1)
Net customer exposure	**19,611.4**	**546.5**	**968.8**	**21,126.7**	**107.7**
Gross exposure for ECL calculation					
Gross customer exposure	19,640.7	554.6	974.3	**21,169.6**	
Less Fair Value Through Profit and Loss (FVTPL)	(1.5)	(4.1)	(104.2)	**(109.8)**	
Gross customer exposure for ECL calculation	**19,639.2**	**550.5**	**870.1**	**21,059.8**	
Reconciliation of customer to accounting balances					
Net customer exposure	19,611.4	546.5	968.8	**21,126.7**	107.7
Less credit commitments	(2,280.0)	(106.8)	(161.6)	**(2,548.4)**	-
Plus accounting adjustments	72.9	2.0	29.3	**104.2**	28.3
Gross loans and advances – note 14	**17,404.3**	**441.7**	**836.5**	**18,682.5**	**136.0**

(unaudited) 31 December 2019	Core Retail	Core SME	Legacy & unallocated	Total	Of which: FVTPL
Analysis of credit risk exposure					
Gross customer balance	16,588.4	184.4	1,073.8	17,846.6	117.0
Credit commitments	1,891.3	65.9	147.8	2,105.0	-
Gross customer exposure	18,479.7	250.3	1,221.6	19,951.6	117.0
Less: allowance for losses	(17.3)	(5.3)	(4.1)	(26.7)	-
Net customer exposure	18,462.4	245.0	1,217.5	19,924.9	117.0
Gross exposure for ECL calculation					
Gross customer exposure	18,479.7	250.3	1,221.6	19,951.6	
Less FVTPL	(1.8)	(5.2)	(110.0)	(117.0)	
Gross customer exposure for ECL calculation	18,477.9	245.1	1,111.6	19,834.6	
Reconciliation of customer to accounting balances					
Net customer exposure	18,462.4	245.0	1,217.5	19,924.9	117.0
Less credit commitments	(1,891.3)	(65.9)	(147.8)	(2,105.0)	-
Plus accounting adjustments	67.5	1.6	29.4	98.5	26.2
Gross loans and advances – note 14	16,638.6	180.7	1,099.1	17,918.4	143.2

The tables show that there has been a net overall increase of 6.0% in the net customer exposure over the year, with growth in the retail segment (driven through secured lending) offsetting the expected decline in the legacy books as these run off. The 2020 closing position for credit risk provision is £42.9m, a £16.2m movement from the 2020 opening balance position of £26.7m. This is further explained below.

COVID-19 expected credit loss (ECL) assessment approach

Whilst the Group's portfolio of assets on which credit risk is managed remains low-risk and well-positioned to withstand the current environment, inevitably COVID-19 has had an adverse impact and expected credit losses have increased from levels at the start of the year. Impairment provisions reflect the net impact of the economic deterioration and government and BoE support measures. These credit impairment charges related to COVID-19 have been driven predominantly by the impact of the changes to the economic outlook and the Group's estimate of customers moving into arrears and defaults from those taking repayment deferrals.

Similarly impairment levels may increase further in 2021, driven by default events occurring or emerging in 2021 leading to unsecured run rate losses and additional specific corporate provisions. Thereafter, we would expect impairment charges to reduce to the level reflective of a pre-COVID-19 environment.

The increase in ECL that has been recorded arises from both modelled impacts and also post-model adjustments (i.e. expert management judgement overlays). This reflects:

- emerging changes in credit risk (driven by changes in model inputs, for example those related to HPI, or stage 2 triggers being met); and
- the impact of updating economic scenarios for the impact of COVID-19 and their weightings.

Expert management judgement overlays have been applied to reflect:

- risks associated with customers receiving COVID-19-related concessions – such as payment deferrals;
- the outlook for certain business sectors which are more exposed to the economic impact of COVID-19;
- guarantees provided by government support schemes;
- certain CRE portfolios where stale security valuations may be understating LGD (Loss Given Default); and
- risk factors associated with certain immature product portfolios with limited default history prior to COVID-19.

More information is included in note 2.2.1 Critical accounting judgements and key sources of estimation uncertainty to the consolidated financial statements in relation to assumptions around COVID-19-driven stage transfers and also in relation to the economic scenarios.

A number of concessions have been, and where appropriate will continue to be, granted to customers in response to the financial consequences of COVID-19. In line with regulatory guidance, these interim measures are not considered to be forbearance, as determined by the Group's forbearance policy.

The following tables analyse the allowance for losses as at 31 December 2020 across the type of ECL and by segment.

(audited) As at 31 December 2020	Core Retail	Core SME	Legacy & unallocated	Total[1]	Of which: FVTPL
Modelled	10.8	0.9	5.5	**17.2**	-
Individually assessed	-	2.7	2.1	**4.8**	**2.1**
Post-model adjustments (PMA)	18.5	4.5	(2.1)	**20.9**	-
Allowance for losses (ECL provision)	**29.3**	**8.1**	**5.5**	**42.9**	**2.1**

(audited) As at 31 December 2019	Core Retail	Core SME	Legacy & unallocated	Total[1]	Of which: FVTPL
Modelled	11.0	0.2	4.9	16.1	-
Individually assessed	-	4.8	-	4.8	-
PMA	6.3	0.3	(0.8)	5.8	-
Allowance for losses (ECL provision)	17.3	5.3	4.1	26.7	-

1. Analysis based on loans and advances to customers (see note 14). Excludes £0.1m other assets.

The credit impairment charge and the ECL provision for the period was due to the following:

- Retail – the ECL provision has increased from £17.3m to £29.3m. This £12.0m movement is mainly driven by COVID-19 split across retail secured £9.2m, credit cards £1.8m and overdrafts £1.0m. The majority of the increased ECLs are PMAs and include additional coverage on the Platform book and for the future impact of payment deferrals alongside the economic impact for credit cards and overdrafts. The movement of mainly retail secured customers from stage 1 to stage 2 as part of the COVID-19 review should be noted as a key driver.
- The vast majority of the retail secured book (specifically the Platform portfolio) has limited experience of defaults, leading to a low modelled ECL. The Group has historically judged the pure model output to understate the risk associated with these mortgages as a result of the limited observed defaults experienced. It has for a number of years applied additional model adjustments to increase the overall ECL to a set coverage ratio, which is determined by reference to external benchmarking and observed loss rates on the Bank's legacy secured portfolios in stressed conditions. The size of the PMA at 31 December 2020 was £13.1m (2019: £6.3m), determined by targeting a 12 basis point coverage on the Platform portfolio, and as a measure of sensitivity, an increase in coverage of 1 basis point would increase the size of the PMA by £1.4m. The PMA is applied after any other specific PMAs have been applied to this portfolio (such as payment deferrals).
- The payment deferrals PMA recognises the potential future adverse impact on a cohort of customers who have been on a payment deferral but any change in the risk profile has not yet been recognised. The PMA is split across secured and unsecured customers at £1.5m and £0.9m respectively (2019: nil).
- SME – the increase of ECL provision from £5.3m to £8.1m is COVID-19-driven and through PMAs. This is spread across a number of COVID-19-related impacts including the application of the economic scenarios. This is alongside PMAs for at risk customers and the impact of lower potential property values on commercial real estate plus a specific PMA for business Bounce-Back loans. This can be seen in the movement of customers into stage 2 in section 3.2.1.2.
- The PMA for at risk customers is £3.1m (2019: nil). This was a specific exercise to identify corporate sectors more exposed to COVID-19 (such as commercial real estate, leisure, retail, charities, education and care). This recognises the increased risk from tenant failure alongside the lower activity within these sectors.
- Legacy & unallocated – the ECL provision has moved from £4.1m to £5.5m (including fair valued assets). The COVID-19 impact has a specific uplift for customers rolling off loan payment deferrals (£0.2m) with minimal net impact from the economic scenarios. The FVTPL charge represents individually assessed legacy loan impairment provisions recognised in 2020 that were unrelated to COVID-19.

3.2.1.1 Retail - secured residential mortgage and unsecured credit risk

The retail business segment comprises of two main portfolios:

- Retail secured – this is predominantly prime residential mortgages alongside buy-to-let (BTL) mortgages. All new secured completions are in this portfolio (see origination and account management for details 3.2.1.1.1); and
- Retail unsecured– this is made up of two sub-portfolios of credit cards and overdrafts.

Unless stated otherwise, all analysis is based on gross customer balances/exposure.

Movement in IFRS 9 gross customer exposure and allowance for losses

The write-offs for retail secured mortgages in 2020 totalled £0.7m (2019: £2.1m). At the point of write-off, the Bank has no further proactive debt recovery activity since recovery of the outstanding balance is deemed unlikely, uneconomical or inappropriate. The exception is mortgage shortfall balances, which are 100% provided, but can still be pursued for payment. The Bank applied a write-off moratorium for part of 2020 as part of its responses to COVID-19.

The write-off for retail unsecured was £6.6m (2019: £7.3m). At the point of write-off the Bank has no further proactive debt recovery activity as recovery of the outstanding balance is deemed unlikely, uneconomical or inappropriate. The movement in the gross customer exposure and the related allowance for losses (excludes those assets held at FVTPL) across the retail segment is shown below.

(audited) Gross customer exposure	Stage 1	Stage 2	Stage 3	Purchased or Originated Credit Impaired (POCI)	Total
At 1 January 2020	17,587.1	729.4	61.5	99.9	**18,477.9**
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3) [1]	(839.0)	839.0	-	-	**-**
To credit impaired (stage 1 or 2 to 3)	(15.5)	(12.9)	28.4	-	**-**
To 12 month ECL (stage 2 or 3 to 1)	224.5	(224.5)	-	-	**-**
From credit impaired (stage 3 to 2 or 1)	6.1	3.7	(9.8)	-	**-**
Net changes arising from stage transfers	**(623.9)**	**605.3**	**18.6**	**-**	**-**
Other charges/(releases):					
New assets originated or purchased	3,594.5	-	-	-	**3,594.5**
Other changes to risk parameters	429.8	-	-	-	**429.8**
Redemptions and repayments	(2,712.8)	(106.2)	(21.7)	(15.0)	**(2,855.7)**
Net other charges/(releases)	**687.6**	**499.1**	**(3.1)**	**(15.0)**	**1,168.6**
Assets written off	(2.1)	(1.9)	(3.2)	(0.1)	**(7.3)**
At 31 December 2020	**18,272.6**	**1,226.6**	**55.2**	**84.8**	**19,639.2**

1. Transfer to lifetime ECL includes cohort of customers moved due to PMA for payment deferral.

(audited) Gross customer exposure	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2019	17,184.2	461.0	73.7	120.6	17,839.5
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	(243.7)	243.7	-	-	-
To credit impaired (stage 1 or 2 to 3)	(10.5)	(12.6)	23.1	-	-
To 12 month ECL (stage 2 or 3 to 1)	136.1	(136.1)	-	-	-
From credit impaired (stage 3 to 2 or 1)	3.6	1.2	(4.8)	-	-
Net changes arising from stage transfers	(114.5)	96.2	18.3	-	-
Other charges/(releases):					
New assets originated or purchased	3,906.8	-	-	-	3,906.8
Other changes to risk parameters	28.0	(0.7)	-	(1.0)	26.3
Redemptions and repayments	(3,135.2)	(95.2)	(35.3)	(19.6)	(3,285.3)
Changes to model used for ECL calculation	(278.6)	269.9	8.7	-	-
Net other charges/(releases)	406.5	270.2	(8.3)	(20.6)	647.8
Assets written off	(3.6)	(1.8)	(3.9)	(0.1)	(9.4)
At 31 December 2019	17,587.1	729.4	61.5	99.9	18,477.9

(audited) Allowance for losses	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2020	8.7	3.3	5.2	0.1	**17.3**
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	(0.3)	4.8	-	-	**4.5**
To credit impaired (stage 1 or 2 to 3)	(0.2)	(0.1)	2.9	-	**2.6**
To 12 month ECL (stage 2 or 3 to 1)	0.6	(1.3)	-	-	**(0.7)**
From credit impaired (stage 3 to 2 or 1)	0.1	0.1	(0.7)	-	**(0.5)**
Net changes arising from stage transfers	**0.2**	**3.5**	**2.2**	**-**	**5.9**
Other charges/(releases):					
New assets originated or purchased	3.3	-	-	-	**3.3**
Other changes to risk parameters[1]	7.4	2.6	-	0.1	**10.1**
Redemptions and repayments	(1.1)	(0.2)	(1.0)	-	**(2.3)**
Net other charges/(releases)	**9.8**	**5.9**	**1.2**	**0.1**	**17.0**
Assets written off	(1.3)	(1.5)	(2.2)	-	**(5.0)**
At 31 December 2020	**17.2**	**7.7**	**4.2**	**0.2**	**29.3**

(audited) Allowance for losses	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2019	9.0	3.6	7.8	0.4	20.8
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	(0.3)	2.4	-	-	2.1
To credit impaired (stage 1 or 2 to 3)	0.1	(0.2)	4.2	-	4.1
To 12 month ECL (stage 2 or 3 to 1)	0.1	(0.8)	-	-	(0.7)
From credit impaired (stage 3 to 2 or 1)	-	-	(0.7)	-	(0.7)
Net changes arising from stage transfers	(0.1)	1.4	3.5	-	4.8
Other charges/(releases):					
New assets originated or purchased	2.0	-	-	-	2.0
Other changes to risk parameters	1.1	0.3	(0.5)	-	0.9
Redemptions and repayments	(2.1)	(0.8)	(2.3)	(0.1)	(5.3)
Changes to model used for ECL calculation	0.6	(0.2)	(1.4)	-	(1.0)
Others[2]	0.4	0.6	0.4	(0.1)	1.3
Net other charges/(releases)	1.9	1.3	(0.3)	(0.2)	2.7
Assets written off	(2.2)	(1.6)	(2.3)	(0.1)	(6.2)
At 31 December 2019	8.7	3.3	5.2	0.1	17.3

1. The 2020 ECL impact is driven mainly through the COVID-19 charges (including PMAs as described in 3.2.1).
2. The £1.3m increase in retail unsecured ECL relates to refinement of data inputs.

The risk ratios for the retail segment are:

(audited) Risk ratios – 2020	Stage 1	Stage 2	Stage 3	POCI	Total
Gross customer exposure	18,272.6	1,226.6	55.2	84.8	**19,639.2**
of which stage 3/POCI exposure	-	-	55.2	84.8	**140.0**
Stage 3/POCI as a % of Gross customer exposure	-	-	100.0 %	100.0 %	**0.7%**
Allowance for losses	17.2	7.7	4.2	0.2	**29.3**
Coverage – over stage 3/POCI exposure	N/A	N/A	7.6 %	0.2 %	**20.9%**
Coverage – over total exposure	0.1 %	0.6 %	7.6 %	0.2 %	**0.1%**

(audited) Risk ratios – 2019	Stage 1	Stage 2	Stage 3	POCI	Total
Gross customer exposure	17,587.1	729.4	61.5	99.9	18,477.9
of which stage 3/POCI exposure	-	-	61.5	99.9	161.4
Stage 3/POCI as a % of Gross customer exposure	-	-	100.0 %	100.0 %	0.9 %
Allowance for losses	8.7	3.3	5.2	0.1	17.3
Coverage – over stage 3/POCI exposure	N/A	N/A	8.5 %	0.1 %	10.7 %
Coverage – over total exposure	0.1 %	0.5 %	8.5 %	0.1 %	0.1 %

3.2.1.1.1 Retail - secured residential mortgage

The following section provides analyses and commentary on the secured residential element of the retail business segment:

Origination and account management

Mortgages are loans to customers secured by a first charge over a residential property, with nearly all originated via intermediaries under the Platform brand with a limited value directly to customers under The Co-operative Bank and Britannia brands. Of the mortgage completions (including ports) in the year to 31 December 2020, 98.3% (2019: 98.6%) were originated through intermediaries and 1.7% (2019: 1.4%) were further advances and variations from historic direct business.

Platform currently originates a combination of prime residential mortgages and BTL loans. Historically, these loans have been advanced on a capital and interest payment basis, where the loan is repaid over the term of the loan, or interest-only, where the capital element of the loan is repayable at the end of the term. All new advances are on a capital repayment basis with the exception of BTL lending and existing interest-only loans for customers moving home.

During the term of the mortgage, interest-only mortgages are managed in the same way as capital repayment mortgages. In addition, the Bank has a communication strategy to remind the customer that they must ensure they have a satisfactory repayment strategy in place on loan maturity, in line with our customer contact strategy.

Risk in the portfolio is recalculated monthly, using internally-developed behavioural models. This process is also used to determine the amount of capital which is required to be held for individual loans.

The level of new completions in the year with related average LTVs and interest-only percentage is shown below.

(unaudited)	2020			2019		
Origination	Advanced amount	Average LTV %	Interest-only %	Advanced amount	Average LTV %	Interest-only %
Britannia and Co-operative Bank prime	**57.9**	**58.4**	**1.9**	53.5	58.2	2.2
Platform prime	**3,236.6**	**72.7**	**-**	3,417.0	71.4	-
Total prime residential	**3,294.5**	**72.5**	**-**	3,470.5	71.2	-
Buy-to-let	**193.1**	**55.7**	**72.8**	270.1	58.6	75.5
Total completions (including ports)	**3,487.6**	**71.5**	**4.1**	3,740.6	70.3	5.5

The table below shows gross customer balance (excluding commitments) analysed by the number of years after the initial origination.

(audited) Origination by age	2020	2019
<1 year	**3,481.5**	3,819.3
1-4 years	**8,547.2**	8,100.5
4-7 years	**2,321.7**	1,616.4
7+ years	**2,757.7**	2,730.8
Total	**17,108.1**	16,267.0

Portfolio analysis

The following tables show the secured residential balances (excluding legacy) analysed by a number of key risk measurements. The portfolio grew in the year by a net £841.1m (2019: £774.2m).

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 £140.9m. At the same time, total capital repayment balances have increased by £982.0m. The proportion of total balances with current LTV less than 50% has remained broadly stable in the period at 34.4% (2019: 33.4%).

(audited)	2020			2019		
LTV %	Capital repayment	Interest-only	Total	Capital repayment	Interest-only	Total
Less than 50 %	**4,779.0**	**1,106.7**	**5,885.7**	4,323.1	1,105.8	5,428.9
50 % to 60 %	**2,458.4**	**543.2**	**3,001.6**	2,090.9	528.7	2,619.6
60 % to 70 %	**3,153.4**	**324.9**	**3,478.3**	2,632.1	403.3	3,035.4
70 % to 80 %	**3,024.0**	**64.0**	**3,088.0**	2,950.6	127.2	3,077.8
80 % to 90 %	**1,435.4**	**8.3**	**1,443.7**	1,769.8	20.1	1,789.9
90 % to 100 %	**203.4**	**3.9**	**207.3**	305.2	5.4	310.6
Greater than or equal to 100 %	**0.7**	**2.8**	**3.5**	0.6	4.2	4.8
	15,054.3	**2,053.8**	**17,108.1**	14,072.3	2,194.7	16,267.0

The contractual maturities of the interest-only balances are shown below.

(unaudited)	< 1 year	1-5 years	5-10 years	10-20 years	20+ years	Total
2020	**58.5**	**260.3**	**519.7**	**877.2**	**338.1**	**2,053.8**
2019	62.5	281.6	542.5	900.3	407.8	2,194.7

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 % (2019: 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 % (2019: 0.3 %) of the total balance.

(unaudited)	2020			2019		
	Gross customer balance	Average LTV %	Interest only %	Gross customer balance	Average LTV %	Interest only %
Prime residential	**15,748.6**	**56.5**	**5.7**	14,966.2	57.4	7.2
Buy-to-let	**1,316.7**	**52.0**	**84.8**	1,250.0	54.9	86.6
Self-certified	**29.8**	**35.7**	**91.2**	33.8	37.1	90.7
Almost prime	**12.4**	**33.5**	**33.3**	14.6	36.5	35.3
Non-conforming	**0.6**	**43.2**	**40.6**	2.4	58.8	21.3
	17,108.1	**56.1**	**12.0**	16,267.0	57.2	13.5

c) UK regional distribution

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

(audited)	2020		2019	
	£m	LTV %	£m	LTV %
London & South East	**6,265.5**	**53.0**	6,370.3	54.4
Northern England	**4,024.3**	**58.9**	3,625.1	60.8
Midlands & East Anglia	**3,721.6**	**57.7**	3,446.6	57.9
Wales & South West	**2,080.6**	**56.1**	1,897.9	56.9
Other	**1,016.1**	**58.0**	927.1	60.2
	17,108.1	**56.1**	16,267.0	57.2

Collateral

Mortgages are secured by a first charge over the property being purchased or remortgaged and this security is referred to as collateral. Valuation of the property is either assessed by a physical inspection by a Royal Institution of Chartered Surveyors (RICS) certified surveyor from the Bank's approved panel, or through the use of an Automated Valuation Model (AVM). During the COVID-19 pandemic, it wasn't possible to complete physical valuations for a period of time due to lockdown rules; as such, for some cases a remote valuation was completed by a RICS certified surveyor.

The Bank reassesses the valuation of collateral for the non-default book on a quarterly basis using a regional property price index. There has been no significant change in the overall quality of the collateral held during the year and the Bank did not take possession of any of its collateral onto its balance sheet.

The table below analyses the indexed value of property collateral held against the retail residential secured book (balance includes credit commitments which are all stage 1 and excludes FVTPL).

(audited)	2020				2019			
IFRS 9 stage	Gross customer exposure	Collateral	Cover %	Impairment allowance	Gross customer exposure	Collateral	Cover %	Impairment allowance
Stage 1	**16,904.8**	**16,904.5**	**100.0**	**13.6**	16,136.2	16,135.6	100.0	6.9
Stage 2	**1,186.2**	**1,185.8**	**100.0**	**3.1**	671.9	671.5	99.9	0.7
Stage 3	**50.1**	**50.1**	**100.0**	**0.3**	54.8	54.7	99.8	0.3
POCI	**81.3**	**81.3**	**100.0**	**0.1**	95.9	95.9	100.0	-
	18,222.4	**18,221.7**	**100.0**	**17.1**	16,958.8	16,957.7	100.0	7.9

Risk grade
The table below analyses the credit risk exposure by grade of retail secured mortgages.

(audited) 2020 - Credit grade	Stage 1	Stage 2	Stage 3	POCI	Total
≤ 0.04 %	-	-	-	-	**-**
> 0.04 % ≤ 0.07 %	6,587.2	409.2	-	16.6	**7,013.0**
> 0.07 % ≤ 0.31 %	207.4	8.2	-	4.4	**220.0**
> 0.31 % ≤ 1.00 %	9,733.2	454.8	1.9	45.5	**10,235.4**
> 1.00 % ≤ 3.00 %	351.2	205.3	1.4	4.9	**562.8**
> 3.00 % ≤ 15.32 %	8.0	74.4	0.3	2.9	**85.6**
> 15.32 % ≤ 100.00 %	17.8	34.3	7.7	3.6	**63.4**
= 100.0 %	-	-	38.8	3.4	**42.2**
Gross exposure	16,904.8	1,186.2	50.1	81.3	**18,222.4**
Less: allowance for losses	(13.6)	(3.1)	(0.3)	(0.1)	**(17.1)**
Net balance	16,891.2	1,183.1	49.8	81.2	**18,205.3**

(audited) 2019 - Credit grade	Stage 1	Stage 2	Stage 3	POCI	Total
≤ 0.04 %	1,177.5	121.9	-	-	1,299.4
> 0.04 % ≤ 0.07 %	1,398.7	109.1	-	-	1,507.8
> 0.07 % ≤ 0.31 %	3,902.2	90.2	0.3	30.2	4,022.9
> 0.31 % ≤ 1.00 %	7,102.0	173.0	3.0	39.4	7,317.4
> 1.00 % ≤ 3.00 %	1,835.7	116.0	0.5	17.7	1,969.9
> 3.00 % ≤ 15.32 %	567.8	37.6	3.6	2.5	611.5
> 15.32 % ≤ 100.00 %	146.6	17.0	7.5	2.3	173.4
= 100.0 %	5.7	7.1	39.9	3.8	56.5
Gross exposure	16,136.2	671.9	54.8	95.9	16,958.8
Less: allowance for losses	(6.9)	(0.7)	(0.3)	-	(7.9)
Net balance	16,129.3	671.2	54.5	95.9	16,950.9

All probabilities of default (PDs) are calculated using the Internal Ratings Based (IRB) approach under CRD IV (12 months PDs). In 2020 a new retail secured model was approved and is now in use (see Pillar 3 section 5.2.3 – Models used for further detail). This has altered the spread of the PDs which has caused the lower average PD.

Forbearance
Forbearance is when a bank, for reasons relating to the actual or apparent financial stress of a borrower, grants a concession whether temporarily or permanently to that borrower, where the concession may involve restructuring the contractual terms of a debt or payment. Forbearance facilities may be made to customers in arrears or financial difficulty or those unable to meet outstanding financial commitments to the Bank. Customers may be identified as potentially in financial difficulty at any customer contact and this should be confirmed by a review of the customer's circumstances and full financial assessment. The identification of financial difficulty is a key part of the process of deploying forbearance. Customers are considered to be in financial difficulty if they cannot afford repayments on their financial commitments.

As the table below shows, the level of forbearance has decreased over the period and remains at low levels. As stated in 3.2.1. above this excludes the impact of payment deferrals as they do not meet the Group's forbearance policy. For information 17,290 payment deferrals have been approved for the retail secured book in 2020 (11.6 % of the book). See Segment update: retail for further information.

The table below analyses secured residential mortgage balances by type of forbearance and the associated gross allowance for losses coverage (including credit fair value adjustments).

(unaudited) 2020 Forbearance category	Stage 1	Stage 2	Stage 3	POCI	Total	Allowance for losses
Concessions	3.5	6.1	4.1	0.7	**14.4**	**0.1**
Arrangements	0.7	2.0	3.7	0.7	**7.1**	**-**
IO/capitalisation	0.5	0.9	0.2	-	**1.6**	**-**
Term expired	-	0.3	14.1	0.8	**15.2**	**0.2**
Payment holiday	1.2	2.2	-	0.1	**3.5**	**-**
Deceased grace period	-	0.2	2.7	0.1	**3.0**	**-**
	5.9	**11.7**	**24.8**	**2.4**	**44.8**	**0.3**

(unaudited) 2019 Forbearance category	Stage 1	Stage 2	Stage 3	POCI	Total	Allowance for losses
Concessions	0.8	1.1	9.2	0.3	11.4	-
Arrangements	0.9	3.3	8.0	2.0	14.2	-
IO/capitalisation	0.4	0.3	0.1	-	0.8	-
Term expired	-	0.3	15.0	0.1	15.4	0.1
Payment holiday	6.3	2.3	0.2	-	8.8	-
Deceased grace period	2.4	0.6	0.4	-	3.4	-
	10.8	7.9	32.9	2.4	54.0	0.1

3.2.1.1.2 Retail - unsecured

The retail unsecured book comprises balances for credit cards and overdrafts.

Origination and account management

Customers' applications for credit are assessed using a combination of credit scoring and policy rules. Credit cards and overdrafts are also subject to ongoing account management to determine any increase or decrease in credit limit that should apply as well as to manage over limit authorisations.

The portfolio risk is reassessed monthly using behavioural scorecards to determine the amount of capital required to be held for individual exposures.

Portfolio analysis

The following table shows unsecured lending gross customer balances and exposures (including undrawn commitments) by product type and associated allowance for losses.

(audited)	Gross customer balance		Gross customer exposure	
	2020	2019	2020	2019
Credit cards	**239.5**	299.6	**1,214.0**	1,304.7
Overdrafts	**13.1**	21.8	**202.8**	214.4
	252.6	321.4	**1,416.8**	1,519.1

(audited)	Allowance for losses	
	2020	2019
Credit cards	**7.5**	5.7
Overdrafts	**4.7**	3.7
	12.2	9.4

Risk grade
The table below analyses the credit risk exposure for retail unsecured for which ECL is recognised. The gross carrying amount also represents the Bank's maximum exposure to credit risk on these assets.

(audited) 2020 Credit grade	Stage 1	Stage 2	Stage 3	POCI	Total
≤ 0.04 %	99.0	-	-	-	**99.0**
> 0.04 % ≤ 0.07 %	-	-	-	-	**-**
> 0.07 % ≤ 0.12 %	483.2	0.2	-	-	**483.4**
> 0.12 % ≤ 0.31 %	331.0	0.2	-	0.3	**331.5**
> 0.31 % ≤ 0.50 %	265.5	1.2	-	0.9	**267.6**
> 0.50 % ≤ 1.00 %	46.8	1.7	-	-	**48.5**
> 1.00 % ≤ 5.00 %	130.3	21.0	-	2.1	**153.4**
> 5.00 % ≤ 10.00 %	11.7	10.5	-	0.2	**22.4**
> 10.00 % ≤ 20.00 %	0.2	2.9	-	-	**3.1**
> 20.00 % ≤ 50.00 %	0.1	2.3	-	-	**2.4**
> 50.00 % ≤ 100.00 %	-	0.4	-	-	**0.4**
100.0 %	-	-	5.1	-	**5.1**
Gross balance	**1,367.8**	**40.4**	**5.1**	**3.5**	**1,416.8**
Less: allowance for losses	(3.6)	(4.6)	(3.9)	(0.1)	**(12.2)**
Net balance	**1,364.2**	**35.8**	**1.2**	**3.4**	**1,404.6**

(audited) 2019 Credit grade	Stage 1	Stage 2	Stage 3	POCI	Total
≤ 0.04 %	82.6	-	-	-	82.6
> 0.04 % ≤ 0.07 %	-	-	-	-	-
> 0.07 % ≤ 0.12 %	485.7	-	-	-	485.7
> 0.12 % ≤ 0.31 %	332.0	0.1	-	0.3	332.4
> 0.31 % ≤ 0.50 %	294.2	0.4	-	0.9	295.5
> 0.50 % ≤ 1.00 %	59.3	1.5	-	-	60.8
> 1.00 % ≤ 5.00 %	179.0	30.7	-	2.6	212.3
> 5.00 % ≤ 10.00 %	17.8	17.0	-	0.2	35.0
> 10.00 % ≤ 20.00 %	0.2	4.2	-	-	4.4
> 20.00 % ≤ 50.00 %	0.1	3.2	-	-	3.3
> 50.00 % ≤ 100.00 %	-	0.4	-	-	0.4
100.0 %	-	-	6.7	-	6.7
Gross balance	1,450.9	57.5	6.7	4.0	1,519.1
Less: allowance for losses	(1.8)	(2.6)	(4.9)	(0.1)	(9.4)
Net balance	1,449.1	54.9	1.8	3.9	1,509.7

All PDs are calculated using the Internal Ratings Based (IRB) approach under CRD IV (12 months PDs).

Forbearance
Forbearance occurs when, for reasons relating to actual or apparent financial difficulty of the borrower, a temporary or permanent concession is granted. A concession may involve short-term restructuring of the payment terms of the loan, or an extension of the maturity date. The primary aim of forbearance is to help the borrower through a period of financial difficulty and return the account into a sustainable position, where the facility can be serviced through to full repayment. Where the primary aim cannot be achieved, the secondary aim is to maximise recovery of debt.

As stated in 3.2.1. above this excludes the impact of payment deferrals as they do not meet the Group's forbearance policy. For information 1,937 payment deferrals have been approved for the credit card book in 2020 (0.6 % of the book). See Segment update: retail for further information.

A number of forbearance options, including concessionary arrangements, are available to borrowers in financial difficulty. These are handled either with customers directly or through a third party that they have chosen to represent them. Accounts classified as forborne remain so until the period of financial difficulty has passed and the account has demonstrated it can operate under sustainable terms or ownership is transferred to a third party.

(unaudited) 2020 Forbearance category	Stage 1	Stage 2	Stage 3	POCI	Total	Allowance for losses
Arrangements	-	0.1	0.1	-	**0.2**	**0.1**
Hardship	-	-	0.5	-	**0.5**	**0.4**
Temporary reducing overdraft	-	0.1	0.8	-	**0.9**	**0.5**
	-	0.2	1.4	-	**1.6**	**1.0**

(unaudited) 2019 Forbearance category	Stage 1	Stage 2	Stage 3	POCI	Total	Allowance for losses
Arrangements	-	0.2	0.2	-	0.4	0.2
Hardship	-	-	0.6	-	0.6	0.4
Temporary reducing overdraft	0.1	-	1.6	-	1.7	0.9
	0.1	0.2	2.4	-	2.7	1.5

3.2.1.2 SME risk

The SME business segment comprises business loans that are considered core to the operation of the Bank. The table below shows the exposure of the book and includes FVTPL assets of £4.1m (2019: £5.2m).

(audited)	2020 £m	2019 £m
Business banking	**286.0**	36.6
Commercial real estate (CRE)	**84.3**	87.6
Food/hotel	**27.4**	23.4
Renewable energy	**20.7**	24.8
Care	**17.8**	4.1
Charities	**17.5**	14.6
Retail/wholesale	**17.1**	10.8
Financial/legal	**10.3**	11.2
Education	**9.8**	8.6
Housing association	**2.3**	2.4
Other	**61.4**	26.2
	554.6	250.3

The growth in the balance can be attributed to the Bounce-Back loans and CBILS that have been issued during the year in response to the COVID-19 economic impact. In total £286.6m has been utilised with £253.1m Bounce-Back loans and £33.5m CBILS. These reside mainly within the business banking sector. These are classified as stage 2 loans in the balance movement analysis with origination in stage 1 and transfer to stage 2 within the year to reflect the underlying credit risk of these loans. The ECL for these loans is net of the impact of the government guarantees. The increase in 'other' arises from additional exposure on a mix of lending, including Bounce-Back loans and CBILS.

(audited)	2020		2019	
SME - secured and unsecured split	Gross customer exposure £m	ECL £m	Gross customer exposure £m	ECL £m
Secured loans	**167.4**	**2.4**	140.3	0.1
Unsecured loans	**316.2**	**1.7**	52.6	0.6
Credit cards	**8.5**	**0.1**	7.8	-
Overdrafts	**62.5**	**3.9**	49.6	4.6
	554.6	**8.1**	250.3	5.3

Unless stated otherwise all the analysis below is based on gross customer balances/exposure (excluding those held at FVTPL).

Movement in IFRS 9 gross customer exposure and allowance for losses

The write-off for SME was £0.7m (2019: £28.9m). SME write-off occurs when the Bank expects no further recoveries and all recovery activity has been explored and exhausted. The movement in the gross customer exposure and the related advances for losses (excludes those assets held at FVTPL) across the SME segment is shown below.

(audited) Gross customer exposure – SME	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2020	215.9	21.0	8.2	-	**245.1**
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3) [1]	(437.3)	437.3	-	-	**-**
To credit impaired (stage 1 or 2 to 3)	(0.4)	-	0.4	-	**-**
To 12 month ECL (stage 2 or 3 to 1)	0.1	(0.1)	-	-	**-**
From credit impaired (stage 3 to 2 or 1)	-	2.3	(2.3)	-	**-**
Net changes arising from stage transfers	**(437.6)**	**439.5**	**(1.9)**	**-**	**-**
Other charges/(releases):					
New assets originated or purchased	362.2	-	-	-	**362.2**
Other changes to risk parameters	2.5	(1.5)	(0.1)	1.3	**2.2**
Redemptions and repayments	(53.5)	(3.2)	(1.6)	-	**(58.3)**
Net other charges/(releases)	**(126.4)**	**434.8**	**(3.6)**	**1.3**	**306.1**
Assets written off	(0.1)	-	(0.6)	-	**(0.7)**
At 31 December 2020	**89.4**	**455.8**	**4.0**	**1.3**	**550.5**

(audited) Gross customer exposure – SME	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2019	256.6	35.9	37.8	1.3	331.6
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	(11.3)	11.3	-	-	-
To credit impaired (stage 1 or 2 to 3)	(0.1)	(2.3)	2.4	-	-
To 12 month ECL (stage 2 or 3 to 1)	2.6	(2.6)	-	-	-
From credit impaired (stage 3 to 2 or 1)	-	-	-	-	-
Net changes arising from stage transfers	(8.8)	6.4	2.4	-	-
Other charges/(releases):					
New assets originated or purchased	29.7	-	-	-	29.7
Other changes to risk parameters	(1.4)	(0.1)	-	-	(1.5)
Redemptions and repayments	(60.0)	(21.2)	(4.6)	-	(85.8)
Net other charges/(releases)	(40.5)	(14.9)	(2.2)	-	(57.6)
Assets written off	(0.2)	-	(27.4)	(1.3)	(28.9)
At 31 December 2019	215.9	21.0	8.2	-	245.1

1. Transfer to lifetime ECL includes cohort of customers moved due to PMA for identified corporate at risk including Bounce-Back loans.

(audited) Allowance for losses – SME	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2020	0.4	0.1	4.8	-	**5.3**
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	(0.9)	4.0	-	-	**3.1**
To credit impaired (stage 1 or 2 to 3)	-	-	0.1	-	**0.1**
To 12 month ECL (stage 2 or 3 to 1)	-	-	-	-	**-**
From credit impaired (stage 3 to 2 or 1)	-	-	-	-	**-**
Net changes arising from stage transfers	**(0.9)**	**4.0**	**0.1**	**-**	3.2
Other charges/(releases):					
New assets originated or purchased	0.1	-	-	-	**0.1**
Other changes to risk parameters	0.8	0.1	(0.3)	0.9	**1.5**
Redemptions and repayments	-	-	(1.4)	-	**(1.4)**
Net other charges/(releases)	**-**	**4.1**	**(1.6)**	**0.9**	**3.4**
Assets written off	(0.1)	-	(0.5)	-	**(0.6)**
At 31 December 2020	**0.3**	**4.2**	**2.7**	**0.9**	**8.1**

(audited) **Allowance for losses – SME**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
At 1 January 2019	0.5	0.1	18.9	1.3	20.8
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	-	-	-	-	-
To credit impaired (stage 1 or 2 to 3)	-	-	0.1	-	0.1
To 12 month ECL (stage 2 or 3 to 1)	-	-	-	-	-
From credit impaired (stage 3 to 2 or 1)	-	-	-	-	-
Net changes arising from stage transfers	-	-	0.1	-	0.1
Other charges/(releases):					
Other changes to risk parameters	0.2	-	0.1	-	0.3
Redemptions and repayments	(0.1)	-	(2.4)	-	(2.5)
Net other charges/(releases)	0.1	-	(2.2)	-	(2.1)
Assets written off	(0.2)	-	(11.9)	(1.3)	(13.4)
At 31 December 2019	0.4	0.1	4.8	-	5.3

The risk ratios for the SME segment are:

(audited) **Risk ratios – 2020**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Gross customer exposure	89.4	455.8	4.0	1.3	**550.5**
of which stage 3/POCI exposure	-	-	4.0	1.3	**5.3**
Stage 3/POCI as a % of Gross customer exposure	-	-	100.0 %	100.0 %	**1.0%**
Allowance for losses	0.3	4.2	2.7	0.9	**8.1**
Coverage – over stage 3/POCI exposure	N/A	N/A	67.5 %	69.2 %	**152.8%**
Coverage – over total exposure	0.3 %	0.9 %	67.5 %	69.2 %	**1.5%**

(audited) **Risk ratios – 2019**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Gross customer exposure	215.9	21.0	8.2	-	245.1
of which stage 3/POCI exposure	-	-	8.2	-	8.2
Stage 3/POCI as a % of Gross customer exposure	-	-	100.0 %	N/A	3.3 %
Allowance for losses	0.4	0.1	4.8	-	5.3
Coverage – over stage 3/POCI exposure	N/A	N/A	58.5 %	N/A	64.6 %
Coverage – over total exposure	0.2 %	0.5 %	58.5 %	N/A	2.2 %

Origination and account management

The lending criteria requires borrowers to meet criteria as laid down in individual sector strategy guidelines and operates a strict policy with regards to single name concentrations.

The Bank has provided funding during the year under the government-backed COVID-19 lending schemes, where such lending meets the terms and conditions of the individual schemes.

Watchlist accounts are considered as being at risk and require close control, but not sufficiently so as to warrant transitioning to stage 3. There are a number of triggers which, when met, will result in the customer being classed as watchlist. These triggers include being 30 days past due, cash flow pressures, failure to pay interest when it falls due, a potential insolvency event, unsatisfactory account operation or other signs of financial distress.

Collateral

Various forms of collateral are used, including guarantees, to mitigate credit risk. Property collateral for business lending is categorised as security for property investment customers (i.e. CRE) or owner-occupied premises to secure mainstream loan and overdraft facilities. For general lending, in addition to taking charges over property assets owned by the customer, other security is taken in modest proportion to the total portfolio. This includes debentures or floating charges, cash cover and guarantees (often supported by tangible security where appropriate, including property and life policies).

Property valuations are obtained when the facility is first approved and our lending procedures typically require collateral to be revalued every five years, or more frequently in higher-risk situations (typically annually or when a material change has occurred that is likely to affect the value and/or recoverability of the debt). In certain circumstances, such as syndicates, the multi-bank facility letter may preclude revaluations at the customer's expense of all the assets as frequently as this and a decision is required by all banks involved, to decide if they require the updates more frequently.

The policies for obtaining collateral have not significantly changed during the year. There has been no identified significant change in the overall quality of the collateral held during the year. However, a post-model adjustment has been raised for potentially overstated CRE valuations given the impact of COVID-19.

The table below analyses the market value of the property collateral held against assets across all sectors.

(audited) SME - non-impaired loans	Stage 1			Stage 2		
2020	Exposure	Collateral[1]	Allowance for losses	Exposure	Collateral[1]	Allowance for losses
≤50 % LTV	22.0	22.0	-	76.8	76.8	0.6
>50 % ≤ 80 % LTV	5.6	5.6	-	37.5	37.5	0.7
>80 % ≤ 100 % LTV	-	-	-	9.2	9.2	0.2
>100 % LTV	3.2	2.5	-	6.5	5.4	-
Not secured by property	58.6	-	0.3	325.8	-	2.7
	89.4	**30.1**	**0.3**	**455.8**	**128.9**	**4.2**

(audited) SME - impaired loans	Stage 3			POCI		
2020	Exposure	Collateral[1]	Allowance for losses	Exposure	Collateral[1]	Allowance for losses
≤50 % LTV	1.1	1.1	-	-	-	-
>50 % ≤ 80 % LTV	0.1	0.1	-	-	-	-
>80 % ≤ 100 % LTV	-	-	-	1.3	1.3	0.9
>100 % LTV	-	-	-	-	-	-
Not secured by property	2.8	-	2.7	-	-	-
	4.0	**1.2**	**2.7**	**1.3**	**1.3**	**0.9**

(audited) SME - total	Total		
2020	Exposure	Collateral[1]	Allowance for losses
≤50 % LTV	99.9	99.9	0.6
>50 % ≤ 80 % LTV	43.2	43.2	0.7
>80 % ≤ 100 % LTV	10.5	10.5	1.1
>100 % LTV	9.7	7.9	-
Not secured by property	387.2	-	5.7
	550.5	**161.5**	**8.1**

(audited) SME – non-impaired loans	Stage 1			Stage 2		
2019	Exposure	Collateral[1]	Allowance for losses	Exposure	Collateral[1]	Allowance for losses
≤50 % LTV	80.0	79.8	-	9.9	9.9	-
>50 % ≤ 80 % LTV	37.3	37.3	-	9.9	9.9	-
>80 % ≤ 100 % LTV	0.5	0.5	-	-	-	-
>100 % LTV	5.3	3.3	-	-	-	-
Not secured by property	92.8	-	0.4	1.2	-	0.1
	215.9	120.9	0.4	21.0	19.8	0.1

(audited) SME - impaired loans	Stage 3			POCI		
2019	Exposure	Collateral[1]	Allowance for losses	Exposure	Collateral[1]	Allowance for losses
≤50 % LTV	3.1	3.1	-	-	-	-
>50 % ≤ 80 % LTV	0.1	0.1	-	-	-	-
>80 % ≤ 100 % LTV	-	-	-	-	-	-
>100 % LTV	2.9	-	2.9	-	-	-
Not secured by property	2.1	-	1.9	-	-	-
	8.2	3.2	4.8	-	-	-

(audited) SME - total 2019	Total		
	Exposure	Collateral[1]	Allowance for losses
≤50% LTV	93.0	92.8	-
>50% ≤ 80% LTV	47.3	47.3	-
>80% ≤ 100% LTV	0.5	0.5	-
>100% LTV	8.2	3.3	2.9
Not secured by property	96.1	-	2.4
	245.1	143.9	5.3

1. Collateral is constrained to a maximum of 100% of the exposure to each customer to reflect the maximum protection available to the Bank. For the purposes of determining capital and impairment appropriate forced sale discounts are applied to collateral.

Risk grade

The following tables show the split of the SME exposure by stage and by risk grade (excluding FVTPL).

(audited) 2020 - Credit grade	Stage 1	Stage 2	Stage 3	POCI	Total
Standardised	76.7	342.5	-	-	**419.2**
Internal Ratings Based (IRB)	1.7	33.9	0.2	-	**35.8**
Strong	-	-	-	-	**-**
Good	11.0	72.3	-	-	**83.3**
Satisfactory	-	4.6	-	-	**4.6**
Weak	-	2.4	-	1.3	**3.7**
Default	-	0.1	3.8	-	**3.9**
Gross balance	**89.4**	**455.8**	**4.0**	**1.3**	**550.5**
Less: allowance for losses	(0.3)	(4.2)	(2.7)	(0.9)	**(8.1)**
Net balance	**89.1**	**451.6**	**1.3**	**0.4**	**542.4**

(audited) 2019 - Credit grade[1]	Stage 1	Stage 2	Stage 3	POCI	Total
Standardised	91.8	8.0	-	-	99.8
IRB	40.0	0.3	0.2	-	40.5
Strong	2.2	-	-	-	2.2
Good	80.3	6.7	-	-	87.0
Satisfactory	1.6	3.9	-	-	5.5
Weak	-	2.1	-	-	2.1
Default	-	-	8.0	-	8.0
Gross balance	215.9	21.0	8.2	-	245.1
Less: allowance for losses	(0.4)	(0.1)	(4.8)	-	(5.3)
Net balance	215.5	20.9	3.4	-	239.8

1. 2019 table updated to reflect inclusion of IRB as a separate credit grade.

Forbearance

The identification of financial difficulty is a key part of the process of deploying forbearance. The Bank's practices and accounting policies in relation to forborne assets are detailed in the explanatory information to the consolidated financial statements. Forborne concessions that are considered include:

- a partial write-off of debt, following which the account continues to be classified as impaired for at least 12 months; or
- a material postponement or forgiveness of interest or waiver or reduction of normal fees and charges; the account remains impaired while such favourable terms are being applied.

The table below analyses the gross carrying amount (maximum exposure to credit risk including credit commitments) subject to forbearance.

(unaudited) 2020	Forborne	Non-forborne	Total
Stage 1			
Exposure	2.8	86.6	**89.4**
Collateral	2.8	27.3	**30.1**
Allowance for losses	-	0.3	**0.3**
Stage 2			
Exposure	5.4	450.4	**455.8**
Collateral	5.1	123.8	**128.9**
Allowance for losses	0.1	4.1	**4.2**
Stage 3			
Exposure	-	4.0	**4.0**
Collateral	-	1.2	**1.2**
Allowance for losses	-	2.7	**2.7**
POCI			
Exposure	-	1.3	**1.3**
Collateral	-	1.3	**1.3**
Allowance for losses	-	0.9	**0.9**
Total			
Exposure	8.2	542.3	**550.5**
Collateral	7.9	153.6	**161.5**
Allowance for losses	0.1	8.0	**8.1**

(unaudited) 2019	Forborne	Non-forborne	Total
Stage 1			
Exposure	-	215.9	215.9
Collateral	-	120.9	120.9
Allowance for losses	-	0.4	0.4
Stage 2			
Exposure	0.8	20.2	21.0
Collateral	0.2	19.6	19.8
Allowance for losses	-	0.1	0.1
Stage 3			
Exposure	5.2	3.0	8.2
Collateral	2.3	0.9	3.2
Allowance for losses	2.9	1.9	4.8
POCI			
Exposure	-	-	-
Collateral	-	-	-
Allowance for losses	-	-	-
Total			
Exposure	6.0	239.1	245.1
Collateral	2.5	141.4	143.9
Allowance for losses	2.9	2.4	5.3

For those customers that benefit from ongoing concessions (such as postponement of principal payments), the forbearance status is retained for as long as the concession remains in place. In the event of one-off concessions (such as capitalisation of interest payments), the forbearance status is required to be removed 12 months after the occurrence, provided that the loan has been kept up-to-date during that period and all covenants continue to be met.

3.2.1.3 Legacy risk

The legacy portfolio consists of books where the Bank considers the loans to no longer be part of the core operations of the Bank. These comprise:

- Corporate – this mainly relates to long-term, low-margin sectors such as registered social landlords (RSLs) and public finance initiatives (PFI). Due to the low-risk nature of these books no specific allowance for losses exists on these books.

- Unsecured – this relates to a personal loan book and professional and career loan development (PCDL) book. Both are closed to new business.
- Residential secured – this relates to a closed mortgage book acquired as part of the Britannia merger. It has been managed under the Optimum name and now has a balance of less than £25m following natural run-off, debt sale and a series of securitisations.

The above books are risk managed in the same way as the core secured residential, unsecured and SME (corporate) books already described in section 3.2.1.1 and 3.2.1.2.

Movement in IFRS 9 gross customer exposure and allowance for losses
The write-off for legacy was £2.6m (2019: £6.3m). Write-off occurs when the Bank expects no further recoveries and all recovery activity has been explored and exhausted.

The movement in the gross customer exposure and the related advances for losses (excludes those assets held at FVTPL) across the legacy segment is shown below.

(audited) Gross customer exposure – Legacy	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2020	984.1	40.5	10.7	76.3	**1,111.6**
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	(16.5)	16.5	-	-	**-**
To credit impaired (stage 1 or 2 to 3)	(1.8)	(0.7)	2.5	-	**-**
To 12 month ECL (stage 2 or 3 to 1)	1.9	(1.9)	-	-	**-**
From credit impaired (stage 3 to 2 or 1)	0.2	0.2	(0.4)	-	**-**
Net changes arising from stage transfers	**(16.2)**	**14.1**	**2.1**	**-**	**-**
Other charges/(releases):					
New assets originated or purchased	-	-	-	-	**-**
Other changes to risk parameters	5.6	-	0.1	-	**5.7**
Redemptions and repayments	(153.0)	(18.4)	(7.2)	(66.0)	**(244.6)**
Net other charges/(releases)	**(163.6)**	**(4.3)**	**(5.0)**	**(66.0)**	**(238.9)**
Assets written off	(0.4)	(0.2)	(1.3)	(0.7)	**(2.6)**
At 31 December 2020	**820.1**	**36.0**	**4.4**	**9.6**	**870.1**

(audited) Gross customer exposure – Legacy	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2019	1,269.6	80.1	25.8	235.7	1,611.2
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	(7.8)	7.8	-	-	-
To credit impaired (stage 1 or 2 to 3)	(3.2)	(2.3)	5.5	-	-
To 12 month ECL (stage 2 or 3 to 1)	1.6	(1.6)	-	-	-
From credit impaired (stage 3 to 2 or 1)	0.5	0.1	(0.6)	-	-
Net changes arising from stage transfers	(8.9)	4.0	4.9	-	-
Other charges/(releases):					
New assets originated or purchased	4.9	-	-	-	4.9
Other changes to risk parameters	18.7	(18.1)	(0.1)	(0.1)	0.4
Redemptions and repayments	(291.8)	(32.7)	(16.0)	(158.1)	(498.6)
Changes to model used for ECL calculation	(7.8)	7.8	-	-	-
Net other charges/(releases)	(284.9)	(39.0)	(11.2)	(158.2)	(493.3)
Assets written off	(0.6)	(0.6)	(3.9)	(1.2)	(6.3)
At 31 December 2019	984.1	40.5	10.7	76.3	1,111.6

(audited) Allowance for losses – Legacy	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2020	1.4	0.9	1.4	0.4	**4.1**
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	-	0.4	-	-	**0.4**
To credit impaired (stage 1 or 2 to 3)[1]	-	-	0.2	-	**0.2**
To 12 month ECL (stage 2 or 3 to 1)	-	(0.1)	-	-	**(0.1)**
From credit impaired (stage 3 to 2 or 1)	-	0.1	(0.1)	-	**-**
Net changes arising from stage transfers	**-**	**0.4**	**0.1**	**-**	**0.5**
Other charges/(releases):					
Other changes to risk parameters	0.6	(0.1)	(0.1)	0.1	**0.5**
Redemptions and repayments[2]	(0.1)	-	(0.1)	(0.1)	**(0.3)**
Net other charges/(releases)	**0.5**	**0.3**	**(0.1)**	**-**	**0.7**
Assets written off	(0.3)	(0.1)	(0.7)	(0.3)	**(1.4)**
At 31 December 2020	**1.6**	**1.1**	**0.6**	**0.1**	**3.4**

(audited) Allowance for losses – Legacy	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2019	2.3	1.4	4.2	3.2	11.1
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	-	0.3	-	-	0.3
To credit impaired (stage 1 or 2 to 3)	(0.2)	0.1	0.8	-	0.7
To 12 month ECL (stage 2 or 3 to 1)	-	(0.3)	-	-	(0.3)
From credit impaired (stage 3 to 2 or 1)	-	-	(0.1)	-	(0.1)
Net changes arising from stage transfers	(0.2)	0.1	0.7	-	0.6
Other charges/(releases):					
Other changes to risk parameters	(0.1)	0.3	0.3	0.1	0.6
Redemptions and repayments[2]	(0.5)	(0.2)	(1.1)	(2.1)	(3.9)
Changes to model used for ECL calculation	0.4	(0.3)	-	(0.5)	(0.4)
Net other charges/(releases)	(0.4)	(0.1)	(0.1)	(2.5)	(3.1)
Assets written off	(0.5)	(0.4)	(2.7)	(0.3)	(3.9)
At 31 December 2019	1.4	0.9	1.4	0.4	4.1

1. Excludes £2.1m of FVTPL loss on corporate-related lending.
2. For 2019 this includes the impact of the Warwick Finance Four loss on sale release of £(2.7)m and in 2020 the Optimum loss on sale release of £(0.3)m.

Portfolio analysis

The relative size of the books (includes FVTPL) and associated allowance for losses are:

(audited)	Gross customer balance		Gross customer exposure	
	2020	2019	**2020**	2019
Corporate[1]	**748.7**	826.0	**910.3**	973.8
Unsecured – loans	**11.7**	29.2	**11.7**	29.2
Unsecured – PCDL	**27.8**	45.9	**27.8**	45.9
Optimum	**24.5**	172.7	**24.5**	172.7
	812.7	1,073.8	**974.3**	1,221.6

(audited)	Allowance for losses	
	2020	2019
Corporate[1]	**4.1**	1.5
Unsecured – loans	**1.0**	2.1
Unsecured – PCDL	**-**	-
Optimum	**0.4**	0.5
	5.5	4.1

1. FVTPL balances are: 2020 - £104.2m (2019: £110.0m). These relate only to the FVTPL customer balances. The remaining FVTPL balance is within other accounting adjustments. An ECL of £2.1m has been recognised on corporate FVTPL (2019: nil).

Corporate

The tables below show that the book is mainly in the low-risk sectors of private finance initiative (PFI) and housing association (HA) (includes FVTPL balances).

(audited)	2020	2019
PFI	**556.9**	573.4
HA	**302.9**	334.3
Other	**50.5**	66.1
	910.3	973.8

(audited)	2020		2019	
	Gross customer exposure	ECL	Gross customer exposure	ECL
Secured loans	**480.5**	**0.4**	511.9	0.1
Unsecured loans	**429.7**	**3.7**	461.8	1.4
Credit cards	**0.1**	**-**	0.1	-
	910.3	**4.1**	973.8	1.5

The table below shows the risk grade of the legacy corporate book, split by IFRS 9 stages (excluding FVTPL balances).

(audited) 2020 - Credit grade	Stage 1	Stage 2	Stage 3	POCI	Total
Standardised	24.6	2.3	-	-	**26.9**
IRB	247.9	-	-	-	**247.9**
Strong	496.4	0.2	-	-	**496.6**
Good	9.7	12.4	-	-	**22.1**
Satisfactory	-	-	-	-	**-**
Weak	-	12.6	-	-	**12.6**
Default	-	-	-	-	**-**
Gross balance	**778.6**	**27.5**	**-**	**-**	**806.1**
Less: allowance for losses[1]	(1.4)	(0.6)	-	-	**(2.0)**
Net balance	**777.2**	**26.9**	**-**	**-**	**804.1**

(audited) 2019 - Credit grade[2]	Stage 1	Stage 2	Stage 3	POCI	Total
Standardised	38.5	1.6	-	-	40.1
IRB	277.2	-	-	-	277.2
Strong	511.9	-	-	-	511.9
Good	20.3	0.8	-	-	21.1
Satisfactory	-	-	-	-	-
Weak	-	13.5	-	-	13.5
Default	-	-	-	-	-
Gross balance	847.9	15.9	-	-	863.8
Less: allowance for losses	(1.1)	(0.4)	-	-	(1.5)
Net balance	846.8	15.5	-	-	862.3

1. Excludes FVTPL loss of £2.1m.
2. 2019 table updated to reflect inclusion of IRB as a separate credit grade.

The level of cases in forbearance is £8.3m or 1.0 % of the book (2019: £13.5m / 1.6 %).

Unsecured

The risk grades for the unsecured loan and PCDL book are below.

(audited) 2020 - Credit grade	Stage 1	Stage 2	Stage 3	POCI	Total
Standardised	33.0	4.7	-	-	**37.7**
Standardised default	-	-	1.8	-	**1.8**
Gross balance	**33.0**	**4.7**	**1.8**	**-**	**39.5**
Less: allowance for losses	(0.1)	(0.4)	(0.5)	-	**(1.0)**
Net balance	**32.9**	**4.3**	**1.3**	**-**	**38.5**

(audited) 2019 - Credit grade	Stage 1	Stage 2	Stage 3	POCI	Total
0.00 to 1.00 %	55.5	5.5	2.6	-	63.6
1.00 to 100.00 %	6.8	3.2	1.5	-	11.5
Gross balance	62.3	8.7	4.1	-	75.1
Less: allowance for losses	(0.3)	(0.4)	(1.4)	-	(2.1)
Net balance	62.0	8.3	2.7	-	73.0

The level of forbearance on the book is £0.2m or 0.5 % of the book (2019: £0.2m or 0.3 %). As stated in 3.2.1. above this excludes the impact of payment deferrals as they do not meet the Group's forbearance policy. For information 1,233 payment deferrals have been approved for the loan book in 2020 (11.8 % of the book).

Optimum

The portfolio has reduced significantly in the year due to a sale. The remaining balances comprise:

(unaudited)	2020			2019		
	Gross customer balance	Average LTV %	Interest only %	Gross customer balance	Average LTV %	Interest only %
Prime residential	**0.9**	**49.2**	**73.3**	14.7	57.1	73.1
Buy-to-let	**13.3**	**56.5**	**97.5**	50.9	56.5	95.0
Self-certified	**4.2**	**49.7**	**92.4**	38.2	54.4	85.4
Almost prime	**3.6**	**61.0**	**90.6**	19.5	64.1	80.8
Non-conforming	**2.5**	**58.1**	**85.1**	49.4	56.3	80.5
	24.5	**55.9**	**93.4**	172.7	56.9	85.3

The level of forbearance on the book is £3.2m or 13.1 % of the book (2019: £13.7m or 7.9 %). As stated in 3.2.1. above this excludes the impact of payment deferrals as they do not meet the Group's forbearance policy. For information the number of payment deferrals approved for the Optimum portfolio was 63.

3.2.2 Investment securities credit risk

No allowance for losses has been recognised for investment securities in either 2020 or 2019. All are classified as low-to-medium risk and within stage 1 (2019: stage 1). The Bank has applied the low credit risk exemption available within IFRS 9 to treasury assets with an external rating of investment grade. For further information see the explanatory information to the consolidated financial statements.

Credit risk mitigation

There are policies in place with regard to the management and valuation of collateral which is used as a form of credit risk mitigation. Only cash deposits, UK government bonds or other debt securities issued by a central government or qualifying multi-lateral development bank with a minimum rating of AA, or a mortgage backed security issued by the Bank or one of its subsidiaries are accepted as collateral. It is also a requirement of the treasury credit risk policy that all securities received as collateral are valued on a daily basis and collateral calls made in line with the relevant legal agreement.

Impaired assets

ECL is assessed on a forward-looking basis for debt instruments carried at amortised cost.

At the balance sheet date, investment securities were reassessed for objective evidence that an impairment loss has occurred. Particular consideration was given to evidence of any significant difficulty of the issuer or measurable decrease in the estimated cash flows from the investments. No investment security assets were deemed to be impaired.

3.2.3 Loans and advances to banks

No allowance for losses has been recognised for loans and advances to banks in either 2020 or 2019. These exposures are currently considered to all be of low-to-medium risk and the ECL has been deemed to be immaterial.

3.2.4 Derivative financial instruments

During 2020, the majority of new derivative transactions continued to be cleared through a central clearing counterparty. In accordance with IFRS 13, a net credit value adjustment of £0.4m was recorded (31 December 2019: £0.4m) in relation to non-collateralised swaps.

The table shows a decrease in the notional from £22,773.3m to £16,942.3m. This is due to the simplification of treasury derivatives in preparation for the LIBOR to SONIA transition, including early termination of some offsetting risk positions.

(audited)	2020		2019	
	Notional	Fair value (net)	Notional	Fair value (net)
Interest rate				
Bi-lateral collateral agreements	**14,006.5**	**(273.5)**	18,995.7	(211.8)
One way collateral[1]	**2,550.6**	**(12.8)**	3,403.5	16.1
No collateral agreement	**344.8**	**135.8**	361.1	120.7
Foreign exchange				
Bi-lateral collateral agreements	**40.4**	**0.3**	13.0	0.3
One way collateral[1]	**-**	**-**	-	-
No collateral agreement	**-**	**-**	-	-
	16,942.3	**(150.2)**	22,773.3	(74.7)

1. The above table separately identifies one way collateral agreements. Further disclosures on derivatives are contained in the explanatory information to the consolidated financial statements.

3.2.5 Wholesale credit risk

The treasury asset portfolio is held primarily for liquidity management purposes and, in the case of derivatives, for the purpose of managing market risk. Exposures to the UK government and the Bank of England account for 82% (2019: 74%) of all treasury exposures. The remaining exposures are split 2% (2019: 4%) to residential mortgage-backed securities, 8% (2019: 8%) to financial institutions and 8% (2019: 14%) to non-domestic sovereign and qualifying multi-lateral development bank bonds. No allowance for losses has been recognised in either 2020 or 2019.

3.2.5.1 Direct exposures

Within the treasury asset portfolio there are a number of risk mitigation techniques available including netting and collateralisation agreements. Other methods such as disposal and credit derivatives may be used periodically to mitigate the credit risk associated with particular transactions.

Treasury operates a risk-based approach which monitors counterparty limits and exposure. Both the counterparties and assets held are monitored against a Board-approved matrix of risk tolerance and associated indicators. The scope of this monitoring activity includes rating actions, market events and financial results as they are announced. These factors may influence a change in risk status and possible escalation requiring management actions and inclusion on the watchlist.

The portfolio and watchlist is monitored daily for appropriate risk status bandings and any associated management actions. As at 31 December 2020, there were no red (highest-risk) exposures outstanding (2019: £nil).

During 2020, exposures to financial institutions in European countries were broadly consistent with the year end, with a total gross exposure outstanding at 31 December 2020 of £46.5m (2019: £93.0m). Post-credit risk mitigation, the net exposure was £46.5m (2019: £50.0m).

3.2.5.2 Indirect exposures

Treasury monitoring extends beyond direct risk incurred through counterparty trading, to the underlying exposures, which the counterparties may maintain on their own balance sheets.

Where secondary sovereign exposure or contagion risk is deemed to undermine the performance of the counterparty, remedial management actions are taken in respect of the counterparty limits and exposure.

3.2.6 Other assets

An allowance for losses has been recognised for other assets under IFRS 9. There is currently a very small provision of £0.1m at the end of 2020 (less than £0.1m at the end of 2019). The exposures are currently considered to be of low risk. ECL is assessed on a forward-looking basis for instruments carried at amortised cost and FVOCI.

3.2.7 Amounts due from group undertaking
The Finance Company has recognised a £398.1m (2019: £201.1m) receivable due from Bank Company. The existing internal MREL asset was derecognised during 2020 and rerecognised at FVTPL. This is the internal MREL debt related to the external MREL-qualifying Tier 2 debt and senior unsecured debt issued by the Group (See note 25 to the Group and Bank financial statements for information on the MREL-qualifying instruments and note 28 to the Finance Company financial statements for the fair value of the instruments).

4. MARKET RISK

Market risk is the risk of loss as a result of the value of financial assets or liabilities (including off-balance sheet instruments) being adversely affected by movements in market rates or prices.

4.1 Overview *(unaudited)*
Market risk loss can be reflected in near-term earnings by a reduction in net interest income or, in the longer term, because of changes in the economic value of future cash flows. As the Bank does not have a trading book, the main sources of market risk include: fixed rate mortgages and savings products, the Bank's holdings of bonds in its liquidity portfolio, and the degree to which these are hedged using derivative instruments.

With no trading book and net currency positions below the required threshold, no Pillar 1 market risk exists. All market risk exposures are addressed under the Pillar 2 framework, captured in the Bank's ICR requirement.

The main market risk measure utilised by the Bank is PV01, which measures the sensitivity of the net present value (NPV) of future cash flows to a one basis point (bp) shift in interest rates. The PV01 measures the effect of both parallel and specific point of yield curve stress testing (i.e. non-linear yield curve shifts) by one bp. The residual interest rate risk is hedged using predominantly SONIA (Sterling Overnight Interbank Average rate) based swaps as the Bank responds to the future move from LIBOR to SONIA. Where exposures to floating rate indices do not match between floating rate, or hedged to floating rate assets and liabilities, there is also a resultant basis risk.

Market risk exposures have been maintained well within risk appetite which has decreased since the end of 2019. Interest rate risk when expressed in terms of PV01 averaged £34.1k during 2020 with a low of £(7.7)k and a high of £81.3k.

The Bank-wide market risk position was managed to a short asset position ahead of the year end, with total net sensitivity across the Bank's balance sheet managed up to a total PV01 of £81.3k.

4.2 Primary risk metrics and sources of market risk
The key drivers of market risk faced, and the metrics used to manage those risks are:

(unaudited) Market risk indicators	2020	2019
Total PV01 (£k)	**81.3**	62.4
Average PV01 for the year (£k)	**34.1**	119.2
Largest PV01 for the year (£k)	**81.3**	172.9
Lowest PV01 for the year (£k)	**(7.7)**	47.4
Average basis risk (£m)	**4.6**	2.5
Swap spread PV01 (£k)	**(544.0)**	(506.0)
Average swap spread PV01 (£k)	**(504.2)**	(713.4)
RMBS holding (£m)	**77.3**	163.9
Average RMBS holding (£m)	**130.0**	336.8
FX notional (£m)	**(0.4)**	(0.2)
Average FX notional (£m)	**(0.4)**	(0.4)

Interest rate risk
Sensitivity of the Bank's NPV to a one basis point parallel shift in interest rates (i.e. the PV01) is employed to manage directional interest rate risk and yield curve risk, with limits set at an overall level for directional risk and against individual time buckets for yield curve risk. To supplement these limits, stress testing of exposures against historical yield curve shifts is undertaken to assess the sensitivity to the most extreme curve steepening and curve flattening movements, to a 99 % confidence, observed over appropriate historical periods.

Behavioural assumptions are considered in the treatment of non-interest bearing balances and with regard to customer prepayments within the residential mortgage portfolios.

Risk exposures are formally reported at least monthly, with interest rate risk and effectiveness of hedging monitored at a minimum of weekly frequency. Interest rate risk is hedged using derivative instruments and investment securities to external wholesale markets as appropriate.

During 2020, the largest absolute PV01 exposure of £81.3k was driven by the Bank absorbing the shortening duration of net asset exposures versus the behaviouralised static non-interest bearing balances (NIBBs) liability maturity profile driven primarily by current accounts where balances increased, while the Bank responded to and managed increasingly flatter swap curves.

Basis risk

The definition of basis risk is the risk of loss as a result of the balance sheet being adversely affected by the movement between different index rates.

Basis risk is mainly driven by the mix of exposures to LIBOR and SONIA, base and administered rates. LIBOR exposures include certain mortgages and corporate loans, RMBS (residential mortgage-backed securities) and as a result of hedging fixed rate retail products in previous years. The Bank is continuing to make good progress in LIBOR to SONIA transition, with all fixed rate HQLA assets and front book balance sheet hedging being executed exclusively against SONIA. Focus continues on rehedging of remaining bilateral back-book LIBOR derivatives and transitioning retail mortgage customers with LIBOR-linked loans to alternative benchmark rates. A further increase in SONIA-indexed transactions is therefore expected. Bank of England reserve balances and tracker mortgages generate base rate assets, with administered rate exposures including mortgages and savings products.

Basis risk management seeks to limit volatility to earnings and capital resources from moves in either direction. The assumed potential loss of earnings reflects the downside risk comparing prevailing spreads against historical extremes. The basis risk exposure primarily reflects a net LIBOR and SONIA asset funded by an administered rate net liability.

HQLA swap spread risk

Swap spread risk is defined as the sensitivity of the combined economic value of HQLA securities and their associated derivative hedges to changes in the spread between benchmark sovereign bond yields and swap rates. These assets are used for liquidity purposes within the treasury portfolio.

Swap spread risk is managed by calculating the sensitivity of its hedged fixed rate bond portfolio to a one bp divergence in yields between the fixed rate bond and its hedge (PV01).

Swap spread risk has increased through 2020 due to an increase in duration of the fixed rate sovereign bonds held within the liquid asset portfolio.

Credit spread risk

Credit spread risk is defined as the risk of loss from changes in the credit spread on wholesale assets.

Non-HQLA term exposures relate primarily to holdings of MBS issued by Warwick Finance Three and Four, which reflect retained elements from the deleveraging of Bank's Optimum assets. The potential risk from these holdings is assessed against historical spread movements of similar transactions. MBS holdings have reduced by £86.6m, reflecting Brunel and Warwick Finance One being called in July and September respectively, as well as quarterly amortisation of these notes.

Foreign exchange risk

The exposure to foreign exchange risk is primarily limited to customer hedging transactions and incidental customer transactions. To manage this risk, an overall maximum notional net sterling position limit is set for overnight exposures. This is supported by applying sub-limits to currencies by tier to reflect their liquidity.

The balance sheet is predominantly sterling as the table below shows. The assets comprise loans to banks and the unlisted equity shares. All values shown in the sterling equivalent.

(unaudited)	2020					2019				
	£	$	€	Other	Total	£	$	€	Other	Total
Assets[1]										
Total assets	25,563.2	30.1	5.8	0.4	**25,599.5**	23,378.2	52.2	4.7	0.4	23,435.5
Liabilities[1]										
Total liabilities	24,126.6	(0.5)	(0.8)	(0.2)	**24,125.1**	21,824.2	(0.1)	(0.3)	(0.2)	21,823.6
Net assets	1,436.6	30.6	6.6	0.6	**1,474.4**	1,554.0	52.3	5.0	0.6	1,611.9

1. All currencies are consistent between the Group and Bank Company reporting. Shown as the sterling equivalent.

At 31 December 2020, the Bank's open currency position was £(0.4)m (2019: £(0.2)m). Currency positions are managed against both an overall limit and individual currency limits.

Other sources of market risk

Other sources of market risk include:

- Prepayment risk: the risk that an asset or liability repays more quickly or slowly than anticipated, resulting in a mismatch between the asset, liability and associated hedge;
- Pipeline risk: the risk that the sales profile for fixed rate products does not match hedging assumptions, resulting in a mismatch between product sales and the hedge amount, which can result in a rebalancing cost;
- Explicit option risk: the sensitivity to the overall direction of interest rates, speed of change of rates and market prices for positions which contain explicit options e.g. caps, floors, and swaps;
- Repricing and implicit optionality in products: the risk that options embedded or implied within retail or commercial products have an impact on market value or earnings with changing interest rates; and
- Equity price risk: the risk that the fair value of equities decreases as a result of changes in the level of equity indices and individual stocks. Non-trading equity price risk exposure arises from equity securities classified as fair value through profit and loss. This mainly relates to the Bank's shareholding of Visa B series preferred stock. A 10% increase in the value of equity shares at 31 December 2020 would equate to an increase of £2.2m (2019: £4.5m). An equivalent decrease would reduce the value by the same degree.

4.3 Hedge accounting

The Group is exposed to interest rate risk arising from changes in market interest rates. A variety of strategies are employed to mitigate interest rate risk with the overall objective of hedging interest rates paid and received, predominantly back to SONIA. Note: historically the Bank hedged back to three month LIBOR.

To reduce the reporting volatility introduced as a result of entering into derivatives for economic hedging purposes, the Group applies hedge accounting. The hedge accounting strategies applied are as follows:

Strategy	Hedging instruments and underlying hedged items	Objective of strategy
1) Macro fair value hedge	Interest rate risk on fixed rate mortgages and customer loans.	Macro hedge accounting is used to recognise fair value changes related to changes in net interest rate risk in the fixed rate mortgages and customer loans and therefore reduce the profit or loss volatility that would otherwise arise from changes in the fair value of the interest rate swaps alone.
2) Micro fair value hedge	Interest rate risk on certain fixed rate treasury assets and liabilities.	Micro fair value hedge accounting is used to recognise fair value changes related to changes in interest rate risk in certain treasury assets/liabilities and therefore reduce the profit or loss volatility that would otherwise arise from changes in the fair value of the interest rate swaps alone.
3) Macro cash flow hedge	Reset risk on variable rate loans and mortgages.	Macro cash flow accounting is used to mitigate reporting volatility as a result of entering into interest rate swaps to economically hedge market risk on non-interest bearing deposits. The related interest rate swaps are designated in a cash flow hedge accounting relationship with variable rate loans and mortgages of similar maturity. Provided the hedge is effective, changes in the fair value of the interest rate swaps are recognised in a hedging reserve in equity via the statement of other comprehensive income. If the change in value of the swaps is greater than the change in value of the hedged item, then the ineffective portion will remain on P&L. The values held in the hedging reserve are recycled to the income statement when the hedged item affects profit or loss.

Interest rate risk on fixed rate mortgages and customer deposits (macro fair value hedge)

The Group is exposed to interest rate risk on its fixed rate mortgages and customer loans due to changes in SONIA (historically LIBOR). This interest rate risk is managed by entering into pay fixed/receive floating externally-traded interest rate swaps. Such interest rate swaps are entered into on a regular basis (as and when interest exposure is identified). Only the interest rate risk element is hedged and therefore other risks, such as credit risk, are managed but not hedged.

To mitigate volatility in the income statement generated by this hedge relationship, macro fair value hedge accounting is applied. Relevant interest rate swaps are immediately designated in a hedge accounting relationship. Prospectively the hedging relationship is established by matching the fixed flows of the derivatives against the fixed flows of the portfolio of items being hedged.

The interest rate risk component of the underlying hedged item is determined using proxy derivatives. The fair value change in these proxy derivatives due to changes in LIBOR/SONIA are compared to the fair value changes in the hedging swaps due to changes in LIBOR and SONIA. The relationship of these two fair value movements will determine the retrospective hedge ratio. The main sources of ineffectiveness arise from the difference between expected and actual prepayments of mortgages and from SONIA and LIBOR basis spreads.

Interest rate risk on fixed rate treasury assets and liabilities (micro fair value hedge)
The Group enters into micro fair value hedges in relation to certain fixed rate treasury assets and liabilities to manage changes in interest rate risk. The interest rate risk is managed by entering into interest rate swaps. Only the interest rate risk element is hedged and therefore other risks, such as credit risk, are managed but not hedged.

To mitigate volatility in the income statement generated by these economic hedge relationships, micro fair value hedge accounting is applied.

Prospectively, a hedging relationship is established by matching the notional value of derivatives with the principal (or part of the principal) of the instrument being hedged (micro hedge) and running a prospective effectiveness test which compares changes in the values of the hedged item and hedging instrument for a one bp move in the underlying yield curves.

Retrospectively, the interest rate risk component of the hedged item is calculated using a spreadsheet valuation. The change in the valuation of the interest rate component of the hedged item is compared to the change in value of the swaps and the resulting ratio determines the effectiveness. If effective (between 80 % -125 %) then these positions will be designated in micro fair value hedge relationships.

Possible sources of ineffectiveness include:

- Imperfect economic hedges as the derivatives are not always an exact match for the risk in the hedged item; and
- SONIA leg compounded average fixing for the next period.

Reset risk on variable rate loans and mortgages (macro cash flow hedge)
The Group enters into pay floating/receive fixed interest rate swaps to manage interest rate risk on non-interest bearing deposits. To mitigate reporting volatility as a result of entering into this economic hedge, the related interest rate swaps are designated in a cash flow hedge accounting relationship with variable rate loans and mortgages of similar maturity. A hedging ratio is established by matching the notional value of the derivatives with a percentage of the principal of the portfolios being hedged.

Retrospective effectiveness is assessed by comparing changes in the hedged risk with changes in the fair value of interest rate swaps, using the hypothetical derivative method. The main source of ineffectiveness arises from base rate/SONIA/LIBOR basis spreads. There are no transactions for which cash flow hedge accounting has been used in the previous period and which are no longer expected to occur.

Quantitative hedge accounting information
The following table sets out the maturity profile and average price\rate of micro hedge accounting strategies applied by the Group.

(audited)	Maturity					
2020	**Up to 1 month**	**1-3 months**	**3 months to 1 year**	**1 year to 5 years**	**> 5 years**	**Total**
Fair value hedges (interest rate swap)						
Notional	-	-	483.1	387.8	445.0	**1,315.9**
Average fixed interest rate	-	-	2.78 %	1.01 %	0.85 %	

(audited)	Maturity					
2019	**Up to 1 month**	**1-3 months**	**3 months to 1 year**	**1 year to 5 years**	**> 5 years**	**Total**
Fair value hedges (interest rate swap)						
Notional	-	-	-	1,010.0	373.4	1,383.4
Average fixed interest rate	-	-	-	1.25 %	1.67 %	

The following tables show details of the hedging instruments used by the Group.

(audited) 2020	Carrying amount			Balance sheet line items	Changes in fair value used for calculating hedge ineffectiveness
	Notional	Assets	Liabilities		
Fair value hedges (interest rate risk)					
Interest rate swaps	10,369.2	20.3	155.7	Derivative financial instruments	(126.3)
Cash flow hedges					
Interest rate swaps	80.0	1.6	0.0	Derivative financial instruments	1.5

(audited) 2019	Carrying amount			Balance sheet line items	Changes in fair value used for calculating hedge ineffectiveness
	Notional	Assets	Liabilities		
Fair value hedges (interest rate risk)					
Interest rate swaps	8,622.2	27.3	106.4	Derivative financial instruments	(76.6)
Cash flow hedges					
Interest rate swaps	3,865.2	23.1	2.9	Derivative financial instruments	19.2

In 2020, the Bank de-designated and/or terminated significant volumes of offsetting risk positions from both its macro cash flow and fair value hedge arrangements. This was to reduce the number of trades that need to operationally manage (including rehedging from LIBOR to SONIA in 2021) and preparation to simplify the replacement of the current cash flow hedge programme in 2021.

The following table contains details of the hedged exposures covered by the Group's hedging strategies.

(audited) 2020	Carrying amount of hedged item		Accumulated amount of fair value adjustments on the hedged item		Balance sheet line items	Change in fair value of hedged item for assessment of effectiveness	Cash flow hedge reserve	
	Assets	Liabilities	Assets	Liabilities			Continuing hedges	Discontinued hedges
Macro fair value hedges (interest rate risk)								
Fixed rate mortgages	5,487.8		134.1		Loans and advances to customers	52.1	N/A	N/A
Micro fair value hedges (interest rate risk)[1]								
Fixed rate bonds	226.1		6.3		Investment securities - FVOCI	2.4	N/A	N/A
Fixed rate bonds		485.7		(8.7)	Debt securities in issue	6.9	N/A	N/A
Fixed rate bonds		203.6		(7.0)	Other borrowed funds	(4.0)	N/A	N/A
Fixed rate gilts	445.1		18.7		Investment securities - FVOCI	(9.9)	N/A	N/A
Cash flow hedges (interest rate risk)								
Floating rate mortgages	84.7		N/A	N/A	Loans and advances to customers	19.1	(1.5)	(29.3)

(audited) 2019	Carrying amount of hedged item		Accumulated amount of fair value adjustments on the hedged item		Balance sheet line items	Change in fair value of hedged item for assessment of effectiveness	Cash flow hedge reserve	
	Assets	Liabilities	Assets	Liabilities			Continuing hedges	Discontinued hedges
Macro fair value hedges (interest rate risk)								
Fixed rate mortgages	4,950.3		72.6		Loans and advances to customers	24.5	N/A	N/A
Micro fair value hedges (interest rate risk)[1]								
Fixed rate bonds	242.4		3.9		Investment securities - FVOCI	4.9	N/A	N/A
Fixed rate bonds		602.4		(15.5)	Debt securities in issue	0.6	N/A	N/A
Fixed rate bonds		204.2		(3.0)	Other borrowed funds	(3.0)	N/A	N/A
Fixed rate gilts	897.3		28.5		Investment securities - FVOCI	(7.8)	N/A	N/A
Cash flow hedges (interest rate risk)								
Floating rate mortgages	789.9		N/A	N/A	Loans and advances to customers	2.5	(18.5)	(3.7)

1. 2019 and 2020 now split into macro and micro hedges.

The accumulated amount of fair value hedge adjustments remaining in the balance sheet for hedged items that have ceased to be adjusted for hedging gains and losses is £15.7m (2019: £6.3m).

The following table illustrates the effectiveness of the designated hedging relationships as well as the impact on the income statement (IS) and other comprehensive income (OCI).

(audited) 2020	Gain/(loss) recognised in OCI	Hedge ineffectiveness recognised in the IS	IS line item that includes hedge ineffectiveness	Amounts reclassified from reserves to IS as: Hedged cash flows will no longer occur	Hedged item affected IS	IS line item that includes reclassified amount
Interest rate risk						
Macro fair value						
Fixed rate mortgages	N/A	0.2	Other operating (expense)/income net	N/A	N/A	N/A
Micro fair value						
Fixed rate bonds	N/A	0.4	Other operating (expense)/income net	N/A	N/A	N/A
Fixed rate gilts	N/A	(2.7)	Other operating (expense)/income net	N/A	N/A	N/A
Cash flow hedges (interest rate risk)						
Floating rate mortgages	8.7	1.4	Other operating (expense)/income net	N/A	(3.1)	Net interest income on financial instruments not in a hedging relationship (drip of terminated IRS)

(audited) 2019	Gain/(loss) recognised in OCI	Hedge ineffectiveness recognised in the IS	IS line item that includes hedge ineffectiveness	Amounts reclassified from reserves to IS as: Hedged cash flows will no longer occur	Hedged item affected IS	IS line item that includes reclassified amount
Interest rate risk						
Macro fair value						
Fixed rate mortgages	N/A	(0.2)	Other operating (expense)/income net	N/A	N/A	N/A
Micro fair value						
Fixed rate bonds	N/A	0.3	Other operating (expense)/income net	N/A	N/A	N/A
Fixed rate gilts	N/A	0.0	Other operating (expense)/income net	N/A	N/A	N/A
Cash flow hedges (interest rate risk)						
Floating rate mortgages	(4.5)	0.7	Other operating (expense)/income net	N/A	(2.9)	Net interest income on financial instruments not in a hedging relationship (drip of terminated IRS) Net interest income on financial instruments hedging assets (drip of futures)

(audited)	2020	2019
Cash flow hedge reserve as at 1 January	**16.7**	20.0
Net changes in fair value recognised directly in equity	5.5	(7.4)
Transfers from equity to income or expense	3.1	2.9
Income tax	(2.8)	1.2
Cash flow hedge reserve as at 31 December	**22.5**	16.7

Adoption of temporary and narrow exemptions to the hedge accounting requirements of IAS 39

Amendments to IAS 39 Interest Rate Benchmark reform (Amendments to IFRS 7, IAS 39 and IFRS 7) was issued by the IASB in 2019 and endorsed by the EU on 15 January 2020. The amendments provide temporary and narrow exemptions to the hedge accounting requirements of IAS 39. The Group has adopted this amendment, which has been applied on a retrospective basis. The information below is a breakdown of all hedges, which include those that take exemption.

(audited) Programme	Benchmark of hedged item	Benchmark of hedging instrument	Exposure (PV01) (£k)	Notional (£m)	Exemption applied
Micro hedges	Fixed rate assets hedged against SONIA derivatives	SONIA	394.4	832.8	• None as these are SONIA hedges
Micro Hedges	Fixed rate assets hedged against LIBOR derivatives	LIBOR	(40.3)	483.1	• Non-contractually specified risk component • Prospective test • Retrospective test
Macro FV hedge	Fixed rate assets hedged against SONIA derivatives	SONIA	942.7	2,497.4	• Non-contractually specified risk component • Prospective test • Retrospective test
Macro FV hedge	Fixed rate assets hedged against LIBOR derivatives	LIBOR	988.2	6,556.5	• Non-contractually specified risk component • Prospective test • Retrospective test
Macro cash flow hedge	LIBOR assets hedged with LIBOR derivatives	LIBOR	(40.4)	80.0	• Prospective test • Highly probable test • Retrospective test

Non-contractually specified risk component - The Bank plans to transition these hedges to SONIA prior to the cessation of LIBOR; however, in the event that some LIBOR hedges remain, then we would use the relief that the risk component only needs to be separately identifiable at designation.

Prospective test - The Bank plans to transition these hedges to SONIA prior to the cessation of LIBOR; however, in the event that some LIBOR hedges remain then we assume the swap cash flows do not change as a result of the reform. In addition, where the hedged item references LIBOR within the macro cash flow hedge, we will assume the flows do not change as a result of the reform.

Retrospective test - The Bank plans to transition these hedges to SONIA ahead of the cessation of LIBOR; however, should the transition take longer than expected and IBOR reform cause the hedge relationship to fall outside of the required 80%-125% ratio, then we will continue the hedge so long as other requirements for hedge accounting are met.

Highly probable test - The Bank applies the relief that the rate on which the cash flows are based do not change, hence the highly probable test is met.

The Group continues to progress its transition with regular updates provided to ALCo. The Bank has significant exposure to LIBOR in its treasury, SME and retail lending businesses. It has a project in place to manage down its exposure to the LIBOR reference rate by the regulatory deadline of December 2021. Retail lending and SME LIBOR exposures are all within closed, core and legacy portfolios (no new LIBOR originations). Treasury has stopped the execution of new LIBOR derivatives from July 2020 and made good progress in moving its 'back-book' of exposures to SONIA.

As outlined in note 1 to the Group consolidated financial statements, the Group has opted not to early-adopt the phase 2 amendments issued by the IASB in 2020.

5. LIQUIDITY AND FUNDING RISK

Liquidity and funding risk is the risk that obligations cannot be met as they fall due or can only be met at excessive cost.

5.1 Overview

The Board determines the level of liquid resources required to support the business objectives through the risk appetite and by undertaking an Internal Liquidity Adequacy Assessment Process (ILAAP). The ILAAP process involves the review of the liquidity Risk Management Framework, the assessment of the exposure to qualitative and quantitative liquidity and funding risks (including under stressed conditions) and concludes on the adequacy of its liquid resources.

The ILAAP and compliance with the Overall Liquidity Adequacy Rule (OLAR) is reviewed and approved by the Board. The Liquidity Coverage Ratio (LCR), a 30-day liquidity measure, is the Bank's primary regulatory liquidity metric, with a regulatory minimum of 100% at 31 December 2020. Following review of the Group's ILAAP, the Prudential Regulation Authority (PRA) provides Individual Liquidity Guidance (ILG) which determines the amount of eligible liquidity which is required to be held, including Pillar 2 in respect of liquidity risks not captured by the LCR.

The Group also monitors its position against the regulatory Net Stable Funding Ratio (NSFR) metric, which is a longer-term funding metric.

The Group has an established funding base, predominantly comprising retail deposits. The Bank ensures it maintains a liquidity buffer appropriate for its funding profile in order to ensure that financial obligations are met as and when they fall due through:

- compliance with the liquidity Risk Management Framework including appropriate policies and limits;
- daily management, monitoring and reporting of compliance against both internally defined stress testing and LCR requirements;
- maintenance of a Liquidity Contingency Plan (LCP) which would be invoked in a more severe stress;
- a Recovery and Resolution Plan (RRP), maintained under UK regulatory rules implementing the European Bank Recovery and Resolution Directive (BRRD), which documents a number of potential management actions; and
- liquidity management information provided on a regular basis to ALCo and the Board which details compliance with key liquidity risk metrics.

5.2 Liquidity risk metrics

The Bank monitors a suite of liquidity metrics which includes the following:

(unaudited) Metric	2020	2019	
LCR	193.4 %	173.7 %	• Represents a surplus to regulatory minima of 100 % • Aligns to the risk strategy to maintain a prudent liquidity position
Internal liquidity stress tests	Buffer held in excess of internal requirements	Buffer held in excess of internal requirements	• Measures the survival period under an internally defined applicable stress scenario
NSFR	138.2 %	139.1 %	• Based on current interpretation of requirements and guidance
Customer loan/deposit ratio	91.6 %	94.3 %	• Ratio of customer loans (excluding credit commitments) to customer deposits
Encumbrance ratio	20.9 %	19.8 %	• According to the European Banking Authority (EBA) definition asset encumbrance ratio is calculated as the carrying amount of encumbered assets and collateral divided by total assets and collateral

An asset is defined as encumbered if it has been pledged as collateral against an existing liability or to collateralise an exposure that the Group may have, restricting access to that asset in the event of resolution or bankruptcy. An encumbered asset would be no longer available to use in secured funding, to satisfy collateral needs, or to be sold to reduce the funding requirement. The encumbrance table is presented in the Pillar 3 disclosures (5.3 liquidity and funding – table 33).

5.3 Liquid asset portfolios

Total liquidity resources as at 31 December 2020 were £7,783.4m (2019: £6,768.8m). There is a focus on maintaining a high percentage of liquid assets which are high-quality and the table below analyses the liquidity portfolio by product and unencumbered liquidity value. The liquidity portfolio is categorised into primary and secondary (other liquid assets and contingent liquidity).

Primary liquid assets include cash and balances at central banks, gilts and other high-quality government bonds (all are eligible under European Banking Authority (EBA) regulations (High-Quality Liquid Assets)). These have grown as a result of the raising of funds through TFSME and MREL issuance which have to be yet utilised by mortgage lending. The bonds have increased from the covered bond liquidity management exercise. Gilts have reduced as treasury bills have matured and been switched into operational balances with central banks.

Secondary liquidity comprises unencumbered liquid investment securities not included as part of primary liquidity, as well as other forms of contingent liquidity sources (mortgage and corporate collateral).

(unaudited) Liquidity – primary & secondary	2020	2019
Operational balances with central banks	3,714.0	1,993.3
Gilts	-	945.9
Central government and multilateral development bank bonds	385.4	287.0
Total primary liquid assets	**4,099.4**	3,226.2
Other liquid assets	355.6	649.7
Contingent liquidity	3,328.4	2,892.9
Total secondary liquid assets	**3,684.0**	3,542.6
Total liquidity	**7,783.4**	6,768.8
Average balance	6,950.3	6,517.8

A combination of these asset pools is used to manage liquidity, with primary liquidity used predominantly for short-term cash flow movements, while other liquidity is used for creating longer-term liquidity. Regular realisation through repo transactions and outright sales provide assurance that these asset pools remain sufficiently liquid.

Included within the primary liquid asset balance above is £nil (2019: £148.8m) of UK government gilts obtained through a collateral upgrade transaction. In accordance within the recognition criteria for financial assets under IFRS 9 Financial Instruments, these gilts are not recognised on the Bank's balance sheet. The disclosures above are based on what is eligible for liquidity purposes and so does not exactly match the balance sheet.

5.3.1 Wholesale funding

Wholesale funding is used to supplement retail and commercial deposits to diversify the source of funds. There are a variety of long-term wholesale funding sources outstanding, including Tier 2 subordinated debt, MREL-qualifying debt, covered bonds, repos (including BoE indexed long-term repo), BoE TFSME drawings, Silk Road Six MBS, as summarised in the table below.

(unaudited) **Wholesale funding**	**2020**	**2019**
Subordinated debt	**408.2**	204.2
Secured funding	**2,471.3**	1,815.5
Repos	**294.6**	179.1
	3,174.1	2,198.8

The wholesale funding position has been managed through the issuance of MREL-qualifying debt, drawdowns on the TSFME scheme offsetting a reduction in the covered bond from a liability management exercise alongside the use of repo financing. Gilt repos make up £294.6m of total repo funding. The following table sets out contractual wholesale funding by maturity, with the maturity of securitisations based on call dates. The funding below is included within other borrowed funds, deposits by banks and debt securities in issue on the balance sheet.

(unaudited) **Wholesale funding maturity**	**2020**	**2019**
Repayable in less than 1 month	**294.8**	181.3
Repayable between 1 and 3 months	**0.1**	0.3
Repayable between 3 and 6 months	**5.3**	3.5
Repayable between 6 and 9 months	**-**	-
Repayable between 9 and 12 months	**485.9**	4.0
Repayable between 1 and 2 years	**-**	599.0
Repayable between 2 and 5 years	**2,388.0**	1,410.7
Repayable in more than 5 years	**-**	-
	3,174.1	2,198.8

5.4 Liquidity gap

Details of contractual maturities for assets and liabilities underpin the management of liquidity risk. However, management recognises that customer behaviour differs to contractual maturity, therefore as part of the planning process, behavioural run-off of customer assets and liabilities over time are estimated. The assumptions used to create these estimates and the estimates themselves are recommended for approval by ALCo as part of its responsibility to manage the strategic plan.

Gross cash flows include interest and other revenue cash flows. Other assets and liabilities include non-financial items and these are excluded from the maturity analysis. The following table is an analysis of gross undiscounted contractual cash flows of financial assets and liabilities held at the balance sheet date.

(audited) **2020 – Contractual cash flows - Assets**	**Carrying value**	**Gross nominal flow**	**Less than 1 month**	**1-3 months**	**3-6 months**	**6-9 months**	**9-12 months**	**1-2 years**	**2-5 years**	**Over 5 years**
Cash and balances at central banks	3,877.8	3,877.8	3,877.8	-	-	-	-	-	-	-
Loans and advances to banks	536.2	524.1	427.6	96.5	-	-	-	-	-	-
Loans and advances to customers	18,682.5	27,579.1	387.3	201.5	302.5	308.7	322.1	1,240.0	3,799.5	21,017.5
Investment securities	1,148.5	1,410.7	6.8	13.3	20.0	20.3	20.3	182.5	613.1	534.4
Derivative financial instruments	189.9	288.5	8.9	12.3	12.8	12.3	9.1	24.4	53.8	154.9
Other assets	1,164.6	-	-	-	-	-	-	-	-	-
Total recognised assets	**25,599.5**	**33,680.2**	**4,708.4**	**323.6**	**335.3**	**341.3**	**351.5**	**1,446.9**	**4,466.4**	**21,706.8**

(audited) 2020 – Contractual cash flows - Liabilities	Carrying value	Gross nominal flow	Less than 1 month	1-3 months	3-6 months	6-9 months	9-12 months	1-2 years	2-5 years	Over 5 years
Deposits by banks	2,066.4	2,073.0	316.6	0.3	0.4	0.4	0.4	1.8	1,753.1	-
Customer accounts[1]	20,365.8	20,397.9	17,728.0	119.8	783.9	586.7	390.6	693.2	95.7	-
Debt securities in issue	728.8	747.8	3.6	6.9	10.4	10.4	493.5	17.7	205.3	-
Derivative financial instruments	340.1	457.5	14.4	24.8	23.2	22.3	19.5	61.0	99.6	192.7
Other borrowed funds	408.2	538.6	-	-	18.5	-	18.5	37.0	464.6	-
Lease liabilities	53.6	66.5	-	1.9	1.9	1.9	1.8	7.1	18.3	33.6
Other liabilities	162.2	-	-	-	-	-	-	-	-	-
Total recognised liabilities	**24,125.1**	**24,281.3**	**18,062.6**	**153.7**	**838.3**	**621.7**	**924.3**	**817.8**	**2,636.6**	**226.3**
Unrecognised loan commitments[2]	2,548.4	2,548.4	2,548.4	-	-	-	-	-	-	-
Total liabilities	**26,673.5**	**26,829.7**	**20,611.0**	**153.7**	**838.3**	**621.7**	**924.3**	**817.8**	**2,636.6**	**226.3**

(audited) 2019 – Contractual cash flows - Assets	Carrying value	Gross nominal flow	Less than 1 month	1-3 months	3-6 months	6-9 months	9-12 months	1-2 years	2-5 years	Over 5 years
Cash and balances at central banks	2,153.5	2,153.5	2,153.5	-	-	-	-	-	-	-
Loans and advances to banks	474.3	474.4	353.9	120.5	-	-	-	-	-	-
Loans and advances to customers	17,918.4	27,440.2	453.3	202.1	310.7	307.7	313.6	1,309.4	3,984.7	20,558.7
Investment securities	1,605.6	1,907.7	55.5	173.4	451.0	16.2	16.2	118.9	511.6	564.9
Derivative financial instruments	213.3	311.3	14.1	9.7	15.5	12.0	11.6	41.1	62.9	144.4
Other assets	1,070.4	-	-	-	-	-	-	-	-	-
Total recognised assets	**23,435.5**	**32,287.1**	**3,030.3**	**505.7**	**777.2**	**335.9**	**341.4**	**1,469.4**	**4,559.2**	**21,268.0**

(audited) 2019 – Contractual cash flows - Liabilities	Carrying value	Gross nominal flow	Less than 1 month	1-3 months	3-6 months	6-9 months	9-12 months	1-2 years	2-5 years	Over 5 years
Deposits by banks	1,143.7	1,162.9	184.5	1.4	2.2	2.2	2.3	8.9	961.4	-
Customer accounts[1]	18,996.8	19,050.7	15,592.8	187.4	688.5	808.0	451.1	944.9	378.0	-
Debt securities in issue	867.5	921.9	4.3	8.3	12.5	12.5	16.4	644.9	223.0	-
Derivative financial instruments	288.0	403.1	8.3	13.0	18.1	19.4	13.7	48.2	96.2	186.2
Other borrowed funds	204.2	305.2	1.6	3.1	8.2	4.8	4.8	19.0	263.7	-
Lease liabilities	71.2	90.0	-	2.7	2.6	2.6	2.6	9.9	26.3	43.3
Other assets	252.2	-	-	-	-	-	-	-	-	-
Total recognised liabilities	**21,823.6**	**21.933.8**	**15,791.5**	**215.9**	**732.1**	**849.5**	**490.9**	**1,675,8**	**1,948.6**	**229.5**
Unrecognised loan commitments[2]	**2,105.0**	**2,105.0**	**2,105.0**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total liabilities	**23,928.6**	**24,038.8**	**17,896.5**	**215.9**	**732.1**	**849.5**	**490.9**	**1,675.8**	**1,948.6**	**229.5**

1. The carrying value of customer accounts for the Bank is £20,365.9m (2019: £18,996.9m) and the gross nominal flow is £20,398.0m (2019: £19,050.8m). The additional £0.1m (2019: £0.1m) is within the less than 1 month band. All other balances and timing bands are consistent with the Group.
2. Includes financial guarantee and swap break costs.

The principal difference between the gross nominal value and the accounting carrying value set out above is due to discounting. Discounting has a greater impact on cash flows in later years, and a minimal impact on cash flows within 1 year. Therefore the contractual cash flows on assets and liabilities expected in less than one year are a fair representation of the contractual maturity of current assets and liabilities at carrying value in the balance sheet.

5.5 Financial instruments in the balance sheet subject to netting arrangements

The Group has netting agreements in place with counterparties to manage the associated credit risks. Such arrangements primarily include repo and reverse repo transactions and over-the-counter (OTC) derivatives. These netting agreements enable the counterparties to offset liabilities against available assets received in the ordinary course of business and/or in the event of the counterparty's default. The offsetting right is a legal right to settle, or otherwise eliminate, all or a portion of an amount due by applying an amount receivable from the same counterparty against it, thus reducing credit exposure.

The table below shows the net exposure for sale and repurchase agreements and derivative contracts after any netting benefits and collateral.

(unaudited) 2020	Gross amount[1]	Master netting arrangements	Financial collateral[2]	Net amount
Financial assets				
Derivative financial instruments	189.9	(22.5)	(16.4)	151.0
Total financial assets	**189.9**	**(22.5)**	**(16.4)**	**151.0**
Financial liabilities				
Derivative financial instruments	340.1	(22.5)	(312.2)	5.4
Sale and repurchase agreements	294.6	-	(294.6)	-
Total financial liabilities	**634.7**	**(22.5)**	**(606.8)**	**5.4**

(unaudited) 2019	Gross amount[1]	Master netting arrangements	Financial collateral[2]	Net amount
Financial assets				
Derivative financial instruments	213.3	(67.7)	(3.9)	141.7
Total financial assets	**213.3**	**(67.7)**	**(3.9)**	**141.7**
Financial liabilities				
Derivative financial instruments	288.0	(67.7)	(220.3)	-
Sale and repurchase agreements	179.1	-	(179.1)	-
Total financial liabilities	**467.1**	**(67.7)**	**(399.4)**	**-**

1. As reported on balance sheet.
2. The financial collateral disclosed is limited to the amount of the related financial asset or related financial liability (i.e. over-collateralisation, where it exists, is not reflected in the table).

Financial Statements

The co-operative bank
for people with purpose

Opinion

We have audited the financial statements (see table below) of the Co-operative Bank p.l.c (the "Bank Company") and its subsidiaries (together, the "Bank") for the year ended 31 December 2020. In our opinion:

- the financial statements give a true and fair view of the state of the Bank's and of the Bank Company's affairs as at 31 December 2020 and of the Bank's loss for the year then ended;
- the Bank financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union;
- the Bank Company financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 as applied in accordance with section 408 of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

The financial statements comprise:

Bank	Bank Company
Consolidated balance sheet as at 31 December 2020	Balance sheet as at 31 December 2020
Consolidated income statement for the year then ended	Statement of changes in equity for the year then ended
Consolidated statement of comprehensive income for the year then ended	Cash flow statement for the year then ended
Consolidated statement of changes in equity for the year then ended	Related notes 1 to 28 to the financial statements, (except for the columns marked as "unaudited" in Note 24), including a summary of significant accounting policies
Consolidated statement of cash flows for the year then ended	
Related notes 1 to 37 to the financial statements, (except for the columns marked as "unaudited" in Note 31), including a summary of significant accounting policies	
Information in the risk management section of the Business Review, identified as "audited" on pages 85 to 134	

The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006 and, as regards to the Bank financial statements, International Financial Reporting Standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union and; as regards to the Bank Company financial statements, as applied in accordance with section 408 of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Bank and Bank Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Bank and Bank Company's ability to continue to adopt the going concern basis of accounting included:

How we evaluated the Directors' assessment

Risk Assessment Procedures

- Through discussions with Management and review of supporting evidence, we updated our understanding of the Bank's capital requirements, the Financial Statement Close Process, and the process by which the Bank's budget is created and approved.
- We have obtained an understanding of Management's basis for use of the going concern basis of accounting through reviewing the going concern assessment and underlying forecasts and assumptions, and through inquiries of Management and those charged with governance.
- We have independently identified factors that may indicate events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern, which include:
  - The Bank is structurally loss making and has chosen to undertake significant actions including investing to reduce the risk in its asset base, reduce staff and branch numbers and improve its technology infrastructure.
  - The Bank continues to have a cost to income ratio of greater than 100%.
  - The impact of COVID-19 has put further stress on the performance of the Bank, such as through increased provisions for expected credit losses, which has resulted in the Bank continuing to record losses for the year ended 31 December 2020.
  - In the 30 June 2020 half yearly results the Directors identified that the completion of the Bank's MREL issuance programme in a reasonable timeframe, should the unpredictable environment that was prevalent at the time continue, represented a material uncertainty to going concern. In November 2020 the Bank successfully raised £200 million of MREL qualifying debt to ensure compliance with regulatory capital requirements which came into effect from 1 January 2021.
- In this context, events or conditions that cast significant doubt over the Bank's ability to continue as a going concern were identified and we have designed our audit procedures to evaluate the effect of these risks on the Bank's ability to continue as a going concern.

Management's Method

- We have confirmed our understanding of Management's going concern assessment process. We engaged with Management early to ensure all key factors that we considered to be material were considered in their assessment.
- We obtained Management's Board approved long-term forecast covering the period of Management's going concern assessment to 30 June 2022. The Bank has modelled the impact of a number of adverse scenarios in their assessment in order to incorporate unexpected changes to the Bank's financial performance, capital resources and capital requirements on the forecasted regulatory capital surplus of the Bank.
- Using our understanding of the business, we evaluated the forecasting method adopted by Management in assessing going concern and concluded that this was appropriate including a critical evaluation of plausible downside scenarios.
- We tested whether the forecasts used in the going concern assessment were mathematically accurate.
- We inquired of Management as to their knowledge of events or conditions beyond the period of Management's assessment and read published announcements from the Prudential Regulation Authority ("PRA").

Assumptions

- We evaluated the relevance and reliability of the underlying data used in the going concern assessment and tested assumptions to third party evidence, where appropriate.
- We reviewed correspondence between the Bank and its regulators to evidence the current regulatory capital position and also to provide evidence as to changes in the Bank's capital requirement across the period to 30 June 2022. We met with the PRA throughout the audit cycle and noted the PRA's perspectives on risks and areas of focus.
- We evaluated the Bank's long-term forecast with reference to Management's historical forecasting accuracy and performed stress testing to consider the reasonableness of forecast income growth, cost reduction plans and House Price Index ("HPI") assumptions over the assessed going concern period.
- We reconciled the Bank's liquidity position to its regulatory liquidity reporting returns and evaluated the Bank's liquidity forecasts over the going concern period considering the Bank's current position and availability of additional liquidity should it be required.

Stress testing and Management plans for future actions

- We evaluated Management's assumptions by performing independent stress testing to determine whether a reasonable alternative stressed scenario, or combination of scenarios, would result in a breach of binding regulatory requirements. With the support of our Prudential Regulation specialists, we supplemented this by assessing the reasonableness of the Bank's risk weighted asset assumptions.
- We evaluated the plausibility of Management's downside assumptions with reference to the work performed by EY economists in assessing the Bank's forecast economic scenarios and considered the results of these procedures in performing our independent stress testing.
- We evaluated Management's plans for future actions within the control of the Bank to maintain a surplus to binding regulatory capital requirements over the going concern period in order to determine if such actions are feasible in the current circumstances.

Disclosures

- We considered whether the disclosures (as described within the basis of preparation and significant accounting policies note on page 171 of the Consolidated Financial Statements) sufficiently and appropriately reflect the events relating to the uncertainties identified in the going concern assessment, and Management’s plans in response to these.

Our key observations

Our evaluation of the Directors’ going concern assessment covers the period to 30 June 2022, consistent with the period assessed by the Directors.

There have been important developments in relation to the risk to the going concern assumption in 2020, including the Bank’s successful issuance of £200 million of MREL-qualifying debt in November, and the delay in end-state MREL requirements to 1 January 2023. Whilst issuing the debt creates an additional expense on the Bank, these developments have removed the Bank’s requirements to issue debt in the going concern period – and so reduces the uncertainty in relation to any such issuance.

Over the assessed going concern period, the Bank has forecast that it will maintain headroom to its binding regulatory MREL requirements, using base case assumptions. MREL requirements are the highest binding regulatory requirement the Bank is required to meet over the going concern period. We have concluded that the Bank’s forecasts and expected outcome over the going concern period are reasonable, and from the stress testing performed, we concluded that although there are uncertainties related to these forecasts, the risk of the Bank breaching its regulatory binding regulatory capital requirements and being subject to regulatory forbearance does not represent a material uncertainty.

The Bank is a participant in the Term Funding Scheme with additional incentives for SMEs (“TFSME”) and is able to draw down a further £1.0 billion of additional funding to that which is currently forecast, should this be required in a stressed scenario; we do not believe that the Bank’s liquidity requirements give rise to a material uncertainty.

Conclusion

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Bank and Bank Company’s ability to continue as a going concern for a period of 18 months to 30 June 2022. Going concern has also been determined to be a key audit matter.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Bank’s ability to continue as a going concern.

Overview of our audit approach

Audit scope	• We performed an audit of the complete financial information of the Bank and Bank Company
Key audit matters	• Credit impairment provisions • Valuation of the Fair Value Adjustments to Hedged Risk and the Macro Cash Flow Hedge Reserve • Valuation of the defined benefit pension scheme surplus in the PACE and Britannia Pension Schemes • Risk of fraud in the recognition of income using the Effective Interest Rate (EIR) Method
Materiality	• Overall materiality for the Bank and the Bank Company of £12.0m (2019: £10.0m) which represents 0.81 % of Bank equity (2019: 0.62 %).

An overview of the scope of the audit

Tailoring the scope

The Bank is principally managed from one location in Manchester, with certain functions such as Treasury and some corporate activities operated from London. All audit work performed for the purposes of the audit was undertaken by the Bank audit team.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk
Credit impairment provisions *Please refer to the Audit Committee Report (page 63); Accounting policies (page 260); and Note 14 of the Consolidated Financial Statements (page 181).* At 31 December 2020, the Bank reported total gross loans of £18,725m (2019: £17,945m) and credit impairment provisions of £42.9m (2019: £26.7m). The determination of expected credit losses ("ECL") in the current pandemic environment continues to be highly subjective and judgemental particularly related to assessing the impact of payment deferrals, government support schemes and recovery profiles and timing. Key judgements and estimates in respect of the timing and measurement of ECL include: - The appropriateness of staging criteria selected by Management to determine whether a significant increase in credit risk ("SICR") has arisen including evaluating the impact of government support measures; - Accounting interpretations and modelling assumptions used to build the models that calculate the ECL; - Inputs and assumptions used to estimate the impact of multiple economic scenarios including appropriate weightings for the various scenarios; - Completeness and valuation of Post Model Adjustments ("PMAs"); - Measurement of individually assessed provisions; and - Accuracy and adequacy of the financial statement disclosures. The level of judgement and estimation has increased as a result of COVID-19, leading to greater uncertainty in forecasting future economic scenarios, the weightings to be applied to these scenarios and the determination of SICR. As such, the risk of material misstatement associated with credit impairment provisions has increased.	We understood and evaluated the design effectiveness of key controls over the impairment process and tested the operating effectiveness of the controls which we intended to rely on covering the reconciliation of model data, determination of arrears status, and identification and provisioning of individually impaired corporate cases. We assessed the methodology for determining the SICR criteria and independently tested the staging allocation by reperforming this across the secured and unsecured portfolios and on a sample basis on the corporate loan portfolio, with reference to the SICR thresholds and cure periods. We also performed sensitivity analysis including stage escalations for problem sectors or exposures with high risk characteristics. With the support of EY credit risk modelling specialists, for material ECL models, we risk rated the models, reviewed the model methodology and performed substantive procedures on a risk focussed basis, which included model implementation and model validation testing, sensitivity analysis, benchmarking and recalculation of the Probability of Default, Loss Given Default and Exposure at Default. For the platform portfolio we used an alternative model to form an independent expectation against which we assessed the Bank's overall ECL outcome. We performed testing over the integrity of the data used in developing and validating the Bank's IFRS 9 models and assumptions and the information used to calculate the provision, including collateral valuations. With the support of EY economic specialists, we assessed the base case and alternative economic scenarios, including challenging probability weightings and comparing to other scenarios from external sources, as well as EY internally developed forecasts. We assessed whether forecasted macro-economic variables including GDP, unemployment, interest rates and indexation applied to collateral valuations, were appropriate. With the support of EY credit risk modelling specialists, we performed sensitivity analysis over the underlying macro-economic factors included within the ECL models to assess how they would perform in a more volatile economic environment, and the resulting impact on ECL. We assessed whether the inventory of PMAs used by the Bank was complete considering limitations identified in our testing of ECL models, peer benchmarking and consideration of emerging credit risks. We tested material PMAs, including the £13.1m PMA recognised to increase ECL on the retail secured book, by assessing the appropriateness of the Bank's methodologies, validating data inputs and independently recalculating the PMAs, which included an assessment of the underlying calculation methodology. We tested the appropriateness and completeness of overlays recognised in response to COVID-19 related economic uncertainty.

Risk	Our response to the risk
	For a sample of higher risk individually assessed corporate provision cases we obtained an understanding of the latest developments in the borrower's situation and the factors impacting the measurement of provisions including factors arising from COVID-19. With the support of EY valuation specialists we independently assessed the underlying collateral used in Management's cash flow calculations. In each case we tested key data inputs and, where relevant, considered alternative scenarios in challenging Management's estimate. We tested a risk-based sample of performing corporate loans to assess the appropriateness of the staging classification. We assessed the adequacy and appropriateness of disclosures made within the financial statements, including the disclosures provided in relation to the credit risk related impacts of COVID-19. Overall in terms of the requirements of ISA 540 we performed a stand back analysis to assess the overall adequacy of the ECL coverage and approach. In completing this analysis we considered the nature and credit quality of the overall loan books, used data analytic tools to highlight risk areas in the loan portfolios, performed benchmarking across similar institutions, assessed the impact of the pandemic on individual and company exposures and behaviours and evaluated the overall reasonableness of economic recovery assumptions.

Key observations communicated to the Audit Committee

We communicated that we are satisfied that ECL provisions were reasonable, in compliance with IFRS 9 and that we found them to be within a reasonable range of outcomes, which we reported to the Audit Committee.

We highlighted to the Committee that there is increased uncertainty in determining forecast losses due to the economic uncertainties resulting from COVID-19.

We highlighted to the Audit Committee that although we observed model deficiencies, the resulting ECL was reasonable after incorporating appropriate post model adjustments.

We considered the multiple economic scenarios incorporated in the IFRS 9 models to be materially appropriate.

Risk	Our response to the risk
Valuation of the fair value adjustments to hedged risk and the macro cash flow hedge reserve *Please refer to the Audit Committee Report (page 64); Accounting policies (page 259); and Note 16 of the Consolidated Financial Statements (page 184).* At 31 December 2020, the Bank reported fair value adjustments to hedged risk of £134.1m (2019: £72.6m) and the macro cash flow hedge reserve was valued at £22.5m (2019: £16.7m). The Bank applies macro fair value and cash flow hedge accounting under IAS 39 *Financial Instruments: Recognition and Measurement* to manage accounting volatility arising mainly from hedging of interest rate risk. To qualify for hedge accounting under IAS 39, certain criteria must be met, including documenting the nature and purpose of the hedge, performing testing over its effectiveness, and appropriately accounting for the hedging results. The Bank's macro hedge accounting models are manual, governed by complex accounting rules and require the application of assumptions in forecasting cash flows, hedging instrument valuations and the calculation of hedge ineffectiveness. There is a risk that the methodology or assumptions used may be inappropriate, or that there are errors in the application of the Bank's models. This could give rise to misstatement of the fair value adjustment to hedged risk or the macro cash flow hedge reserve in the balance sheet. The level of risk associated with the fair value adjustments to hedged risk and the macro-cash flow hedge reserve remain consistent with the prior year.	We examined the Bank's hedge documentation to assess its compliance with the requirements of IFRS. We involved EY Financial Accounting Advisory specialists in our evaluation of the Bank's macro hedging models. Alongside these specialists we assessed the Bank's hedging methodology, whether Management have captured all material sources of ineffectiveness, and the changes being implemented by the Bank to prepare for reference rate reform. We reconciled the hedged instruments in the model back to underlying source systems and tested attributes on a sample basis to verify the completeness and accuracy of the populations to which hedge accounting was applied. With the support of EY valuation specialists we tested the fair value attributable to hedged risk of hedged items, through testing the value of the derivative hedging instruments and modelled ineffectiveness, with reference to independent market data. We reperformed a sample of hedge effectiveness calculations and tested a sample of manual adjustments posted to record ineffectiveness.

Key observations communicated to the Audit Committee
We concluded to the Audit Committee that the Bank's macro hedge accounting documentation was compliant with the hedge accounting provisions of IAS 39, We also communicated that based on our evaluation of the hedging models, we were satisfied that the methodology for recording the fair value adjustments to hedged risk and the macro cash flow reserve was appropriate.

Risk	Our response to the risk
Valuation of the defined benefit pension scheme surplus in the PACE and Britannia Pension Schemes *Please refer to the Audit Committee Report (page 63); Accounting policies (page 264); and Note 30 of the Consolidated Financial Statements (page 191.* At 31 December 2020, the Bank reported a defined benefit pension scheme surplus of £643.0m (2019: £681.6m). This consisted of assets of £2,169.6m and liabilities of £1,660.4m relating to the PACE pension scheme and Britannia Pension Scheme assets of £919.5m and liabilities of £776.9m. The valuation of the liabilities of each of these pension schemes is subject to the following significant assumptions: - Discount rate; - Inflation; - Revaluation of deferred pensions; and - Mortality. In addition, the asset pools of both the PACE and Britannia schemes also contain an element of Level 3 illiquid investment funds that are harder to value, which increases the risk of incorrect valuation. The risks associated with the Bank's pension schemes has increased in the year as a result of COVID-19, leading to increased uncertainty over the valuation of pension assets, and greater volatility in the liability assumptions, which drives the surplus calculation.	With the support of EY pension actuaries we considered the appropriateness of the assumptions supporting the valuation of the scheme liabilities through the development of an independent range of reasonable assumptions against which to assess those used by Management. We assessed the impact on pension liabilities of changes in financial, demographic and longevity assumptions and whether these were in line with our expectations. We also tested the completeness and accuracy of member data on which these assumptions are based. With the support of EY valuation specialists we challenged the appropriateness of Management's asset valuation methodology, including the judgements made in determining significant assumptions used in the valuation of illiquid Level 3 pension assets, through assessing asset valuation statements, pricing policies and evidence of the performance of the pension assets. We assessed the recognition of the PACE and Britannia Pension Schemes surplus against the requirements of IFRIC 14. We assessed the adequacy of the disclosures made, and their compliance with the accounting standards including the appropriateness of the key assumptions and sensitivities disclosed.

Key observations communicated to the Audit Committee

We highlighted to the Audit Committee that the defined benefit pension scheme surplus in the PACE and Britannia pension schemes is reasonably estimated and recognised in accordance with both IAS 19 and IFRIC 14.

We highlighted that there is subjectivity in the valuation of the scheme liabilities due to the use of significant assumptions in calculating the balance. Overall, we are satisfied that the assumptions made by the Bank were within a reasonable range.

We also noted that the asset pools of both the PACE and Britannia pension schemes contained an element of "hard to value" Level 3 illiquid funds. We are satisfied that the Bank's methods for valuing these assets, and the valuations themselves, were materially appropriate.

Risk	Our response to the risk
Risk of fraud in the recognition of income using the effective interest rate method *Please refer to the Audit Committee Report (page 63) and Accounting policies (page 257).* The Bank records interest income on its mortgage portfolio under the effective interest rate ('EIR') method. The EIR method of revenue recognition spreads the income statement recognition of income and expense cash flows that are, in substance, integral to the overall yield of the financial instrument over its modelled life. The method involves Management judgement and the use of detailed models in both determining the initial EIR and recording the present value of adjustments arising in subsequent periods when cash flows are reforecast. As such, it represents a risk of fraud in revenue recognition through Management override of internal controls. The Bank's EIR models are most sensitive to changes in the behavioural life assumptions and future interest rate expectations. These are also impacted by the economic and customer behavioural impacts of COVID-19. Judgement is also applied in determining the nature of fees eligible to be deferred as a result of being integral to the yield of the products. Modelled forecast cash flows may be measured incorrectly due to the use of inaccurate or incomplete data, erroneous formulae or inappropriate assumptions. The level of audit risk associated with the risk of fraud recognition of income using the effective interest rate method remains consistent with the prior year.	We evaluated the assumptions used by Management in the EIR models, including the behavioural lives of assets and the forecasting of standard variable rates to which mortgages revert following the conclusion of their fixed rate term. We considered the appropriateness of these assumptions by comparing customer redemption assumptions with recent customer behaviour observable in the Bank's portfolios, and establishing the consistency of forecast standard variable rates with market derived base rate forecasts and the Bank's expectations of future interest margins. We considered the impact of COVID-19 on both customer behaviour and base rate forecasts. We tested the completeness of data within these models by selecting a sample of loans from Management's underlying source systems and checking these were included in the model. We tested the accuracy of the data within the models through agreement of the model data to the Bank's source systems and underlying customer documentation. We tested the completeness and appropriateness of fees deferred and amortised in the EIR models by independently assessing the Bank's income streams to determine whether they form an integral part of the effective yield and therefore should be included or omitted from Management's model. We tested the accuracy of the EIR calculations by recalculating the EIR balance for a sample of mortgages and agreeing this to the Bank's modelled output.

Key observations communicated to the Audit Committee
We communicated to the Audit Committee that the models, assumptions and calculations underpinning the EIR calculation as at 31 December 2020, were appropriate and reasonable in the context of current observable market behaviours and economic conditions, and that these resulted in EIR adjustments which were appropriately derived.

In the prior year, our independent auditors report included a key audit matter related to going concern. As a result of the revisions to ISA (UK) 540 *Going Concern*, effective for periods commencing on or after 15 December 2019, the procedures we have performed and resultant conclusions over going concern are now separately discussed within the Conclusions Relating to Going Concern section of our auditor's report and are not included as a key audit matter. We consider going concern to remain one of the areas of most significance for the 2020 audit, consistent with the prior year.

In the prior year, our auditor's report also included a key audit matter in relation to the valuation of the Surrendered Loss Debtor. As disclosed in the post-balance sheet events note (page 210), on 19 February 2021, the Bank settled the Surrendered Loss Debtor with the Co-op Group, eliminating the estimation uncertainty, and thereby reducing the risk that was previously associated with this receivable.

Our prior year auditor's report also includes a key audit matter in relation to the completeness and valuation of conduct and compliance risk provisions. We no longer consider this to be a key audit matter due to the reduction in the provision balance and the level of uncertainty and risk associated with the provision continuing to fall as a result of the Bank having substantially completed its Payment Protection Insurance ("PPI") remediation activities.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Bank and Bank Company to be £12.0 million (2019: £10.0 million), which is 0.81% (2019: 0.62%) of equity. The reason for selecting equity as the basis for our audit materiality consideration is that the Bank's stated focus is to maintain regulatory capital, as it has been loss making for several years. We also see equity as a proxy for regulatory capital, as the main focus for the users of the financial statements given the importance of regulatory capital to the Bank's solvency. We have increased materiality to £12.0 million for the 2020 audit to reflect continued improvements in the Bank's control environment and the reduction in capital requirements imposed on the Bank by its regulators in recent years.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Bank's overall control environment, our judgement was that performance materiality was 50% (2019: 50%) of our planning materiality, namely £6.0 million (2019: £5.0 million). We have set performance materiality at this percentage due to our assessment of the inherently higher risk associated with this audit.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.6 million (2019: £0.5 million), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other Information

The Other Information comprises the information included in the Annual Report and Accounts set out on pages 1 to 134, other than the financial statements and our auditor's report thereon. The Directors are responsible for the Other Information contained within the Annual Report and Financial Statements.

Our opinion on the financial statements does not cover the Other Information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Bank and the Bank Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Bank Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Bank Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Directors' Responsibilities Statement set out on page 77, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Bank and Bank Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Bank or the Bank Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined below, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Bank and determined that the most significant are:
  - Companies Act 2006;
  - Financial Reporting Council ("FRC") rules and guidance;
  - Tax Legislation (governed by HM Revenue and Customs);
  - Financial Conduct Authority ("FCA") rules; and
  - CRD IV (Basel III) and Prudential Regulation Authority ("PRA") rules.
- We understood how the Bank is complying with those frameworks by attending the Bank's Risk Committee, reviewing relevant committee minutes and reports, holding discussions with the Bank's legal team and internal audit, amongst others. We inquired as to any known instances of non-compliance or suspected non-compliance with laws and regulations. We also reviewed the Bank's Complaints Management Policy and Whistleblowing Policy.
- We assessed the susceptibility of the Bank's financial statements to material misstatement, including how fraud might occur by holding discussions with senior management, internal audit and the Audit Committee.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved inquiring of key management, reviewing the key policies and reports on the aforementioned legal and regulatory frameworks as well as reviewing the correspondence exchanged with the Bank's Regulators, who we also meet with least annually, and gaining an understanding of any regulatory investigations and enforcement actions being undertaken. We also focussed our testing on key areas of risk and estimation, as referred to in the key audit matters section above.

- The Bank operates in the financial services industry, which is a highly regulated environment. As such, the Senior Statutory Auditor considered the experience and expertise of the engagement team, including auditor's specialists, to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

  A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- We were appointed by the Bank at the AGM on 30 May 2014 to audit the financial statements for the year ending 31 December 2014 and subsequent financial periods. Our first engagement letter was signed on 17 July 2014. The period of total uninterrupted engagement including previous renewals and reappointments is seven years, covering the years ending 31 December 2014 to 31 December 2020.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Bank or the Bank Company and we remain independent of the Bank and the Bank Company in conducting the audit. The audit opinion is consistent with the additional report to the Audit Committee.

Use of our report

This report is made solely to the Bank Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Bank Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank Company and the Bank Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Michael-John Albert (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
[24] February 2021

Opinion

We have audited the financial statements of the Co-operative Bank Holdings Limited (the "Holding Company") and its subsidiaries (the "Group") for the year ended 31 December 2020 which comprise the Group income statement, the Group and Holding Company balance sheet, Group statement of cash flows, the Group statement of comprehensive income, the Group and Holding Company statement of changes in equity, the capital and risk management section of the Business Review identified as audited on pages 85 to 134, the Group related notes 1 to 37 (except for the columns marked as "unaudited" in Note 31), including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006 and, as regards the Holding Company financial statements, as applied in accordance with section 408 of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the Group's and of the Holding Company's affairs as at 31 December 2020 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006;
- the Holding Company financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 as applied in accordance with section 408 of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. The going concern status of the Group and Holding Company is also dependent on the Bank's ability to continue as a going concern. Our evaluation of the Directors' assessment of the Group and Holding Company's ability to continue to adopt the going concern basis of accounting included:

How we evaluated the Directors' assessment

Risk Assessment Procedures

- Through discussions with Management and review of supporting evidence, we updated our understanding of the Bank's capital requirements, the Financial Statement Close Process, and the process by which the Bank's budget is created and approved.
- We have obtained an understanding of Management's basis for use of the going concern basis of accounting through reviewing the going concern assessment and underlying forecasts and assumptions, and through inquiries of Management and those charged with governance.
- We have independently identified factors that may indicate events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern, which include:
  - The Bank is structurally loss making and has chosen to undertake significant actions including investing to reduce the risk in its asset base, reduce staff and branch numbers and improve its technology infrastructure.
  - The Bank continues to have a cost to income ratio of greater than 100%.
  - The impact of COVID-19 has put further stress on the performance of the Bank, such as through increased provisions for expected credit losses, which has resulted in the Bank continuing to record losses for the year ended 31 December 2020.
  - In the 30 June 2020 half yearly results the Directors identified that the completion of the Bank's MREL issuance programme in a reasonable timeframe, should the unpredictable environment that was prevalent at the time continue represented a material uncertainty to going concern. In November 2020 the Bank successfully raised £200 million of MREL qualifying debt to ensure compliance with regulatory capital requirements which came into effect from 1 January 2021.
- In this context, events or conditions that cast significant doubt over the Bank's ability to continue as a going concern were identified and we have designed our audit procedures to evaluate the effect of these risks on the Bank's ability to continue as a going concern.

Management's Method

- We have confirmed our understanding of Management's going concern assessment process. We engaged with Management early to ensure all key factors that we considered to be material were considered in their assessment.
- We obtained Management's Board approved long-term forecast covering the period of Management's going concern assessment to 30 June 2022. The Bank has modelled the impact of a number of adverse scenarios in their assessment in order to incorporate unexpected changes to the Bank's financial performance, capital resources and capital requirements on the forecasted regulatory capital surplus of the Bank.
- Using our understanding of the business, we evaluated the forecasting method adopted by Management in assessing going concern and concluded that this was appropriate including a critical evaluation of plausible downside scenarios.
- We tested whether the forecasts used in the going concern assessment were mathematically accurate.
- We inquired of Management as to their knowledge of events or conditions beyond the period of Management's assessment and read published announcements from the Prudential Regulation Authority ("PRA").

Assumptions

- We evaluated the relevance and reliability of the underlying data used in the going concern assessment and tested assumptions to third party evidence, where appropriate.
- We reviewed correspondence between the Bank and its regulators to evidence the current regulatory capital position and also to provide evidence as to changes in the Bank's capital requirement across the period to 30 June 2022. We met with the PRA throughout the audit cycle and noted the PRA's perspectives on risks and areas of focus.
- We evaluated the Bank's long-term forecast with reference to Management's historical forecasting accuracy and performed stress testing to consider the reasonableness of forecast income growth, cost reduction plans and House Price Index ("HPI") assumptions over the assessed going concern period.
- We reconciled the Bank's liquidity position to its regulatory liquidity reporting returns and evaluated the Bank's liquidity forecasts over the going concern period considering the Bank's current position and availability of additional liquidity should it be required.

Stress testing and Management plans for future actions

- We evaluated Management's assumptions by performing independent stress testing to determine whether a reasonable alternative stressed scenario, or combination of scenarios would result in a breach of binding regulatory requirements. With the support of our Prudential Regulation specialists, we supplemented this by assessing the reasonableness of the Bank's risk weighted asset assumptions.
- We evaluated the plausibility of Management's downside assumptions with reference to the work performed by EY economists in assessing the Bank's forecast economic scenarios and considered the results of these procedures in performing our independent stress testing.
- We evaluated Management's plans for future actions within the control of the Bank to maintain a surplus to binding regulatory capital requirements over the going concern period in order to determine if such actions are feasible in the current circumstances.

Disclosures

- We considered whether the disclosures (as described within the basis of preparation and significant accounting policies note on page 171 of the Consolidated Financial Statements) sufficiently and appropriately reflect the events relating to the uncertainties identified in the going concern assessment, and Management's plans in response to these.

Our key observations

Our evaluation of the Directors' going concern assessment covers the period to 30 June 2022, consistent with the period assessed by the Directors.

There have been important developments in relation to the risk to the going concern assumption in 2020, including the Bank's successful issuance of £200 million of MREL qualifying debt in November, and the delay in end-state MREL requirements to 1 January 2023. Whilst issuing the debt creates an additional expense on the Bank, these developments have removed the Bank's requirements to issue debt in the going concern period – and so reduces the uncertainty in relation to any such issuance.

Over the assessed going concern period, the Bank has forecast that it will maintain headroom to its binding regulatory MREL requirements, using base case assumptions. MREL requirements are the highest binding regulatory requirement the Bank is required to meet over the going concern period. We have concluded that the Bank's forecasts and expected outcome over the going concern period are reasonable, and from the stress testing performed, we concluded that although there are uncertainties related to these forecasts, the risk of the Bank breaching its regulatory binding regulatory capital requirements and being subject to regulatory forbearance does not represent a material uncertainty.

The Bank is a participant in the Term Funding Scheme with additional incentives for SMEs ("TFSME") and is able to draw down a further £1.0 billion of additional funding to that which is currently forecast, should this be required in a stressed scenario; we do not believe that the Bank's liquidity requirements give rise to a material uncertainty.

Conclusion
Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and Holding Company's ability to continue as a going concern for a period of 18 months to 30 June 2022.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Other Information
The Other Information comprises the information included in the Annual Report and Accounts, other than the financial statements and our auditor's report thereon. The Directors are responsible for the Other Information contained within the Annual Report and Accounts.

Our opinion on the financial statements does not cover the Other Information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the Group and the Holding Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:
- adequate accounting records have not been kept by the Holding Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Holding Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors
As explained more fully in the Directors' Responsibilities Statement set out on page 77, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Holding Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are:
  - Companies Act 2006;
  - Financial Reporting Council ("FRC") rules and guidance;
  - Tax Legislation (governed by HM Revenue and Customs);
  - Financial Conduct Authority ("FCA") rules; and
  - CRD IV (Basel III) and Prudential Regulation Authority ("PRA") rules.
- We understood how the Group is complying with those frameworks by attending the Group's Risk Committee, reviewing relevant committee minutes and reports, holding discussions with the Group's legal team and internal audit, amongst others. We inquired as to any known instances of non-compliance or suspected non-compliance with laws and regulations. We also reviewed the Group's Complaints Management Policy and Whistleblowing Policy.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by holding discussions with senior management, internal audit, and the Audit Committee.

Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved inquiring of key management, reviewing the key policies and reports on the aforementioned legal and regulatory frameworks as well as reviewing the correspondence exchanged with the Group's Regulators, who we also meet with at least annually, and gaining an understanding of any regulatory investigations and enforcement actions being undertaken.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Holding Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Holding Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Holding Company and the Holding Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Michael-John Albert (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
[24] February 2021

We have audited the financial statements (see table below) of the Co-operative Bank Finance plc (the "Finance Company") and its subsidiaries (together, the "Finance Group") for the year ended 31 December 2020. In our opinion:

- the financial statements give a true and fair view of the state of the Finance Group's and of the Finance Company's affairs as at 31 December 2020 and of the Finance Group's loss for the year then ended;
- the Finance Group's financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union;
- the Finance Company financial statements been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 as applied in accordance with section 408 of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

The financial statements comprise:

Finance Group	Finance Company
Consolidated balance sheet as at 31 December 2020	Balance sheet as at 31 December 2020
Consolidated income statement for the year then ended	Statement of changes in equity for the year then ended
Consolidated statement of comprehensive income for the year then ended	Related notes 1 to 29 to the financial statements, including a summary of significant accounting policies
Consolidated statement of changes in equity for the year then ended	
Consolidated statement of cash flows for the year then ended	
Related notes 1 to 29 to the financial statements, (except for columns marked "unaudited" in Note 31 of the Group financial statements, as referenced in Note 23), including a summary of significant accounting policies	
Information in the risk management section of the Business Review, identified as "audited" on pages 85 to 134	

The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006 and, as regards to the Finance Group financial statements, International Financial Reporting Standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union and; as regards to the Finance Company financial statements, as applied in accordance with section 408 of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Finance Group and Finance Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. The going concern status of the Finance Group and Finance Company is dependent on the Co-operative Bank Plc's ("the Bank's") ability to continue as a going concern as the Group consolidates the Bank and the Finance Company records an intercompany receivable from the Bank that would not be repaid were the Bank not a going concern. Our evaluation of the Directors' assessment of the Finance Group and Finance Company's ability to continue to adopt the going concern basis of accounting included:

How we evaluated the Directors' assessment

Risk Assessment Procedures

- Through discussions with Management and review of supporting evidence, we updated our understanding of the Bank's capital requirements, the Financial Statement Close Process, and the process by which the Bank's budget is created and approved.
- We have obtained an understanding of Management's basis for use of the going concern basis of accounting through reviewing the going concern assessment and underlying forecasts and assumptions, and through inquiries of Management and those charged with governance.
- We have independently identified factors that may indicate events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern, which include:
  - The Bank is structurally loss making and has chosen to undertake significant actions including investing to reduce the risk in its asset base, reduce staff and branch numbers and improve its technology infrastructure.
  - The Bank continues to have a cost to income ratio of greater than 100%.
  - The impact of COVID-19 has put further stress on the performance of the Bank, such as increased provisions for expected credit losses, which has resulted in the Bank continuing to record losses for the year ended 31 December 2020.
- In the 30 June 2020 half yearly results the Directors identified that the completion of the Bank's MREL issuance programme in a reasonable timeframe, should the unpredictable environment that was prevalent at the time continue, represented a material uncertainty to going concern. In November 2020 the Bank successfully raised £200 million of MREL qualifying debt to ensure compliance with regulatory capital requirements which came into effect from 1 January 2021.
- In this context, events or conditions that cast significant doubt over the Bank's ability to continue as a going concern were identified and we have designed our audit procedures to evaluate the effect of these risks on the Bank's ability to continue as a going concern.

Management's Method

- We have confirmed our understanding of Management's going concern assessment process. We engaged with Management early to ensure all key factors that we considered to be material were considered in their assessment.
- We obtained Management's Board approved long-term forecast covering the period of Management's going concern assessment to 30 June 2022. The Bank has modelled the impact of a number of adverse scenarios in their assessment in order to incorporate unexpected changes to the Bank's financial performance, capital resources and capital requirements on the forecasted regulatory capital surplus of the Bank.
- Using our understanding of the business, we evaluated the forecasting method adopted by Management in assessing going concern and concluded that this was appropriate including a critical evaluation of plausible downside scenarios.
- We tested whether the forecasts used in the going concern assessment were mathematically accurate and considered the historical accuracy of Management's forecasting process
- We inquired of Management as to their knowledge of events or conditions beyond the period of Management's assessment and read published announcements from the Prudential Regulation Authority ("PRA").

Assumptions

- We evaluated the relevance and reliability of the underlying data used in the going concern assessment and tested assumptions to third party evidence, where appropriate.
- We reviewed correspondence between the Bank and its regulators to evidence the current regulatory capital position and also to provide evidence as to changes in the Bank's capital requirement across the period to 30 June 2022. We met with the PRA throughout the audit cycle and noted the PRA's perspectives on risks and areas of focus, which were largely consistent with those of the Bank.
- We evaluated the Bank's long-term forecast with reference to Management's historical forecasting accuracy and performed stress testing to consider the reasonableness of forecast income growth, cost reduction plans and House Price Index ("HPI") assumptions over the assessed going concern period.
- We reconciled the Bank's liquidity position to its regulatory liquidity reporting returns and the Bank's liquidity forecasts over the going concern period considering the Bank's current position and availability of additional liquidity should it be required

Stress testing and Management plans for future actions

- We evaluated Management's assumptions by performing independent stress testing to determine whether a reasonable alternative stressed scenario, or combination of scenarios would result in a breach of binding regulatory requirements. With the support of our Prudential Regulation specialists, we supplemented this by assessing the reasonableness of the Bank's risk weighted asset assumptions.
- We evaluated the plausibility of Management's downside assumptions with reference to the work performed by EY economists in assessing the Bank's forecast economic scenarios and considered the results of these procedures in performing our independent stress testing.

- We evaluated Management's plans for future actions within the control of the Bank to maintain a surplus to binding regulatory capital requirements over the going concern period in order to determine if such actions are feasible in the current circumstances.

Disclosures

- We considered whether the disclosures (as described within the basis of preparation and significant accounting policies note on page 171 of the Consolidated Financial Statements) sufficiently and appropriately reflect the events relating to the uncertainties identified in the going concern assessment, and Management's plans in response to these.

Our key observations

Our evaluation of the Directors' going concern assessment covers the period to 30 June 2022, consistent with the period assessed by the Directors.

There have been important developments in relation to the risk to the going concern assumption in 2020, including the Bank's successful issuance of £200 million of MREL qualifying debt in November, and the delay in end-state MREL requirements to 1 January 2023. Whilst issuing the debt creates an additional expense on the Bank, these developments have removed the Bank's requirements to issue debt in the going concern period – and so reduces the uncertainty in relation to any such issuance.

Over the assessed going concern period, the Bank has forecast that it will maintain headroom to its binding regulatory MREL requirements, using base case assumptions. MREL requirements are the highest binding regulatory requirement the Bank is required to meet over the going concern period. We have concluded that the Bank's forecasts and expected outcome over the going concern period are reasonable, and from the stress testing performed, we concluded that although there are uncertainties relating to these forecasts, the risk of the Bank breaching its regulatory binding regulatory capital requirements and being subject to regulatory forbearance does not represent a material uncertainty.

The Bank is a participant in the Term Funding Scheme with additional incentives for SMEs ("TFSME") and is able to draw down a further £1.0 billion of additional funding to that which is currently forecast, should this be required in a stressed scenario; we do not believe that the Bank's liquidity requirements give rise to a material uncertainty.

Conclusion

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Finance Group and Finance Company's ability to continue as a going concern for a period of 18 months to 30 June 2022. Going concern has also been determined to be a key audit matter.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Finance Group's ability to continue as a going concern.

Overview of our audit approach

Audit scope	• We performed an audit of the complete financial information of the Finance Group and Finance Company
Key audit matters	• Credit impairment provisions • Valuation of the Fair Value Adjustments to Hedged Risk and the Macro Cash Flow Hedge Reserve • Valuation of the defined benefit pension scheme surplus in the PACE and Britannia pension schemes • Risk of fraud in the recognition of income using the Effective Interest Rate (EIR) Method • Valuation of the Finance Company's investment in the Co-operative Bank Plc
Materiality	• Overall materiality for the Finance Group of £12.0m (2019: £10.0m) which represents 0.81% of Finance Group equity (2019: 0.62%). • Overall materiality for the Finance Company of £3.7m (2019: £2.7m), which represents 0.5% of assets (2019: 0.5%).

An overview of the scope of the audit

Tailoring the scope

The Finance Group is principally managed from one location in Manchester, with certain functions such as Treasury and some corporate activities operated from London. All audit work performed for the purposes of the audit was undertaken by the Finance Group audit team.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk
Credit impairment provisions *Please refer to the Audit Committee Report (page 63); Accounting policies (page 260); and Note 5 of the Consolidated Financial Statements (page 251).* At 31 December 2020, the Finance Group reported total gross loans of £18,725m (2019: £17,945m) and credit impairment provisions of £42.9m (2019: £26.7m). The determination of expected credit losses ("ECL") in the current pandemic environment continues to be highly subjective and judgemental particularly related to assessing the impact of payment deferrals, government support schemes and recovery profiles and timing. Key judgements and estimates in respect of the timing and measurement of ECL include: - The appropriateness of staging criteria selected by Management to determine whether a significant increase in credit risk ("SICR") has arisen including evaluating the impact of government support measures; - Accounting interpretations and modelling assumptions used to build the models that calculate the ECL; - Inputs and assumptions used to estimate the impact of multiple economic scenarios including appropriate weightings for the various scenarios; - Completeness and valuation of Post Model Adjustments ("PMAs"); - Measurement of individually assessed provisions; and - Accuracy and adequacy of the financial statement disclosures. The level of judgement and estimation has increased as a result of COVID-19, leading to greater uncertainty in forecasting future economic scenarios, the weightings to be applied to these scenarios and the determination of SICR. As such, the risk of material misstatement associated with credit impairment provisions has increased.	We understood and evaluated the design effectiveness of key controls over the impairment process and tested the operating effectiveness of the controls which we intended to rely on covering the reconciliation of model data, determination of arrears status, and identification and provisioning of individually impaired corporate cases. We assessed the methodology for determining the SICR criteria and independently tested the staging allocation by reperforming this across the secured and unsecured portfolios and on a sample basis on the corporate loan portfolio, with reference to the SICR thresholds and cure periods. We also performed sensitivity analysis including stage escalations for problem sectors or exposures with high risk characteristics. With the support of EY credit risk modelling specialists, for material ECL models, we risk rated the models, reviewed the model methodology and performed substantive procedures on a risk focussed basis, which included model implementation and model validation testing, sensitivity analysis, benchmarking and recalculation of the Probability of Default, Loss Given Default and Exposure at Default. For the platform portfolio we used an alternative model to form an independent expectation against which we assessed the Bank's overall ECL outcome. We performed testing over the integrity of the data used in developing and validating the Finance Group's IFRS 9 models and assumptions and the information used to calculate the provision, including collateral valuations. With the support of EY economic specialists, we assessed the base case and alternative economic scenarios, including challenging probability weightings and comparing to other scenarios from external sources, as well as EY internally developed forecasts. We assessed whether forecasted macro-economic variables including GDP, unemployment, interest rates and indexation applied to collateral valuations, were appropriate. With the support of EY credit risk modelling specialists, we performed sensitivity analysis over the underlying macro-economic factors included within the ECL models to assess how they would perform in a more volatile economic environment, and the resulting impact on ECL. We assessed whether the inventory of PMAs used by the Finance Group was complete considering limitations identified in our testing of ECL models, peer benchmarking and consideration of emerging credit risks. We tested material PMAs, including the £13.1m PMA recognised to increase ECL on the retail secured book, by assessing the appropriateness of the Finance Group's methodologies, validating data inputs and independently recalculating the PMAs, which included an assessment of the underlying calculation methodology.. We tested the appropriateness and completeness of overlays recognised in response to COVID-19 related economic uncertainty.

Risk	Our response to the risk
	For a sample of higher risk individually assessed corporate provision cases we obtained an understanding of the latest developments in the borrower's situation and the factors impacting the measurement of provisions including factors arising from COVID-19. With the support of EY valuation specialists we independently assessed the underlying collateral used in Management's cash flow calculations. In each case we tested key data inputs and, where relevant, considered alternative scenarios in challenging Management's estimate. We tested a risk-based sample of performing corporate loans to assess the appropriateness of the staging classification. We assessed the adequacy and appropriateness of disclosures made within the financial statements, including the disclosures provided in relation to the credit risk related impacts of COVID-19. Overall in terms of the requirements of ISA 540 we performed a stand back analysis to assess the overall adequacy of the ECL coverage and approach. In completing this analysis we considered the nature and credit quality of the overall loan books, used data analytic tools to highlight risk areas in the loan portfolios, performed benchmarking across similar institutions, assessed the impact of the pandemic on individual and company exposures and behaviours and evaluated the overall reasonableness of economic recovery assumptions.

Key observations communicated to the Audit Committee
We communicated that we are satisfied that ECL provisions were reasonable, in compliance with IFRS 9 and that we found them to be within a reasonable range of outcomes, which we reported to the Audit Committee. We highlighted to the Committee that there is increased uncertainty in determining forecast losses due to the economic uncertainties resulting from COVID-19. We highlighted to the Audit Committee that although we observed model deficiencies, the resulting ECL was reasonable after incorporating appropriate post model adjustments. We considered the multiple economic scenarios incorporated in the IFRS 9 models to be materially appropriate.

Risk	Our response to the risk
Valuation of the fair value adjustments to hedged risk and the macro cash flow hedge reserve *Please refer to the Audit Committee Report (page 64); Accounting policies (page 259); and Note 7 of the Consolidated Financial Statements (page 251).* At 31 December 2020, the Finance Group reported fair value adjustments to hedged risk of £134.1m (2019: £72.6m) and the macro cash flow hedge reserve was valued at £22.5m (2019: £16.7m). The Finance Group applies macro fair value and cash flow hedge accounting under IAS 39 *Financial Instruments: Recognition and Measurement* to manage accounting volatility arising mainly from hedging of interest rate risk. To qualify for hedge accounting under IAS 39, certain criteria must be met, including documenting the nature and purpose of the hedge, performing testing over its effectiveness, and appropriately accounting for the hedging results. The Finance Group's macro hedge accounting models are manual, governed by complex accounting rules and require the application of assumptions in forecasting cash flows, hedging instrument valuations and the calculation of hedge ineffectiveness. There is a risk that the methodology or assumptions used may be inappropriate, or that there are errors in the application of the Finance Group's models. This could give rise to misstatement of the fair value adjustment to hedged risk or the macro cash flow hedge reserve in the balance sheet.	We examined the Finance Group's hedge documentation to assess its compliance with the requirements of IFRS. We involved EY Financial Accounting Advisory specialists in our evaluation of the Finance Group's macro hedging models. Alongside these specialists we assessed the Bank's hedging methodology, whether Management have captured all material sources of ineffectiveness, and the changes being implemented by the Finance Group to prepare for reference rate reform. We reconciled the hedged instruments in the model back to underlying source systems and tested attributes on a sample basis to verify the completeness and accuracy of the populations to which hedge accounting was applied. With the support of EY valuation specialists we tested the fair value attributable to hedged risk of hedged items, through testing the value of the derivative hedging instruments and modelled ineffectiveness, with reference to independent market data. We reperformed a sample of hedge effectiveness calculations and tested a sample of manual adjustments posted to record ineffectiveness.

Key observations communicated to the Audit Committee
We concluded to the Audit Committee that the Finance Company's macro hedge accounting documentation was compliant with the hedge accounting provisions of IAS 39, We also communicated that based on our evaluation of the hedging models, we were satisfied that the methodology for recording the fair value adjustments to hedged risk and the macro cash flow reserve was appropriate.

Risk	Our response to the risk
Valuation of the defined benefit pension scheme surplus in the PACE and Britannia pension schemes *Please refer to the Audit Committee Report (page 63); Accounting policies (page 264); and Note 22 of the Consolidated Financial Statements (page 253).* At 31 December 2020, the Finance Group reported a defined benefit pension scheme surplus of £643.0m (2019: £681.6m). This consisted of assets of £2,169.6m and liabilities of £1,660.4m relating to the PACE pension scheme and Britannia Pension Scheme assets of £919.5m and liabilities of £776.9m. The valuation of the liabilities of each of these pension schemes is subject to the following significant assumptions: - Discount rate; - Inflation; - Revaluation of deferred pensions; and - Mortality. In addition, the asset pools of both the PACE and Britannia schemes also contain an element of Level 3 illiquid investment funds that are harder to value, which increases the risk of incorrect valuation. The risks associated with the Finance Group's pension schemes has increased in the year as a result of COVID-19, leading to increased uncertainty over the valuation of pension assets, and greater volatility in the liability assumptions, which drives the surplus calculation. The level of risk associated with the fair value adjustments to hedged risk and the macro-cash flow hedge reserve remain consistent with the prior year.	With the support of EY pension actuaries we considered the appropriateness of the assumptions supporting the valuation of the scheme liabilities through the development of an independent range of reasonable assumptions against which to assess those used by Management. We assessed the impact on pension liabilities of changes in financial, demographic and longevity assumptions and whether these were in line with our expectations. We also tested the completeness and accuracy of member data on which these assumptions are based. With the support of EY valuation specialists we challenged the appropriateness of Management's asset valuation methodology, including the judgements made in determining significant assumptions used in the valuation of illiquid Level 3 pension assets, through assessing asset valuation statements, pricing policies and evidence of the performance of the pension assets. We assessed the recognition of the PACE and Britannia pension schemes surplus against the requirements of IFRIC 14. We assessed the adequacy of the disclosures made, and their compliance with the accounting standards including the appropriateness of the key assumptions and sensitivities disclosed.

Key observations communicated to the Audit Committee
We highlighted to the Audit Committee that the defined benefit pension scheme surplus in the PACE and Britannia pension schemes is reasonably estimated and recognised in accordance with both IAS 19 and IFRIC 14. We highlighted that there is subjectivity in the valuation of the scheme liabilities due to the use of significant assumptions in calculating the balance. Overall, we are satisfied that the assumptions made by the Finance Group were within a reasonable range. We also noted that the asset pools of both the PACE and Britannia pension schemes contained an element of "hard to value" Level 3 illiquid funds. We are satisfied that the Finance Group's methods for valuing these assets, and the valuations themselves, were materially appropriate.

Risk	Our response to the risk
Risk of fraud in the recognition of income using the effective interest rate method *Please refer to the Audit Committee Report (page 63) and the Accounting policies (page 257).* The Finance Group records interest income on its mortgage portfolio under the effective interest rate ('EIR') method. The EIR method of revenue recognition spreads the income statement recognition of income and expense cash flows that are, in substance, integral to the overall yield of the financial instrument over its modelled life. The method involves Management judgement and the use of detailed models in both determining the initial EIR and recording the present value of adjustments arising in subsequent periods when cash flows are reforecast. As such, it represents a risk of fraud in revenue recognition through Management override of internal controls. The Finance Group's EIR models are most sensitive to changes in the behavioural life assumptions and future interest rate expectations. These are also impacted by the economic and customer behavioural impacts of COVID-19. Judgement is also applied in determining the nature of fees eligible to be deferred as a result of being integral to the yield of the products. Modelled forecast cash flows may be measured incorrectly due to the use of inaccurate or incomplete data, erroneous formulae or inappropriate assumptions. The level of audit risk associated with the risk of fraud recognition of income using the effective interest rate method remains consistent with the prior year.	We evaluated the assumptions used by Management in the EIR models, including the behavioural lives of assets and the forecasting of standard variable rates to which mortgages revert following the conclusion of their fixed rate term. We considered the appropriateness of these assumptions by comparing customer redemption assumptions with recent customer behaviour observable in the Finance Group's portfolios, and establishing the consistency of forecast standard variable rates with market derived base rate forecasts and the Finance Group's expectations of future interest margins. We considered the impact of COVID-19 on both customer behaviour and base rate forecasts. We tested the completeness of data within these models by selecting a sample of loans from Management's underlying source systems and checking these were included in the model. We tested the accuracy of the data within the models through agreement of the model data to the Finance Group's source systems and underlying customer documentation. We tested the completeness and appropriateness of fees deferred and amortised in the EIR models by independently assessing the Finance Group's income streams to determine whether they form an integral part of the effective yield and therefore should be included or omitted from Management's model. We tested the accuracy of the EIR calculations by recalculating the EIR balance for a sample of mortgages and agreeing this to the Finance Group's modelled output.

Key observations communicated to the Audit Committee
We communicated to the Audit Committee that the models, assumptions and calculations underpinning the EIR calculation as at 31 December 2020, were appropriate and reasonable in the context of current observable market behaviours and economic conditions, and that these resulted in EIR adjustments which were appropriately derived.

Risk	Our response to the risk
Valuation of the Finance Company's investment in subsidiary *Please refer to the Accounting policies of the Consolidated Financial Statements (page 264).* At 31 December 2020, the Finance Company reported an investment in subsidiary of £333.0m (2019: £333.0m). The Finance Company holds an investment in the Bank on its balance sheet, which is recorded at cost less impairment under IAS 27. Management are therefore required to perform an annual impairment assessment over this investment. This involves a degree of subjectivity and estimation in relation to the future performance of the Bank.	We have reviewed the Finance Company's assessment of impairment in its investment in the Bank and have reviewed the factors identified, including: - The indicative share price of the Bank; - Performance of the Bank versus its budget; - The Bank's credit rating; and - The valuation of the Bank's MREL on the market. In addition, we performed an independent assessment of indicators of impairment and considered whether there were any additional matters not considered by the Finance Company. Our independent assessment has examined the financial position of the Bank at the year-end, incorporating the Bank's performance in the year and consideration of the fair value of the Bank's assets in the event the Bank was broken up. We have also benchmarked the Bank's price to book valuations against peer organisations and have considered developments from the point at which the initial cost value of the investment was determined, to assess whether the underlying value has reduced.

Key observations communicated to the Audit Committee
We communicated to the Audit Committee that we concluded the Finance Company's investment in the Bank was not impaired.

In the prior year, our independent auditors report included a key audit matter related to going concern. As a result of the revisions to ISA (UK) 540 *Going Concern*, effective for periods commencing on or after 15 December 2019, the procedures we have performed and resultant conclusions over going concern are now separately discussed within the Conclusions Relating to Going Concern section of our auditor's report and are not included as a key audit matter. We consider going concern to remain one of the areas of most significance for the 2020 audit, consistent with the prior year.

Our prior year independent auditors report included a key audit matter related to the valuation of the Finance Company intercompany receivable held with the Bank. In 2020, the Finance Company revised the terms of the legal agreements governing the MREL transaction, resulting in the derecognition of the intercompany asset under amortised cost and recognition of this receivable at Fair Value Through Profit and Loss. As a result, no ECL provision is required and as the fair value of the intercompany receivable can be calculated with reference to observable market inputs the level of estimation uncertainty has reduced, and we therefore no longer consider this to be a key audit matter.

In the prior year, our auditor's report also included a key audit matter in relation to the valuation of the Surrendered Loss Debtor. As disclosed in the post-balance sheet events note (page 255), on 19 February 2021, the Finance Group settled the Surrendered Loss Debtor with the Co-op Group, eliminating the estimation uncertainty, and thereby reducing the risk that was previously associated with this receivable.

Our prior year auditor's report also included a key audit matter in relation to the completeness and valuation of conduct and compliance risk provisions. We no longer consider this to be a key audit matter due to the reduction in the provision balance and the level of uncertainty and risk associated with the provision continuing to fall as a result of the Finance Group having substantially completed its Payment Protection Insurance ("PPI") remediation activities.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Finance Group to be £12.0 million (2019: £10.0 million), which is 0.81% (2019: 0.62%) of equity. The reason for selecting equity as the basis for our audit materiality consideration is that the Finance Group consolidates the activities of the Bank, whose stated focus is to maintain regulatory capital, as it has been loss making for several years. We also see equity as a proxy for regulatory capital, as the main focus for the users of the financial statements given the importance of regulatory capital to the Bank's solvency. We have increased materiality to £12.0 million for the 2020 audit to reflect continued improvements in the Bank's control environment and the reduction in capital requirements imposed on the Bank by its regulators in recent years. As the consolidated results of the Finance Group do not substantially differ from those of the Bank nor does the focus of the users of those accounts, we have therefore concluded that the basis of materiality should remain consistent with that of the Bank.

We determined materiality for the Finance Company to be £3.7 million (2019: £2.7million), which is 0.5% (2019: 0.5%) of assets. The reason for selecting assets as the basis for our audit materiality consideration is that the users of the Finance Company financial statements would primarily focus on the Finance Company's investment in the Bank.

During the course of our audit, we reassessed initial materiality and in the case of the Finance Company increased initial materiality to £3.7 million (previously £2.7 million) as a result of the increase to the entity's asset balance following the successful debt issuance completed in December 2020.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Finance Group's overall control environment, our judgement was that performance materiality was 50% (2019: 50%) of our planning materiality, namely £6.0 million (2019: £5.0 million). We have set performance materiality at this percentage due to our assessment of the inherently higher risk associated with this audit.

For this reason, performance materiality for the Finance Company at was also set at 50% of materiality, namely £1.75 million (2019: £1.35 million).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.6m (2019: £0.5m) for the Finance Group and £0.19 million (2019: 0.14 million) for the Finance Company, which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other Information

The Other Information comprises the information included in the Annual Report and Accounts set out on pages 1 to 134, other than the financial statements and our auditor's report thereon. The Directors are responsible for the Other Information contained within the Annual Report and Financial Statements.

Our opinion on the financial statements does not cover the Other Information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Finance Group and the Finance Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Finance Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Finance Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Directors' Responsibilities Statement set out on page 77, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Finance Group and Finance Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Finance Group or the Finance Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined below, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Finance Group and determined that the most significant are:
  - Companies Act 2006;
  - Financial Reporting Council ("FRC") rules and guidance;
  - Tax Legislation (governed by HM Revenue and Customs);
  - Financial Conduct Authority ("FCA") rules; and
  - CRD IV (Basel III) and Prudential Regulation Authority ("PRA") rules.
- We understood how the Finance Group is complying with those frameworks by attending the Finance Group's Risk Committee, reviewing relevant committee minutes and reports, holding discussions with the Finance Group's legal team and internal audit, amongst others. We inquired as to any known instances of non-compliance or suspected non-compliance with laws and regulations. We also reviewed the Finance Group's Complaints Management Policy and Whistleblowing Policy.
- We assessed the susceptibility of the Finance Group's financial statements to material misstatement, including how fraud might occur by holding discussions with senior management, internal audit and the Audit Committee.

- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved inquiring of key management, reviewing the key policies and reports on the aforementioned legal and regulatory frameworks as well as reviewing the correspondence exchanged with the Finance Group's Regulators, who we also meet with least annually, and gaining an understanding of any regulatory investigations and enforcement actions being undertaken. We also focussed our testing on key areas of risk and estimation, as referred to in the key audit matters section above.
- The Finance Group operates in the financial services industry, which is a highly regulated environment. As such, the Senior Statutory Auditor considered the experience and expertise of the engagement team, including auditor's specialists, to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

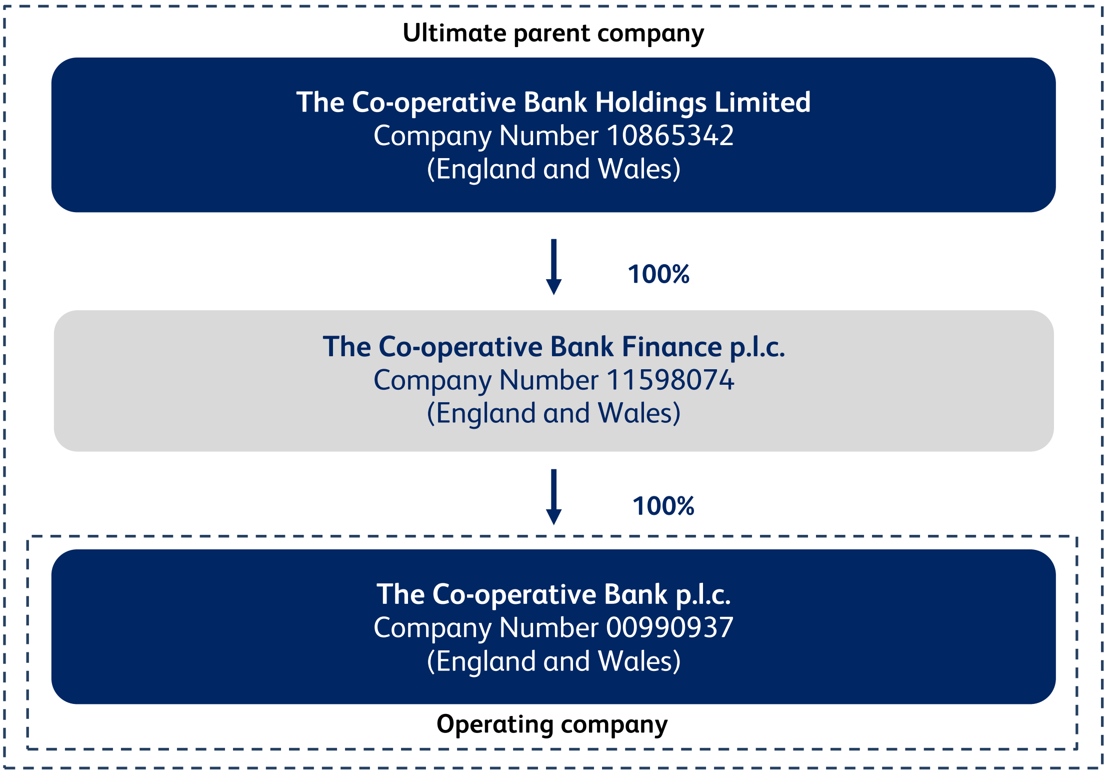
- We were appointed by the Finance Group at the AGM on 30 May 2014 to audit the financial statements for the year ending 31 December 2014 and subsequent financial periods. Our first engagement letter was signed on 17 July 2014. The period of total uninterrupted engagement including previous renewals and reappointments is seven years, covering the years ending 31 December 2014 to 31 December 2020.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Finance Group or the Finance Company and we remain independent of the Finance Group and the Finance Company in conducting the audit. The audit opinion is consistent with the additional report to the Audit Committee.

Use of our report

This report is made solely to the Finance Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Finance Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Finance Company and the Finance Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Michael-John Albert (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
[24] February 2021

Consolidated Financial Statements of The Co-operative Bank Holdings Limited and The Co-operative Bank p.l.c. (Group and Bank)



The co-operative bank
for people with purpose

CONSOLIDATED INCOME STATEMENT

For year ended 31 December 2020

£million

		Group and Bank	
	Note	2020	2019
Interest income calculated using the effective interest rate method		**415.3**	466.4
Other interest and similar income		**(5.2)**	18.1
Interest income and similar income	6	**410.1**	484.5
Interest expense and similar charges	6	**(143.2)**	(174.5)
Net interest income		**266.9**	310.0
Fee and commission income	7	**56.5**	66.3
Fee and commission expense	7	**(33.0)**	(45.6)
Net fee and commission income		**23.5**	20.7
Income from investments		**0.3**	0.7
Other operating income/(expense) (net)	8	**24.6**	55.2
Operating income		**315.3**	386.6
Operating expenses	9	**(395.4)**	(477.7)
Net customer redress charge	28	**(2.0)**	(63.5)
Total operating expenses		**(397.4)**	(541.2)
Operating loss before net credit impairment (losses)/gains		**(82.1)**	(154.6)
Net credit impairment (losses)/gains	14	**(21.6)**	2.5
Loss before taxation		**(103.7)**	(152.1)
Income tax	11	**8.0**	(0.9)
Loss for the financial year		**(95.7)**	(153.0)

The results above are for the consolidated Group and Bank and wholly relate to continuing activities. More information regarding the basis of preparation can be found in note 1 of the consolidated financial statements.

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

The notes on pages 171 to 210 form part of these consolidated Group and Bank financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For year ended 31 December 2020

£million

	Group and Bank	
	2020	**2019**
Loss for the financial year	**(95.7)**	(153.0)
Items that may be recycled to profit or loss:		
Changes in cash flow hedges:		
Net changes in fair value recognised directly in equity	**5.5**	(7.4)
Transfers from equity to income or expense	**3.1**	2.9
Income tax	**(2.8)**	1.2
Changes in fair value through other comprehensive income:		
Net changes in fair value recognised directly in equity	**(20.5)**	(51.6)
Transfers from equity to income or expense	**22.3**	39.2
Income tax	**(1.1)**	2.6
Items that may not subsequently be recycled to profit or loss:		
Changes in net retirement benefit asset:		
Defined benefit plans (losses)/gains for the year	**(49.8)**	37.6
Income tax	**1.5**	(9.7)
Other comprehensive (expense)/income for the financial year, net of income tax	**(41.8)**	14.8
Total comprehensive expense for the financial year	**(137.5)**	(138.2)

The results above are for the consolidated Group and Bank. More information regarding the basis of preparation can be found in note 1 of the consolidated financial statements.

The notes on pages 171 to 210 form part of these consolidated Group and Bank financial statements.

CONSOLIDATED BALANCE SHEET

At 31 December 2020

£million

		Group		Bank	
	Note	2020	2019	2020	2019
Assets					
Cash and balances at central banks	12	**3,877.8**	2,153.5	**3,877.8**	2,153.5
Loans and advances to banks	13	**536.2**	474.3	**536.2**	474.3
Loans and advances to customers	14	**18,682.5**	17,918.4	**18,682.5**	17,918.4
Fair value adjustments for hedged risk		**134.1**	72.6	**134.1**	72.6
Investment securities	15	**1,148.5**	1,605.6	**1,148.5**	1,605.6
Derivative financial instruments	16	**189.9**	213.3	**189.9**	213.3
Property, plant and equipment classified as held-for-sale		**0.3**	0.8	**0.3**	0.8
Equity shares	17	**22.1**	44.5	**22.1**	44.5
Investment properties		**1.9**	1.8	**1.9**	1.8
Other assets	18	**188.9**	52.6	**188.9**	52.6
Prepayments	19	**13.2**	21.7	**13.2**	21.7
Property, plant and equipment	20	**35.2**	38.6	**35.2**	38.6
Intangible assets	21	**63.4**	75.3	**63.4**	75.3
Right-of-use assets	22	**53.7**	72.3	**53.7**	72.3
Net retirement benefit asset	30	**651.8**	690.2	**651.8**	690.2
Total assets		**25,599.5**	23,435.5	**25,599.5**	23,435.5
Liabilities					
Deposits by banks	23	**2,066.4**	1,143.7	**2,066.4**	1,143.7
Customer accounts		**20,365.8**	18,996.8	**20,365.9**	18,996.9
Debt securities in issue	24	**728.8**	867.5	**728.8**	867.5
Derivative financial instruments	16	**340.1**	288.0	**340.1**	288.0
Other liabilities	26	**33.7**	53.5	**33.7**	53.5
Accruals and deferred income	27	**35.0**	59.0	**35.0**	59.0
Provisions	28	**46.4**	87.4	**46.4**	87.4
Other borrowed funds	25	**408.2**	204.2	**-**	-
Amounts owed to Finance Company	25	**-**	-	**408.2**	204.2
Lease liabilities	22	**53.6**	71.2	**53.6**	71.2
Deferred tax liabilities	29	**38.3**	43.7	**38.3**	43.7
Net retirement benefit liability	30	**8.8**	8.6	**8.8**	8.6
Total liabilities		**24,125.1**	21,823.6	**24,125.2**	21,823.7
Capital and reserves attributable to the Group's equity holders					
Ordinary share capital	33	**0.9**	0.9	**25.6**	25.6
Share premium account	33	**313.8**	313.8	**2,416.9**	2,416.9
Retained earnings		**(1,410.2)**	(1,314.5)	**(1,800.6)**	(1,704.9)
Other reserves	34	**2,569.9**	2,611.7	**832.4**	874.2
Total equity		**1,474.4**	1,611.9	**1,474.3**	1,611.8
Total liabilities and equity		**25,599.5**	23,435.5	**25,599.5**	23,435.5

The financial positions above are for the consolidated Group and Bank. More information regarding the basis of preparation can be found in note 1 of the consolidated financial statements.

The notes on pages 171 to 210 form part of these consolidated Group and Bank financial statements.

Approved by the Board of The Co-operative Bank Holdings Limited on 24 February 2021:

Robert Dench Chair of the Board	Nick Slape Chief Executive Officer

Approved by the Board for The Co-operative Bank p.l.c. on 24 February 2021:

Robert Dench Chair of the Board	Nick Slape Chief Executive Officer

CONSOLIDATED STATEMENT OF CASHFLOWS

For year ended 31 December 2020

£million

	Note	Group 2020	Group 2019	Bank 2020	Bank 2019
Cash flows from/(used in) operating activities:					
Loss before taxation		**(103.7)**	(152.1)	**(103.7)**	(152.1)
Adjustments for non-cash movements:					
Non-cash movements on pension		**(9.3)**	(13.9)	**(9.3)**	(13.9)
Net credit impairment losses/(gains)		**21.6**	(2.5)	**21.6**	(2.5)
Depreciation, amortisation and impairment of property, plant and equipment, right-of-use assets and intangibles		**40.2**	42.8	**40.2**	42.8
Other non-cash movements including exchange rate movements		**78.7**	86.7	**78.7**	86.7
Changes in operating assets and liabilities:					
Increase/(decrease) in deposits by banks		**922.7**	(289.8)	**922.7**	(289.8)
Decrease in prepayments and accrued income		**8.5**	8.0	**8.5**	8.0
Decrease in accruals and deferred income		**(24.0)**	(4.0)	**(24.0)**	(4.0)
Increase in customer accounts		**1,367.8**	259.5	**1,367.8**	259.5
(Decrease)/increase in debt securities in issue		**(143.9)**	249.9	**(143.9)**	249.9
Decrease /(increase) in loans and advances to banks		**6.7**	(55.5)	**6.7**	(55.5)
Increase in loans and advances to customers		**(813.1)**	(210.3)	**(813.1)**	(210.3)
Net movement of other assets and other liabilities		**(205.6)**	(154.0)	**(205.6)**	(154.0)
Net cash flows from/(used in) in operating activities		**1,146.6**	(235.2)	**1,146.6**	(235.2)
Cash flows from investing activities:					
Purchase of tangible and intangible assets		**(16.8)**	(34.5)	**(16.8)**	(34.5)
Purchase of investment securities		**(969.6)**	(1,048.1)	**(969.6)**	(1,048.1)
Proceeds from sale of property, plant and equipment		**2.6**	5.9	**2.6**	5.9
Proceeds from sale of shares and other interests		**38.6**	13.2	**38.6**	13.2
Proceeds from sale and maturity of investment securities		**1,422.5**	1,363.2	**1,422.5**	1,363.2
Proceeds from sale of investment properties		**-**	0.5	**-**	0.5
Dividends received		**0.3**	0.7	**0.3**	0.7
Net cash flows from investing activities		**477.6**	300.9	**477.6**	300.9
Cash flows from financing activities:					
Proceeds from issuance of Tier 2 and senior unsecured debt (net of cost)		**197.7**	197.3	**197.7**	197.3
Interest paid on Tier 2 and senior unsecured debt		**(19.0)**	(9.5)	**(19.0)**	(9.5)
Lease liability principal payments		**(10.0)**	(10.8)	**(10.0)**	(10.8)
Net cash flows from financing activities		**168.7**	177.0	**168.7**	177.0
Net increase in cash and cash equivalents		**1,792.9**	242.7	**1,792.9**	242.7
Cash and cash equivalents at the beginning of the year		**2,436.6**	2,193.9	**2,436.6**	2,193.9
Cash and cash equivalents at the end of the year		**4,229.5**	2,436.6	**4,229.5**	2,436.6
Comprising of:					
Cash and balances at central banks	12	**3,802.5**	2,094.6	**3,802.5**	2,094.6
Loans and advances to banks	13	**427.0**	342.0	**427.0**	342.0
		4,229.5	2,436.6	**4,229.5**	2,436.6

RECONCILIATION OF MOVEMENTS OF LIABILITIES TO CASHFLOWS ARISING FROM FINANCING ACTIVITIES

For year ended 31 December 2020

£million

	Group					
	2020			2019		
	Lease liabilities	Other borrowed funds	Total	Lease liabilities	Other borrowed funds	Total
Balance at the beginning of the year	71.2	204.2	**275.4**	-	-	-
Changes from financing cash flows:						
Proceeds from issuance of Tier 2 and senior unsecured debt (net of cost)	-	197.7	**197.7**	-	197.3	197.3
Interest paid on Tier 2 and senior unsecured debt	-	(19.0)	**(19.0)**	-	(9.5)	(9.5)
Lease liability principal payments	(10.0)	-	**(10.0)**	(10.8)	-	(10.8)
	61.2	**382.9**	**444.1**	(10.8)	187.8	177.0
Other changes:						
Interest payable on lease liabilities, Tier 2 and senior unsecured debt	2.4	20.8	**23.2**	2.5	13.0	15.5
Other non-cash movements	-	4.5	**4.5**	-	3.4	3.4
(Derecognition)/recognition of lease liabilities	(10.0)	-	**(10.0)**	79.5	-	79.5
Balance at the end of the year	**53.6**	**408.2**	**461.8**	71.2	204.2	275.4

£million

	Bank					
	2020			2019		
	Lease liabilities	Amounts owed to Finance Company	Total	Lease liabilities	Amounts owed to Finance Company	Total
Balance at the beginning of the year	71.2	204.2	**275.4**	-	-	-
Changes from financing cash flows:						
Proceeds from issuance of Tier 2 and senior unsecured debt (net of cost)	-	197.7	**197.7**	-	197.3	197.3
Interest paid on Tier 2 and senior unsecured debt	-	(19.0)	**(19.0)**	-	(9.5)	(9.5)
Lease liability principal payments	(10.0)	-	**(10.0)**	(10.8)	-	(10.8)
	61.2	**382.9**	**444.1**	(10.8)	187.8	177.0
Other changes:						
Interest payable on lease liabilities, Tier 2 and senior unsecured debt	2.4	20.8	**23.2**	2.5	13.0	15.5
Other non-cash movements	-	4.5	**4.5**	-	3.4	3.4
(Derecognition)/recognition of lease liabilities	(10.0)	-	**(10.0)**	79.5	-	79.5
Balance at the end of the year	**53.6**	**408.2**	**461.8**	71.2	204.2	275.4

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For year ended 31 December 2020

£million

	Attributable to equity holders of the Group								
2020	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 2020	0.9	313.8	4.1	16.7	410.0	1,737.5	443.4	(1,314.5)	**1,611.9**
Total comprehensive income/(expense) for the year	-	-	0.7	5.8	-	-	(48.3)	(95.7)	**(137.5)**
At 31 December 2020	**0.9**	**313.8**	**4.8**	**22.5**	**410.0**	**1,737.5**	**395.1**	**(1,410.2)**	**1,474.4**

	Attributable to equity holders of the Bank							
2020	Share capital	Share premium	FVOCI reserve	Cash flow hedging reserve	Capital redemption reserve	Defined benefit pension reserve	Retained earnings	Total equity
At 1 January 2020	25.6	2,416.9	4.1	16.7	410.0	443.4	(1,704.9)	**1,611.8**
Total comprehensive income/(expense) for the year	-	-	0.7	5.8	-	(48.3)	(95.7)	**(137.5)**
At 31 December 2020	**25.6**	**2,416.9**	**4.8**	**22.5**	**410.0**	**395.1**	**(1,800.6)**	**1,474.3**

	Attributable to equity holders of the Group								
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

	Attributable to equity holders of the Bank							
2019	Share capital	Share premium	FVOCI reserve	Cash flow hedging reserve	Capital redemption reserve	Defined benefit pension reserve	Retained earnings	Total equity
At 1 January 2019	25.6	2,416.9	13.9	20.0	410.0	415.5	(1,551.9)	1,750.0
Total comprehensive (expense)/income for the year	-	-	(9.8)	(3.3)	-	27.9	(153.0)	(138.2)
At 31 December 2019	25.6	2,416.9	4.1	16.7	410.0	443.4	(1,704.9)	1,611.8

The notes on pages 171 to 210 form part of these consolidated Group and Bank financial statements.

All amounts are stated in £m unless otherwise indicated.

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

1.1 General information

The Annual Report and Accounts presents information in relation to The Co-operative Bank Holdings Limited (the "Holding Company"), its direct subsidiary, The Co-operative Bank Finance p.l.c (the "Finance Company") and its indirect subsidiaries including the main trading company, The Co-operative Bank p.l.c (the "Bank Company"). Together, these entities are referred to as the "Group".

The Finance Company and the Bank Company are also required to produce their own individual and consolidated financial statements and these are included within this Annual Report and Accounts as referenced below. In the financial statements of the Finance Company and of the Bank Company, the Directors refer to disclosures produced in relation to the Group, where there is no difference in the information required to be presented to that disclosed for the Group.

The financial statements presented within the 2020 Annual Report and Accounts comprise:

Pages 163 to 210. The consolidated financial statements of Holding Company and its subsidiaries (the consolidated financial statements of the Group). These are presented together with the consolidated financial statements of the Bank Company and its subsidiaries (the consolidated financial statements of the "Bank"). Unless otherwise stated, references to the Group also apply to the Bank. Where differences arise, this is explicitly stated.

Pages 211 to 235. The individual financial statements of Bank Company.

Pages 236 to 241. The individual financial statements of Holding Company.

Pages 242 to 255. The consolidated and individual financial statements of Finance Company and its subsidiaries (together, the "Finance Group").

1.2 Basis of preparation

The financial statements of the Group have been prepared and approved by the Directors of the respective companies in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006.

The financial statements of the Bank have been prepared and approved by the Directors of the respective companies in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and also prepared in accordance with International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

The financial statements comprise all audited sections of the accounts. Where indicated, the risk management section forms part of the audited accounts.

The Holding Company and Bank Company are incorporated in the UK and registered in England and Wales.

The financial statements have been prepared under the historical cost convention as modified by the revaluation of items held at fair value through other comprehensive income (FVOCI), derivative contracts, investment properties and certain other financial assets and financial liabilities held at fair value through profit or loss (FVTPL).

1.3 Going concern

IAS 1 (Presentation of Financial Statements) requires Directors to make an assessment of a company's ability to continue as a going concern, and whether it remains appropriate to adopt the going concern basis of accounting in preparing the entity's financial statements. This assessment is required for the Group, the Bank and the Finance Group. IAS 1 states that the information should cover at least 12 months from the end of the reporting period but not be limited to that period, and Financial Reporting Council (FRC) guidelines state that the information should consider a period of at least 12 months from the date the financial statements are authorised for issue. This assessment, which is required for the Group, the Bank and the Finance Group has considered information in respect of the 18-month period ending 30 June 2022 (the 'Assessment Period').

When considering the going concern status of the respective companies, the Directors have referenced the FRC published guidance on the going concern Basis of Accounting and Reporting on Solvency and Liquidity Risks (the 2016 Guidance).

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

The assessment has been based on the most recent long-term forecast reviewed by the Directors and includes the expected response to the impacts of the COVID-19 pandemic and also reflects the recent successful issuance of £200.0m MREL-qualifying resources. The assessment also considered further, more pessimistic scenarios that could reasonably possibly occur, along with stress-testing and reverse stress-testing of the long-term forecast. This assessment included a detailed review of projected profitability and forecast liquidity and capital resources, including capital adequacy ratios, the results of which were compared to minimum binding regulatory requirements expected to be in force throughout the Assessment Period.

When identifying further, more pessimistic scenarios that could occur, the Directors considered the principal risks faced by the Group as summarised in the risk management section 1.8. The most relevant risks identified were capital and credit risk and the most relevant regulatory requirements were binding MREL requirements – which remains at TCR+£400m throughout the assessment period, and the leverage minimum requirements of 3%. Liquidity risk was considered less relevant to the going concern assessment due to the current and projected levels of liquidity and availability of further funding, notably through the government's TFSME scheme, should it be required. The assessment has been performed in relation to minimum binding capital requirements, so does not include the requirements associated with the CRD IV and PRA buffers.

As part of the review of these risks, the Directors' assessment includes, but was not limited to the macroeconomic environment in which the Group operates, and in particular, the amount and timing of future changes in house prices, either in isolation or combined with a deterioration of income or increase in operating costs, along with changes in regulatory capital requirements which impact capital adequacy ratios. Appropriate consideration was given to the historical accuracy of management's forecasting, particularly in the post-COVID environment. The reverse stress-testing identified the level of house price deterioration in isolation that would need to occur to breach minimum regulatory capital requirements and also identified the combination of house price deterioration coupled with risks to profitability that would need to occur. In both instances, the circumstances that would need to prevail to breach minimum requirements, are considered a remote possibility. The change in house prices would have to deteriorate to a level more severe than that outlined in the Group's IFRS 9 downside scenario disclosed in section 2.2.1 b).

After considering the matters above, the Directors have a reasonable expectation that both the Group and Bank will continue in operational existence for at least the next 12 months. Accordingly, the results for the year ended 31 December 2020 have been prepared on a going concern basis with no material uncertainties.

1.4 Significant accounting policies

The significant accounting policies applied by the Group are set out in the Explanatory Information on page 256. The accounting policies which are most critical to the financial statements are:

- Basis of consolidation – The accounting policy determines which entities the Group consolidates, and which it does not (see section 1.1 of the Explanatory Information).
- Financial instruments – The accounting for the majority of the assets and liabilities, income and expense recognised by the Group are governed by IFRS 9 Financial Instruments (see section 1.3 of the Explanatory Information).

A small number of minor additions, amendments and expansions to accounting policies were applied during the year. None of these had a significant impact on the Group's financial position or reporting.

In August 2020, the IASB issued Interest Rate Benchmark Reform - Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, in anticipation of the phasing out of the LIBOR benchmark rate by 2021. The amendments are effective from 1 January 2021, following endorsement separately by the United Kingdom and the European Union in January 2021. The Group has elected not to early-adopt the amendments and intends to apply them from 1 January 2021.

The Group has a number of LIBOR-linked exposures which it is in the process of migrating to an alternative benchmark rate. It is not expected that the transition will have a material impact on the financial position of the Group.

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. Actual results may differ from these estimates. The critical judgements and estimates are the same for both the Group and Bank.

Assumptions and estimates are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The critical judgements and estimates which have a significant impact on the financial statements are described below.

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

2.1 Critical judgements

2.1.1 Recognition of IAS 19 pension valuation surplus
The Group is the principal employer of the Bank Section of The Co-operative Pension Scheme (PACE), a hybrid scheme, consisting of a closed defined benefit (DB) element and a defined contribution (DC) element. In addition, the Group, through its wholly owned subsidiary BPS Principal Employer Limited (BPS), is the principal employer in the Britannia Pension Scheme which is a DB scheme.

Both schemes are accounted for as DB pension schemes and a surplus is recognised as a net retirement benefit asset. In order to recognise the DB asset in full, the Group must have an unconditional right to return of any surplus arising on wind up of the schemes, either in the form of reduced future DC contributions or in a form of a refund. The trustees of each scheme do not have the unilateral power to augment member benefits or wind up the scheme without cause. Surplus contributions would be used to reduce future funding risk (and therefore reduce future contributions) or be refunded to the Group. Accordingly, the full value of the defined benefit scheme surplus is recognised on the Group's balance sheet as an asset.

2.1.2 Unconsolidated structured entities
The Group is the sponsor for two unconsolidated structured entities listed in note 36 (the Warwick SPEs). The Warwick SPEs were created for the purposes of selling Optimum (legacy retail secured mortgages) in the most capital efficient manner. The Group performs an assessment of the requirement to consolidate the Warwick SPEs on at least an annual basis, or more frequently as relevant. The Warwick SPEs are not included within the consolidated results of the Group as its ongoing interest represents a less-than-deminimis variability of return.

During 2020, the Warwick Finance One and Two transactions were unwound, and the underlying mortgages were re-securitised under two new transactions, Avon Finance One and Two, for which the Group does not act as a sponsor. The Group continues to hold the legal title of the mortgages beneficially owned by the Avon entities on a commercial basis and therefore the Group continues to perform an annual non-consolidation review. The conclusion reached at 31 December 2020 for these entities was the same as was reached for the remaining Warwick entities.

2.2 Key sources of estimation uncertainty

2.2.1 Loan impairment provisions

a) Overview
The COVID-19 pandemic has introduced unprecedented economic uncertainty which requires the application of a significant degree of expert economic and credit risk judgement. The key COVID-19 related assumptions and judgements that were applied in the determination of ECL at 31 December 2020 are listed below (with further quantitative detail provided in the risk management section 3.2):
- Retail – customers receiving COVID-19-related concessions are not automatically classified as having evidenced a significant increase in credit risk (SICR), but are moved to stage 2 under IFRS 9 if they meet other SICR criteria (see Explanatory Information 1.3.j). However, proportions of the population have been moved to stage 2 based on a segmentation by risk characteristics. As at 31 December 2020, the vast majority of customers who had taken a payment deferral had returned to normal payment behaviour, as outlined in the risk management section 1.8. COVID-19-related payment deferrals do not count towards the backstop days past due stage 2 and 3 transfer criteria; and
- SME and corporate – all SME and corporate customers have been segmented by sector and uplifted to stage 2 where the Group has judged that sector to be particularly exposed to the impacts of COVID-19 (and thus experienced a collective significant increase in credit risk). This includes virtually all customers (98% of balances) who have requested Coronavirus Business Interruption Loans (CBILS) and Bounce-Back loans, and given the extremely high degree of overlap, the Group has uplifted the remaining CBILS and Bounce-Back loans to stage 2. CBILS and Bounce-Back loans are not classified as Purchased or Originated Credit Impaired (POCI) on origination.

Judgemental post-model adjustments particularly driven in response to the particular uncertainties of COVID-19 include overlays for:
1. risks associated with customers receiving COVID-19-related concessions – such as payment deferrals;
2. the outlook for certain business sectors which are more exposed to the economic impact of COVID-19;
3. guarantees provided by government support schemes;
4. certain CRE portfolios where stale security valuations may be understating Loss Given Defaults; and
5. risk factors associated with certain immature product portfolios with limited default history prior to COVID-19.

Signficant PMAs are quantified further in risk management section 3.2.

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

b) Collective impairment provisions - scenario selection and weighting
In order that the ECL is a probability-weighted amount, which is determined by evaluating a range of possible outcomes and captures non-linearities and asymmetries within the ECL calculation, a number of possible scenarios, together with their weightings, are determined internally. Probability-weighted ECLs are calculated by applying each scenario to the ECL models and multiplying the result by the respective scenario weighting. The scenarios selected and the weightings applied to each scenario as at 31 December 2020 are set out below. The base scenario represents the most likely economic forecast and is aligned with the central scenario used in the Group's financial planning processes.

At 31 December 2019, five economic scenarios were reflected within the impairment models. Following the comprehensive review of economic outlook as a result of COVID-19, it was concluded that four scenarios adequately reflect a range of possible outcomes at 31 December 2020. Each scenario reflects a COVID-19-specific outlook of differing severity, with the base scenario reflecting the most likely economic forecast and aligned with the central scenario used for financial planning purposes described in the update to capital risk in the risk management section 1.8. The scenario weightings were also updated at 31 December 2020 to reflect the nature of each scenario.

2020		2019	
COVID 19 Scenario	Weighting	Scenario	Weighting
Upside	-	Upside	5%
Mild upside	30%	Mild upside	10%
Base	40%	Base	40%
Mild downside	25%	Mild downside	30%
Downside	5%	Downside	15%

The key economic assumptions used within the Bank's range of economic scenarios are shown in the table below as the annual and total average over the five year forecast period used within all scenarios - the long term rate is not materially different from that assumed at the end of the forecast period.

	2021	2022	2023	2024	2025	5 year average
GDP						
Mild upside	10.3%	5.4%	1.8%	1.6%	1.6%	3.1%
Base	7.1%	6.1%	1.8%	1.6%	1.6%	2.6%
Mild downside	2.0%	5.5%	3.1%	1.6%	1.6%	1.7%
Downside	(2.9%)	4.4%	6.1%	2.4%	1.6%	1.1%
Consumption						
Mild upside	9.3%	9.1%	2.5%	1.8%	1.6%	3.5%
Base	5.3%	8.7%	2.5%	1.8%	1.6%	2.5%
Mild downside	1.5%	7.5%	2.5%	1.8%	1.6%	1.5%
Downside	(2.2%)	6.4%	2.5%	1.8%	1.6%	0.5%
Unemployment						
Mild upside	5.3%	4.1%	3.7%	3.5%	3.5%	4.2%
Base	6.7%	4.9%	4.3%	3.5%	3.5%	4.9%
Mild downside	8.2%	6.5%	5.5%	4.6%	4.6%	6.2%
Downside	9.4%	7.4%	6.3%	5.3%	5.0%	7.1%
HPI						
Mild upside	0.0%	4.1%	4.0%	4.1%	4.1%	3.4%
Base	(7.8%)	(0.3%)	4.4%	5.6%	4.6%	1.4%
Mild downside	(15.2%)	(1.4%)	2.4%	3.9%	4.5%	(1.3%)
Downside	(28.8%)	(3.8%)	0.9%	1.8%	3.0%	(5.8%)

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

The table below illustrates how the modelled ECL would change if 100% weighting was applied to each of the scenarios used at 31 December 2020.

	% applied in model	Core Retail	SME	Legacy & Unallocated	Total
Base	40%	10.2	0.9	5.4	16.5
Mild upside	30%	9.0	0.8	5.0	14.8
Mild downside	25%	12.2	1.2	5.6	19.0
Downside	5%	19.6	1.7	6.3	27.6
Weighted average	-	10.8	0.9	5.5	17.2

It should be noted that the staging of individual loans within the above table reflects the base case position only and no allowances for stage transfers have been made in fully weighted alternative scenarios. In practise, if any such scenario was experienced in isolation it would be reasonable to expect customers to transfer between stages which would impact the total ECL. It should also be noted that the above considers only modelled ECLs and not the impact of any PMAs. In practise, certain PMAs implemented by the Group may offset the above modelled movements to reduce the sensitivity of the overall ECL.

c) Collective impairment provisions – model variable sensitivities
Sensitivity analysis for the model variables which are most material to the collective ECL calculation is shown in the tables below. The table below illustrates the changes to the ECL as at 31 December 2020 that would result from reasonably possible changes in these parameters from the actual assumptions used in the Group's economic variable assumptions (for example, the impact on the ECL of increasing the expected unemployment rate by 2% - absolute percentage increase in each of the base, mild upside, and downside scenarios with all other non-illustrated variables remaining constant). The changes in ECL include the impact of transition between stage 1 and 2.

Increase/(decrease) in ECL	Retail secured	Retail unsecured Loan and Current Account	Retail unsecured Cards	Corporate
HPI +15%	(0.1)	-	-	-
HPI -15%	0.2	-	-	-
Unemployment rate +2%	-	1.7	-	-
Unemployment rate -2%	-	(0.2)	-	-
Consumption growth +2%	-	-	0.1	-
Consumption growth -2%	-	-	(0.1)	-
GDP growth +2%	-	-	-	(0.5)
GDP growth -2%	-	-	-	0.3

d) Individual impairment provisions
Individual provisions are recorded for loans which are assessed for impairment on an individual basis. Loans considered as individually significant are typically corporate loans. The individual provision element of overall ECL calculation is impacted by changes in underlying collateral values, however given the prevalence of fully-provided unsecured loans within the population of individually assessed exposures, the provision is not particularly sensitive to movements in collateral value. A 20% reduction or increase in collateral values attributed to the corporate portfolio would increase or decrease the corporate ECL by 0.9% or (0.5%), respectively (both impacts <£0.1m).

2.2.2 Estimate of the defined benefit pension valuation
Actuarial valuations of the defined benefit pension schemes are conducted as determined by the pension scheme trustees, at an interval of not more than three years. The accounting valuation of liabilities is prepared biannually for the Group's reporting purposes by a qualified actuary. Results before tax and net assets are affected by the actuarial assumptions used. The key assumptions include: discount rates, mortality rates and increases to pensions in payment (including GMP equalisation) and to deferred pensions. Actual rates may differ significantly from assumptions used due to changing market and economic conditions, as well as longer or shorter lives of members and other factors, therefore these represent a key source of estimation uncertainty.

Sensitivities in respect of the assumptions are disclosed in note 30 for Pace DB and BPS.

2.2.3 Effective interest rate
When calculating the EIR to apply to an asset or liability held at amortised cost, the Group estimates future cash flows considering all contractual terms of an instrument. In most cases, the future cash flows arising from an asset or liability will be dependent on a number of variables, such as the proportion of mortgage customers who do not switch product after a discount period ends, or future interest rates set by the market. Therefore, it follows that management is required to apply significant judgement in creating assumptions about the value of these variables in the future.

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

In calculating the EIR adjustment to apply to mortgage balances, the most significant two assumptions in terms of impact and volatility are:

Standard variable rate
The assumed standard variable rate (SVR), which will be in effect at the end of a fixed rate product term, determines expected income to be received post-reversion. This is determined with reference to expected Bank of England base rate changes, with a proportion of future increases assumed to pass through to the Group's standard variable rate.

As a measure of the sensitivity of these models, a 50 bp increase or decrease to the forecast SVR (currently 4.34% with rises tracking the base rate assumptions used within the Bank's base IFRS 9 scenario) following the expiry of the fixed rate period would result in a £2.9m increase or decrease respectively in the EIR asset within the loans and advances to customers balance as at 31 December 2020.

Timing of redemptions (behavioural lives)
Once a customer reaches the expiry of the fixed rate period on the fixed product, interest is charged at the Group's SVR, which is higher than the product fixed rate. The amount of time that the customer stays on SVR affects the total lifetime income from the customer, which affects the EIR adjustment.

As a measure of the sensitivity of these models, if the average time spent by customers who have reverted to SVR after the end of their fixed rate discount period increases or decreases by 1 month, the EIR asset would increase or decrease by £2.8m respectively.

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 ExCo 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. The Group has identified three segments - Retail Banking, SME Business Banking and Treasury - as part of its core business.

	Group and Bank					
	Core					
2020	Retail	SME	Treasury	Total	Legacy & unallocated	Group
Net interest income	236.8	41.2	(7.1)	**270.9**	(4.0)	**266.9**
Other operating income	17.6	15.6	7.3	**40.5**	(0.1)	**40.4**
Operating income	**254.4**	**56.8**	**0.2**	**311.4**	**(4.1)**	**307.3**
Net credit impairment losses	(15.6)	(3.2)	-	**(18.8)**	(2.8)	**(21.6)**
Operating expenses						**(349.6)**
Underlying loss						**(63.9)**
Strategic change						**(25.9)**
Restructuring programme						**(19.9)**
Legacy net customer redress charge						**(2.0)**
Surrendered Loss Debtor revaluation						**-**
Gain on shares revaluation						**16.7**
Gain on share sales						**-**
Covered bond premium expense						**(5.2)**
Loss on asset sales						**(3.5)**
Statutory loss before tax						**(103.7)**

3. SEGMENTAL INFORMATION (continued)

	Group and Bank					
	Core				Legacy &	
2019	Retail	SME	Treasury	Total	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 change						(96.6)
Restructuring programme						-
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
Covered bond premium expense						-
Loss on asset sales						(8.1)
Statutory loss before tax						(152.1)

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.

	Group and Bank					
		Removal of:				
2020	IFRS statutory	Volatile items[1]	Strategic projects	Legacy customer redress charges	Non recurring[2]	Underlying basis
Net interest income	266.9	-	-	-	-	**266.9**
Other operating income/(expense)	48.4	(16.7)	-	-	8.7	**40.4**
Operating income	**315.3**	**(16.7)**	**-**	**-**	**8.7**	**307.3**
Operating expenses	(395.4)	-	25.9	-	19.9	**(349.6)**
Net customer redress charge	(2.0)	-	-	2.0	-	**-**
Net credit impairment losses	(21.6)	-	-	-	-	**(21.6)**
Statutory loss before tax	**(103.7)**	**(16.7)**	**25.9**	**2.0**	**28.6**	**(63.9)**

1. Relates to the revaluation gain on equity shares (£16.7m, including £0.3m dividend).
2. Comprises restructuring programme costs (£19.9m), the premium paid on the Covered Bond repurchase (£5.2m) and the net loss recognised on the sale of Optimum mortgage assets (£3.5m).

	Group and Bank					
		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 before tax	(152.1)	(32.7)	96.6	63.5	5.0	(19.7)

1. Comprises the impact of the revaluation of the Surrendered Loss Debtor (£14.6m) and the revaluation gain on equity shares (£18.1m).
2. Comprises the net loss recognised on the sale of Optimum mortgage assets (£8.1m) partially offset by the gain on sale of Vocalink shares (£3.1m).

3. SEGMENTAL INFORMATION (continued)

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

	Group and Bank					
	Core					
2020	Retail	SME	Treasury	Total	Legacy & unallocated	Underlying basis
Segment assets	17,360.7	447.8	5,900.9	**23,709.4**	1,890.1	**25,599.5**
Segment liabilities	17,300.0	2,964.4	3,536.8	**23,801.2**	323.9	**24,125.1**

	Group and Bank					
	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

4. AUDITOR'S REMUNERATION

	Group and Bank	
	2020 £'000	2019 £'000
Fees payable to the Bank's auditor for the audit of the annual accounts	**2,198**	2,188
Audit expenses	**50**	150
Fees payable to the Bank's auditor for other services:		
Audit of the accounts of group undertakings	**79**	119
Audit-related assurance services	**175**	150
Other assurance services	**63**	115
Total audit fees and expenses for the financial year	**2,565**	2,722
All other services provided by the auditor	**-**	-
Total auditor's remuneration	**2,565**	2,722

5. DIRECTORS' EMOLUMENTS

	Group and Bank	
	2020	2019
Total remuneration receivable by Directors	**4.5**	5.3

No retirement benefits are accruing to Directors under defined benefit schemes. The aggregate of emoluments and amounts receivable under incentive schemes of the highest paid Director was £1.8m (2019: £2.6m).

6. NET INTEREST INCOME

Interest income and similar income

	Group and Bank							
	2020				2019			
	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	**396.8**	**-**	**-**	**396.8**	422.6	-	-	422.6
Loans and advances to banks	**5.4**	**-**	**-**	**5.4**	15.2	-	-	15.2
Investment securities	**1.3**	**11.8**	**-**	**13.1**	2.2	26.4	-	28.6
Net interest income on net defined benefit pension asset	**-**	**-**	**13.8**	**13.8**	-	-	17.6	17.6
	403.5	**11.8**	**13.8**	**429.1**	440.0	26.4	17.6	484.0
On financial assets at fair value through profit or loss:								
Loans and advances to customers	**-**	**-**	**6.3**	**6.3**	-	-	5.9	5.9
Net interest expense on financial instruments hedging assets	**-**	**-**	**(42.1)**	**(42.1)**	-	-	(15.2)	(15.2)
Net interest income on financial instruments not in a hedging relationship	**-**	**-**	**16.8**	**16.8**	-	-	9.8	9.8
Total net interest income	**403.5**	**11.8**	**(5.2)**	**410.1**	440.0	26.4	18.1	484.5

6. NET INTEREST INCOME (continued)

Interest expense and similar charges

	Group and Bank					
	2020			2019		
	Amortised cost	Other	Total	Amortised cost	Other	Total
On financial liabilities not at fair value through profit or loss:						
Customer accounts	**(78.4)**	**-**	**(78.4)**	(112.5)	-	(112.5)
Subordinated liabilities, debt securities in issue and other deposits	**(56.0)**	**-**	**(56.0)**	(55.2)	(0.2)	(55.4)
Interest on lease liabilities	**-**	**(2.4)**	**(2.4)**	-	(2.5)	(2.5)
Net interest expense on unfunded pension obligations	**-**	**(0.2)**	**(0.2)**	-	(0.2)	(0.2)
	(134.4)	**(2.6)**	**(137.0)**	(167.7)	(2.9)	(170.6)
On financial liabilities at fair value through profit or loss:						
Net interest income on financial instruments hedging liabilities	**-**	**11.1**	**11.1**	-	8.0	8.0
Net interest expense on financial instruments not in a hedging relationship	**-**	**(17.3)**	**(17.3)**	-	(11.9)	(11.9)
Total interest expense and similar charges	**(134.4)**	**(8.8)**	**(143.2)**	(167.7)	(6.8)	(174.5)

7. NET FEE AND COMMISSION INCOME

The net fee and commission income for the Group and Bank relates to items not at fair value through profit or loss. Details of the accounting policy is provided in the Explanatory Information on page 256.

8. OTHER OPERATING INCOME/(EXPENSE) (NET)

	Group and Bank	
	2020	2019
Profit on sale of investment securities	**0.3**	2.1
Gain on sale of shares	**-**	3.1
Loss on sale of loans and advances to customers[1]	**(3.5)**	(8.0)
Fair value movement on loans and advances to customers designated at fair value	**2.9**	1.5
Income from derivatives and hedge accounting	**5.2**	11.8
Income from assets and liabilities held at fair value through profit or loss[2]	**15.8**	33.2
Foreign exchange gains	**8.0**	8.2
Covered bond premium expense	**(5.2)**	-
Other operating income	**1.1**	3.3
	24.6	55.2

1. Loss on sale of loans and advances to customer includes £3.5m (2019: £8.1m) loss on sale relating to the sale of Optimum mortgage assets.
2. Income from assets and liabilities held at fair value through profit and loss of £15.8m (2019: £33.2m) includes a £16.4m gain on equity shares (2019: £18.1m). 2019 also included a £14.6m gain on the Surrendered Loss Debtor.

Included in the table above, in 2020 hedge ineffectiveness generated an income of £0.7m (2019: £0.8m) in relation to fair value and cash flow hedging programmes.

9. OPERATING EXPENSES

	Group and Bank	
	2020	2019
Staff costs	**149.6**	162.6
Depreciation, amortisation and impairment of property, plant and equipment, right-of-use assets and intangibles[1]	**40.2**	42.8
IT costs	**69.9**	120.8
Mortgage platform outsourcing services	**75.7**	80.2
Facility costs	**27.6**	15.8
Operating leases	**-**	0.8
Other expenses	**32.4**	54.7
Total operating expenses	**395.4**	477.7

1. Mainly comprises amortisation of intangible assets of £24.6m (2019: £27.3m).

10. STAFF COSTS

	Group and Bank	
	2020	2019
Wages and salaries	**108.6**	114.7
Social security costs	**11.0**	11.0
Pension costs:		
Defined contribution plans	**7.7**	7.4
Other staff costs[1]	**22.3**	29.5
Total staff costs	**149.6**	162.6

1. Other staff costs mainly comprises costs paid to temporary contractors and severance costs.

Average number of employees

The average headcount of people employed during the year is as follows:

	No of employees	
	2020	2019
Full time	**2,237**	2,592
Part time	**653**	765
	2,890	3,357

11. INCOME TAX

	Group and Bank	
	2020	2019
Current tax		
Current year	**-**	-
Prior year	**(0.2)**	(0.9)
Total current tax credit	**(0.2)**	(0.9)
Deferred tax		
Current year	**0.1**	3.3
Prior year	**0.9**	(1.5)
Impact of corporation tax rate changes	**(8.8)**	-
Total deferred tax (credit)/charge	**(7.8)**	1.8
Total tax (credit)/charge	**(8.0)**	0.9

In addition to the above, included within other comprehensive income is a deferred tax charge of £2.4m (2019: £5.9m).

The government maintained the corporation tax rate at 19% for the financial year beginning 1 April 2020, rather than reducing it to 17% as had previously been legislated. A banking surcharge tax of 8% also applies to the Bank Company. Deferred tax has been calculated by reference to the most appropriate rate based on forecasts.

Further information on deferred tax is presented in note 29 of the Group and Bank consolidated financial statements.

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:

	Group and Bank	
	2020	2019
Loss before taxation	**(103.7)**	(152.1)
Tax credit calculated at a rate of 19% (2019: 19%)	**(19.7)**	(28.9)
Effects of:		
Movement in unrecognised deferred tax	**19.4**	24.9
Impact of corporation tax rate change	**(8.8)**	-
Adjustment in respect of prior periods	**0.7**	(2.4)
Expenses not deductible for tax purposes	**0.2**	10.2
Other differences	**0.2**	(0.4)
Non-taxable income	**-**	(6.0)
Derecognition of deferred tax asset	**-**	3.5
Total tax (credit)/charge	**(8.0)**	0.9

12. CASH AND BALANCES AT CENTRAL BANKS

	Group and Bank	
	2020	2019
Cash in hand	**12.1**	14.6
Items in transit	**(23.7)**	(21.9)
Balances with the Bank of England other than mandatory reserve deposits	**3,814.1**	2,101.9
Included in cash and cash equivalents	**3,802.5**	2,094.6
Mandatory reserve deposits with the Bank of England	**75.3**	58.9
Total cash and balances at central banks	**3,877.8**	2,153.5

Mandatory reserve deposits are not available for use in day-to-day operations, are non-interest bearing and are not included in cash and cash equivalents. Items in transit represent unpresented cheques awaiting clearance.

13. LOANS AND ADVANCES TO BANKS

	Group and Bank	
	2020	2019
Items in course of collection from other banks	**0.2**	1.2
Placements with other banks[1]	**426.8**	340.8
Included in cash and cash equivalents	**427.0**	342.0
Other loans and advances to banks	**109.2**	132.3
Total loans and advances to banks	**536.2**	474.3

1. Obligatory netting arrangements are in place for repo and reverse repo transactions. The amount reduced by netting is £nil (2019: £150.0m), with the opposing impact in deposits by banks in note 23 of the Group and Bank consolidated financial statements.

An expected credit loss of £nil was recorded as at 31 December 2020 (2019: £nil) in relation to loans and advances to banks.

14. LOANS AND ADVANCES TO CUSTOMERS

a) Analysis of the balance sheet

	Group and Bank	
	2020	2019
Gross loans and advances	**18,725.4**	17,945.1
Less: allowance for losses	**(42.9)**	(26.7)
Total loans and advances to customers net of allowance for losses	**18,682.5**	17,918.4

Loans and advances to customers include £136.0m (2019: £143.2m) of financial assets designated at fair value through profit or loss to eliminate or significantly reduce a measurement or recognition inconsistency; of these, £58.4m (2019: £60.7m) are secured by real estate collateral.

For further details on transferred assets, refer to note 31 of the Group and Bank consolidated financial statements.

For stage allocation and analysis, refer to credit risk section of the risk management report.

b) Concentration of exposure

Exposure is only within the UK. Further information on the concentration of exposure is included within section 3.2 of the risk management disclosures.

14. LOANS AND ADVANCES TO CUSTOMERS (continued)

c) Analysis of allowance for impairment losses

	Group and Bank			
	Retail	SME	Legacy & unallocated	Total
At 1 January 2020	17.3	5.3	4.1	**26.7**
Changes arising from stage transfers:				
To lifetime ECL (stage 1 to 2 or 3)	4.5	3.1	0.4	**8.0**
To credit impaired (stage 1 or 2 to 3)	2.6	0.1	2.3	**5.0**
To 12 month ECL (stage 2 or 3 to 1)	(0.7)	-	(0.1)	**(0.8)**
From credit impaired (stage 3 to 2)	(0.5)	-	-	**(0.5)**
Net changes arising from stage transfers	**5.9**	**3.2**	**2.6**	**11.7**
Other charges/(releases):				
New assets originated or purchased	3.3	0.1	-	**3.4**
Other changes to risk parameters[1]	10.1	1.5	0.5	**12.1**
Redemptions and repayments	(2.3)	(1.4)	-	**(3.7)**
Changes to model used for ECL calculation	-	-	-	**-**
Others	-	-	-	**-**
Net other charges	**17.0**	**3.4**	**3.1**	**23.5**
Assets written off	(5.0)	(0.6)	(1.4)	**(7.0)**
Optimum portfolio sale	-	-	(0.3)	**(0.3)**
At 31 December 2020	**29.3**	**8.1**	**5.5**	**42.9**

1. Includes the impact of any asset sales.

	Group and Bank			
	Retail	SME	Legacy & unallocated	Total
At 1 January 2019	20.8	20.8	11.1	52.7
Changes arising from stage transfers:				
To lifetime ECL (stage 1 to 2 or 3)	2.1	-	0.3	2.4
To credit impaired (stage 1 or 2 to 3)	4.1	0.1	0.7	4.9
To 12 month ECL (stage 2 or 3 to 1)	(0.7)	-	(0.3)	(1.0)
From credit impaired (stage 3 to 2)	(0.7)	-	(0.1)	(0.8)
Net changes arising from stage transfers	4.8	0.1	0.6	5.5
Other charges/(releases):				
New assets originated or purchased	2.0	-	-	2.0
Other changes to risk parameters[1]	0.9	0.3	0.6	1.8
Redemptions and repayments	(5.3)	(2.5)	(1.2)	(9.0)
Changes to model used for ECL calculation	(1.0)	-	(0.4)	(1.4)
Others[1]	1.3	-	-	1.3
Net other charges/(releases)	2.7	(2.1)	(0.4)	0.2
Assets written off	(6.2)	(13.4)	(3.9)	(23.5)
Warwick 4 provision release on sale	-	-	(2.7)	(2.7)
At 31 December 2019	17.3	5.3	4.1	26.7

1. Includes the impact of any asset sales.
2. The £1.3m increase in retail unsecured ECL relates to refinement of data inputs.

d) Analysis of income statement

	Group and Bank	
	2020	2019
Net other charges	**(23.5)**	(0.2)
Amounts recovered against amounts previously written off	**1.1**	1.5
Adjustment to recognise interest on stage 3 assets based on their net carrying value	**0.9**	1.2
Financial guarantees impairment charge	**(0.1)**	-
Net impairment (loss)/gain for the year as shown in the income statement	**(21.6)**	2.5

14. LOANS AND ADVANCES TO CUSTOMERS (continued)

e) Finance lease receivables

	Group and Bank	
	2020	2019
Gross investment in finance leases may be analysed as follows:		
No later than one year	**2.8**	3.3
Later than one year and no later than five years	**7.4**	9.6
Later than five years	**6.5**	8.1
Gross investment in finance leases	**16.7**	21.0
Unearned future finance income on finance leases	**(4.3)**	(5.3)
Net investment in finance leases	**12.4**	15.7
The net future finance leases may be analysed as follows:		
No later than one year	**2.1**	2.4
Later than one year and no later than five years	**5.7**	7.3
Later than five years	**4.6**	6.0
	12.4	15.7

The unguaranteed residual value of the finance leases is £nil (2019: £nil). Finance lease arrangements are with customers in a range of sectors including transport, retail and utilities; given the particular nature of these leases none have been signficantly impacted by COVID-19.

15. INVESTMENT SECURITIES

Analysis of investment securities

	Group and Bank							
	2020				2019			
	Amortised cost	FVOCI	FVTPL	Total	Amortised cost	FVOCI	FVTPL	Total
Investment securities[1] (listed)	**77.4**	**1,067.6**	**3.5**	**1,148.5**	95.0	1,506.4	4.2	1,605.6

1. Investment securities are shown net of impairment (nil for the current and previous year).

Movement in investment securities

	Group and Bank							
	2020				2019			
	Amortised cost	FVOCI	FVTPL	Total	Amortised cost	FVOCI	FVTPL	Total
At 1 January	**95.0**	**1,506.4**	**4.2**	**1,605.6**	89.1	1,842.4	3.5	1,935.0
Acquisitions	**-**	**969.6**	**-**	**969.6**	15.2	1,032.7	0.2	1,048.1
Disposals and maturities	**(17.5)**	**(1,404.7)**	**-**	**(1,422.2)**	(9.4)	(1,351.7)	-	(1,361.1)
FVOCI	**-**	**1.8**	**-**	**1.8**	-	(12.3)	-	(12.3)
Fair value through profit or loss	**-**	**(7.5)**	**(0.7)**	**(8.2)**	-	(2.9)	0.5	(2.4)
Amortisation	**-**	**2.3**	**-**	**2.3**	-	1.9	-	1.9
Movement in interest accrual	**(0.1)**	**(0.3)**	**-**	**(0.4)**	0.1	(3.7)	-	(3.6)
At 31 December	**77.4**	**1,067.6**	**3.5**	**1,148.5**	95.0	1,506.4	4.2	1,605.6

Certain investment securities have been pledged by the Group, see note 31 of the Group and Bank consolidated financial statements for further details on encumbered and pledged assets.

Analysis of investment securities by issuer

	Group and Bank	
	2020	2019
Investment securities issued by public bodies:		
Government securities	**463.7**	925.8
Other public sector securities	**226.1**	242.4
Total investment securities issued by public bodies	**689.8**	1,168.2
Other debt securities:		
Other floating rate notes	**377.8**	268.3
Mortgage backed securities	**80.9**	169.1
Total other debt securities	**458.7**	437.4
Total investment securities	**1,148.5**	1,605.6

15. INVESTMENT SECURITIES (continued)

Other floating rate notes (FRNs) are sterling denominated, with contractual maturities ranging from under one year to five years from the balance sheet date.

16. DERIVATIVE FINANCIAL INSTRUMENTS

Various derivatives have been entered into to manage interest rate risk, some of which are held in a qualifying hedge accounting relationship (see the risk management section for more details on interest rate risk management strategies). Positive and negative fair values have not been netted off as there is no legal right of offset.

Non-trading derivatives

Non-trading transactions comprise derivatives held for hedging purposes to manage the asset and liability positions of the Group. Derivatives used to manage interest rate related positions include interest rate swaps and caps. The foreign exchange rate positions are managed using foreign exchange forward and swap transactions.

	Group and Bank			
	Fair value			
	2020		2019	
	Assets	Liabilities	Assets	Liabilities
Derivatives held for non-trading purposes				
Derivatives designated as cash flow hedges:				
Interest rate swaps	**1.6**	**-**	23.1	(2.9)
Derivatives designated as fair value hedges:				
Interest rate swaps	**20.3**	**(155.7)**	27.3	(106.4)
Derivatives held for non-trading purposes for which hedge accounting has not been applied:				
Interest rate swaps	**167.5**	**(184.2)**	162.6	(178.7)
Forward currency transactions	**0.5**	**(0.2)**	0.3	-
Total derivative assets/(liabilities) held for non-trading purposes	**189.9**	**(340.1)**	213.3	(288.0)
Total recognised derivative assets/(liabilities)	**189.9**	**(340.1)**	213.3	(288.0)

The derivatives designated as cash flow hedges are interest rate swaps used to hedge interest rate risk in retail operations. Cash flows are hedged by quarterly time periods for durations up to six years. During the year, there were no forecast transactions for which hedge accounting had previously been used but which are no longer expected to occur. Detailed hedge accounting disclosures are covered within section 4.3 of the risk management.

In line with industry standards, credit valuation adjustments (CVAs) and debit valuation adjustments (DVAs) are applied to non-collateralised swaps representing the fair value measurement of counterparty risk. The net credit adjustment across the portfolio at 31 December 2020 was £0.4m (2019: net credit of £0.4m). CVAs and DVAs are not applied to derivatives that are fully cash collateralised.

17. EQUITY SHARES

	Group and Bank	
	2020	2019
Listed	**0.3**	0.4
Unlisted[1]	**21.8**	44.1
	22.1	44.5

1. The unlisted trade investments relate to Visa International 38,847 Series B Preference Shares (2019: 38,847). During the year, 50 % of the Group's gross shareholding of Visa Series B preferred stock was converted to an equivalent number of preferred A stock, which was subsequently disposed of for £38.7m. The Group continues to hold 38,847 shares, but their equivalent value is lower following the conversion.

18. OTHER ASSETS

	Group and Bank					
	2020			2019		
	Amortised cost	Mandatorily measured at FVTPL	Total	Amortised cost	Mandatorily measured at FVTPL	Total
Amounts recoverable within one year						
Other assets	**141.1**	**-**	**141.1**	4.8	-	4.8
Surrendered Loss Debtor	**-**	**47.8**	**47.8**	-	0.1	0.1
	141.1	**47.8**	**188.9**	4.8	0.1	4.9
Amounts recoverable after more than one year						
Surrendered Loss Debtor	**-**	**-**	**-**	-	47.7	47.7
	-	**-**	**-**	-	47.7	47.7
	141.1	**47.8**	**188.9**	4.8	47.8	52.6

Included within other assets at 31 December 2020 is £117.4m receivable following the Group's sale of Optimum mortgage assets in December 2020.

Surrendered Loss Debtor has been subsequently settled in 2021, refer to note 37 of the Group and Bank consolidated financial statements.

19. PREPAYMENTS

	Group and Bank	
	2020	2019
Amounts recoverable within one year	**12.6**	20.3
Amounts recoverable after more than one year	**0.6**	1.4
	13.2	21.7

20. PROPERTY, PLANT AND EQUIPMENT

	Group and Bank				
2020	Land and buildings	Leasehold improvements	Computers and other equipment	Assets in the course of construction	Total
Cost					
At 1 January 2020	4.7	19.2	49.7	0.4	**74.0**
Additions	-	-	0.4	0.5	**0.9**
Disposals	-	-	(1.5)	(0.1)	**(1.6)**
Impairment	-	-	-	(0.1)	**(0.1)**
Transfer from WIP Intangibles to PPE	-	-	-	3.0	**3.0**
Transfer between categories	-	-	3.6	(3.6)	**-**
At 31 December 2020	**4.7**	**19.2**	**52.2**	**0.1**	**76.2**
Accumulated depreciation					
At 1 January 2020	0.4	3.5	31.5	-	**35.4**
Charge for the year	0.1	1.5	4.9	-	**6.5**
Disposals	-	-	(0.9)	-	**(0.9)**
Impairment	-	-	-	-	**-**
At 31 December 2020	**0.5**	**5.0**	**35.5**	**-**	**41.0**
Net book value					
At 31 December 2020	**4.2**	**14.2**	**16.7**	**0.1**	**35.2**
At 1 January 2020	4.3	15.7	18.2	0.4	38.6

20. PROPERTY, PLANT AND EQUIPMENT (continued)

	Group and Bank				
2019	Land and buildings	Leasehold improvements	Computers and other equipment	Assets in the course of construction	Total
Cost					
At 1 January 2019	5.4	19.9	46.2	0.3	71.8
Additions	-	-	0.8	3.5	4.3
Impairment	-	(0.5)	-	-	(0.5)
Reclassified as held-for-sale	(0.7)	(0.9)	-	-	(1.6)
Transfer between categories	-	0.7	2.7	(3.4)	-
At 31 December 2019	4.7	19.2	49.7	0.4	74.0
Accumulated depreciation					
At 1 January 2019	0.9	2.8	27.3	-	31.0
Charge for the year	0.1	1.5	4.2	-	5.8
Impairment	-	(0.1)	-	-	(0.1)
Reclassified as held-for-sale	(0.6)	(0.7)	-	-	(1.3)
At 31 December 2019	0.4	3.5	31.5	-	35.4
Net book value					
At 31 December 2019	4.3	15.7	18.2	0.4	38.6
At 1 January 2019	4.5	17.1	18.9	0.3	40.8

The net book value of land and buildings comprises freehold properties of £4.2m (2019: £4.3m).

21. INTANGIBLE ASSETS

	Group and Bank					
	2020			2019		
	Internally generated intangible assets	Other intangible assets	Total	Internally generated intangible assets	Other intangible assets	Total
Cost						
At 1 January	**209.4**	**17.3**	**226.7**	180.9	15.6	196.5
Additions	**15.6**	**0.3**	**15.9**	29.8	0.4	30.2
Disposals	**(0.1)**	**-**	**(0.1)**	-	-	-
Impairment	**(0.1)**	**-**	**(0.1)**	-	-	-
Transfer from WIP Intangibles to PPE	**(3.0)**	**-**	**(3.0)**	-	-	-
Transfer between categories	**(3.9)**	**3.9**	**-**	(1.3)	1.3	-
At 31 December	**217.9**	**21.5**	**239.4**	209.4	17.3	226.7
Accumulated amortisation						
At 1 January	**139.1**	**12.3**	**151.4**	114.5	9.6	124.1
Charge for the year	**21.5**	**3.1**	**24.6**	24.6	2.7	27.3
Disposals	**-**	**-**	**-**	-	-	-
Transfer between categories	**-**	**-**	**-**	-	-	-
At 31 December	**160.6**	**15.4**	**176.0**	139.1	12.3	151.4
Net book value						
At the end of the year	**57.3**	**6.1**	**63.4**	70.3	5.0	75.3
At the beginning of the year	**70.3**	**5.0**	**75.3**	66.4	6.0	72.4

Internally generated assets include £11.5m (2019: £14.6m) of assets in the course of construction relating to IT and technology project-related spend. Other intangible assets wholly consist of purchased software licences.

22. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

Right-of-use assets

	Group and Bank					
	2020			2019		
Land and buildings	Cost	Depreciation	Total	Cost	Depreciation	Total
At 1 January	**72.3**	**-**	**72.3**	80.3	-	80.3
Additions	**1.9**	**-**	**1.9**	1.6	-	1.6
Disposals	**(4.0)**	**-**	**(4.0)**	(0.3)	-	(0.3)
Remeasurement[1]	**(7.8)**	**-**	**(7.8)**	-	-	-
Depreciation	**-**	**(8.7)**	**(8.7)**	-	(9.3)	(9.3)
At 31 December	**62.4**	**(8.7)**	**53.7**	81.6	(9.3)	72.3

1. The Group remeasured the right-of-use assets and recognised an onerous lease provision of £7.8m relating to floors not in use in a head office location. A corresponding adjustment has been made to the right-of-use assets and lease liabilities. In addition to this charge relating to the right-of-use assets, a provision has been recognised for other costs associated with the lease (refer to note 28 of the Group and Bank consolidated financial statements).

Lease liabilities

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

	Group and Bank	
	2020	2019
Amounts falling due:		
Within one year	**7.5**	10.5
One to two years	**7.1**	9.9
Two to five years	**18.3**	26.3
Over five years	**33.6**	43.3
	66.5	90.0

The discounted lease liability as at 31 December 2020 was £53.6m (2019: £71.2m) and the interest expense on lease liabilities for the year was £2.4m (2019: £2.5m). The weighted average incremental borrowing rate applied to lease liabilities during the year was 3.4% (2019: 3.4%). There are no committed leases which have not yet commenced.

Cash outflow

The total cash outflow in respect of leases for the year was £10.0m (2019: £10.8m).

Other lease related income and expenses

The expense related to short-term leases (less than 12 months) and low-value assets for the year was £0.4m (2019: £0.5m) and £0.2m (2019: £0.3m), respectively. The expense for the year relating to variable lease payments not included in the lease liability was £nil (2019: £nil).

Subleases

During 2020, £1.1m (2019: £0.8m) was received from subleasing right-of-use assets. Future undiscounted minimum payments receivable in respect of subleased assets classified as operating leases at 31 December is £2.0m (2019: £2.1m).

23. DEPOSITS BY BANKS

	Group and Bank	
	2020	2019
Deposits from other banks[1]	**2,066.4**	1,143.7

1. Obligatory netting arrangements are in place for repo and reverse repo transactions. The amount reduced by netting is £nil (2019: £150.0m), with the opposing impact in loans and advances to banks in note 13 of the Group and Bank consolidated financial statements.

Included within deposits from other banks are liabilities of £294.6m (2019: £179.1m) secured on investment securities with a carrying value of £305.0m (2019: £187.8m) which have been sold under sale and repurchase agreements. See note 31 of the Group and bank consolidated financial statements for further details on encumbered and pledged assets.

The Group undertook a £960.0m drawing of the Bank of England's Term Funding Scheme in February 2018, which was repaid and replaced by a drawing of the Bank of England's Term Funding Scheme with additional incentives for SMEs of £1.8bn between August - December 2020 (interest charged at Base Rate over a period of four years).

24. DEBT SECURITIES IN ISSUE

Debt securities in issue comprise:
- A secured covered bond of £483.1m at a coupon of 4.75 %, having a maturity date in November 2021 and requires the Group to pay interest annually and repay contractual amounts due on the specified maturity date. The balance sheet amount also comprises related accrued interest and premium discount of £2.6m. The Group repurchased and terminated £116.9m in October 2020.
- £250m of AAA securities issued in 2019 through Silk Road Finance Number Six at a margin of 0.85 % above compounded daily SONIA and a maturity date of September 2023. The notes value as at balance sheet date is £234.9m.

Certain debt securities in issue have been pledged by the Group, see note 31 for further details on encumbered and pledged assets.

25. OTHER BORROWED FUNDS AND AMOUNTS OWED TO FINANCE COMPANY

Other borrowed funds

	Group and Bank	
	2020	2019
Fixed rate subordinated notes	**400.0**	200.0
Issue costs, discounts and accrued interest	**1.2**	1.2
Hedged risk adjustment	**7.0**	3.0
	408.2	204.2

Other borrowed funds comprise:
- £200m of MREL-qualifying Tier 2 notes issued in April 2019. These are fixed rate reset callable subordinated notes. These notes have contractual maturity of 25 April 2029, an optional call date of 25 April 2024 with a coupon of 9.5 % and are listed on the London Stock Exchange.
- £200m of MREL-qualifying fixed rate reset callable senior unsecured debt issued in November 2020 to meet the Group's Minimum Requirements for own funds and Eligible Liabilities. These notes:
  i. Are direct, unconditional, unsecured and unsubordinated obligations of the Issuer and will rank pari passu without any preference among themselves and, in the event of a winding-up, will rank pari passu with all other present and future unsecured and unsubordinated obligations of the Bank;
  ii. Have a contractual maturity of 27 November 2025, an optional call date of 27 November 2024 and a coupon of 9 % which will reset at the optional call date; and
  iii. Are listed on the London Stock Exchange.

Amounts owed to Finance Company
Amounts owed to Finance Company comprises the internal MREL down streaming the external MREL-qualifying debt. The terms of the internal MREL instruments are equivalent to those of the external MREL-qualifying Tier 2 and senior unsecured debt.

26. OTHER LIABILITIES

	Group and Bank	
	2020	2019
Amounts falling due within one year		
Amounts due to beneficiary banks	**24.2**	29.9
Other creditors	**9.5**	23.6
	33.7	53.5

There are no liabilities falling due after one year.

27. ACCRUALS AND DEFERRED INCOME

	Group and Bank	
	2020	**2019**
Amounts falling due within one year		
Accruals	**25.2**	41.5
Deferred income	**7.3**	9.6
	32.5	51.1
Amounts falling due after one year		
Accruals	**0.3**	1.1
Deferred income	**2.2**	6.8
	2.5	7.9
	35.0	59.0

The above includes the £15.0m government grant received in 2019, of which £8.3m was utilised by the end of 2020 (2019: £0.2m).

28. PROVISIONS

	Group and Bank				
2020	**Property**	**PPI**	**Conduct/legal**	**Other**	**Total**
At 1 January 2020	11.0	57.5	4.6	14.3	**87.4**
Provided in the year:					
Fee and commission income	-	-	0.3	-	**0.3**
Operating expenses	16.1	-	0.4	20.0	**36.5**
Net customer redress charge	-	2.0	-	-	**2.0**
Utilised during the year	(4.3)	(50.9)	(4.2)	(20.4)	**(79.8)**
At 31 December 2020	**22.8**	**8.6**	**1.1**	**13.9**	**46.4**
Amounts falling due within one year	7.4	8.6	1.1	13.0	**30.1**
Amounts falling due after one year	15.4	-	-	0.9	**16.3**
	22.8	**8.6**	**1.1**	**13.9**	**46.4**

	Group and Bank				
2019	**Property**	**PPI**	**Conduct/legal**	**Other**	**Total**
At 1 January 2019	15.7	67.8	8.7	11.4	103.6
Provided in the year:					
Operating expenses	(0.8)	-	1.1	16.0	16.3
Net customer redress charge	-	62.5	1.0	-	63.5
Utilised during the year	(3.9)	(72.8)	(6.2)	(13.1)	(96.0)
At 31 December 2019	11.0	57.5	4.6	14.3	87.4
Amounts falling due within one year	5.6	57.5	3.8	13.5	80.4
Amounts falling due after one year	5.4	-	0.8	0.8	7.0
	11.0	57.5	4.6	14.3	87.4

Property
The Group has a number of leasehold properties available for rent. 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.

During the year the Group recognised an increase to the onerous lease provision of £8.2m relating to floors not in use in a head office location and not currently sub-let. The provision reflects amounts due under the existing lease agreement from which the Group no longer expects to receive economic benefits nor to recover costs through a sublease arrangement.

28. PROVISIONS (continued)

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 charge of £2.0m has been made in the year (2019: £62.5m). The total provision recognised to date for the historical selling of PPI is £602.3m. As at 31 December 2020 the Group has concluded the majority of its work in relation to this activity.

Conduct/legal provisions
The Group provided £0.7m in the year (2019: £2.1m) in respect of ongoing customer remediation work and various legal claims arising in the ordinary course of business.

Other
Other provisions net charge of £20.0m (2019: £16.0m) mainly comprise movements in the provisions for employee pay, severance costs and remuneration.

29. DEFERRED TAX

Deferred taxes are calculated on all temporary differences under the liability method using the most appropriate tax rate in respect of each temporary difference.

The government maintained the corporation tax rate at 19 % for the financial year beginning 1 April 2020, rather than reducing it to 17 % as had previously been legislated. A banking surcharge tax of 8 % also applies to the Bank Company. Deferred tax has been calculated by reference to the most appropriate rate based on forecasts.

The movements in deferred tax are as follows:

	Group and Bank					
	2020			2019		
	Deferred tax asset	Deferred tax liability	Total	Deferred tax asset	Deferred tax liability	Total
Deferred tax at the beginning of the year	**-**	**(43.7)**	**(43.7)**	2.9	(38.9)	(36.0)
(Charged)/credited to the income statement:						
Current year	**(0.1)**	**-**	**(0.1)**	(3.3)	-	(3.3)
Prior year	**(0.9)**	**-**	**(0.9)**	1.5	-	1.5
Impact of corporation tax rate change	**8.8**	**-**	**8.8**	-	-	-
	7.8	**-**	**7.8**	(1.8)	-	(1.8)
(Charged)/credited to other comprehensive income:						
Cash flow hedges	**(2.8)**	**-**	**(2.8)**	1.2	-	1.2
FVOCI	**(1.1)**	**-**	**(1.1)**	2.6	-	2.6
Retirement benefits	**(3.9)**	**5.4**	**1.5**	(4.9)	(4.8)	(9.7)
	(7.8)	**5.4**	**(2.4)**	(1.1)	(4.8)	(5.9)
Deferred tax at the end of the year	**-**	**(38.3)**	**(38.3)**	-	(43.7)	(43.7)

The deferred tax asset above includes an offset for those deferred tax liabilities that are permissible to be offset.

29. DEFERRED TAX (continued)

	Group and Bank			
	2020		2019	
	Deferred tax asset	Deferred tax liability	Deferred tax asset	Deferred tax liability
Deferred tax comprises:				
Capital allowances on fixed assets and assets leased to customers	**116.3**	**(0.1)**	103.6	(0.2)
Tax losses carried forward	**38.2**	**-**	43.3	-
Retirement benefits	**(137.8)**	**(38.2)**	(129.3)	(43.3)
Cash flow hedges	**(8.9)**	**-**	(5.7)	-
Unrealised appreciation on investments	**(5.9)**	**-**	(11.1)	-
FVOCI	**(1.9)**	**-**	(0.8)	-
Fair value adjustment - The Co-operative Bank subsidiaries	**-**	**-**	-	(0.2)
	-	**(38.3)**	-	(43.7)

The deferred tax (credit)/charge in the income statement comprises:

	Group and Bank	
	2020	2019
Capital allowances on fixed assets and assets leased to customers	**(12.8)**	(8.8)
Unrealised appreciation on investments	**(5.2)**	4.4
Tax losses carried forward	**5.1**	(1.1)
Retirement benefits	**4.9**	7.1
Cash flow hedges	**0.4**	0.2
Fair value adjustments	**(0.2)**	-
	(7.8)	1.8

Deferred tax assets totalling £482.2m (2019: £407.7m) have not been recognised where doubt exists over the availability of sufficient future taxable profits. Deferred tax assets of £474.9m (2019: £401.3m) and £7.3m (2019: £6.4m) have not been recognised in respect of trading losses of £2,300.4m (2019: £2,191.0m) and other temporary differences of £27.1m (2019: £25.5m) respectively.

30. RETIREMENT BENEFITS

The Group is the Principal Employer of the Bank section of The Co-operative Pension Scheme (Pace), a hybrid scheme, consisting of a closed defined benefit element (Pace DB) and a defined contribution element (Pace DC). In addition, the Group is the Principal Employer of the Britannia Pension Scheme (BPS, via a subsidiary of the Bank) which is a defined benefit scheme, closed to new entrants and to future accrual. The Group operates two unfunded defined benefit pension schemes, the Britannia Supplementary Pension and Life Assurance Plan (BSPLAP) and the Pension Promise. The relevant disclosures have been aggregated with the disclosures of the main schemes unless otherwise stated.

The amounts recognised in the income statement are as follows:

		Group and Bank	
	Note	2020	2019
Interest expense on defined benefit obligation		**(42.4)**	(54.0)
Interest income on plan assets		**56.2**	71.6
Total net interest income on net defined benefit pension asset	6	**13.8**	17.6
Net interest expense on unfunded schemes	6	**(0.2)**	(0.2)
Administrative expenses included in operating expenses		**(4.3)**	(3.5)
Net credit to the income statement – DB		**9.3**	13.9
Net charge to the income statement – DC	10	**(7.7)**	(7.4)
Total pension credit included in the income statement		**1.6**	6.5

An actuarial loss of £3.6m relating to the revised estimated cost of GMP equalisation following the November 2020 ruling in the Lloyds case requiring historic transfers to be equalised, has been recognised in the Defined benefit pension reserve as per note 34 of the Group and Bank consolidated financial statements.

30. RETIREMENT BENEFITS (continued)

The amounts recognised in other comprehensive income are as follows:

	Group and Bank	
	2020	2019
Return on scheme assets	**273.3**	273.4
Loss arising from changes in financial assumptions	**(302.5)**	(280.5)
(Loss)/gain arising from changes in demographic assumptions	**(9.8)**	45.9
Experience loss	**(10.4)**	-
Actuarial loss on unfunded schemes	**(0.4)**	(1.2)
(Charge)/credit recorded in other comprehensive income	**(49.8)**	37.6

The amounts recognised in the balance sheet are as follows:

	Group and Bank	
	2020	2019
Retirement benefit net surplus	**651.8**	690.2
Retirement benefit liabilities	**(8.8)**	(8.6)
Total amounts recognised in the balance sheet	**643.0**	681.6
Represented by:		
Funded DB schemes (Pace DB and BPS)	**651.8**	690.2
Unfunded DB schemes	**(8.8)**	(8.6)
Total amounts recognised in the balance sheet	**643.0**	681.6

Defined benefit schemes

a) Characteristics of the defined benefit plans and risks associated with them

Both the Pace DB and the BPS defined benefit schemes are based in the UK. Pace DB closed to new entrants and to future accrual in October 2015. The benefits that had accrued until that point were on a career average revalued earnings basis, meaning that benefits earned by a member were dependent on the length of service and the average earnings over the length of service. BPS closed to new entrants in 2001 and to future accrual on 6 October 2012. Annual increases on pensions in payment for both Pace DB and BPS are applied in line with their respective scheme rules.

Given both schemes are closed to new entrants and accrual, the certainty over pension liabilities increases over time and this increased certainty is reflected in the investment strategies (noted below). Pension obligations are valued separately for accounting and funding purposes. The accounting valuation of liabilities is prepared biannually for the Group's reporting purposes by a qualified actuary, in accordance with accounting standards. This accounting valuation of pension obligations is combined with the fair value of plan assets, giving rise to a net asset or liability in respect of DB pensions at the balance sheet date for the Group's financial reporting purposes. The funding valuation is conducted by the trustee, in consultation with the Group, and is conducted by a qualified actuary at least once every three years (and is updated for monitoring purposes on an annual basis). The latest concluded actuarial funding valuations were conducted in respect of Pace DB as at April 2019 and for BPS as at April 2020.

The purpose of the funding valuation is to determine the amount of cash an employer needs to contribute to the scheme to repair any deficit. The funding valuation will generally be different to the accounting valuation, not only because of the different measurement dates, but also because accounting standards require that companies employ best estimate assumptions, and therefore the accounting surplus will generally be higher than that reported in the more prudent funding valuation. The Group has recognised a net pension asset of £509.2m in respect of Pace DB for the year ended 31 December 2020 (2019: £538.9m) and a net pension asset of £142.6m in respect of BPS (2019: £151.3m).

During the year, the Pace Trustee completed a £400 million pension insurance buy-in, covering liabilities for c.2,000 pensioner members in Pace DB, and partially reducing the Scheme's exposure to longevity and other economic risks. This transaction has been reflected in the retirement benefit net surplus at 31 December 2020 and had the approximate impact of a reduction of £93.0m.

30. RETIREMENT BENEFITS (continued)

Funding position of Pace DB

As part of the project to sectionalise Pace, which concluded in 2018, it was agreed with the Pace Trustee and the Co-op Group that the Group would contribute £100.0m into the Bank section of Pace over a ten-year period from 1 January 2018, of which £25.0m had been paid as at 31 December 2019.

At April 2019, the last concluded funding valuation, the surplus for Pace DB (the Bank section of the Co-operative Pension Scheme) was £72.0m. Acknowledging this surplus, it was agreed that no further contributions would be paid directly into Pace DB, but that the remaining, previously agreed contributions due from 1 January 2020 would be payable into an escrow arrangement, and the Pace Trustee would have a right to these contributions in certain circumstances (including on the insolvency of the Bank). The terms of this escrow arrangement are documented in a Payment Agreement and a Security Deed, each entered into in June 2020. At 31 December 2020, £12.5m cash was pledged in this escrow arrangement. A further payment of £12.5m was made into the escrow arrangement in January 2021.

In addition, it was agreed that the Group would continue to provide security to Pace DB in the form of AAA-rated RMBS notes, subject to a haircut, decreasing over time in line with contributions paid into the Scheme. This security becomes enforceable in the event that deficit recovery payments are not met, as may be agreed with the Trustee in the future, insolvency or the failure to adhere to the terms of the security deed. At 31 December 2020, the Group was obliged to provide security of £244.9m in the form of AAA-rated RMBS notes. Post haircut, this amounted to £191.0m, reflecting the £25.0m paid into Pace DB by the Bank since 1 January 2018.

Contributions are also paid in respect of employed members of Pace DC. Members can choose to pay up to a maximum core contribution of 8% of salary 'double-matched' up to a maximum member contribution of 5%. So, for members paying 5% or more, an employer contribution of 10% of salary is paid into the Scheme.

Funding position of BPS

The actuarial valuation of BPS as at 5 April 2020, completed by the Scheme Actuary in accordance with the scheme specific funding requirements of the Pensions Act 2004, showed BPS had a surplus of £3.4m. As a result, it was agreed with the Trustee that no further deficit recovery contributions would be required at this time, that expense reimbursement contributions of £1.35m p.a. would be maintained, and that the provision of security to the scheme was agreed to be maintained. This security is in the form of £175.6m AAA-rated RMBS notes, subject to a 22% haircut. This security becomes enforceable in the event that deficit recovery payments are not met, as agreed with the Trustee, insolvency or the failure to adhere to terms of the security deed.

Governance

The responsibility for the governance of the schemes lies with their respective trustees. Pace Trustees Limited is the corporate body that acts as trustee of the Pace scheme, including Pace DB and Pace DC. Britannia Pension Trustees Limited is the corporate body that acts as trustee of the Britannia scheme. The main risks impacting the pension obligations are inflation risk, interest rate risk and mortality (or longevity) risk. In respect of both schemes, the majority of inflation risk and interest rate risk is hedged through the investment strategy to invest in Liability-Driven Investments (LDI), which include derivatives. If the value of liabilities were to increase as a result of changes in interest rates or inflation, the value of these LDI assets would also be expected to increase. The actual mortality rates experienced by the scheme compared to those assumed by the actuary is a key source of estimation uncertainty.

The actuary considers two aspects in respect of mortality rates; firstly the level of mortality actually experienced by each scheme, and secondly, the future improvement expected in mortality rates. Both aspects may differ between males and females. The assumptions used by the actuary are set out in section b) below.

Investment strategy

The performance of plan assets is also a risk managed by the trustees (described as investment risk) and, as noted within the investment strategy, the performance is managed and monitored by comparison to scheme benchmarks advised by the scheme's investment advisor, where appropriate. The benchmarks take account of actual performance by comparing performance to that of a relevant comparable yardstick. For LDI assets, the performance benchmark comparison is the value of liabilities. For return-seeking investments the benchmark is comprised of comparable investment indices. The trustees also monitor whether performance is being delivered by taking on greater risk than appetite; this is monitored by comparing the actual asset allocation to the target allocation agreed by the trustees. The weighted average duration of the defined benefit obligation of BPS is 19 years and 20 years for Pace DB.

30. RETIREMENT BENEFITS (continued)

b) Summary of scheme assets and liabilities, key assumptions and sensitivities

The pension assets and liabilities for DB schemes in the balance sheet comprise:

	Group and Bank					
	2020			2019		
Schemes	Asset	Liability	Net	Asset	Liability	Net
Pace DB	**2,169.6**	**1,660.4**	**509.2**	2,030.5	1,491.6	538.9
Britannia Pension Scheme	**919.5**	**776.9**	**142.6**	825.1	673.8	151.3
Total schemes	**3,089.1**	**2,437.3**	**651.8**	2,855.6	2,165.4	690.2

Changes in the present value of the defined benefit obligation are as follows:

	Group and Bank	
	2020	2019
Defined benefit obligation at the start of the year	**2,165.4**	1,979.6
Interest expense	**42.4**	54.0
Benefits paid	**(93.2)**	(102.8)
Remeasurements:		
Effect of changes in demographic assumptions	**9.8**	(45.9)
Effect of changes in financial assumptions	**302.5**	280.5
Effect of other experience items	**10.4**	-
Defined benefit obligation at the end of the year	**2,437.3**	2,165.4

The key assumptions used to determine the funded and unfunded pension obligations for accounting purposes are set out in the following tables:

	Group and Bank	
	2020	2019
Discount rate	**1.40%**	2.00 %
Revaluation in deferment (CPI) - BPS	**2.30%**	2.00 %
Revaluation in deferment (CPI) - Pace DB	**2.10%**	2.00 %
Future pension increases where capped at 5.0 % per annum (CPI)	**2.30%**	2.10 %
Future pension increases where capped at 5.0 % per annum, minimum 3.0 % (CPI)	**3.30%**	3.20 %
Future pension increases where capped at 6.0 % per annum (RPI)	**2.80%**	2.90 %
Future pension increases where capped at 5.0 % per annum (RPI)	**2.80%**	2.90 %
Future pension increases where capped at 3.0 % per annum (CPI)	**1.90%**	1.80 %
Future pension increases where capped at 2.5 % per annum (RPI)	**2.00%**	2.10 %

The average life expectancy (in years) for mortality tables used to determine defined benefit schemes liabilities at the 2020 year end is:

	Group and Bank	
	Male	Female
Life expectancy (BPS)		
Member retiring today (member age 60)	**85.8**	**88.3**
Member retiring in 20 years (member age 40 today)	**86.9**	**89.5**
Life expectancy (Pace)		
Member retiring today (member age 60)	**85.9**	**88.2**
Member retiring in 20 years (member age 40 today)	**86.6**	**89.3**

The measurement of the Group's defined benefit liabilities are particularly sensitive to changes in certain key assumptions, which are described below. The methods used to carry out the sensitivity analyses presented below for the material assumptions are the same as those the Group has used previously. The calculations alter the relevant assumption by the amount specified, whilst assuming that all other variables remained the same. This approach is not necessarily realistic, since some assumptions are related; for example, if the scenario is to show the effect if inflation is higher than expected, it might be reasonable to expect that nominal yields on corporate bonds will increase also. However, it enables the reader to isolate one effect from another.

30. RETIREMENT BENEFITS (continued)

Discount rate	This has been selected following actuarial advice received by the Group, taking into account the duration of the liabilities. An increase in the discount rate of 0.1 % would result in a £44.4m decrease in the present value of the defined benefit obligation.
Inflation	Inflation is a significant assumption as it is used to determine salary-related benefits and pension increases before and after retirement. A decrease in the inflation rate of 0.1 % would result in a £31.2m decrease in the present value of the defined benefit obligation.
Mortality rates	The mortality assumptions adopted are based on those recommended by the actuaries that advise the scheme management and reflect the most recent information as appropriate. The impact on the liability if members were assumed to live for one year longer against the current mortality assumption would increase the present value of the defined benefit obligation by £98.6m.

Changes in the fair value of the defined benefit plan assets are as follows:

	Group and Bank	
	2020	2019
Fair value of plan assets at the start of the year	**2,855.6**	2,603.1
Interest income	**56.2**	71.6
Employer contributions	**1.5**	13.8
Benefit payments from plan assets	**(93.2)**	(102.8)
Administrative expenses paid from plan assets	**(4.3)**	(3.5)
Return on plan assets (excluding interest income)	**273.3**	273.4
Fair value of plan assets at the end of the year	**3,089.1**	2,855.6

c) Investment strategy for the DB schemes

The investment strategy is controlled by the Trustee of each scheme in consultation with the participating employers. The investment objective is to invest each scheme's assets in the best interest of the members and beneficiaries, and in the case of a potential conflict of interest, in the sole interest of the members and beneficiaries. Within this framework, the trustees have agreed a number of objectives to help guide in the strategic management of the assets and control of the various risks to which each scheme is exposed. Primary objectives are as follows:

- Agree to implement an investment strategy that initially targets an expected return of around 1.2 % p.a. (net of fees) above the return on a portfolio of gilts for BPS and around 0.5 % p.a. (net of fees) above the return on a portfolio of gilts for Pace DB;
- The primary objective is that each scheme has sufficient and appropriate assets to meet the costs incurred by the Trustee in paying its benefits as they fall due on a technical provisions basis (technical provisions being the funding valuation basis reflecting a prudent valuation); and
- If funding improves as a result of better than expected investment return, the expectation is to use the opportunity to reduce investment risk where appropriate.

The investment strategies of both Pace DB and BPS reflect the strong funding position and closed nature of the schemes and the strategic asset allocation targets low levels of return-seeking assets and high levels of assets which mitigate against funding volatility, in line with the trustees' stated desire of increasing the predictability of investment returns where possible. At any point in time, the implemented asset portfolio may not exactly match the target asset portfolio, in particular during a time of change to the target. This difference between the actual and target asset allocation is monitored regularly by the trustees.

30. RETIREMENT BENEFITS (continued)

The fair value of the DB schemes' assets is analysed as follows:

	Group and Bank			
	2020	% of total	2019	% of total
Government bonds	**1,092.8**	**35%**	1,272.2	44 %
Corporate bonds	**38.5**	**1%**	36.9	1 %
Derivatives	**51.2**	**2%**	(35.6)	(1 %)
Cash and similar	**142.3**	**5%**	200.6	7 %
Other	**2.7**	**0%**	(8.0)	0 %
Total liability-driven investment (LDI) portfolios	**1,327.5**	**43%**	1,466.1	51 %
Debt instruments	**460.3**	**15%**	442.3	15 %
Investment funds	**41.3**	**1%**	41.7	1 %
Investment grade credit	**757.0**	**25%**	716.1	25 %
Asset backed securities	**64.4**	**2%**	65.3	3 %
Annuities	**328.4**	**11%**	-	-
Property funds (UK)	**70.7**	**2%**	70.1	3 %
Cash and other	**39.5**	**1%**	54.0	2 %
Total assets	**3,089.1**	**100%**	2,855.6	100 %

The table below shows the value of the assets in each category which have a quoted market price:

	Group and Bank	
	2020	2019
Liability-driven investments	**1,157.5**	1,290.6
Debt instruments	**369.6**	352.8
Other	**722.2**	690.9
Total	**2,249.3**	2,334.3
Total %	**73%**	82 %

The scheme assets do not directly include any of the Group's own assets, nor any property occupied, or other assets used by the Group. Where available, the fair values are quoted prices (e.g. listed equity, sovereign debt and corporate bonds). Unlisted investments are included at values provided by the fund manager in accordance with relevant guidance. Other significant assets are valued based on observable inputs such as yield curves.

31. CONTINGENT LIABILITIES, CONTRACTUAL COMMITMENTS AND GUARANTEES

The tables below provide the contractual amounts and risk weighted 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. The risk weighted amounts have been calculated in accordance with the CRD V rules.

The contingent liabilities, as detailed below, arise in the normal course of banking business and it is not practical to quantify their future financial effect.

	Group and Bank			
	2020		2019	
	Audited	Unaudited	Audited	Unaudited
	Contractual amount	Risk weighted amount	Contractual amount	Risk weighted amount
Contingent liabilities arising from customer transactions				
Guarantees and irrecoverable letters of credit	**5.6**	**3.1**	9.2	5.1
Other commitments arising from customer transactions				
Undrawn formal standby facilities, credit lines and other commitments to lend (includes revocable and irrevocable commitments)[1]	**2,406.7**	**425.3**	1,975.1	215.5
	2,412.3	**428.4**	1,984.3	220.6

1. Undrawn loan commitments include revocable commitments which represent unused credit card limits of £974.5m (2019: £1,005.1m).

31. CONTINGENT LIABILITIES, CONTRACTUAL COMMITMENTS AND GUARANTEES (continued)

Holding Company B shareholders
There is a contingent liability of £25.0m in aggregate due to B shareholders on exit, subject to achieving a minimum valuation threshold. See note 33 of the Group and Bank consolidated financial statements.

Encumbered and pledged assets
a) Assets pledged under repurchase agreements with other banks
Assets are pledged as collateral under repurchase agreements with other banks.

	Group and Bank	
	2020	2019
Assets pledged under repurchase agreements		
Carrying amount of assets not derecognised	**305.0**	187.8
Carrying amount of associated liabilities	**294.6**	179.1

b) Other assets transferred but not derecognised
Included within loans and advances to customers are assets of £2,439.9m (2019: £3,198.4m) encumbered across all the Group's securitisation and covered bond activities. The Group retains exposure to substantially all of the risks and rewards of ownership of these assets and they remain on the Group's balance sheet. Secured on these mortgage assets are £717.7m (2019: £849.0m) of fixed and floating rate notes. The carrying value of these notes excludes retained securitisation notes totaling £1,010.1m (2019: £1,675.9m).

c) Other assets encumbered under the Group's securitisation and covered bond programmes
Included within loans and advances to banks is £96.5m (2019: £120.3m) held in ring fenced third party accounts which are attributable to the Group's securitisation and covered bond subsidiaries including balances associated with structured entities that are otherwise eliminated on consolidation.

d) Assets pledged under the Term Funding Scheme with additional incentives for SMEs (TFSME)
Investment securities and mortgage assets with a carrying value of £2,346.7m (2019: £nil) have been collateralised against the Group's drawdowns on the BoE's TFSME. At 31 December 2020 the Group had no assets pledged under the Term Funding Scheme (2019: £1,112.7m) or the Indexed Long-Term Repo facility (2019: £150.0m).

e) Assets pledged under the Group's pension arrangements
The Group has arrangements with its pension schemes whereby it provides contingent security, where such assets can only be accessed by the trustees in the event that the Group was unable to meet future contribution obligations, as may be agreed with the relevant trustee, insolvency or the failure to adhere to the terms of the security deeds. The encumbered assets comprise of AAA Silk Road Five and Silk Road Six securitisation notes and cash generated from the amortisation of the notes, which can be substituted for further investment securities.

At 31 December 2020, the Group has pledged £173.7m of notes and £3.5m cash to the Britannia Pension Scheme, and £240.6m of notes and £7.2m cash to the Pace scheme.

At 31 December 2020, a further £12.5m cash was held encumbered in custody for the benefit of the Pace scheme in lieu of deficit recovery contributions. The Pace Trustee would have a right to these contributions in certain circumstances (including on the insolvency of the Bank). The terms of this escrow arrangement are documented in a Payment Agreement and a Security Deed, each entered into in June 2020. A further payment of £12.5m was made into the escrow arrangement in January 2021.

f) Other collateralised assets
Cash and investment securities totalling £315.5m (2019: £229.8m) and £158.7m (2019: £97.5m) 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.

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

31. CONTINGENT LIABILITIES, CONTRACTUAL COMMITMENTS AND GUARANTEES (continued)

Conduct risk matters

Given the high level of scrutiny regarding financial institutions' treatment of customers and business conduct from regulatory bodies, the media and politicians, there is a possibility that certain aspects of the current or historical business, including, amongst other things, mortgages and relationship banking, may be determined by the FCA and other regulatory bodies or the courts as, in their opinion, not being conducted in accordance with applicable laws or regulations, or fair and reasonable treatment.

There may be regulatory investigations and action in the future in relation to conduct and other issues that the Group is not presently aware of, including investigations and actions against it resulting from alleged mis-selling of financial products or the ongoing servicing of those financial products. The outcome of any ongoing disputes and legal, regulatory or other investigations or proceedings is currently uncertain.

Legal proceedings

Various other legal proceedings exist involving claims by and against the Bank, which arise in the ordinary course of business, including debt collection, mortgage enforcement, consumer claims and contractual disputes. It is not expected that the ultimate resolution of any of these proceedings will have a material adverse effect on the operating results, cash flows or the financial position and as such contingent liabilities have not been disclosed for these claims. Provisions have been recognised for those cases where there is an ability to reliably estimate the probable loss where the probable loss is not de minimis.

Mortgage securitisation representations and warranties

In connection with the mortgage securitisations (including Avon Finance One and Two, and Warwick Finance Three and Four) and covered bond transactions, various representations and warranties relating to the mortgage loans are made, including in relation to ownership, compliance with legislation and origination procedures. If the representations and warranties are breached subject to any applicable materiality determination, repurchase of the affected mortgage loans or in some circumstances compensation to the securitisation vehicle may be required.

There is a risk that a number of the underlying matters that could give rise to conduct and legal provisions could result in breaches of such representations and warranties. Accordingly, there is a risk that compensation or repurchasing affected mortgage loans may be required in amounts that may reduce liquidity.

The extent cannot be estimated to which the matters described above will be impacted, or how future developments may have a material adverse impact on the Group's net assets, operating results or cash flows in any particular period.

Contingent assets

Refund of ATM business rates following Supreme Court judgement

Historically, the Group owned a large number of Automatic Teller Machines (ATMs), a significant number of which were located within retail stores owned by the Co-op Group during a period when the Group and the Co-op Group were part of the same corporate group and for a number of years thereafter. The Bank sold the ATMs in 2014.

In 2013, the Valuation Office Agency, which is part of HMRC and compiles the business rates list for England, Scotland and Wales, determined that externally facing ATMs should be separately assessed for business rates in addition to store business rates already incurred by retailers, and this was applied with effect from April 2010. The additional rates due on the ATMs under these rules were paid by the Bank to the Co-op Group, who in turn paid the store and ATM rates to the relevant local billing authorities. Retailers, including the Co-op Group, successfully challenged the assessment, culminating in a Supreme Court decision in May 2020 ruling that externally facing ATMs form part of the stores offering and should not be subject to additional business rates.

As a result of the ruling, it is expected that the Valuation Office Agency will update the business rates list accordingly via settling the outstanding appeals. Once the rating list is updated the local billing authorities will then start to process these amendments in order for refunds of historic business rates that were paid for external ATMs to be recovered. The Bank is still in discussion with the Co-op Group regarding a refund of payments made by the Bank to the Co-op Group in relation to this arrangement and including discussions around a contribution towards the Bank's share of professional services fees.

Unconsolidated structured entities

Details of the interests in unconsolidated structured entities are disclosed in note 36. There has been no significant change in the nature of the transactions in these entities except for exercise of the Warwick Finance One and Two call options and subsequent establishment of the Avon Finance One and Two entities in 2020 by a third party. The Group's remaining interest in the Avon unconsolidated structured entities related solely to the holding of legal title of mortgages previously sold by the Group to Warwick Finance One and Two.

32. RELATED PARTY TRANSACTIONS

Parent, subsidiary and ultimate controlling party
As at 31 December 2020, 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 35.3 % of the Tier 2 and 13.2 % of the senior unsecured debt issued by The Co-operative Bank Finance p.l.c. during 2019 and 2020. The contractual features of the senior unsecured debt are set out in note 25.

Total interest paid for the year on the MREL-qualifying debt to certain funds managed by SP Coop Investments Ltd and Anchorage Illiquid Opportunities Offshore Master V L.P. was £6.7m (2019: £3.4m). At 31 December 2020, the total outstanding balance payable (including accrued interest) to these related parties was £98.2m (2019: £71.8m).

A loan was recognised by Finance Company and Bank Company to achieve structural subordination of the MREL-qualifying debt (the “internal MREL”). The terms of the internal MREL are the same as those of the external MREL-qualifying debt. The total amount due from Bank Company to Finance Company at 31 December 2020 in this regard was £408.2m (2019: £204.2m) including accrued interest. The interest paid by Bank Company to Finance Company on the internal MREL instrument was £20.8m.

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:

	Group and Bank	
	2020	2019
Deposits and investments at the beginning of the year	**1.1**	0.6
Net movement	**(0.6)**	0.5
Deposits and investments at the end of the year	**0.5**	1.1

In addition, there were £0.4m (2019: £0.5m) relating to loans to key management personnel, arising in the normal course of business.

Key management personnel

	Group and Bank	
	2020	2019
Total remuneration receivable by key management personnel	**7.1**	10.6

In 2020, the total number of key management personnel was 19 (2019: 25). Further information about the remuneration of senior management personnel and material risk takers is included in the Directors’ remuneration report.

33. SHARE CAPITAL

	Group			
	2020		2019	
	No. of shares (millions)	Value	No. of shares (millions)	Value
Share capital allotted, called up and fully paid				
At the beginning and end of the year	**9,029.1**	**0.9**	9,029.1	0.9
Share premium account				
At the beginning and end of the year		**313.8**		313.8

The issued share capital of The Co-operative Bank Holdings Limited comprises 9,029,130,200 A shares (2019: 9,029,130,200) and 83 B shares (2019: 83). 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.

	Bank			
	2020		2019	
	No. of shares (millions)	Value	No. of shares (millions)	Value
Share capital allotted, called up and fully paid				
At the beginning and end of the year	**511.5**	**25.6**	511.5	25.6
Share premium account				
At the beginning and end of the year		**2,416.9**		2,416.9

The number of ordinary shares in issue in the Bank Company at 31 December 2020 was 511,456,510 (2019: 511,456,510). The ordinary shareholders have one vote for every share held.

On 21 January 2019, The Co-operative Bank Finance p.l.c. (formerly 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 p.l.c. 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 p.l.c. in Holding Company's balance sheet. On 7 February 2019, Balloon Street Issuerco Limited changed its name to The Co-operative Bank Finance Limited. The Finance Company became the immediate parent of The Co-operative Bank p.l.c. from 11 February 2019, with the Holding Company remaining the ultimate parent of The Co-operative Bank p.l.c. No profit or loss was recorded on the common control transaction which was outside the scope of IFRS 3 - Business Combinations.

34. OTHER RESERVES

	Group	
	2020	2019
Fair value through other comprehensive income reserve	**4.8**	4.1
Cash flow hedging reserve	**22.5**	16.7
Capital redemption reserve	**410.0**	410.0
Capital re-organisation reserve	**1,737.5**	1,737.5
Defined benefit pension reserve	**395.1**	443.4
	2,569.9	2,611.7

	Bank	
	2020	2019
Fair value through other comprehensive income reserve	**4.8**	4.1
Cash flow hedging reserve	**22.5**	16.7
Capital redemption reserve	**410.0**	410.0
Defined benefit pension reserve	**395.1**	443.4
	832.4	874.2

35. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The fair values in this note are stated at the balance sheet date and may be significantly different from the amounts which will actually be paid on the maturity or settlement dates of the instruments. The tables below analyse the balance sheet carrying values of financial assets and liabilities by classification.

	Group					
		Measured at fair value				
2020	Amortised cost	FVOCI	FVTPL – designated	FVTPL – mandatorily measured	Derivatives in a hedging relationship	Total
Financial assets						
Cash and balances at central banks	**3,877.8**	**-**	**-**	**-**	**-**	**3,877.8**
Loans and advances to banks	**536.2**	**-**	**-**	**-**	**-**	**536.2**
Loans and advances to customers	**18,546.5**	**-**	**135.2**	**0.8**	**-**	**18,682.5**
Investment securities	**77.4**	**1,067.6**	**-**	**3.5**	**-**	**1,148.5**
Derivative financial instruments	**-**	**-**	**-**	**168.1**	**21.8**	**189.9**
Equity shares	**-**	**-**	**-**	**22.1**	**-**	**22.1**
Other assets	**141.1**	**-**	**-**	**47.8**	**-**	**188.9**
Total financial assets	**23,179.0**	**1,067.6**	**135.2**	**242.3**	**21.8**	**24,645.9**
Financial liabilities						
Deposits by banks	**2,066.4**	**-**	**-**	**-**	**-**	**2,066.4**
Customer accounts	**20,365.8**	**-**	**-**	**-**	**-**	**20,365.8**
Debt securities in issue	**728.8**	**-**	**-**	**-**	**-**	**728.8**
Derivative financial instruments	**-**	**-**	**-**	**184.3**	**155.8**	**340.1**
Other borrowed funds	**408.2**	**-**	**-**	**-**	**-**	**408.2**
Other liabilities	**33.7**	**-**	**-**	**-**	**-**	**33.7**
Total financial liabilities	**23,602.9**	**-**	**-**	**184.3**	**155.8**	**23,943.0**

Fair value disclosures throughout this note have been calculated in accordance with IFRS 13, which values assets individually rather than as a portfolio or as part of a business combination.

	Group					
		Measured at fair value				
2019	Amortised cost	FVOCI	FVTPL – designated	FVTPL – mandatorily measured	Derivatives in a hedging relationship	Total
Financial assets						
Cash and balances at central banks	2,153.5	-	-	-	-	2,153.5
Loans and advances to banks	474.3	-	-	-	-	474.3
Loans and advances to customers	17,775.2	-	141.5	1.7	-	17,918.4
Investment securities	95.0	1,506.4	-	4.2	-	1,605.6
Derivative financial instruments	-	-	-	162.8	50.5	213.3
Equity shares	-	-	-	44.5	-	44.5
Other assets	4.8	-	-	47.8	-	52.6
Total financial assets	20,502.8	1,506.4	141.5	261.0	50.5	22,462.2
Financial liabilities						
Deposits by banks	1,143.7	-	-	-	-	1,143.7
Customer accounts	18,996.8	-	-	-	-	18,996.8
Debt securities in issue	867.5	-	-	-	-	867.5
Derivative financial instruments	-	-	-	178.7	109.3	288.0
Other borrowed funds	204.2	-	-	-	-	204.2
Other liabilities	53.5	-	-	-	-	53.5
Total financial liabilities	21,265.7	-	-	178.7	109.3	21,553.7

35. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

	Bank					
		Measured at fair value				
2020	Amortised cost	FVOCI	FVTPL – designated	FVTPL – mandatorily measured	Derivatives in a hedging relationship	Total
Financial assets						
Cash and balances at central banks	**3,877.8**	-	-	-	-	**3,877.8**
Loans and advances to banks	**536.2**	-	-	-	-	**536.2**
Loans and advances to customers	**18,546.5**	-	**135.2**	**0.8**	-	**18,682.5**
Investment securities	**77.4**	**1,067.6**	-	**3.5**	-	**1,148.5**
Derivative financial instruments	-	-	-	**168.1**	**21.8**	**189.9**
Equity shares	-	-	-	**22.1**	-	**22.1**
Other assets	**141.1**	-	-	**47.8**	-	**188.9**
Total financial assets	**23,179.0**	**1,067.6**	**135.2**	**242.3**	**21.8**	**24,645.9**
Financial liabilities						
Deposits by banks	**2,066.4**	-	-	-	-	**2,066.4**
Customer accounts	**20,365.9**	-	-	-	-	**20,365.9**
Debt securities in issue	**728.8**	-	-	-	-	**728.8**
Derivative financial instruments	-	-	-	**184.3**	**155.8**	**340.1**
Amounts owed to Finance Company	**408.2**	-	-	-	-	**408.2**
Other liabilities	**33.7**	-	-	-	-	**33.7**
Total financial liabilities	**23,603.0**	-	-	**184.3**	**155.8**	**23,943.1**

	Bank					
		Measured at fair value				
2019	Amortised cost	FVOCI	FVTPL – designated	FVTPL – mandatorily measured	Derivatives in a hedging relationship	Total
Financial assets						
Cash and balances at central banks	2,153.5	-	-	-	-	2,153.5
Loans and advances to banks	474.3	-	-	-	-	474.3
Loans and advances to customers	17,775.2	-	141.5	1.7	-	17,918.4
Investment securities	95.0	1,506.4	-	4.2	-	1,605.6
Derivative financial instruments	-	-	-	162.8	50.5	213.3
Equity shares	-	-	-	44.5	-	44.5
Other assets	4.8	-	-	47.8	-	52.6
Total financial assets	20,502.8	1,506.4	141.5	261.0	50.5	22,462.2
Financial liabilities						
Deposits by banks	1,143.7	-	-	-	-	1,143.7
Customer accounts	18,996.9	-	-	-	-	18,996.9
Debt securities in issue	867.5	-	-	-	-	867.5
Derivative financial instruments	-	-	-	178.7	109.3	288.0
Amounts owed to Finance Company	204.2	-	-	-	-	204.2
Other liabilities	53.5	-	-	-	-	53.5
Total financial liabilities	21,265.8	-	-	178.7	109.3	21,553.8

35. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

a) Use of financial assets and liabilities

The use of financial instruments is essential to the Group's and Bank's business activities, and financial instruments constitute a significant proportion of the balance sheet. The main financial instruments used and the purposes for which they are held, are outlined below:

- **Loans and advances to customers and customer accounts**
  The provision of banking facilities to customers is the primary activity of the Group and Bank, and loans and advances to customers and customer accounts are major constituents of the balance sheet. Loans and advances to customers include retail mortgages, corporate loans, credit cards, unsecured retail lending and overdrafts. Customer accounts include retail and corporate current and savings accounts.

- **Loans and advances to banks and investment securities**
  Loans and advances to banks and investment securities underpin liquidity requirements and generate incremental net interest income.

- **Deposits by banks**
  Deposits include the drawdown of Bank of England's Term Funding Scheme with additional incentives for SMEs (TFSME).

- **Debt securities in issue**
  Notes secured by mortgage assets have been issued through the Covered Bond programme and Silk Road Finance Number Six.

- **Derivatives**
  A derivative is a financial instrument that derives its value from an underlying rate or price such as interest rates, exchange rates and other market prices. Derivatives are an efficient means of managing market risk and limiting counterparty exposure, and are used mainly for hedging purposes and to meet the needs of customers.

  The most frequently used derivative contracts are interest rate swaps, options, caps, floors, currency swaps and forward currency transactions. Terms and conditions of such contracts are determined mainly by standard industry documentation. Derivatives are subject to the same market and credit risk control procedures as are applied to other wholesale market instruments and are aggregated with other exposures to monitor total counterparty exposure, which is managed within approved limits for each counterparty.

- **Other borrowed funds and amounts owed to Finance Company**
  Other borrowed funds comprise MREL-qualifying Tier 2 and senior unsecured debt. Amounts owed to Finance Company comprise the related internal MREL debt, achieving structural subordination of the external debt. The features of both instruments are explained in note 25. The external and internal debt was issued to meet MREL requirements.

- **Foreign exchange**
  Foreign exchange dealings are undertaken to facilitate customer requirements and to economically hedge balance sheet exposure to foreign currencies. The risk is managed formally within position limits which are set by the Assets and Liabilities Committee (ALCo), to which authority is delegated by the Board.

b) Valuation of financial assets and liabilities measured at fair value

The carrying value of financial assets and liabilities measured at fair value are determined in compliance with the accounting policies set out in the Explanatory Information and 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.

There were no transfers between the levels during the year.

35. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

		Group and Bank			
		Fair value at end of the reporting period using:			
2020	Category	Level 1	Level 2	Level 3	Total
Non-derivative financial assets					
Loans and advances to customers	FVTPL – designated	**-**	**133.4**	**1.8**	**135.2**
Loans and advances to customers	FVTPL – mandatorily measured	**-**	**-**	**0.8**	**0.8**
Investment securities	FVOCI	**1,067.6**	**-**	**-**	**1,067.6**
Investment securities	FVTPL – mandatorily measured	**-**	**-**	**3.5**	**3.5**
Equity shares	FVTPL – mandatorily measured	**0.3**	**-**	**21.8**	**22.1**
Other assets	FVTPL – mandatorily measured	**-**	**-**	**47.8**	**47.8**
Derivative financial assets		**-**	**189.9**	**-**	**189.9**
Non-financial assets:					
Investment properties		**-**	**-**	**1.9**	**1.9**
Total assets carried at fair value		**1,067.9**	**323.3**	**77.6**	**1,468.8**
Derivative financial liabilities		-	**340.1**	**-**	**340.1**
Total liabilities carried at fair value		**-**	**340.1**	**-**	**340.1**

		Group and Bank			
		Fair value at end of the reporting period using:			
2019	Category	Level 1	Level 2	Level 3	Total
Non-derivative financial assets					
Loans and advances to customers	FVTPL – designated	-	139.5	2.0	141.5
Loans and advances to customers	FVTPL – mandatorily measured	-	-	1.7	1.7
Investment securities	FVOCI	1,436.5	-	69.9	1,506.4
Investment securities	FVTPL – mandatorily measured	-	-	4.2	4.2
Equity shares	FVTPL – mandatorily measured	0.4	-	44.1	44.5
Other assets	FVTPL – mandatorily measured	-	-	47.8	47.8
Derivative financial assets		-	213.3	-	213.3
Non-financial assets:					
Investment properties		-	-	1.8	1.8
Total assets carried at fair value		1,436.9	352.8	171.5	1,961.2
Derivative financial liabilities		-	288.0	-	288.0
Total liabilities carried at fair value		-	288.0	-	288.0

Key considerations in the calculation of fair values for financial assets and liabilities measured at fair value are as follows:

Level 1 – Quoted market prices in active markets
Financial instruments with quoted prices for identical instruments in active markets. The best evidence of fair value is a quoted market price in an actively traded market.

Level 2 – Valuation techniques using observable inputs
Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

The valuation techniques used to value these instruments employ only observable market data and relate to the following assets and liabilities:

- **Loans and advances to customers**
  Loans and advances to customers primarily comprise of corporate loans of £126.5m as at 31 December 2020 (2019: £127.7m) which are fair valued through profit or loss using observable inputs. Loans held at fair value are valued at the sum of all future expected cash flows, discounted using a yield curve based on observable market inputs.

35. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

- **Derivative financial instruments**
  Over-the-counter (i.e. non-exchange traded) derivatives are valued using valuation models which are based on observable market data. Valuation models calculate the present value of expected future cash flows, based upon 'no arbitrage' principles. The Group and Bank enter into vanilla foreign exchange and interest rate swap derivatives, for which modelling techniques are standard across the industry. Examples of inputs that are generally observable include foreign exchange spot and forward rates, and benchmark interest rate curves.

Level 3 – Valuation techniques using unobservable inputs
This is used for financial instruments valued using models where one or more significant inputs are not observable.

The proportion of financial assets valued based on significant unobservable inputs are analysed as follows:

- **Investment securities**
  Investment securities comprise of RMBS of £nil (FVOCI) and £3.5m (FVTPL – mandatorily measured) as at 31 December 2020 (2019: FVOCI: £69.9m and FVTPL £4.2m). 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 and Bank'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 £35k respectively.

- **Equity shares**
  Equity shares comprise of US Dollar-denominated convertible preference shares in Visa International, which are classified as FVTPL – designated, with any movements in fair value being recognised through profit or loss. 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 increased by an absolute 10%, it would result in a reduction in the overall fair value of the equity shares of £3.1m (16%) as at 31 December 2020.

- **Other assets**
  Other assets comprise of the Surrendered Loss Debtor of £47.8m (2019: £47.8m), which reflects amounts owed from the Co-op Group in relation to the tax losses surrendered by the Group in 2012-2013. The fair value was considered to be the agreed exit price of the asset under the terms of the deed of termination and settlement. The deed was signed in February 2021.

- **Investment properties**
  Investment properties within level 3 are valued by using recent valuations of individual assets within the portfolio, index linked to the balance sheet date using the relevant house price index.

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

	Group and Bank					
2020	Fair value at the beginning of the year	Purchases and transfers in	Sales, transfers out and repayments	Other comprehensive income	Income statement	Fair value at the end of the year
Loans and advances to customers	3.7	-	(0.9)	-	(0.2)	2.6
Investment securities	74.1	-	(69.8)	(0.1)	(0.7)	3.5
Equity shares	44.1	-	(38.7)	-	16.4	21.8
Investment properties	1.8	-	-	-	0.1	1.9
Other assets	47.8	-	-	-	-	47.8
	171.5	-	(109.4)	(0.1)	15.6	77.6

35. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

2019	Fair value at the beginning of the year	Group and Bank Purchases and transfers in	Sales, transfers out and repayments	Other comprehensive income	Income statement	Fair value at the end of the year
Loans and advances to customers	5.1	-	(1.2)	-	(0.2)	3.7
Investment securities	402.8	-	(328.2)	(1.9)	1.4	74.1
Equity shares	26.0	-	-	-	18.1	44.1
Investment properties	2.3	-	(0.5)	-	-	1.8
Other assets	32.9	-	0.3	-	14.6	47.8
	469.1	-	(329.6)	(1.9)	33.9	171.5

c) 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 determined in compliance with the accounting policies in the Explanatory Information to the consolidated financial statements and their fair values are analysed in the following tables by the three level fair value hierarchy set out above. There were no transfers between level 1 and 2 during the year.

	Group					
		Fair value				
2020	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	**3,877.8**	**-**	**-**	**-**	**3,877.8**	**3,877.8**
Loans and advances to banks	**536.2**	**-**	**-**	**-**	**536.2**	**536.2**
Loans and advances to customers	**18,546.5**	**-**	**-**	**17,552.8**	**897.2**	**18,450.0**
Investment securities	**77.4**	**-**	**-**	**78.5**	**-**	**78.5**
Other assets	**141.1**	**-**	**-**	**-**	**141.1**	**141.1**
Financial liabilities						
Deposits by banks	**2,066.4**	**-**	**2,045.2**	**-**	**21.4**	**2,066.6**
Customer accounts	**20,365.8**	**-**	**-**	**2,822.3**	**17,558.3**	**20,380.6**
Debt securities in issue	**728.8**	**505.8**	**-**	**236.6**	**-**	**742.4**
Other borrowed funds	**408.2**	**-**	**392.2**	**-**	**-**	**392.2**
Other liabilities	**33.7**	**-**	**-**	**-**	**33.7**	**33.7**

	Group					
		Fair value				
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	2,153.5	-	-	-	2,153.5	2,153.5
Loans and advances to banks	474.3	-	-	-	474.3	474.3
Loans and advances to customers	17,775.2	-	-	16,613.6	1,070.3	17,683.9
Investment securities	95.0	-	-	95.4	-	95.4
Other assets	4.8	-	-	-	4.8	4.8
Financial liabilities						
Deposits by banks	1,143.7	-	1,145.0	-	2.4	1,147.4
Customer accounts	18,996.8	-	-	3,612.4	15,401.5	19,013.9
Debt securities in issue	867.5	633.2	-	-	-	633.2
Other borrowed funds	204.2	-	203.9	-	-	203.9
Other liabilities	53.5	-	-	-	53.5	53.5

35. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

	Bank					
		Fair value				
2020	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	**3,877.8**	**-**	**-**	**-**	**3,877.8**	**3,877.8**
Loans and advances to banks	**536.2**	**-**	**-**	**-**	**536.2**	**536.2**
Loans and advances to customers	**18,546.5**	**-**	**-**	**17,552.8**	**897.2**	**18,450.0**
Investment securities	**77.4**	**-**	**-**	**78.5**	**-**	**78.5**
Other assets	**141.1**	**-**	**-**	**-**	**141.1**	**141.1**
Financial liabilities						
Deposits by banks	**2,066.4**	**-**	**2,045.2**	**-**	**21.4**	**2,066.6**
Customer accounts	**20,365.9**	**-**	**-**	**2,822.3**	**17,558.3**	**20,380.6**
Debt securities in issue	**728.8**	**505.8**	**-**	**236.6**	**-**	**742.4**
Amounts owed to Finance Company	**408.2**	**-**	**392.2**	**-**	**-**	**392.2**
Other liabilities	**33.7**	**-**	**-**	**-**	**33.7**	**33.7**

	Bank					
		Fair value				
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	2,153.5	-	-	-	2,153.5	2,153.5
Loans and advances to banks	474.3	-	-	-	474.3	474.3
Loans and advances to customers	17,775.2	-	-	16,613.6	1,070.3	17,683.9
Investment securities	95.0	-	-	95.4	-	95.4
Other assets	4.8	-	-	-	4.8	4.8
Financial liabilities						
Deposits by banks	1,143.7	-	1,145.0	-	2.4	1,147.4
Customer accounts	18,996.9	-	-	3,612.4	15,401.7	19,014.1
Debt securities in issue	867.5	633.2	-	-	-	633.2
Amounts owed to Finance Company	204.2	-	203.9	-	-	203.9
Other liabilities	53.5	-	-	-	53.5	53.5

Key considerations in the calculation of fair values of financial instruments measured at amortised cost are as follows:

Level 1 – Quoted market prices in active markets
Financial instruments with quoted prices for identical instruments in active markets. The best evidence of fair value is a quoted market price in an actively traded market.

Level 2 – Valuation techniques using observable inputs
Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

The valuation techniques used to value these instruments employ only observable market data and relate to the following assets and liabilities:

- **Loans and advances to banks/deposits by banks**
  Loans and advances to banks comprise of interbank placements and items in the course of collection.

  The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and remaining maturity. The amortised cost value of all other loans and advances to banks and deposits by banks are deemed to be a close approximation of their fair value due to their short maturity.

35. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

- **Other Borrowed funds and amounts owed to the Finance Company**
  The Group issued Tier 2 and senior unsecured notes which are recognised in other borrowed funds as detailed in note 25 of the consolidated financial statements. The internal MREL is recognised by Bank Company as amounts owed to the Finance Company (parent). The fair value of the notes is based on quoted market prices.

Level 3 – Valuation techniques using unobservable inputs
This is used for financial instruments valued using models where one or more significant inputs are not observable.

The proportion of financial assets valued based on significant unobservable inputs are analysed as follows:

- **Loans and advances to customers**
  The fair value of loans and advances to customers in total is 99.5 % of the carrying value as at 31 December 2020 (2019: 99.5 %).

The overall fair value is less than par primarily due to two main factors:
- Customer interest rates are below the market rate for the period until expected maturity or the repricing date, if earlier; and
- Credit risk adjustments due to incurred and expected future credit losses.

Fixed rate loans and advances to customers are revalued to fair value based on future interest cash flows (at funding rates) and principal cash flows discounted using an appropriate market rate. The market rate applied in the calculation is the average market rate for new originations of loans with similar characteristics to the book of loans being valued, and reflects the current low interest rate environment. This rate is assumed to encompass the time value of money, plus a risk premium to account for the inherent uncertainty in the timing and amount of future cash flows arising from a book of loan assets.

Forecast principal repayments are based on redemption at the earlier of maturity or re-pricing date with some overlay for historical behavioural experience where relevant. The eventual timing of future cash flows may be different from the forecast due to unpredictable customer behaviour. It is assumed that there would be no other factors which market participants would take into account when assessing the fair value of the loan assets. It is assumed that there is no fair value adjustment required in respect of interest rate movement on standard variable rate loan assets, as the interest rate being charged is assumed to be equal to the market rate for those loan assets.

Other reporting entities may use different valuation methodologies and assumptions in determining fair values for which no observable market prices are available.

- **Investment securities**
  Investment securities comprise of:
  - RMBS measured at amortised cost of £77.4m as at 31 December 2020 (2019: £84.7m), being a 5 % regulatory holding of the rated notes of the Warwick Finance Three and Four unconsolidated structured entities. The remaining 95 % is privately held therefore there are no available market prices. An in-house model is used that sources independent market data for disclosure purposes only; and
  - Securities measured at amortised cost of £nil as at 31 December 2020 (2019: £10.3m) as the quoted price is in an inactive market.

- **Customer accounts**
  The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits and other borrowings without quoted market prices is based on future interest cash flows (at funding rates) and principal cash flows, discounted using an appropriate market rate.

d) Fair value of transferred assets and associated liabilities

Securitisation vehicles
When the sale of the loans and advances to customers to certain securitisation vehicles fails to meet the derecognition criteria, then these loans remain on the balance sheet. Therefore a deemed loan financial liability is recognised on the balance sheet and an equivalent deemed loan asset is held on each securitisation company's balance sheet. The deemed loans are repaid as and when principal repayments are made by customers against these transferred loans and advances, and when the securitisations unwind.

35. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

The securitisation vehicles have issued floating rate notes which are secured on the loans and advances to customers. Prior to the call dates, the notes are redeemable in part, such redemptions being limited to the net capital received from mortgagors in respect of the underlying assets.

Substantially all of the risks and rewards of ownership are retained. The Group benefits to the extent to which surplus income generated by the transferred mortgage portfolios exceeds the administration costs of those mortgages, whilst continuing to bear the credit risk of these mortgage assets, on account of holding subordinated notes issued by the securitisation vehicles.

In 2019, £582.8m and £740.1m of mortgages were sold beneficially to Silk Road Finance Number Five p.l.c. and Silk Road Finance Number Six p.l.c. The entities issued £597.4m and £759.1m notes (including subordinated notes) respectively. The issued notes from the securitisations were all retained and therefore are not shown in the consolidated balance sheet, except for £250.0m of notes that were externally sold from Silk Road Finance Number Six p.l.c., the carrying value of these notes was £234.9m as at 31 December 2020.

In December 2020, Silk Road Finance Number Four p.l.c., a fully retained securitisation, originally issued in 2017, sold the beneficial interest in the remaining mortgages back to the Bank Company as part of the securitisation unwind. The deemed loans have been derecognised in Bank Company and Silk Road Finance Number Four p.l.c. respectively, with no gain or loss.

Covered bond Limited Liability Partnerships

Moorland Covered Bonds LLP was established as a result of a £1.4bn covered bond retained issuance. Loans and advances to customers of £1.9bn were transferred to Moorland Covered Bonds LLP. The transfer was funded by a loan of £1.4bn and capital contribution of £0.5bn. During October 2011 the £1.4bn loan was repaid. Following additional capital contribution repayment and on achieving Regulated Covered Bond status there was a public issuance of notes in November 2011 totalling £0.6bn. At December 2020 the Group held a loan of £0.5bn (2019: £0.6bn) and a capital contribution of £0.8bn (2019: £0.8bn) with Moorland Covered Bonds LLP. The Group repurchased and terminated £116.9m of the bonds in October 2020.

Moorland Covered Bonds LLP does not have ordinary share capital. The Group's interest in Moorland Covered Bonds LLP is in substance no different from a wholly owned subsidiary and consequently it is fully consolidated. The table below shows the carrying values and fair values of the assets transferred to the covered bond and their associated liabilities:

	Group and Bank				
Moorland Covered Bonds LLP	Carrying amount of transferred loans and advances to customers	Carrying amount of fixed and floating rate notes	Fair value of transferred loans and advances to customers	Fair value of fixed and floating rate notes	Net fair value position
2020	**1,236.5**	**482.7**	**1,238.1**	**499.3**	**738.8**
2019	1,326.0	599.0	1,324.4	629.6	694.8

Assets pledged

Assets are pledged as collateral under repurchase agreements with other banks. These assets are not available to finance the Group's day-to-day operations. Associated liabilities are included within deposits by banks.

Assets sold under repurchase agreements totalled £305.0m (2019: £187.8m) and associated liabilities of £294.6m (2019: £179.1m). The net fair value position of agreements under repurchase was £10.4m (2019: £8.7m).

36. INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES

During June and September 2020, residual holders of Warwick Finance One and Two exercised call options to fully redeem the notes, and subsequently re-securitised the mortgages in refinancing transactions, Avon Finance One and Two. At the call option date, the Group's remaining interest in these unconsolidated structured entities relates to holding of some notes and the legal title of mortgages previously sold by the Group to Warwick Finance One and Two. The Group has entered into an agreement to continue to hold and provide legal title services on commercial terms to Avon entities.

The tables below represent the continuing involvement in other securitisations in which Group assets have been transferred to an unconsolidated Special Purpose Entity (SPE), but some of the notes issued by the SPE are retained. These are notes issued by Warwick Finance Three and Four and a residual interest in Warwick Finance Three and Four. These notes are reported as investment securities. Rated notes in Warwick Finance Three and Four have been classified as amortised cost, and the residual interest in Warwick Finance Three and Four have been classified as fair value through profit or loss. The maximum exposure to loss is the carrying value of these instruments.

	Group and Bank				
	Carrying amount of continuing involvement in statement of financial position		Fair value of continuing involvement		Maximum exposure to loss
	Assets	Liabilities	Assets	Liabilities	
2020	**80.9**	**-**	**82.0**	**-**	**80.9**
2019	158.8	-	158.8	-	158.8

	Group and Bank				
	Gain or loss recognised at transfer date	Gain recognised on sale	Interest income recognised in the year	Fair value movement recognised in OCI	(Expense)/ Income recognised cumulatively
2020	**-**	**-**	**0.9**	**(0.1)**	**(0.9)**
2019	-	2.0	7.3	(1.9)	9.3

37. EVENTS AFTER THE BALANCE SHEET DATE

On 5 February 2021 the Group signed a deed of termination and settlement relating to the Surrendered Loss Debtor with the Co-op Group. Under the terms of the deed the Bank received full and final settlement of all amounts which were payable by the Co-op Group in relation to the tax losses surrendered in 2012 - 2013. The asset was settled at carrying value of £47.8m and no profit or loss was recorded.

Financial Statements of The Co-operative Bank p.l.c. (Bank Company)

The Co-operative Bank Holdings Limited
Company Number 10865342
(England and Wales)

↓ **100%**

The Co-operative Bank Finance p.l.c.
Company Number 11598074
(England and Wales)

↓ **100%**

The Co-operative Bank p.l.c.
Company Number 00990937
(England and Wales)

Operating company

The **co-operative** bank
for people with **purpose**

BALANCE SHEET

At 31 December 2020

£million

	Note	2020	2019
Assets			
Cash and balances at central banks	3	**3,877.8**	2,153.5
Loans and advances to banks	4	**431.6**	345.6
Loans and advances to customers	5	**18,676.7**	17,811.1
Fair value adjustments for hedged risk		**134.1**	72.6
Investment securities	6	**2,158.6**	3,282.4
Derivative financial instruments	7	**178.8**	188.1
Property, plant and equipment classified as held-for-sale		**0.3**	0.8
Equity shares	8	**22.1**	44.5
Investments in subsidiaries/group undertakings	23	**43.3**	43.0
Investment properties		**1.9**	1.8
Other assets	9	**99.6**	43.0
Prepayments	10	**13.2**	21.6
Property, plant and equipment	11	**35.2**	38.6
Intangible assets	12	**63.4**	75.3
Right-of-use assets	13	**53.7**	72.3
Amounts owed by Co-operative Bank undertakings	25	**1,336.1**	1,469.0
Net retirement benefit asset	20	**651.8**	690.2
Total assets		**27,778.2**	26,353.4

	Note	2020	2019
Liabilities			
Deposits by banks	14	**2,066.4**	1,143.7
Customer accounts		**20,366.3**	18,997.2
Debt securities in issue	15	**485.7**	602.4
Derivative financial instruments	7	**316.2**	278.9
Amounts owed to Co-operative Bank undertakings	25	**2,469.8**	3,225.5
Lease liabilities	13	**53.6**	71.2
Other liabilities	16	**32.9**	52.7
Accruals and deferred income	17	**34.8**	58.4
Provisions	18	**46.0**	86.8
Amounts due to Finance Company	25	**408.2**	204.2
Deferred tax liabilities	19	**38.2**	43.3
Net retirement benefit liability	20	**8.8**	8.6
Total liabilities		**26,326.9**	24,772.9

	Note	2020	2019
Capital and reserves attributable to the Bank Company's equity holders			
Ordinary share capital	21	**25.6**	25.6
Share premium account	21	**2,416.9**	2,416.9
Retained earnings		**(1,823.6)**	(1,736.2)
Other reserves	22	**832.4**	874.2
Total equity		**1,451.3**	1,580.5
Total liabilities and equity		**27,778.2**	26,353.4

Net loss attributable to equity shareholders was £87.4m (2019: loss £141.3m).

The notes on pages 217 to 235 form part of the Bank Company financial statements.

Approved by the Board of The Co-operative Bank p.l.c. on 24 February 2021:

Robert Dench Chair of the Board	Nick Slape Chief Executive Officer

STATEMENT OF CASHFLOWS

For year ended 31 December 2020

£million

	Note	2020	2019
Cash flows from/(used in) operating activities:			
Loss before taxation		**(95.1)**	(143.6)
Adjustments for non-cash movements:			
Non-cash movements on pension		**(9.3)**	(13.9)
Net credit impairment losses/(gains)		**21.6**	(1.8)
Depreciation, amortisation and impairment of property, plant and equipment, right-of-use assets and intangibles		**40.2**	42.8
Other non-cash movements including exchange rate movements		**77.1**	89.4
Net impairment of investment in subsidiaries		**(0.3)**	1.4
Changes in operating assets and liabilities:			
Increase/(decrease) in deposits by banks		**922.7**	(289.8)
Decrease in prepayments and accrued income		**8.4**	8.1
(Decrease)/increase in accruals and deferred income		**(23.6)**	8.6
Increase in customer accounts		**1,367.9**	259.3
(Decrease)/Increase in debt securities in issue		**(121.9)**	0.9
Increase in loans and advances to banks		**(16.9)**	(17.2)
Increase in loans and advances to customers		**(912.2)**	(223.2)
Decrease/(increase) in amounts owed by Co-operative Bank undertakings		**132.9**	(138.3)
(Decrease)/increase in amounts owed to Co-operative Bank undertakings		**(755.7)**	173.4
Net movement of other assets and other liabilities		**(154.6)**	(182.5)
Net cash flows from/(used in) operating activities		**481.2**	(426.4)
Cash flows from investing activities:			
Purchase of tangible and intangible assets		**(16.8)**	(34.5)
Purchase of investment securities		**(969.6)**	(1,081.8)
Proceeds from sale of property, plant and equipment		**2.6**	5.9
Proceeds from sale of shares and other interests		**38.6**	13.2
Proceeds from sale and maturity of investment securities		**2,088.4**	1,603.1
Proceeds from sale of investment properties		**-**	0.5
Dividends received		**0.3**	0.7
Net cash flows from investing activities		**1,143.5**	507.1
Cash flows from financing activities:			
Proceeds from issuance of Tier 2 and senior unsecured debt (net of cost)		**197.7**	197.3
Interest paid on Tier 2 and senior unsecured debt		**(19.0)**	(9.5)
Lease liability principal payments		**(10.0)**	(10.8)
Net cash flows from financing activities		**168.7**	177.0
Net increase in cash and cash equivalents		**1,793.4**	257.7
Cash and cash equivalents at the beginning of the year		**2,427.7**	2,170.0
Cash and cash equivalents at the end of the year		**4,221.1**	2,427.7
Comprising of:			
Cash and balances at central banks	3	**3,802.5**	2,094.6
Loans and advances to banks	4	**418.6**	333.1
		4,221.1	2,427.7

RECONCILIATION OF MOVEMENTS OF LIABILITIES TO CASHFLOWS ARISING FROM FINANCING ACTIVITIES

For year ended 31 December 2020

£million

	2020			2019		
	Lease liabilities	Amounts owed to Finance Company	Total	Lease liabilities	Amounts owed to Finance Company	Total
Balance at the beginning of the year	71.2	204.2	**275.4**	-	-	-
Changes from financing cash flows:						
Proceeds from issuance of Tier 2 and senior unsecured debt (net of cost)	-	197.7	**197.7**	-	197.3	197.3
Interest paid on Tier 2 and senior unsecured debt	-	(19.0)	**(19.0)**	-	(9.5)	(9.5)
Lease liability principal payments	(10.0)	-	**(10.0)**	(10.8)	-	(10.8)
	61.2	**382.9**	**444.1**	(10.8)	187.8	177.0
Other changes:						
Interest payable on lease liabilities, Tier 2 and senior unsecured debt	2.4	20.8	**23.2**	2.5	13.0	15.5
Other non-cash movements	-	4.5	**4.5**	-	3.4	3.4
(Derecognition)/recognition of lease liabilities	(10.0)	-	**(10.0)**	79.5	-	79.5
Balance at the end of the year	**53.6**	**408.2**	**461.8**	71.2	204.2	275.4

STATEMENT OF CHANGES IN EQUITY

For year ended 31 December 2020

£million

2020	Share capital	Share premium	FVOCI reserve	Cash flow hedging reserve	Capital redemption reserve	Defined benefit pension reserve	Retained earnings	Total equity
	Attributable to equity holders of the Bank Company							
At 1 January 2020	25.6	2,416.9	4.1	16.7	410.0	443.4	(1,736.2)	**1,580.5**
Total comprehensive income/(expense) for the year	-	-	0.7	5.8	-	(48.3)	(87.4)	**(129.2)**
At 31 December 2020	**25.6**	**2,416.9**	**4.8**	**22.5**	**410.0**	**395.1**	**(1,823.6)**	**1,451.3**

2019	Share capital	Share premium	FVOCI reserve	Cash flow hedging reserve	Capital redemption reserve	Defined benefit pension reserve	Retained earnings	Total equity
	Attributable to equity holders of the Bank Company							
At 1 January 2019	25.6	2,416.9	13.9	20.0	410.0	415.5	(1,594.9)	1,707.0
Total comprehensive (expense)/income for the year	-	-	(9.8)	(3.3)	-	27.9	(141.3)	(126.5)
At 31 December 2019	25.6	2,416.9	4.1	16.7	410.0	443.4	(1,736.2)	1,580.5

The notes on pages 217 to 235 form part of the Bank Company financial statements.

All amounts are stated in £m unless otherwise indicated.

1. BASIS OF PREPARATION

The Co-operative Bank p.l.c. (Bank Company) was incorporated in the UK and is a limited company, registered in England and Wales.

The Bank Company financial statements have been prepared under the historic cost convention and approved by the Directors in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006, and also prepared in accordance with International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Accounting policies outlined in note 1 of the Group and Bank consolidated financial statements and the Explanatory Information on pages 256 to 265 also apply to the Bank Company. 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. Actual results may differ from these estimates. The critical judgements and estimates for the Bank Company are the same as those set out in note 2 of the Group and Bank consolidated financial statements.

2. NET LOSS ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE BANK COMPANY

By including the Bank Company financial statements here together with the consolidated Bank financial statements, the Bank Company is taking advantage of the exemption in Section 408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these financial statements.

	2020	2019
Net loss attributable to equity shareholders of the Bank Company	**(87.4)**	(141.3)

3. CASH AND BALANCES AT CENTRAL BANKS

	2020	2019
Cash in hand	**12.1**	14.6
Items in transit	**(23.7)**	(21.9)
Balances with the Bank of England other than mandatory reserve deposits	**3,814.1**	2,101.9
Included in cash and cash equivalents	**3,802.5**	2,094.6
Mandatory reserve deposits with the Bank of England	**75.3**	58.9
Total cash and balances at central banks	**3,877.8**	2,153.5

Mandatory reserve deposits are not available for use in day-to-day operations, are non-interest bearing and are not included in cash and cash equivalents. Items in transit represent unpresented cheques awaiting clearance.

4. LOANS AND ADVANCES TO BANKS

	2020	2019
Items in course of collection from other banks	**0.2**	1.2
Placements with other banks[1]	**418.4**	331.9
Included in cash and cash equivalents	**418.6**	333.1
Other loans and advances to banks	**13.0**	12.5
Total loans and advances to banks	**431.6**	345.6

1. Obligatory netting arrangements are in place for repo and reverse repo transactions. The amount reduced by netting is £nil (2019: £150.0m), with the opposing impact in deposits by banks.

An expected credit loss of £nil was recorded as at 31 December 2020 (2019: £nil) in relation to loans and advances to banks.

5. LOANS AND ADVANCES TO CUSTOMERS

a) Analysis of the balance sheet

	2020	2019
Gross loans and advances	**18,719.5**	17,837.5
Less: allowance for losses	**(42.8)**	(26.4)
Total loans and advances to customers net of allowance for losses	**18,676.7**	17,811.1

Loans and advances to customers include £134.9m (2019: £140.0m) of financial assets at fair value through profit or loss to eliminate or significantly reduce a measurement or recognition inconsistency. Of these, £58.4m (2019: £60.7m) are secured by real estate collateral.

For further details on transferred assets, refer to note 24 of the Bank Company financial statements. Further details are set out in note 27, Analysis of credit risk exposure of the Bank Company financial statements.

b) Concentration of exposure

Exposure is only within the UK. Further information on the concentration of exposure is included within section 3.2 of the risk management disclosures.

c) Analysis of allowance for impairment losses

	Retail	SME	Legacy & unallocated	Total
At 1 January 2020	17.3	5.3	3.8	**26.4**
Changes arising from stage transfers:				
To lifetime ECL (stage 1 to 2 or 3)	4.5	3.1	0.4	**8.0**
To credit impaired (stage 1 or 2 to 3)	2.6	0.1	2.3	**5.0**
To 12 month ECL (stage 2 or 3 to 1)	(0.7)	-	(0.1)	**(0.8)**
From credit impaired (stage 3 to 2)	(0.5)	-	-	**(0.5)**
Net changes arising from stage transfers	**5.9**	**3.2**	**2.6**	**11.7**
Other charges:				
New assets originated or purchased	3.3	0.1	-	**3.4**
Other changes to risk parameters[1]	10.1	1.5	0.5	**12.1**
Redemptions and repayments	(2.3)	(1.4)	-	**(3.7)**
Changes to model used for ECL calculation	-	-	-	**-**
Others	-	-	-	**-**
Net other charges	**17.0**	**3.4**	**3.1**	**23.5**
Assets written off	(5.0)	(0.6)	(1.4)	**(7.0)**
Optimum portfolio sale	-	-	(0.1)	**(0.1)**
At 31 December 2020	**29.3**	**8.1**	**5.4**	**42.8**

1. Includes the impact of any asset sales.

	Retail	SME	Legacy & unallocated	Total
At 1 January 2019	20.8	20.8	10.1	51.7
Changes arising from stage transfers:				
To lifetime ECL (stage 1 to 2 or 3)	2.1	-	0.3	2.4
To credit impaired (stage 1 or 2 to 3)	4.1	0.1	0.7	4.9
To 12 month ECL (stage 2 or 3 to 1)	(0.7)	-	(0.3)	(1.0)
From credit impaired (stage 3 to 2)	(0.7)	-	(0.1)	(0.8)
Net changes arising from stage transfers	4.8	0.1	0.6	5.5
Other charges/(releases):				
New assets originated or purchased	2.0	-	-	2.0
Other changes to risk parameters	0.9	0.3	0.6	1.8
Redemptions and repayments	(5.3)	(2.5)	(0.6)	(8.4)
Changes to model used for ECL calculation	(1.0)	-	(0.4)	(1.4)
Others	1.3	-	-	1.3
Net other charges/(releases)	2.7	(2.1)	0.2	0.8
Assets written off	(6.2)	(13.4)	(3.8)	(23.4)
Warwick 4 loss on sale release	-	-	(2.7)	(2.7)
At 31 December 2019	17.3	5.3	3.8	26.4

5. LOANS AND ADVANCES TO CUSTOMERS (continued)

d) Analysis of income statement

	2020	2019
Net other charges	**(23.5)**	(0.8)
Amounts recovered against amounts previously written off	**1.1**	1.5
Adjustment to recognise interest on stage 3 assets based on their net carrying value	**0.9**	1.1
Financial guarantees impairment charge	**(0.1)**	-
Net impairment (loss)/gain for the year as shown in the income statement	**(21.6)**	1.8

Provisions are analysed by segment in the risk management disclosures.

e) Finance lease receivables

	2020	2019
Gross investment in finance leases may be analysed as follows:		
No later than one year	**1.7**	1.7
Later than one year and no later than five years	**6.5**	6.7
Later than five years	**6.5**	8.1
Gross investment in finance leases	**14.7**	16.5
Unearned future finance income on finance leases	**(4.1)**	(4.8)
Net investment in finance leases	**10.6**	11.7
The net future finance leases may be analysed as follows:		
No later than one year	**1.1**	1.1
Later than one year and no later than five years	**4.8**	4.6
Later than five years	**4.7**	6.0
	10.6	11.7

The unguaranteed residual value of the finance leases is £nil (2019: £nil). Finance lease arrangements are with customers in a wide range of sectors including transport, retail and utilities.

6. INVESTMENT SECURITIES

Analysis of investment securities

	2020				2019			
	Amortised cost	FVOCI	FVTPL	Total	Amortised cost	FVOCI	FVTPL	Total
Listed	**893.3**	**1,067.6**	**3.5**	**1,964.4**	1,456.0	1,506.4	4.2	2,966.6
Unlisted	**194.2**	**-**	**-**	**194.2**	315.8	-	-	315.8
Gross and net investment securities	**1,087.5**	**1,067.6**	**3.5**	**2,158.6**	1,771.8	1,506.4	4.2	3,282.4

Movement in investment securities

	2020				2019			
	Amortised cost	FVOCI	FVTPL	Total	Amortised cost	FVOCI	FVTPL	Total
At the beginning of the year	**1,771.8**	**1,506.4**	**4.2**	**3,282.4**	898.6	1,842.4	3.5	2,744.5
Acquisitions	**-**	**969.6**	**-**	**969.6**	1,121.9	1,032.7	0.2	2,154.8
Disposals and maturities	**(683.4)**	**(1,404.7)**	**-**	**(2,088.1)**	(249.3)	(1,351.7)	-	(1,601.0)
Fair value movements through equity	**-**	**1.8**	**-**	**1.8**	-	(12.3)	-	(12.3)
Fair value through profit or loss	**-**	**(7.5)**	**(0.7)**	**(8.2)**	-	(2.9)	0.5	(2.4)
Amortisation	**-**	**2.3**	**-**	**2.3**	-	1.9	-	1.9
Movement in interest accrual	**(0.9)**	**(0.3)**	**-**	**(1.2)**	0.6	(3.7)	-	(3.1)
At the end of the year	**1,087.5**	**1,067.6**	**3.5**	**2,158.6**	1,771.8	1,506.4	4.2	3,282.4

Certain investment securities have been pledged by the Group, see note 31 of the Group and Bank consolidated financial statements for further details on encumbered and pledged assets.

6. INVESTMENT SECURITIES (continued)

Analysis of investment securities by issuer

	2020	2019
Investment securities issued by public bodies:		
Government securities	**463.7**	925.9
Other public sector securities	**226.1**	242.3
Total investment securities issued by public bodies	**689.8**	1,168.2
Other debt securities:		
Other floating rate notes	**377.8**	268.3
Mortgage backed securities	**1,091.0**	1,845.9
Total other debt securities	**1,468.8**	2,114.2
Total investment securities	**2,158.6**	3,282.4

Other floating rate notes (FRNs) are sterling denominated, with contractual maturities ranging from under one year to five years from the balance sheet date.

7. DERIVATIVE FINANCIAL INSTRUMENTS

Various derivatives have been entered into to manage interest rate risk, some of which are held in a qualifying hedge accounting relationship (see the risk management section for more details on interest rate risk management strategies). Positive and negative fair values have not been netted off as there is no legal right of offset.

Non-trading derivatives
Non-trading transactions comprise derivatives held for hedging purposes to manage the asset and liability positions of the Group. Derivatives used to manage interest rate related positions include interest rate swaps and caps. The foreign exchange rate positions are managed using foreign exchange forward and swap transactions.

	Fair value			
	2020		2019	
	Assets	Liabilities	Assets	Liabilities
Derivatives held for non-trading purposes				
Derivatives designated as cash flow hedges:				
Interest rate swaps	**1.6**	**-**	23.1	(2.9)
Derivatives designated as fair value hedges:				
Interest rate swaps	**9.2**	**(155.7)**	9.2	(106.4)
Derivatives held for non-trading purposes for which hedge accounting has not been applied:				
Interest rate swaps	**167.5**	**(160.3)**	155.6	(169.6)
Forward currency transactions	**0.5**	**(0.2)**	0.2	-
Total derivative assets/(liabilities) held for non-trading purposes	**178.8**	**(316.2)**	188.1	(278.9)
Total recognised derivative assets/(liabilities)	**178.8**	**(316.2)**	188.1	(278.9)

The derivatives designated as cash flow hedges are interest rate swaps used to hedge interest rate risk in retail operations. Cash flows are hedged by quarterly time periods for durations up to six years. During the year, there were no forecast transactions for which hedge accounting had previously been used but which are no longer expected to occur. Detailed hedge accounting disclosures are covered within section 4.3 of the risk management.

In line with industry standards, credit valuation adjustments (CVAs) and debit valuation adjustments (DVAs) are applied to non-collateralised swaps representing the fair value measurement of counterparty risk. The net credit adjustment across the portfolio at 31 December 2020 was £0.4m (2019: net credit of £0.4m). CVAs and DVAs are not applied to derivatives that are fully cash collateralised.

8. EQUITY SHARES

The Directors have considered the information disclosed in the consolidated financial statements of the Bank and consider the same information to be relevant for the Bank Company. Accordingly, since there is no difference in relation to the Bank and Bank Company, we refer to the disclosures in note 17 of the Group and Bank consolidated financial statements.

9. OTHER ASSETS

	2020			2019		
	Amortised cost	Mandatorily measured at FVTPL	Total	Amortised cost	Mandatorily measured at FVTPL	Total
Amounts recoverable within one year						
Other assets	**61.3**	**-**	**61.3**	5.1	-	5.1
Surrendered Loss Debtor	**-**	**38.3**	**38.3**	-	0.1	0.1
	61.3	**38.3**	**99.6**	5.1	0.1	5.2
Amounts recoverable after more than one year						
Surrendered Loss Debtor	**-**	**-**	**-**	-	37.8	37.8
	-	**-**	**-**	-	37.8	37.8
	61.3	**38.3**	**99.6**	5.1	37.9	43.0

Included within other assets at 31 December 2020 is £37.2m receivable following the Group's sale of Optimum mortgage assets in December 2020.

Surrendered Loss Debtor has been subsequently settled in 2021, refer to note 28 of the Bank Company financial statements.

10. PREPAYMENTS

	2020	2019
Amounts recoverable within one year	**12.6**	20.2
Amounts recoverable after more than one year	**0.6**	1.4
	13.2	21.6

11. PROPERTY, PLANT AND EQUIPMENT

The Directors have considered the information disclosed in the consolidated financial statements of the Bank and consider the same information to be relevant for the Bank Company. Accordingly, since there is no difference in relation to the Bank and Bank Company, we refer to the disclosures in note 20 of the Group and Bank consolidated financial statements.

12. INTANGIBLE ASSETS

The Directors have considered the information disclosed in the consolidated financial statements of the Bank and consider the same information to be relevant for the Bank Company. Accordingly, since there is no difference in relation to the Bank and Bank Company, we refer to the disclosures in note 21 of the Group and Bank consolidated financial statements.

13. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The Directors have considered the information disclosed in the consolidated financial statements of the Bank and consider the same information to be relevant for the Bank Company. Accordingly, since there is no difference in relation to the Bank and Bank Company, we refer to the disclosures in note 22 of the Group and Bank consolidated financial statements.

14. DEPOSITS BY BANKS

The Directors have considered the information disclosed in the consolidated financial statements of the Bank and consider the same information to be relevant for the Bank Company. Accordingly, since there is no difference in relation to the Bank and Bank Company, we refer to the disclosures in note 23 of the Group and Bank consolidated financial statements.

15. DEBT SECURITIES IN ISSUE

Debt securities in issue comprise a secured covered bond of £483.1m at a coupon of 4.75%, having a maturity date in November 2021 and requires the Group to pay interest annually and repay contractual amounts due on the specified maturity date. The balance sheet also comprises the related accrued interest and the premium discount. The Group repurchased £116.9m in October 2020.

16. OTHER LIABILITIES

	2020	2019
Amounts falling due within one year		
Amounts due to beneficiary banks	**24.2**	29.9
Other creditors	**8.7**	22.8
	32.9	52.7

There are no liabilities falling due after one year.

17. ACCRUALS AND DEFERRED INCOME

	2020	2019
Amounts falling due within one year		
Accruals	**25.0**	41.0
Deferred income	**7.3**	9.5
	32.3	50.5
Amounts falling due after one year		
Accruals	**0.3**	1.1
Deferred income	**2.2**	6.8
	2.5	7.9
	34.8	58.4

The above includes the £15.0m government grant received in 2019, of which £8.3m was utilised by the end of 2020 (2019: £0.2m).

18. PROVISIONS

2020	Property	PPI	Conduct/legal	Other	Total
At 1 January 2020	10.6	57.5	4.6	14.1	**86.8**
Provided in the year:					
Fee and commission income	-	-	0.3	-	**0.3**
Operating expenses	16.1	-	0.4	20.0	**36.5**
Net customer redress charge	-	2.0	-	-	**2.0**
Utilised during the year	(4.1)	(50.9)	(4.2)	(20.4)	**(79.6)**
At 31 December 2020	**22.6**	**8.6**	**1.1**	**13.7**	**46.0**
Amounts falling due within one year	7.4	8.6	1.1	12.9	**30.0**
Amounts falling due after one year	15.2	-	-	0.8	**16.0**
	22.6	**8.6**	**1.1**	**13.7**	**46.0**

2019	Property	PPI	Conduct/legal	Other	Total
At 1 January 2019	15.2	67.8	8.7	11.3	103.0
Provided in the year:					
Operating expenses	(0.8)	-	1.1	16.0	16.3
Net customer redress charge	-	62.5	1.0	-	63.5
Utilised during the year	(3.8)	(72.8)	(6.2)	(13.2)	(96.0)
At 31 December 2019	10.6	57.5	4.6	14.1	86.8
Amounts falling due within one year	5.5	57.5	3.8	13.3	80.1
Amounts falling due after one year	5.1	-	0.8	0.8	6.7
	10.6	57.5	4.6	14.1	86.8

18. PROVISIONS (continued)

The Directors have considered the information disclosed in the consolidated financial statements of the Bank and consider the same information to be relevant for the Bank Company. Accordingly, since there is no difference in relation to the Bank and Bank Company, we refer to the disclosures in note 28 of the Group and Bank consolidated financial statements.

19. DEFERRED TAX

Deferred taxes are calculated on all temporary differences under the liability method using the most appropriate tax rate in respect of each temporary difference. The government maintained the corporation tax rate at 19% for the financial year beginning 1 April 2020, rather than reducing it to 17% as had previously been legislated. A banking surcharge tax of 8% also applies to the Bank Company. Deferred tax has been calculated by reference to the most appropriate rate based on forecasts.

The movements in the deferred tax are as follows:

	2020	2019
Deferred tax at the beginning of the year	**(43.3)**	(38.7)
(Charged)/credited to the income statement:		
Current year	**(0.4)**	0.2
Prior year	**(0.9)**	1.1
Impact of corporation tax rate change	**8.8**	-
	7.5	1.3
(Charged)/credited to other comprehensive income:		
Cash flow hedges	**(2.8)**	1.2
FVOCI	**(1.1)**	2.6
Retirement benefits	**1.5**	(9.7)
	(2.4)	(5.9)
Deferred tax at the end of the year	**(38.2)**	(43.3)
Components of net deferred tax:		
Deferred tax asset	**154.5**	146.9
Deferred tax liability	**(192.7)**	(190.2)
	(38.2)	(43.3)

The deferred tax asset above includes an offset for those deferred tax liabilities that are permissible to be offset.

	2020	2019
Deferred tax comprises:		
Capital allowances on fixed assets and assets leased to customers	**116.3**	103.6
Tax losses carried forward	**38.2**	43.3
Retirement benefits	**(176.0)**	(172.6)
Cash flow hedges	**(8.9)**	(5.7)
Unrealised appreciation on investments	**(5.9)**	(11.1)
FVOCI	**(1.9)**	(0.8)
	(38.2)	(43.3)

The deferred tax charge/(credit) in the income statement comprises:

	2020	2019
Capital allowances on fixed assets and assets leased to customers	**(12.7)**	(8.4)
Unrealised appreciation on investments	**(5.2)**	4.4
Tax losses carried forward	**5.1**	(4.6)
Retirement benefits	**4.9**	7.1
Cash flow hedges	**0.4**	0.2
	(7.5)	(1.3)

Deferred tax assets totalling £479.1m (2019: £404.2m) have not been recognised where doubt exists over the availability of sufficient future taxable profits. Deferred tax assets of £471.8m (2019: £397.8m) and £7.3m (2019: £6.4m) has not been recognised in respect of trading losses of £2,283.9m (2019: £2,170.6m) and other temporary differences of £27.1m (2019: £25.5m) respectively.

20. RETIREMENT BENEFITS

The Directors have considered the information disclosed in the consolidated financial statements of the Bank and consider the same information to be relevant for the Bank Company. Accordingly, since there is no difference in relation to the Bank and Bank Company, we refer to the disclosures in note 30 of the Group and Bank consolidated financial statements.

21. SHARE CAPITAL

The Directors have considered the information disclosed in the consolidated financial statements of the Bank and consider the same information to be relevant for the Bank Company. Accordingly, since there is no difference in relation to the Bank and Bank Company, we refer to the disclosures in note 33 of the Group and Bank consolidated financial statements.

22. OTHER RESERVES

	2020	2019
Fair value through other comprehensive income reserve	**4.8**	4.1
Cash flow hedging reserve	**22.5**	16.7
Capital redemption reserve	**410.0**	410.0
Defined benefit pension reserve	**395.1**	443.4
	832.4	874.2

23. INVESTMENTS IN SUBSIDIARIES/GROUP UNDERTAKINGS

	2020	2019
At the beginning of the year	**43.0**	49.4
Share cancellation[1]	**-**	(5.0)
Impairment release/(charge)	**0.3**	(1.4)
At the end of the year	**43.3**	43.0

1. In 2019, the Bank Company repurchased and cancelled 5m ordinary shares of £1 each in Britannia International Limited.

Subsidiary undertakings

Subsidiary undertakings which are registered in England and operating in the UK:

	Address reference		Shareholding 2020	Shareholding 2019
Co-operative Commercial Limited	1	Former investment company	**100%**	100 %
Second Roodhill Leasing Limited	1	Leasing	**100%**	100 %
Third Roodhill Leasing Limited	1	Leasing	**100%**	100 %
Fourth Roodhill Leasing Limited	1	Leasing	**100%**	100 %
Britannia Treasury Services Limited	1	Former Holding company	**100%**	100 %
Moorland Covered Bonds LLP	1	Mortgage acquisition and guarantor of covered bonds	**100%**	100 %
Co-operative Bank Financial Advisers Limited	1	Inactive	**100%**	100 %
Mortgage Agency Services Number One Limited	1	Former mortgage and syndicated lending	**100%**	100 %
Mortgage Agency Services Number Two Limited	1	Former mortgage lending	**100%**	100 %
Mortgage Agency Services Number Four Limited	1	Mortgage lending	**100%**	100 %
Mortgage Agency Services Number Five Limited	1	Mortgage lending	**100%**	100 %
Mortgage Agency Services Number Six Limited	1	Former mortgage lending	**100%**	100 %
Platform Funding Limited	1	Mortgage lending	**100%**	100 %

Registered in the Isle of Man and operating overseas:

	Address reference		Shareholding 2020	Shareholding 2019
Britannia International Limited	2	Former deposit-taking	**100%**	100 %

Britannia International Limited surrendered its Class 1 Deposit-Taking License to the Isle of Man Financial Supervision Commission during 2015. Any remaining customer accounts were closed and placed into a scheme to manage these funds.

23. INVESTMENTS IN SUBSIDIARIES/GROUP UNDERTAKINGS (continued)

Securitisation vehicles

The results of the following securitisation vehicles are consolidated into the results of the Bank as they are controlled by Bank Company. The Bank Company held no shares in the securitisation vehicles listed below at 31 December 2020 (2019: same).

	Address reference		% consolidated	
			2020	2019
Silk Road Finance Number Four p.l.c.	3	Securitisation company	**100%**	100 %
Silk Road Finance Number Five p.l.c.	3	Securitisation company	**100%**	100 %
Silk Road Finance Number Six p.l.c.	3	Securitisation company	**100%**	100 %
Calico Finance Number One DAC	4	Securitisation company	**100%**	100 %

Securitisation vehicles are registered in England and operate in the UK, with the exception of Calico Finance Number One DAC, which is registered and operates in the Republic of Ireland. Note that following the call of Calico notes in 2016, the company was placed into liquidation in 2018.

In December 2020, Silk Road Finance Number Four p.l.c., a fully retained securitisation, originally issued in 2017, sold the beneficial interest in the remaining mortgages back to the Bank Company as part of the securitisation unwind. The deemed loans have been derecognised in Bank Company and Silk Road Finance Number Four p.l.c. respectively, with no gain or loss.

All of the above companies are related parties to the Bank Company, refer to note 25 of the Bank Company financial statements for the related party disclosures.

Joint ventures

The Bank Company has investments in the following joint ventures:

	Ownership	
	2020	2019
Britannia New Homes (Scotland) Limited (Dormant)	**50%**	50 %

Britannia New Homes (Scotland) Limited has its registered office at 140 West George Street, Glasgow, G2 2HG.

Dormant companies

The Bank Company has investments in the following dormant subsidiaries all of which are registered in England:

	Address reference		Shareholding	
			2020	2019
Britannia Pension Trustees Limited	1	Pension scheme participant	**100%**	100 %
BPS Principal Employer Limited	1	Holding company	**100%**	100 %
The Co-operative Bank Pension Trust Limited	1	Former pension scheme participant	**100%**	100 %

Address reference	Registered office at:
1	PO Box 101, 1 Balloon Street, Manchester, M60 4EP
2	Estera Trust (Isle of Man) Limited, 33-37 Athol Street, Douglas, Isle of Man, IM1 1LB
3	35 Great St. Helen’s, London, EC3A 6AP
4	Fourth Floor, 3 George’s Dock, IFSC, Dublin 1, Ireland

The following subsidiaries benefit from an audit exemption according to section 479A of the Companies Act 2006:
- Second Roodhill Leasing Limited;
- Third Roodhill Leasing Limited;
- Fourth Roodhill Leasing Limited;
- Britannia Treasury Services Limited;
- Co-operative Bank Financial Advisers Limited.

24. CONTINGENT LIABILITIES, CONTRACTUAL COMMITMENTS AND GUARANTEES

The tables below provide the contractual amounts and risk weighted 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. The risk weighted amounts have been calculated in accordance with the CRD V rules.

The contingent liabilities, as detailed below, arise in the normal course of banking business and it is not practical to quantify their future financial effect.

	2020		2019	
	Audited	Unaudited	Audited	Unaudited
	Contractual amount	Risk weighted amount	Contractual amount	Risk weighted amount
Contingent liabilities arising from customer transactions				
Guarantees and irrecoverable letters of credit	**5.6**	**3.1**	9.2	5.1
Other commitments arising from customer transactions				
Undrawn formal standby facilities, credit lines and other commitments to lend (includes revocable and irrevocable commitments)[1]	**2,406.7**	**425.3**	1,975.1	215.5
	2,412.3	**428.4**	1,984.3	220.6

1. Undrawn loan commitments include revocable commitments which represent unused credit card limits of £974.5m (2019: £1,005.1m).

Encumbered and pledged assets

Assets are pledged as collateral against a number of the Bank Company's undertakings and are the same as disclosed within note 31 of the Group and Bank consolidated financial statements:

- Assets pledged under the Term Funding Scheme with additional incentives for SMEs (TFSME);
- Assets pledged under the Group's pension arrangements;
- Other collateralised assets; and
- Bank of England Mandatory Reserve.

Assets pledged under repurchase agreements with other banks

Assets are pledged as collateral under repurchase agreements with other banks.

	2020	2019
Assets sold under repurchase agreements		
Carrying amount of assets not derecognised	**305.0**	360.9
Carrying amount of associated liabilities	**294.6**	329.1

Other assets transferred but not derecognised

Included within loans and advances to customers are assets of £2,439.9m (2019: £3,198.4m) encumbered under the Group's securitisation and covered bond activities. The Bank Company retains exposure to substantially all of the risks and rewards of ownership of these assets and they remain on the Bank Company's balance sheet, but intercompany liabilities are recognised reflecting the sale of the beneficial interest to securitisation and covered bond vehicles. Secured on these mortgage assets are £482.7m (2019: £599.0m) of fixed and floating rate notes issued by the Bank Company (this does not include notes issued by securitisation vehicles).

Commitments to financially support subsidiary undertakings

Bank Company has committed to financially support the subsidiary undertakings including the subsidiaries benefiting from an audit exemption according to section 479A of the Companies Act 2006 listed in note 23 of the Bank Company financial statements.

Other contingent liabilities

In addition to the above, there are other contingent liabilities applicable to the Bank Company as listed below (for details, please refer to note 31 of the Group and Bank consolidated financial statements):

- Conduct issues;
- Legal proceedings; and
- Mortgage securitisation representations and warranties.

25. RELATED PARTY TRANSACTIONS

The ultimate parent undertaking of the Bank Company as at 31 December 2020 was The Co-operative Bank Holdings Limited.

At 31 December 2020, 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. See note 32 of the Group and Bank consolidated financial statements for details of related party transactions with these two significant shareholders.

The B Shareholders Agreement grants certain rights to shareholders, where the B shareholders are entitled to appoint up to two Directors to the Board of the Holding Company, and the Holding Company is entitled to appoint up to two Directors to the Board of the Bank Company, who are designated as B Directors of the Holding Company and Bank Company. Further information of the rights of the A and B shareholders and the B Shareholders Agreement are detailed in the ownership section of the corporate governance report.

Balances with Finance Company and Co-operative Bank undertakings

The following tables show the closing balance with The Co-operative Bank p.l.c.:

Amounts owed by Co-operative Bank undertakings	2020	2019
Amounts owed by Co-operative Bank subsidiaries (excluding special purpose entities)	**55.0**	67.6
Amounts owed by Co-operative Bank subsidiaries - special purpose entities	**1,281.1**	1,401.4
	1,336.1	1,469.0
Investment securities held by Co-operative Bank in subsidiaries - special purpose entities	**1,010.1**	1,676.8
	2,346.2	3,145.8

Amounts owed to Holding Company, Finance Company and Co-operative Bank undertakings	2020	2019
Amounts owed to Co-operative Bank subsidiaries (excluding special purpose entities)	**28.5**	27.7
Amounts owed to Co-operative Bank subsidiaries - special purpose entities	**2,441.3**	3,197.8
Amount owed to Finance Company (parent company)	**408.2**	204.2
	2,878.0	3,429.7
Cash balances deposited with the Bank Company by Co-operative Bank subsidiaries (excluding special purpose entities)	**0.5**	0.5
Cash balances deposited with the Bank Company by the Holding Company	**0.2**	0.2
	2,878.7	3,430.4

Details of the amount owed to Finance Company are given in note 25 of the Group and Bank consolidated financial statements.

The following tables show the value of transactions with The Co-operative Bank p.l.c. undertakings and Finance Company during the year:

2020	Interest and fees paid to Bank Company	Interest and fees paid by Bank Company
Transactions with Co-operative Bank subsidiaries (excluding special purpose entities)	**1.5**	**0.2**
Transactions with Co-operative Bank subsidiaries - special purpose entities	**43.6**	**72.2**
Transactions with Finance Company (parent company)	**-**	**20.8**
	45.1	**93.2**

2019	Interest and fees paid to Bank Company	Interest and fees paid by Bank Company
Transactions with Co-operative Bank subsidiaries (excluding special purpose entities)	2.0	0.5
Transactions with Co-operative Bank subsidiaries - special purpose entities	53.4	50.2
Transactions with Finance Company (parent company)	-	13.0
	55.4	63.7

Transactions with Directors, key management personnel and close family

Details of the Bank Company's transactions with Directors, key management personnel and close family are as set out in note 32 of the Group and Bank consolidated financial statements.

26. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The fair values in this note are stated at the balance sheet date and may be significantly different from the amounts which will actually be paid on the maturity or settlement dates of the instruments. The tables below analyse the balance sheet carrying values of financial assets and liabilities by classification.

		Measured at fair value				
2020	**Amortised cost**	**FVOCI**	**FVTPL – designated**	**FVTPL – mandatorily measured**	**Derivatives in a hedging relationship**	**Total**
Financial assets						
Cash and balances at central banks	**3,877.8**	**-**	**-**	**-**	**-**	**3,877.8**
Loans and advances to banks	**431.6**	**-**	**-**	**-**	**-**	**431.6**
Loans and advances to customers	**18,541.8**	**-**	**134.1**	**0.8**	**-**	**18,676.7**
Investment securities	**1,087.5**	**1,067.6**	**-**	**3.5**	**-**	**2,158.6**
Derivative financial instruments	**-**	**-**	**-**	**168.0**	**10.8**	**178.8**
Equity shares	**-**	**-**	**-**	**22.1**	**-**	**22.1**
Amounts owed by Co-operative Bank undertakings	**1,336.1**	**-**	**-**	**-**	**-**	**1,336.1**
Other assets	**61.3**	**-**	**-**	**38.3**	**-**	**99.6**
Total financial assets	**25,336.1**	**1,067.6**	**134.1**	**232.7**	**10.8**	**26,781.3**
Financial liabilities						
Deposits by banks	**2,066.4**	**-**	**-**	**-**	**-**	**2,066.4**
Customer accounts	**20,366.3**	**-**	**-**	**-**	**-**	**20,366.3**
Debt securities in issue	**485.7**	**-**	**-**	**-**	**-**	**485.7**
Derivative financial instruments	**-**	**-**	**-**	**160.5**	**155.7**	**316.2**
Amounts owed to Co-operative Bank undertakings	**2,469.8**	**-**	**-**	**-**	**-**	**2,469.8**
Other liabilities	**32.9**	**-**	**-**	**-**	**-**	**32.9**
Amounts due to Finance Company	**408.2**	**-**	**-**	**-**	**-**	**408.2**
Total financial liabilities	**25,829.3**	**-**	**-**	**160.5**	**155.7**	**26,145.5**

		Measured at fair value				
2019	**Amortised cost**	**FVOCI**	**FVTPL – designated**	**FVTPL – mandatorily measured**	**Derivatives in a hedging relationship**	**Total**
Financial assets						
Cash and balances at central banks	2,153.5	-	-	-	-	2,153.5
Loans and advances to banks	345.6	-	-	-	-	345.6
Loans and advances to customers	17,671.1	-	138.3	1.7	-	17,811.1
Investment securities	1,771.8	1,506.4	-	4.2	-	3,282.4
Derivative financial instruments	-	-	-	155.8	32.3	188.1
Equity shares	-	-	-	44.5	-	44.5
Amounts owed by Co-operative Bank undertakings	1,469.0	-	-	-	-	1,469.0
Other assets	5.1	-	-	37.9	-	43.0
Total financial assets	23,416.1	1,506.4	138.3	244.1	32.3	25,337.2
Financial liabilities						
Deposits by banks	1,143.7	-	-	-	-	1,143.7
Customer accounts	18,997.2	-	-	-	-	18,997.2
Debt securities in issue	602.4	-	-	-	-	602.4
Derivative financial instruments	-	-	-	169.6	109.3	278.9
Amounts owed to Co-operative Bank undertakings	3,225.5	-	-	-	-	3,225.5
Other liabilities	52.7	-	-	-	-	52.7
Amounts due to Finance Company	204.2	-	-	-	-	204.2
Total financial liabilities	24,225.7	-	-	169.6	109.3	24,504.6

26. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

Fair value disclosures throughout this note have been calculated in accordance with IFRS 13, which values assets individually rather than as a portfolio or as part of a business combination.

a) Use of financial assets and liabilities
Refer to note 35 of the Group and Bank consolidated financial statements for details of the use of financial instruments.

b) Valuation of financial assets and liabilities measured at fair value
The carrying value of financial assets and liabilities measured at fair value are determined in compliance with the accounting policies in note 1 of the Group and Bank consolidated financial statements and 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

There were no transfers between the levels during the year.

		Fair value at end of the reporting period using:			
2020	Category	Level 1	Level 2	Level 3	Total
Non-derivative financial assets					
Loans and advances to customers	FVTPL – designated	**-**	**132.3**	**1.8**	**134.1**
Loans and advances to customers	FVTPL – mandatorily measured	**-**	**-**	**0.8**	**0.8**
Investment securities	FVOCI	**1,067.6**	**-**	**-**	**1,067.6**
Investment securities	FVTPL – mandatorily measured	**-**	**-**	**3.5**	**3.5**
Equity shares	FVTPL – mandatorily measured	**0.3**	**-**	**21.8**	**22.1**
Other assets	FVTPL – mandatorily measured	**-**	**-**	**38.3**	**38.3**
Derivative financial assets		**-**	**178.8**	**-**	**178.8**
Non-financial assets:					
Investment properties		**-**	**-**	**1.9**	**1.9**
Total assets carried at fair value		**1,067.9**	**311.1**	**68.1**	**1,447.1**
Derivative financial liabilities		**-**	**316.2**	**-**	**316.2**
Total liabilities carried at fair value		**-**	**316.2**	**-**	**316.2**

		Fair value at end of the reporting period using:			
2019	Category	Level 1	Level 2	Level 3	Total
Non-derivative financial assets					
Loans and advances to customers	FVTPL – designated	-	136.3	2.0	138.3
Loans and advances to customers	FVTPL – mandatorily measured	-	-	1.7	1.7
Investment securities	FVOCI	1,436.5	-	69.9	1,506.4
Investment securities	FVTPL – mandatorily measured	-	-	4.2	4.2
Equity shares	FVTPL – mandatorily measured	0.4	-	44.1	44.5
Other assets	FVTPL – mandatorily measured	-	-	37.9	37.9
Derivative financial assets		-	188.1	-	188.1
Non-financial assets:					
Investment properties		-	-	1.8	1.8
Total assets carried at fair value		1,436.9	324.4	161.6	1,922.9
Derivative financial liabilities		-	278.9	-	278.9
Total liabilities carried at fair value		-	278.9	-	278.9

Key considerations in the calculation of fair values for financial assets and liabilities measured at fair value are as follows:

Level 1 – Quoted market prices in active markets
Financial instruments with quoted prices for identical instruments in active markets. The best evidence of fair value is a quoted market price in an actively traded market.

26. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

Level 2 – Valuation techniques using observable inputs
Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

The valuation techniques used to value these instruments employ only observable market data and relate to the following assets and liabilities:

- **Loans and advances to customers**
  Loans and advances to customers primarily comprise of corporate loans of £126.5m as at 31 December 2020 (2019: £127.7m) which are fair valued through profit or loss using observable inputs. Loans held at fair value are valued at the sum of all future expected cash flows, discounted using a yield curve based on observable market inputs.

- **Derivative financial instruments**
  Over-the-counter (i.e. non-exchange traded) derivatives are valued using valuation models which are based on observable market data. Valuation models calculate the present value of expected future cash flows, based upon 'no arbitrage' principles. The Bank Company enters into vanilla foreign exchange and interest rate swap derivatives, for which modelling techniques are standard across the industry. Examples of inputs that are generally observable include foreign exchange spot and forward rates, and benchmark interest rate curves.

  Level 3 – Valuation techniques using unobservable inputs
  This is used for financial instruments valued using models where one or more significant inputs are not observable.

  The proportion of financial assets valued based on significant unobservable inputs are analysed as follows:

- **Investment securities**
  Investment securities comprise of RMBS of £nil (FVOCI) as at 31 December 2020 (2019: £69.9m). 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 Bank Company's interest in unconsolidated structured entities.

- **Equity shares**
  Equity shares comprise of US Dollar-denominated convertible preference shares in Visa International, which are classified as FVTPL – designated, with any movements in fair value being recognised through profit or loss. 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 increased by an absolute 10%, it would result in a reduction in the overall fair value of the equity shares of £3.1m (16%) as at 31 December 2020.

- **Other assets**
  Other assets comprise of the Surrendered Loss Debtor of £38.3m (2019: £37.9m), which reflects amounts owed from the Co-op Group in relation to the tax losses surrendered by the Bank Company in 2012-2013. The fair value was considered to be the agreed exit price of the asset under the terms of the deed of termination and settlement. The deed was signed in February 2021.

- **Investment properties**
  Investment properties within level 3 are valued by using recent valuations of individual assets within the portfolio, index linked to the balance sheet date using the relevant house price index.

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

2020	Fair value at the beginning of the year	Purchases and transfers in	Sales, transfers out and repayments	Other comprehensive income	Income statement	Fair value at the end of the year
Loans and advances to customers	3.7	-	(0.9)	-	(0.2)	2.6
Investment securities	74.1	-	(69.8)	(0.1)	(0.7)	3.5
Equity shares	44.1	-	(38.7)	-	16.4	21.8
Investment properties	1.8	-	-	-	0.1	1.9
Other assets	37.9	-	-	-	0.4	38.3
	161.6	-	(109.4)	(0.1)	16.0	68.1

26. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

2019	Fair value at the beginning of the year	Purchases and transfers in	Sales, transfers out and repayments	Other comprehensive income	Income statement	Fair value at the end of the year
Loans and advances to customers	5.1	-	(1.2)	-	(0.2)	3.7
Investment securities	402.8	-	(328.2)	(1.9)	1.4	74.1
Equity shares	26.0	-	-	-	18.1	44.1
Investment properties	2.3	-	(0.5)	-	-	1.8
Other assets	26.2	-	0.3	-	11.4	37.9
	462.4	-	(329.6)	(1.9)	30.7	161.6

c) 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 determined in compliance with the accounting policies in note 1 of the Group and Bank consolidated financial statements and their fair values are analysed in the following tables by the three level fair value hierarchy set out above. There were no transfers between levels during the year.

		Fair value				
2020	**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	**3,877.8**	**-**	**-**	**-**	**3,877.8**	**3,877.8**
Loans and advances to banks	**431.6**	**-**	**-**	**-**	**431.6**	**431.6**
Loans and advances to customers	**18,541.8**	**-**	**-**	**17,549.2**	**897.1**	**18,446.3**
Investment securities	**1,087.5**	**-**	**-**	**1,077.8**	**-**	**1,077.8**
Amounts owed by Co-operative Bank undertakings	**1,336.1**	**-**	**499.8**	**-**	**850.2**	**1,350.0**
Other assets	**61.3**	**-**	**-**	**-**	**61.3**	**61.3**
Financial liabilities						
Deposits by banks	**2,066.4**	**-**	**2,045.2**	**-**	**21.4**	**2,066.6**
Customer accounts	**20,366.3**	**-**	**-**	**2,822.3**	**17,558.9**	**20,381.2**
Debt securities in issue	**485.7**	**505.8**	**-**	**-**	**-**	**505.8**
Amounts owed to Co-operative Bank undertakings	**2,469.8**	**-**	**-**	**1,238.0**	**1,233.3**	**2,471.3**
Other liabilities	**32.9**	**-**	**-**	**-**	**32.9**	**32.9**
Amounts due to Finance Company	**408.2**	**-**	**392.2**	**-**	**-**	**392.2**

		Fair value				
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	2,153.5	-	-	-	2,153.5	2,153.5
Loans and advances to banks	345.6	-	-	-	345.6	345.6
Loans and advances to customers	17,671.1	-	-	16,516.0	1,070.6	17,586.6
Investment securities	1,771.8	-	-	1,740.5	-	1,740.5
Amounts owed by Co-operative Bank undertakings	1,469.0	-	631.1	-	866.1	1,497.2
Other assets	5.1	-	-	-	5.1	5.1
Financial liabilities						
Deposits by banks	1,143.7	-	1,145.0	-	2.4	1,147.4
Customer accounts	18,997.2	-	-	3,612.4	15,402.2	19,014.6
Debt securities in issue	602.4	633.2	-	-	-	633.2
Amounts owed to Co-operative Bank undertakings	3,225.5	-	-	1,324.4	1,899.4	3,223.8
Other liabilities	52.7	-	-	-	52.7	52.7
Amounts due to Finance Company	204.2	-	204.2	-	-	204.2

26. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

Key considerations in the calculation of fair values of financial instruments measured at amortised cost are as follows:

Level 1 – Quoted market prices in active markets
Financial instruments with quoted prices for identical instruments in active markets. The best evidence of fair value is a quoted market price in an actively traded market.

Level 2 – Valuation techniques using observable inputs
Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

The valuation techniques used to value these instruments employ only observable market data and relate to the following assets and liabilities:

- **Loans and advances to banks/deposits by banks**
  Loans and advances to banks comprise of interbank placements and items in the course of collection.

  The amortised cost value of all loans and advances to banks are deemed to be a close approximation of their fair value due to their short maturity. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and remaining maturity.

- **Amounts owed by Co-operative Bank undertakings**
  Amounts owed by Co-operative Bank undertakings comprise of debt securities and subordinated debt held in the Bank Company's own securitisation vehicles. Fair value is based on available market prices; where these are not available quoted market prices for similar debt securities, with adjustments to take into account the subordination of the particular loan note, have been used to estimate fair value.

- **Amounts owed to Finance Company**
  Amounts owed to Finance Company comprise the internal MREL debt related to the external MREL-qualifying Tier 2 and senior unsecured debt. The fair value of the notes is based on quoted market prices.

Level 3 – Valuation techniques using unobservable inputs
This is used for financial instruments valued using models where one or more significant inputs are not observable.

The proportion of financial assets valued based on significant unobservable inputs are analysed as follows:

- **Loans and advances to customers**
  The fair value of loans and advances to customers in total is 99.5% of the carrying value as at 31 December 2020 (2019: 99.5%).

  The overall fair value is less than par primarily due to two main factors:
  - customer interest rates are below the market rate for the period until expected maturity or the repricing date, if earlier;
  - credit risk adjustments due to incurred and expected future credit losses.

  Fixed rate loans and advances to customers are revalued to fair value based on future interest cash flows (at funding rates) and principal cash flows discounted using an appropriate market rate. The market rate applied in the calculation is the average market rate for new originations of loans with similar characteristics to the book of loans being valued, and reflects the current low interest rate environment. This rate is assumed to encompass the time value of money, plus a risk premium to account for the inherent uncertainty in the timing and amount of future cash flows arising from a book of loans assets.

  Forecast principal repayments are based on redemption at the earlier of maturity or re-pricing date with some overlay for historical behavioural experience where relevant. The eventual timing of future cash flows may be different from the forecast due to unpredictable customer behaviour. It is assumed that there would be no other factors which market participants would take into account when assessing the fair value of the loan assets. It is assumed that there is no fair value adjustment required in respect of interest rate movement on standard variable rate loan assets, as the interest rate being charged is assumed to be equal to the market rate for those loan assets.

  Other reporting entities may use different valuation methodologies and assumptions in determining fair values for which no observable market prices are available.

26. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

- **Investment securities**
  Investment securities comprise:
  - RMBS measured at amortised cost of £77.4m as at 31 December 2020 (2019: £84.7m), being a 5% regulatory holding of the rated notes of the Warwick Finance Three and Four unconsolidated structured entities. The remaining 95% is privately held therefore there are no available market prices. An in-house model is used that sources independent market data for disclosure purposes only.
  - Securities measured at amortised cost of £nil as at 31 December 2020 (2019: £10.3m) as the quoted price is in an inactive market.
  - Investment securities measured at amortised cost of £1,010.1m as at 31 December 2020 (2019: £1,676.8m), being retained notes of the Silk Road Five and Six securitisations. As there are no available market prices, an in-house model is used that sources independent market data for disclosure purposes only.

- **Customer accounts**
  The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits and other borrowings without quoted market prices is based on future interest cash flows (at funding rates) and principal cash flows, discounted using an appropriate market rate.

- **Amounts owed to Co-operative Bank undertakings**
  Amounts owed to Co-operative Bank undertakings comprise of deemed loans owed to the Bank Company's own securitisation vehicles; these have been modelled using expected cash flows, based on redemption profiles, discounted at a market rate.

d) Fair value of transferred assets and associated liabilities

Assets pledged

Assets are pledged as collateral under repurchase agreements with other banks. These deposits are not available to finance the Group's day-to-day operations.

Assets sold under repurchase agreements totalled £305.0m (2019: £360.9m) and associated liabilities of £294.6m (2019: £329.1m). The net fair value position of agreements under repurchase was £10.4m (2019: £31.8m).

27. ANALYSIS OF CREDIT RISK EXPOSURE

2020	L&A to Banks	L&A to Customers	Investment securities	Derivative financial instruments	Other Assets	Total
Analysis of credit risk exposure						
Gross customer balance	431.6	18,615.4	2,158.6	178.8	99.7	**21,484.1**
Credit commitments	-	2,548.4	-	-	-	**2,548.4**
Gross customer exposure	**431.6**	**21,163.8**	**2,158.6**	**178.8**	**99.7**	**24,032.5**
Less: allowance for losses	-	(42.8)	-	-	(0.1)	**(42.9)**
Net customer exposure	**431.6**	**21,121.0**	**2,158.6**	**178.8**	**99.6**	**23,989.6**
Gross exposure for ECL calculation						
Gross customer exposure	431.6	21,163.8	2,158.6	178.8	99.7	**24,032.5**
Less: FVTPL[1]	-	(108.8)	(3.5)	(178.8)	(38.3)	**(329.4)**
Gross customer exposure for ECL calculation	**431.6**	**21,055.0**	**2,155.1**	**-**	**61.4**	**23,703.1**
Reconciliation of customer to accounting balances						
Net customer exposure	431.6	21,121.0	2,158.6	178.8	99.6	**23,989.6**
Less: credit commitments	-	(2,548.4)	-	-	-	**(2,548.4)**
Plus accounting adjustments	-	104.1	-	-	-	**104.1**
Gross loans and advances – notes 4, 5, 6, 7, 9	**431.6**	**18,676.7**	**2,158.6**	**178.8**	**99.6**	**21,545.3**

1. Some FVTPL balances are contained within the accounting adjustments (see section 3.2.1 within risk management).

27. ANALYSIS OF CREDIT RISK EXPOSURE (continued)

2019	L&A to Banks	L&A to Customers	Investment securities	Derivative financial instruments	Other Assets	Total
Analysis of credit risk exposure						
Gross customer balance	345.6	17,739.0	3,282.4	188.1	43.0	21,598.1
Credit commitments	-	2,105.0	-	-	-	2,105.0
Gross customer exposure	345.6	19,844.0	3,282.4	188.1	43.0	23,703.1
Less: allowance for losses	-	(26.4)	-	-	-	(26.4)
Net customer exposure	345.6	19,817.6	3,282.4	188.1	43.0	23,676.7
Gross exposure for ECL calculation						
Gross customer exposure	345.6	19,844.0	3,282.4	188.1	43.0	23,703.1
Less: FVTPL[1]	-	(113.9)	(4.0)	(188.1)	(37.9)	(343.9)
Gross customer exposure for ECL calculation	345.6	19,730.1	3,278.4	-	5.1	23,359.2
Reconciliation of customer to accounting balances						
Net customer exposure	345.6	19,817.6	3,282.4	188.1	43.0	23,676.7
Less: credit commitments	-	(2,105.0)	-	-	-	(2,105.0)
Plus accounting adjustments	-	98.5	-	-	-	98.5
Gross loans and advances – notes 4, 5, 6, 7, 9	345.6	17,811.1	3,282.4	188.1	43.0	21,670.2

1. Some FVTPL balances are contained within the accounting adjustments (see section 3.2.1 within risk management).

All balances except L&A to customers are stage 1 (2019: stage 1) and did not transfer during the year. Loans and advances to customers is further analysed in the tables below:

Gross customer exposure	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2020	18,753.1	779.5	78.2	119.3	**19,730.1**
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	(1,292.8)	1,292.8	-	-	**-**
To credit impaired (stage 1 or 2 or 3)	(17.7)	(13.6)	31.3	-	**-**
To 12 month ECL (stage 2 or 3 to 1)	226.5	(226.5)	-	-	**-**
From credit impaired (stage 3 to 2)	6.3	6.2	(12.5)	-	**-**
Net changes arising from stage transfers	**(1,077.7)**	**1,058.9**	**18.8**	-	**-**
Other charges/(releases):					
New assets originated or purchased	3,956.7	-	-	-	**3,956.7**
Other changes to risk parameters	437.9	(1.5)	-	1.3	**437.7**
Redemptions and repayments	(2,887.1)	(116.7)	(28.4)	(26.7)	**(3,058.9)**
Changes to model used for ECL calculation	-	-	-	-	-
Net other charges/(releases)	**429.8**	**940.7**	**(9.6)**	**(25.4)**	**1,335.5**
Assets written off	(2.6)	(2.1)	(5.1)	(0.8)	**(10.6)**
At 31 December 2020	**19,180.3**	**1,718.1**	**63.5**	**93.1**	**21,055.0**

Gross customer exposure	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2019	18,664.1	570.6	134.7	296.1	19,665.5
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	(262.8)	262.8	-	-	-
To credit impaired (stage 1 or 2 or 3)	(13.8)	(17.2)	31.0	-	-
To 12 month ECL (stage 2 or 3 to 1)	140.3	(140.3)	-	-	-
From credit impaired (stage 3 to 2)	4.1	1.3	(5.4)	-	-
Net changes arising from stage transfers	(132.2)	106.6	25.6	-	-
Other charges/(releases):					
New assets originated or purchased	3,941.4	-	-	-	3,941.4
Other changes to risk parameters	45.3	(18.9)	(0.1)	(1.1)	25.2
Redemptions and repayments	(3,474.7)	(154.1)	(55.5)	(173.1)	(3,857.4)
Changes to model used for ECL calculation	(286.4)	277.7	8.7	-	-
Net other charges/(releases)	93.4	211.3	(21.3)	(174.2)	109.2
Assets written off	(4.4)	(2.4)	(35.2)	(2.6)	(44.6)
At 31 December 2019	18,753.1	779.5	78.2	119.3	19,730.1

27. ANALYSIS OF CREDIT RISK EXPOSURE (continued)

Allowance for losses	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2020	10.5	4.2	11.4	0.3	**26.4**
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	(1.2)	9.2	-	-	**8.0**
To credit impaired (stage 1 or 2 or 3)[1]	(0.2)	(0.1)	3.2	-	**2.9**
To 12 month ECL (stage 2 or 3 to 1)	0.6	(1.4)	-	-	**(0.8)**
From credit impaired (stage 3 to 2)	0.1	0.2	(0.8)	-	**(0.5)**
Net changes arising from stage transfers	**(0.7)**	**7.9**	**2.4**	**-**	**9.6**
Other charges/(releases):					
New assets originated or purchased	3.4	-	-	-	**3.4**
Other changes to risk parameters[2]	8.8	2.6	(0.4)	1.1	**12.1**
Redemptions and repayments	(1.2)	(0.1)	(2.5)	-	**(3.8)**
Changes to model used for ECL calculation	-	-	-	-	-
Others	-	-	-	-	-
Net other charges/(releases)	**10.3**	**10.4**	**(0.5)**	**1.1**	**21.3**
Assets written off	(1.7)	(1.6)	(3.4)	(0.3)	**(7.0)**
At 31 December 2020	**19.1**	**13.0**	**7.5**	**1.1**	**40.7**

1. ECL analysis represents L&A to customers but excludes £2.1m FVTPL credit adjustments.
2. Includes the impact of any asset sales.

Allowance for losses	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2019	11.5	5.1	30.8	4.3	51.7
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	(0.3)	2.7	-	-	2.4
To credit impaired (stage 1 or 2 or 3)	(0.1)	(0.1)	5.1	-	4.9
To 12 month ECL (stage 2 or 3 to 1)	0.1	(1.1)	-	-	(1.0)
From credit impaired (stage 3 to 2)	-	-	(0.8)	-	(0.8)
Net changes arising from stage transfers	(0.3)	1.5	4.3	-	5.5
Other charges/(releases):					
New assets originated or purchased	2.0	-	-	-	2.0
Other changes to risk parameters[1]	1.2	0.6	(0.1)	0.1	1.8
Redemptions and repayments	(2.4)	(1.1)	(5.8)	(1.8)	(11.1)
Changes to model used for ECL calculation	1.0	(0.5)	(1.4)	(0.5)	(1.4)
Others[2]	0.4	0.6	0.4	(0.1)	1.3
Net other charges/(releases)	1.9	1.1	(2.6)	(2.3)	(1.9)
Assets written off	(2.9)	(2.0)	(16.8)	(1.7)	(23.4)
At 31 December 2019	10.5	4.2	11.4	0.3	26.4

1. Includes the impact of any asset sales.
2. The £1.3m increase in retail unsecured ECL relates to refinement of data inputs.

The credit risk section within risk management applies to the Bank Company where relevant and therefore no additional disclosures are included in this note.

28. EVENTS AFTER THE BALANCE SHEET DATE

On 5 February 2021 the Group signed a deed of termination and settlement relating to the Surrendered Loss Debtor with the Co-op Group. Under the terms of the deed the Bank received full and final settlement of all amounts which were payable by the Co-op Group in relation to the tax losses surrendered in 2012 - 2013. In Bank Company, the asset was settled at carrying value of £38.3m and no profit or loss was recorded.

Financial Statements of The Co-operative Bank Holdings Limited (Holding Company)

Ultimate parent company

The Co-operative Bank Holdings Limited
Company Number 10865342
(England and Wales)

100%

The Co-operative Bank Finance p.l.c.
Company Number 11598074
(England and Wales)

100%

The Co-operative Bank p.l.c.
Company Number 00990937
(England and Wales)

The co-operative bank
for people with purpose

BALANCE SHEET

At 31 December 2020

£million

	Note	2020	2019
Assets			
Loans and advances to banks	2	**0.2**	0.2
Investments in subsidiaries/Group undertakings	3	**333.0**	333.0
Total assets		**333.2**	333.2
Total liabilities		**-**	-
Capital and reserves attributable to the Holding Company's equity holders			
Ordinary share capital	4	**0.9**	0.9
Share premium account	4	**313.8**	313.8
Merger relief reserve		**18.5**	18.5
Total equity		**333.2**	333.2
Total liabilities and equity		**333.2**	333.2

Net profit attributable to equity holders of the Holding Company for the year is £nil (2019: £nil).

The notes on pages 240 to 241 form part of the Holding Company financial statements.

Approved by the Board on 24 February 2021:

Robert Dench
Chair of the Board

Nick Slape
Chief Executive Officer

STATEMENT OF CASHFLOWS

For year ended 31 December 2020

£million	2020	2019
Cash flows used in operating activities:		
Profit before taxation	-	-
Net cash flows used in operating activities	-	-
Net cash flows used in investing activities	-	-
Net cash flows from financing activities	-	-
Net increase in cash and cash equivalents	-	-
Cash and cash equivalents at the beginning of the year	-	-
Cash and cash equivalents at the end of the year	-	-

The notes on pages 240 to 241 form part of the Holding Company financial statements.

THE CO-OPERATIVE BANK HOLDINGS LIMITED FINANCIAL STATEMENTS (HOLDING COMPANY-ONLY)
STATEMENT OF CHANGES IN EQUITY
For year ended 31 December 2020

£million

2020	Attributable to equity holders of the Holding Company Share capital	Share premium	Merger relief reserve	Total Equity
At 1 January 2020	0.9	313.8	18.5	**333.2**
Total comprehensive income for the year	-	-	-	-
At 31 December 2020	**0.9**	**313.8**	**18.5**	**333.2**

2019	Attributable to equity holders of the Holding Company Share capital	Share premium	Merger relief reserve	Total Equity
At 1 January 2019	0.9	313.8	18.5	333.2
Total comprehensive income for the year	-	-	-	-
At 31 December 2019	0.9	313.8	18.5	333.2

The notes on pages 240 to 241 form part of the Holding Company financial statements.

All amounts are stated in £m unless otherwise indicated.

1. BASIS OF PREPARATION

The Co-operative Bank Holdings Limited (Holding Company) was incorporated in the UK and is a limited company, registered in England and Wales.

The Holding Company financial statements have been prepared under the historic cost convention and approved by the Directors in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006.

On including its financial statements within the Group's Annual Report and Accounts, the Holding Company is taking advantage of the exemption in Section 408 of the Companies Act 2006 not to present its individual income statement and related notes.

Accounting policies outlined in note 1 of the Group and Bank consolidated financial statements and the Explanatory Information on pages 256 to 265 also apply to the Holding Company.

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. Actual results may differ from these estimates. The critical judgements and estimates for the Holding Company are the same as those set out in note 2 of the Group and Bank consolidated financial statements, with the addition of the critical judgement set out below.

Management have performed an assessment of indicators of impairment including a review of the 2020 performance and forecast performance of the Finance Group. The conclusion of this review was that the Holding Company's investment in Finance Company is not impaired.

2. LOANS AND ADVANCES TO BANKS

	2020	2019
Loans and advances to Banks	**0.2**	0.2

This balance is held with The Co-operative Bank p.l.c.

3. INVESTMENTS IN SUBSIDIARIES/GROUP UNDERTAKINGS

	2020	2019
Investments in subsidiaries/Group undertakings	**333.0**	333.0

At 31 December 2020, the Holding Company owned 100 % of the share capital of The Co-operative Bank Finance p.l.c. The principal activity of The Co-operative Bank Finance p.l.c. is that of a holding company and issuer of subordinated debt.

4. SHARE CAPITAL

2020	No. of A shares (millions)	A shares value	No. of B shares	B shares value	Total share capital
Share capital allotted, called up and fully paid					
At the beginning and at the end of the year	**9,029.1**	**0.9**	**83**	**-**	**0.9**

2019	No. of A shares (millions)	A shares value	No. of B shares	B shares value	Total share capital
Share capital allotted, called up and fully paid					
At the beginning of the year	9,029.1	0.9	82	-	0.9
Issued during the year	-	-	1	-	-
At the end of the year	9,029.1	0.9	83	-	0.9

Share premium account

	2020	2019
At the beginning and at the end of the year	**313.8**	313.8

5. RELATED PARTY TRANSACTIONS

Parent, subsidiary and ultimate controlling party
The ultimate parent undertaking of the Group is The Co-operative Bank Holdings Limited.

As at 31 December 2020, the Holding Company 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.

Balances with related parties

The following table shows the value of balances with related parties during the year:

	2020	2019
Amounts owed by The Co-operative Bank p.l.c.	**0.2**	0.2

The subsidiaries of The Co-operative Bank p.l.c. as detailed in note 23 of the Bank Company financial statements, all Directors and key management personnel of the Group, are all considered to be related parties of the Holding Company (further details are available in note 32 of the consolidated Group and Bank financial statements).

6. EVENTS AFTER THE BALANCE SHEET DATE

There are no post balance sheet events to report.

Consolidated Financial Statements of The Co-operative Bank Finance p.l.c. (Finance Group and Finance Company)

The Co-operative Bank Holdings Limited
Company Number 10865342
(England and Wales)

↓ **100%**

Issuer of MREL-qualifying debt

The Co-operative Bank Finance p.l.c.
Company Number 11598074
(England and Wales)

↓ **100%**

The Co-operative Bank p.l.c.
Company Number 00990937
(England and Wales)

The co-operative bank
for people with purpose

CONSOLIDATED INCOME STATEMENT

For year ended 31 December 2020

£million

	Note[1]	Finance Group 2020	Finance Group 2019
Interest income calculated using the effective interest rate method		**415.3**	466.4
Other interest and similar income		**(5.2)**	18.1
Interest income and similar income	6	**410.1**	484.5
Interest expense and similar charges	6	**(143.2)**	(174.5)
Net interest income		**266.9**	310.0
Fee and commission income	7	**56.5**	66.3
Fee and commission expense	7	**(33.0)**	(45.6)
Net fee and commission income		**23.5**	20.7
Income from investments		**0.3**	0.7
Other operating income/(expense) (net)	8	**24.6**	55.2
Operating income		**315.3**	386.6
Operating expenses	9	**(395.4)**	(477.7)
Net customer redress charge	28	**(2.0)**	(63.5)
Total operating expenses		**(397.4)**	(541.2)
Operating loss before net credit impairment (losses)/gains		**(82.1)**	(154.6)
Net credit impairment (losses)/gains	14	**(21.6)**	2.5
Loss before taxation		**(103.7)**	(152.1)
Income tax	11	**8.0**	(0.9)
Loss for the financial year		**(95.7)**	(153.0)

1. These notes references relate to Group and Bank consolidated financial statements.

The results above wholly relate to continuing activities.

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

The notes on pages 250 to 255 form part of these consolidated Finance Group financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For year ended 31 December 2020

£million

	Finance Group	
	2020	2019
Loss for the year	**(95.7)**	(153.0)
Items that may be recycled to profit or loss:		
Changes in cash flow hedges:		
Net changes in fair value recognised directly in equity	**5.5**	(7.4)
Transfers from equity to income or expense	**3.1**	2.9
Income tax	**(2.8)**	1.2
Changes in fair value through other comprehensive income:		
Net changes in fair value recognised directly in equity	**(20.5)**	(51.6)
Transfers from equity to income or expense	**22.3**	39.2
Income tax	**(1.1)**	2.6
Items that may not subsequently be recycled to profit or loss:		
Changes in net retirement benefit asset:		
Defined benefit plans (losses)/gains for the year	**(49.8)**	37.6
Income tax	**1.5**	(9.7)
Other comprehensive (expense)/income for the year net of income tax	**(41.8)**	14.8
Total comprehensive expense for the year	**(137.5)**	(138.2)

The notes on pages 250 to 255 form part of these consolidated Finance Group financial statements.

BALANCE SHEET

At 31 December 2020

£million

		Finance Group		Finance Company	
	Note	2020	2019	2020	2019
Assets					
Cash and balances at central banks	3	**3,877.8**	2,153.5	**-**	-
Loans and advances to banks	4	**536.2**	474.3	**-**	-
Loans and advances to customers	5	**18,682.5**	17,918.4	**-**	-
Fair value adjustments for hedged risk		**134.1**	72.6	**-**	-
Investment securities	6	**1,148.5**	1,605.6	**-**	-
Derivative financial instruments	7	**189.9**	213.3	**-**	-
Property, plant and equipment classified as held-for-sale		**0.3**	0.8	**-**	-
Equity shares	8	**22.1**	44.5	**-**	-
Investments in subsidiaries/group undertakings	9	**-**	-	**333.0**	333.0
Investment properties		**1.9**	1.8	**-**	-
Other assets	10	**188.9**	52.6	**-**	-
Prepayments	11	**13.2**	21.7	**-**	-
Property, plant and equipment	12	**35.2**	38.6	**-**	-
Intangible assets	13	**63.4**	75.3	**-**	-
Right-of-use assets	14	**53.7**	72.3	**-**	-
Amounts owed by Bank Company	28	**-**	-	**398.1**	201.1
Net retirement benefit asset	22	**651.8**	690.2	**-**	-
Total assets		**25,599.5**	23,435.5	**731.1**	534.1
Liabilities					
Deposits by banks	15	**2,066.4**	1,143.7	**-**	-
Customer accounts		**20,365.9**	18,996.9	**-**	-
Debt securities in issue	16	**728.8**	867.5	**-**	-
Derivative financial instruments	7	**340.1**	288.0	**-**	-
Lease liabilities	14	**53.6**	71.2	**-**	-
Other liabilities	18	**33.7**	53.5	**-**	-
Accruals and deferred income	19	**35.0**	59.0	**-**	-
Provisions	20	**46.4**	87.4	**-**	-
Other borrowed funds	17, 27	**408.2**	204.2	**405.3**	203.5
Deferred tax liabilities	21	**38.3**	43.7	**-**	-
Net retirement benefit liability	22	**8.8**	8.6	**-**	-
Total liabilities		**24,125.2**	21,823.7	**405.3**	203.5
Capital and reserves attributable to the Finance Group/Finance Company's equity holders					
Ordinary share capital	24	**0.9**	0.9	**0.9**	0.9
Share premium account	24	**332.1**	332.1	**332.1**	332.1
Retained earnings		**(1,800.6)**	(1,704.9)	**(7.2)**	(2.4)
Other reserves	25	**2,941.9**	2,983.7	**-**	-
Total equity		**1,474.3**	1,611.8	**325.8**	330.6
Total liabilities and equity		**25,599.5**	23,435.5	**731.1**	534.1

Net loss attributable to equity shareholders of Finance Company was £4.8m (2019: £2.4m).

The notes on pages 250 to 255 form part of these consolidated Finance Group and Finance Company individual financial statements.

Approved by the Board on 24 February 2021:

Robert Dench Chair of the Board	Nick Slape Chief Executive Officer

CONSOLIDATED STATEMENT OF CASHFLOWS

For year ended 31 December 2020

£million

		Finance Group	
	Note	2020	2019
Cash flows from/(used in) operating activities:			
Loss before taxation		**(103.7)**	(152.1)
Adjustments for non-cash movements:			
Non-cash movements on pension		**(9.3)**	(13.9)
Net credit impairment losses/(gains)		**21.6**	(2.5)
Depreciation, amortisation and impairment of property, plant and equipment, right-of-use assets and intangibles		**40.2**	42.8
Other non-cash movements including exchange rate movements		**78.7**	86.7
Changes in operating assets and liabilities:			
Increase/(decrease) in deposits by banks		**922.7**	(289.8)
Decrease in prepayments and accrued income		**8.5**	8.0
Decrease in accruals and deferred income		**(24.0)**	(4.0)
Increase in customer accounts		**1,367.8**	259.5
(Decrease)/increase in debt securities in issue		**(143.9)**	249.9
Decrease/(increase) in loans and advances to banks		**6.7**	(55.5)
Increase in loans and advances to customers		**(813.1)**	(210.3)
Net movement of other assets and other liabilities		**(205.6)**	(154.0)
Net cash flows from/(used in) operating activities		**1,146.6**	(235.2)
Cash flows from investing activities:			
Purchase of tangible and intangible assets		**(16.8)**	(34.5)
Purchase of investment securities		**(969.6)**	(1,048.1)
Proceeds from sale of property, plant and equipment		**2.6**	5.9
Proceeds from sale of shares and other interests		**38.6**	13.2
Proceeds from sale and maturity of investment securities		**1,422.5**	1,363.2
Proceeds from sale of investment properties		**-**	0.5
Dividends received		**0.3**	0.7
Net cash flows from investing activities		**477.6**	300.9
Cash flows from financing activities:			
Proceeds from issuance of Tier 2 and senior unsecured debt (net of cost)		**197.7**	197.3
Interest paid on Tier 2 and senior unsecured debt		**(19.0)**	(9.5)
Lease liability principal payments		**(10.0)**	(10.8)
Net cash flows from financing activities		**168.7**	177.0
Net increase in cash and cash equivalents		**1,792.9**	242.7
Cash and cash equivalents at the beginning of the year		**2,436.6**	2,193.9
Cash and cash equivalents at the end of the year		**4,229.5**	2,436.6
Comprising of:			
Cash and balances at central banks	3	**3,802.5**	2,094.6
Loans and advances to banks	4	**427.0**	342.0
		4,229.5	2,436.6

The Finance Company's cash and cash equivalents as at 31 December 2020 was £nil (2019: £nil). There were no changes in cash and cash equivalents for the Finance Company for the year ended 31 December 2020.

CONSOLIDATED RECONCILIATION OF MOVEMENTS OF LIABILITIES TO CASHFLOWS ARISING FROM FINANCING ACTIVITIES

For year ended 31 December 2020

£million

	Finance Group					
	2020			2019		
	Lease liabilities	Other borrowed funds	Total	Lease liabilities	Other borrowed funds	Total
Balance at the beginning of the year	71.2	204.2	**275.4**	-	-	-
Changes from financing cash flows:						
Proceeds from issuance of Tier 2 and senior unsecured debt (net of cost)	-	197.7	**197.7**	-	197.3	197.3
Interest paid on Tier 2 and senior unsecured debt	-	(19.0)	**(19.0)**	-	(9.5)	(9.5)
Lease liability principal payments	(10.0)	-	**(10.0)**	(10.8)	-	(10.8)
	61.2	**382.9**	**444.1**	(10.8)	187.8	177.0
Other changes:						
Interest payable on lease liabilities, Tier 2 and senior unsecured debt	2.4	20.8	**23.2**	2.5	13.0	15.5
Other non-cash movements	-	4.5	**4.5**	-	3.4	3.4
(Derecognition)/recognition of lease liabilities	(10.0)	-	**(10.0)**	79.5	-	79.5
Balance at the end of the year	**53.6**	**408.2**	**461.8**	71.2	204.2	275.4

STATEMENT OF CHANGES IN EQUITY

For year ended 31 December 2020

£million

	Attributable to equity holders of the Finance Group								
2020	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 2020	0.9	332.1	4.1	16.7	410.0	2,109.5	443.4	(1,704.9)	**1,611.8**
Total comprehensive income/(expense) for the year	-	-	0.7	5.8	-	-	(48.3)	(95.7)	**(137.5)**
Issuance of share capital	-	-	-	-	-	-	-	-	**-**
At 31 December 2020	**0.9**	**332.1**	**4.8**	**22.5**	**410.0**	**2,109.5**	**395.1**	**(1,800.6)**	**1,474.3**

	Attributable to equity holders of the Finance Company								
2020	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 2020	0.9	332.1	-	-	-	-	-	(2.4)	**330.6**
Total comprehensive expense for the year	-	-	-	-	-	-	-	(4.8)	**(4.8)**
Issuance of new share capital	-	-	-	-	-	-	-	-	**-**
At 31 December 2020	**0.9**	**332.1**	**-**	**-**	**-**	**-**	**-**	**(7.2)**	**325.8**

	Attributable to equity holders of the Finance Group								
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	25.6	2,416.9	13.9	20.0	410.0	-	415.5	(1,551.9)	1,750.0
Total comprehensive (expense)/income for the year	-	-	(9.8)	(3.3)	-	-	27.9	(153.0)	(138.2)
Issuance of share capital	(24.7)	(2,084.8)	-	-	-	2,109.5	-	-	-
At 31 December 2019	0.9	332.1	4.1	16.7	410.0	2,109.5	443.4	(1,704.9)	1,611.8

	Attributable to equity holders of the Finance Company								
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	-	-	-	-	-	-	-	-	-
Total comprehensive expense for the year	-	-	-	-	-	-	-	(2.4)	(2.4)
Issuance of new share capital	0.9	332.1	-	-	-	-	-	-	333.0
At 31 December 2019	0.9	332.1	-	-	-	-	-	(2.4)	330.6

The notes on pages 250 to 255 form part of these consolidated Finance Group financial statements.

All amounts are stated in £m unless otherwise indicated.

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The Co-operative Bank Finance p.l.c. (the "Finance Company") was incorporated in the UK and is a limited company, registered in England and Wales.

The consolidated and individual financial statements of the Finance Company and its subsidiaries (together, the "Finance Group") have been prepared under the historic cost convention as modified by the revaluation of items held at fair value through other comprehensive income, derivative contracts, investment properties and certain other fair value instruments held at fair value through profit or loss and approved by the Directors in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006, and also prepared in accordance with International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Accounting policies outlined in note 1 of the Group and Bank consolidated financial statements and the Explanatory Information on pages 256 to 265 also apply to the Finance Group and Finance Company.

Critical judgements and key 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. Actual results may differ from these estimates. The critical judgements and estimates for the Finance Group and Finance Company are the same as those set out in note 2 of the Group and Bank consolidated financial statements, with the addition of the critical judgements set out below which are relevant to the Finance Company only.

Impairment of investment in subsidiaries
The carrying value of Finance Company's investment in Bank Company at 31 December 2020 was £333.0m (2019: £333.0).

Management have performed an assessment of indicators of impairment including a review of the 2020 performance and forecast performance of the Bank Company. The conclusion of this review was that the Finance Company's investment in the Bank Company was not impaired.

Impairment of amounts due from Bank Company
During the year, the internal MREL asset due to the Finance Company from the Bank Company was derecognised and rerecognised at fair value as part of an internal restructure following the issuance of new MREL-qualifying debt during the year; as such no ECL is reflected in the carrying value of the receivable at 31 December 2020.

2. NET LOSS ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE FINANCE COMPANY

On including the Finance Company financial statements here together with the consolidated Finance Group financial statements, the Finance Company is taking advantage of the exemption in Section 408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these financial statements.

3. CASH AND BALANCES AT CENTRAL BANKS

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 12 of the Group and Bank consolidated financial statements.

4. LOANS AND ADVANCES TO BANKS

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 13 of the Group and Bank consolidated financial statements.

5. LOANS AND ADVANCES TO CUSTOMERS

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 14 of the Group and Bank consolidated financial statements.

6. INVESTMENT SECURITIES

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 15 of the Group and Bank consolidated financial statements.

7. DERIVATIVE FINANCIAL INSTRUMENTS

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 16 of the Group and Bank consolidated financial statements.

8. EQUITY SHARES

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 17 of the Group and Bank consolidated financial statements.

9. INVESTMENTS IN SUBSIDIARIES/GROUP UNDERTAKINGS

	Finance Company	
	2020	2019
At the beginning of the year	**333.0**	-
Additions in the year	**-**	333.0
At the end of the year	**333.0**	333.0

At 31 December 2020, the Finance Company owned 100 % of the share capital of The Co-operative Bank p.l.c.

The Co-operative Bank p.l.c. has a number of subsidiary companies of its own, details of which are outlined in note 23 of the Bank Company financial statements.

10. OTHER ASSETS

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 18 of the Group and Bank consolidated financial statements.

11. PREPAYMENTS

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 19 of the Group and Bank consolidated financial statements.

12. PROPERTY, PLANT AND EQUIPMENT

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 20 of the Group and Bank consolidated financial statements.

13. INTANGIBLE ASSETS

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 21 of the Group and Bank consolidated financial statements.

14. RIGHT-OF-USE ASSETS AND FINANCE LEASE LIABILITIES

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 22 of the Group and Bank consolidated financial statements.

15. DEPOSITS BY BANKS

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 23 of the Group and Bank consolidated financial statements.

16. DEBT SECURITIES IN ISSUE

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 24 of the Group and Bank consolidated financial statements.

17. OTHER BORROWED FUNDS AND AMOUNTS OWED BY BANK COMPANY

Other borrowed funds

	Finance Group		Finance Company	
	2020	**2019**	**2020**	**2019**
Fixed rate subordinated notes	**400.0**	200.0	**400.0**	200.0
Issue costs	**(4.1)**	(2.3)	**-**	-
Accrued interest	**5.3**	3.5	**5.3**	3.5
Fair value hedge accounting adjustment	**7.0**	3.0	**-**	-
	408.2	204.2	**405.3**	203.5

Other borrowed funds comprise:

- £200m of MREL-qualifying Tier 2 notes issued in April 2019. These are fixed rate reset callable subordinated notes. These notes have contractual maturity of 25 April 2029, an optional call date of 25 April 2024 with a coupon of 9.5 % and are listed on the London Stock Exchange.
- £200m of MREL-qualifying fixed rate reset callable senior unsecured debt issued in November 2020 to meet the Group's Minimum Requirements for own funds and Eligible Liabilities. These notes:
  i. Are direct, unconditional, unsecured and unsubordinated obligations of the Issuer and will rank pari passu without any preference among themselves and, in the event of a winding-up, will rank pari passu with all other present and future unsecured and unsubordinated obligations of the Bank;
  ii. Have a contractual maturity of 27 November 2025, an optional call date of 27 November 2024 and a coupon of 9 % which will reset at the optional call date; and
  iii. Are listed on the London Stock Exchange.

Issue costs are borne by Bank Company as the regulated entity subject to MREL requirements and therefore are not included in the Finance Company carrying value of other borrowed funds. The fair value hedge accounting adjustment is not included in the carrying value of other borrowed funds in the Finance Company as it is Bank Company that has entered into the related interest rate swap.

17. OTHER BORROWED FUNDS AND AMOUNTS OWED BY BANK COMPANY (continued)

Amounts owed by Bank Company

Amounts owed by Bank Company comprise the internal MREL debt related to the external MREL-qualifying Tier 2 and senior unsecured debt. The terms of the internal MREL are equivalent to those of the external MREL-qualifying Tier 2 and senior unsecured debt. The carrying value of the amount owed by Bank Company of £405.3m comprises the par value of £400.0m, plus accrued interest of £5.3m.

18. OTHER LIABILITIES

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 26 of the Group and Bank consolidated financial statements.

19. ACCRUALS AND DEFERRED INCOME

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 27 of the Group and Bank consolidated financial statements.

20. PROVISIONS

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 28 of the Group and Bank consolidated financial statements.

21. DEFERRED TAX

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 29 of the Group and Bank consolidated financial statements.

22. RETIREMENT BENEFITS

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 30 of the Group and Bank consolidated financial statements.

23. CONTINGENT LIABILITIES, CONTRACTUAL COMMITMENTS AND GUARANTEES

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 31 of the Group and Bank consolidated financial statements.

24. SHARE CAPITAL

2020	Finance Group No. of shares (millions)	Finance Group Value
Share capital allotted, called up and fully paid		
At the beginning and end of the year	9,029.1	0.9

	Finance Company			
	2020		2019	
	No. of shares (millions)	Value	No. of shares (millions)	Value
Share capital allotted, called up and fully paid				
At the beginning and end of the year	**9,029.1**	**0.9**	9,029.1	0.9
Share premium account				
At the beginning and end of the year		**332.1**		332.1

25. OTHER RESERVES

	Finance Group 2020	Finance Group 2019
Fair value through other comprehensive income reserve	**4.8**	4.1
Cash flow hedging reserve	**22.5**	16.7
Capital redemption reserve	**410.0**	410.0
Capital re-organisation reserve	**2,109.5**	2,109.5
Defined benefit pension reserve	**395.1**	443.4
	2,941.9	2,983.7

26. RELATED PARTY TRANSACTIONS

Parent, subsidiary and ultimate controlling party

The ultimate parent undertaking of the Finance Group is The Co-operative Bank Holdings Limited. On 11 February 2019, The Co-operative Bank Finance p.l.c. became the immediate parent of the Bank Company with Holding Company remaining the ultimate parent company of the Bank Company.

The subsidiaries of The Co-operative Bank p.l.c. as detailed in note 23 of the Bank Company financial statements, and all Directors and key management personnel of the Group, are also considered to be related parties of the Holding Company (further details are available in note 32 to the consolidated Group and Bank financial statements and note 25 of the Bank Company financial statements).

27. ANALYSIS OF CREDIT RISK EXPOSURE

Finance Group

The Directors have considered the information disclosed in the consolidated financial statements of the Bank Company and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Bank Company and the Finance Group, we refer to the disclosures in note 27 of the Bank Company consolidated financial statements.

Finance Company

Amounts due from Bank Company comprise the internal MREL debt relating to the external MREL-qualifying Tier 2 and senior unsecured debt. During the year, existing internal MREL-qualifying Tier 2 debt was derecognised from amortised cost and rerecognised at fair value through profit or loss due to change in the contractual features of the instrument. The fair value of internal MREL-qualifying instruments is disclosed in note 28 below.

28. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Finance Group

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group and the Finance Group, we refer to the disclosures in note 35 of the Group and Bank consolidated financial statements.

28. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

Finance Company

The amount due from Bank Company was carried at fair value through profit and loss with a value of £398.1m as at 31 December 2020. The valuation technique employed for this financial asset is as described in note 35 of the Group and Bank consolidated financial statements. This instrument is level 2 under the fair value hierarchy and did not transfer to another level during the year. The fair value disclosures for the other borrowed funds are identical to those set out in note 35 of the Group and Bank consolidated financial statements.

29. EVENTS AFTER THE BALANCE SHEET DATE

For Finance Group events after the balance sheet date, refer to note 37 of the Group and Bank consolidated financial statements. For Finance Company there are no post balance sheet events to report.

Explanatory Information

The co-operative bank
for people with purpose

The Explanatory Information set out below, which forms part of the financial statements, explains the accounting policies applied by the Group together with an overview of new standards in issue but not yet effective

1. Significant accounting policies

The accounting policies referred to as applicable to the Group are equally applicable to the Bank, the Bank Company, the Holding Company, the Finance Group and the Finance Company.

1.1 Basis of consolidation

a) Subsidiaries

Subsidiaries are all entities (including structured entities) controlled by the Holding Company, Bank Company or Finance Company. Control exists whenever the Holding Company, Bank Company or Finance Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity, in accordance with the requirements of IFRS 10 (Consolidated Financial Statements). In assessing control, potential voting rights that presently are exercisable are taken into account. The financial information of subsidiaries is included in the consolidated financial information from the date that control commences until the date that control ceases.

The financial information has been prepared using consistent accounting policies and applied at the reporting date of the Group, Bank and Finance Group. Intra-group balances and transactions, and any unrealised gains and losses arising from intra-group transactions, are eliminated in preparing the consolidated financial information.

b) Interests in joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Interests in joint ventures are accounted for using the equity method. The consolidated financial information includes the proportionate share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies.

c) Interests in unconsolidated structured entities

Unconsolidated structured entities are unconsolidated entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Structured entities are not consolidated where it is determined with due regard to the variable returns from the structured entity and the ability to affect those returns, that the structured entity is not controlled under IFRS 10 considerations. The Group acts as a sponsor for certain unconsolidated securitisation vehicle holding companies which it neither owns nor controls. The Group has determined itself a sponsor of unconsolidated securitisation vehicle companies if it does not have a material ongoing interest in the entity, but it may act to protect its reputation in relation to the structured entity.

1.2 Revenue recognition

a) Interest income and expense

Interest income and expense on financial instruments measured at amortised cost or fair value through other comprehensive income (FVOCI) is recorded within net interest income and recognised on an Effective Interest Rate (EIR) basis except for:

- Purchased or originated credit impaired assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset; and
- Financial assets which are not purchased or originated credit impaired assets but have become credit impaired (reside within stage 3), for which interest income is calculated by applying the EIR to their amortised cost (i.e. net of the expected credit loss provision).

The EIR basis is inclusive of directly attributable origination and incremental transaction costs and fees including arrangement and broker fees, valuation and solicitor costs, discounts and premiums where appropriate. Commitment fees received are deferred and included in the EIR calculation upon completion or taken in full at the date the commitment period expires and completion does not occur. Early redemption charges are recognised on a cash basis as received, as it is not possible to reliably estimate the receipt of such fees.

Interest income and expense on financial instruments managed on a fair value basis or mandatorily measured at FVTPL is recorded within other interest and similar income.

b) Fees and commissions

Fee and commission income is predominantly made up of arrangement fees for loans and advances (not included in the EIR), account servicing and card fees. All fee and commission income is recognised on a point-in-time basis as the performance obligation is satisfied at the time the fees are charged. There are no future performance obligations or variable considerations involved per the contracts.

The Group acts as principal in the majority of contracts with customers, with the exception of the following contracts where the Group acts as agent:

- Funeral care and insurance services – Income is recognised net of fees payable to other parties in the arrangement; and
- Certain personal lending transactions where the Group acts as agent – Income is received and recognised on a net basis.

The Group offers cash back incentives on certain credit card arrangements and treats them as an expense. These arrangements do not provide customers with a separate performance obligation or a material/significant right in advance, or constitute part of a contract.

c) Dividend income
Dividend income is recognised when the right to receive the payment is established, which is generally when the Directors approve the dividend as final. Interim dividends are recognised in the income statement when the dividend is paid.

1.3 Financial instruments
a) Recognition
Financial assets and financial liabilities are initially recognised in the balance sheet at fair value when the Group becomes party to the contractual provisions of the instrument:

- Loans and advances are initially recognised when they are advanced to customers;
- Deposits, debt securities issued and other borrowed funds are recognised on the date at which they are originated; and
- Regular way purchases and sales of financial assets are recognised on the trade date at which the commitment to purchase or sell the asset is made.

Subsequently, financial instruments are classified as follows: amortised cost, fair value through profit or loss, or fair value through other comprehensive income.

b) Financial instruments measured at amortised cost
Financial assets measured at amortised cost are those for which the business model objective is to hold to collect the contractual cash flows, and the contractual cash flows are solely payments of principal and interest (SPPI). Such financial assets are initially measured at fair value plus transaction costs that are directly attributable to the financial asset. Unless designated at FVTPL, the classification and subsequent measurement of the financial asset is based on the business model and contractual cash flows of the asset.

The IFRS 9 business models reflect how financial assets are managed in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. Factors considered in determining the business model for a group of assets include both past experience and future plans for these assets.

Solely payments of principal and interest are those consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risk (including liquidity risk), costs (including administrative costs) and a profit margin that is consistent with a basic lending arrangement. If the SPPI contractual cash flow test is not passed, then the related financial asset is measured at fair value through profit or loss. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

Amortised cost is the default category for financial liabilities.

Amortised cost financial instruments are subsequently measured at the amount at which the financial instrument was measured at initial recognition, less principal repayments, plus or minus the cumulative amortisation using the effective interest method of the difference between that initial amount and the maturity amount and adjusted for any loss allowance.

c) Financial instruments designated at FVTPL
Financial instruments may be designated at FVTPL, however this irrevocable decision must be applied at inception. Financial instruments are classified in this category if they meet one or more of the criteria set out below:

- Designation removes or significantly reduces an accounting mismatch;
- The financial instrument is part of a group of financial assets and liabilities or a group of financial liabilities managed and performance evaluated on a fair value basis; or
- The financial liability contains one or more non-closely related embedded derivatives.

The Group has designated a small portion of loans and advances to customers at FVTPL as by doing so significantly reduces an accounting mismatch.

Financial assets at fair value through profit or loss are subsequently measured at fair value. The fair value gains and losses for those debt instruments which have not been designated with a hedge accounting relationship are recognised within the income statement for the year and recorded within other operating income/(expense) (net).

d) Financial instruments measured at FVTPL
FVTPL is the default category for financial assets. This category includes:
- The Surrendered Loss Debtor and investment securities which fail the contractual cash flow test; and
- Equity instruments not designated as FVOCI.

Subsequent measurement is identical to that disclosed above for financial instruments designated at FVTPL.

e) Financial assets measured at FVOCI
Debt instrument financial assets measured at FVOCI are those for which the business model objective is hold to collect the contractual cash flows and sell, and the contractual cash flows of the financial asset are solely payments of principal and interest. FVOCI financial assets are subsequently measured at fair value, with movements in fair value being recognised in other comprehensive income, except for the recognition of impairment gains and losses, interest income and foreign exchange gains and losses on the debt instrument's amortised cost, which are recognised in the income statement.

When the debt instrument is derecognised, cumulative gains and losses previously recorded in other comprehensive income are reclassified from equity to the income statement and recognised in other operating income/(expense) (net).

An equity instrument may be designated irrevocably at fair value through other comprehensive income at inception. When this election is applied, cumulative gains and losses are recognised in other comprehensive income but are not transferred to profit or loss on derecognition of the equity instrument. The Group has made no such elections in respect of equity instruments.

f) Reclassifications
Debt instruments are only reclassified when the business model for managing such assets is changed. Such changes as a result of external or internal changes must be significant, demonstrable to external parties, and are expected to be rare in occurrence. Financial liabilities cannot be reclassified.

g) Sale and repurchase agreements
Securities sold subject to repurchase agreements (repos) are reclassified on the balance sheet as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the assets. The liability to the transferee is also included on the balance sheet, in deposits by banks. The difference between sale and repurchase price is accrued over the life of the agreements.

Securities purchased under agreements to re-sell (reverse repos) are classified as loans and advances to banks on the balance sheet, as appropriate.

h) Derivative financial instruments and hedge accounting
Derivatives are used to hedge interest and exchange rate exposures related to non-trading positions. Instruments used for hedging purposes include swaps, forward rate agreements, options and combinations of these instruments.

Derivative financial instruments are stated at fair value using valuation techniques such as discounted cash flow models. All derivatives are carried as assets when the fair value is positive and liabilities when the fair value is negative. The gain or loss on remeasurement to fair value is recognised immediately in the income statement except where derivatives qualify for cash flow hedge accounting.

The IAS 39 Financial Instruments criteria for documentation and hedge effectiveness are required to be met where the Group applies hedge accounting. The Group applies IAS 39 hedge accounting.

i. Cash flow hedges
Where derivatives are designated as hedges of the exposure to variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the portion of the fair value gain or loss on the derivative that is determined to be an effective hedge is recognised directly in equity. The ineffective part of any gain or loss is recognised in the income statement immediately.

The accumulated gains and losses recognised in equity are reclassified to the income statement in the periods in which the hedged item will affect profit or loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss recognised at that time remains in equity until the forecast transaction is eventually recognised in the income statement.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in equity is immediately reclassified to the income statement.

ii. Fair value hedges
Where a derivative is designated as the hedging instrument to hedge the change in fair value of a recognised asset or liability or a firm commitment that could affect profit or loss, changes in the value of the derivative are recognised immediately in the income statement together with changes in the fair value of the hedged item that are attributable to the hedged risk. Fair values are based on quoted market prices in active markets or, where these are not available, using valuation techniques such as discounted cash flow models. If the derivative expires or is sold, terminated, or exercised, or no longer meets the criteria for fair value hedge accounting, or the designation is revoked, then hedge accounting is prospectively discontinued. Any adjustment up to that point, to a hedged item for which the EIR method is used, is amortised to profit or loss as part of the recalculated EIR of the item over its remaining life.

iii. Fair value hedge accounting for a portfolio hedge of interest rate risk
As part of the risk management process, portfolios are identified where interest rate risk is to be hedged. The portfolios may comprise only assets, only liabilities or both assets and liabilities. Each portfolio is analysed into repricing time periods based on expected repricing dates, by scheduling cash flows into the periods in which they are expected to occur.
Using this analysis, the percentage to hedge is decided and designated as the hedged item is an amount of assets or liabilities from each portfolio equal to this.

The change in fair value of the portfolio relating to the risk that is being hedged is measured monthly. Provided that the hedge has been highly effective, the change in fair value for the hedged risk of each hedged item is recognised in the income statement with the cumulative movement in its value being shown on the balance sheet as a separate item, fair value adjustment for hedged risk, either within assets or liabilities as appropriate. If the hedge no longer meets the criteria for hedge accounting, this amount is amortised to the income statement over the remaining useful life of the hedged item on an appropriate basis.

The fair value of each hedging instrument is measured and this is included in derivative financial instruments in either assets or liabilities as appropriate, with the change in value recorded in the income statement. Any hedge ineffectiveness is recognised in the income statement as the difference between the change in fair value of the hedged item for the hedged risk and the change in fair value of the hedging instrument.

i) Embedded derivatives
A derivative may be embedded in another liability, known as the host contract. Where the economic characteristics and risks of an embedded derivative are not closely related to those of the host contract (and the host contract is not carried at fair value through profit or loss), the embedded derivative is separated from the host and held on-balance sheet at fair value. Movements in fair value are recognised in the income statement, whilst the host contract is accounted for according to the relevant accounting policy for that particular liability.

Embedded derivatives are not considered in the context of financial assets, with the classification and measurement of the entire instrument is instead based on the contractual terms of the financial asset and the related business model.

j) Impairment of financial assets
The below reflects the Group's general accounting policies around the assessment of credit losses and does not reflect specific assessment of the impacts of COVID-19. These are discussed in further detail in note 2 to the Group's consolidated financial statements.

Under IFRS 9, the Expected Credit Loss (ECL) is assessed on a forward-looking basis for debt instruments carried at amortised cost and FVOCI, for exposures related to loan commitments, and for financial guarantee contracts. Credit risk is measured using probability of default (PD), the exposure at default (EAD) and loss given default (LGD) (please refer to the glossary for definitions).

Financial instruments are classified within stage 1 on initial recognition. If a significant increase in credit risk (SICR) since recognition is identified but the financial instrument is not credit impaired, then the financial instrument transitions to stage 2. A financial instrument transitions to stage 3 when it becomes credit impaired. Financial instruments within stage 1 have a loss allowance reflecting a 12 month ECL whereas financial instruments within stage 2 and 3 have a loss allowance reflecting a lifetime ECL. Financial instruments which are purchased or originated credit impaired attract a lifetime ECL until derecognition irrespective of staging criteria. For stage 3 assets, interest is recorded on a net basis.

The expected life is estimated based on the shorter of the contractual and behavioural life. For retail credit cards and corporate charge cards, expected life is based on the behavioural life with the contractual life applied to other portfolios.

i. Constitution of the expected credit loss provision
The ECL provision is calculated based on collective and individual assessments. Post-model adjustments (expert overlays) are applied to reflect risk characteristics for assets subject to collective provisioning but for which a specific risk characteristic is not captured within the collective models.

ii. Significant increase in credit risk
A financial instrument is considered to have experienced a significant increase in credit risk since initial recognition when one or more quantitative or qualitative or backstop criteria have been met. The quantitative criterion is a PD based measure which varies based on a number of considerations, including product type, age and PD at origination, with a backstop of 30 days past due. Qualitative drivers of a significant increase in credit risk include exposures determined to be higher risk and subject to closer credit risk monitoring.

The 'low credit risk exemption' available within IFRS 9 applies to certain highly rated treasury assets. Accordingly, at each balance sheet date, it is assumed that credit risk on all such financial assets has not increased significantly since initial recognition. The 'low credit risk exemption' has not been applied to any other type of financial asset.

iii. Definition of default and credit impaired financial instruments
Qualitative criteria applied in the definition of default included:
- Bankruptcy/insolvency for all portfolios;
- Certain types of forbearance and unlikeliness to pay factors for all portfolios except for Treasury; and
- Fraud, litigation/possession and term expiry for retail secured portfolios.

The Group uses the 90 days past due backstop in evaluating whether or not an instrument has defaulted.

If an instrument does not meet the default criteria for a defined period of months (after a probationary period of 6-12 months) then an instrument is no longer considered in default. This period has been set with regard to the probability of an instrument returning to default status after cure.

iv. Calculation of the ECL
The ECL is calculated as the discounted multiple of PD, EAD and LGD, which are all based on historical analysis, adjusted for the future view of forward-looking macroeconomic information.

v. Incorporation of forward-looking information
Both the assessment for SICR and the calculation of ECL incorporate forward-looking information. Forecasts of key economic variables reflecting the economic scenarios are provided by an internal economics team on a regular basis. In order to capture non-linearities and asymmetries within the ECL calculation, a number of possible scenarios, together with their weightings, are obtained from the internal economics team. The number of scenarios and their weightings are assessed on an annual basis (subject to any interim salient economic events). By considering statistical analysis and applying expert credit judgement, it has been determined that a single upside and two downside scenarios in addition to the base scenario are required.

The assessment of SICR is performed using the remaining lifetime PD under each scenario, multiplied by the scenario weighting, along with the qualitative and backstop indicators set out in ii) above. This assessment determines whether the whole financial instrument should be in stage 1, 2 or 3 and hence whether a 12 month or a lifetime expected credit loss should be recognised. Following this assessment the ECL is measured as either a probability-weighted 12 month ECL (stage 1) or a probability-weighted lifetime ECL (stage 2 or 3). The probability-weighted ECLs are calculated by applying each scenario to the ECL models and multiplying the result by the respective scenario weighting.

vi. Segmentation of portfolios
Financial assets are grouped together where ECL calculations are performed on a collective basis. Regression analysis has been performed to determine how financial assets should be grouped such that risk characteristics of assets within a group are homogeneous and the risk characteristics of each group are statistically significant to another.

vii. Write-off and recoveries
A write-off is made when all or part of a claim is deemed uncollectable or forgiven after all the possible collection procedures have been completed and the amount of loss has been determined. Write-offs are charged against previously established provisions for impairment. Any additional recoveries from borrowers, counterparties or other third parties made in future periods are offset against the write-off charge in the income statement once they are received.

viii. Modification
When renegotiating or otherwise modifying the contractual cash flows of loans to customers, e.g. by applying forbearance, the Group considers whether or not the new terms are substantially different to the original terms.

If the new terms are not substantially different to the original terms, the modification in contractual cash flows does not result in derecognition. The gain or loss on modification of the contractual cash flow associated with the recognition of the revised gross carrying amount is recognised in the income statement.

When the contractual cash flows of financial assets are renegotiated or otherwise modified and the new terms are substantially different to the original terms, the original asset is derecognised, and a new asset is recognised at fair value with a new EIR. At the date of recognition of the new asset, an assessment is made as to whether the asset was credit impaired on recognition. The difference between the carrying amount derecognised and that rerecognised is included in the income statement as a gain or loss on derecognition.

COVID-19-specfic payment deferrals taken by customers are not considered to result in a substantial difference to the original terms, and present value of the revised expected cash flows are not materially different to the original cash flows; therefore these have not been treated as modifications.

k) Derecognition of financial instruments
The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay.

Collateral provided under standard repurchase agreements, securities lending and borrowing transactions is not derecognised because substantially all of the risks and rewards are retained on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

Financial assets associated with certain internal securitisation transactions are not derecognised because the Bank Company retains substantially all of the risks and rewards on the transferred financial assets.

When a financial asset is derecognised in its entirety, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) is recognised in the income statement.

A financial liability is derecognised when the obligation is discharged, cancelled or expires. Any difference between the carrying amount of a financial liability derecognised and the consideration paid is recognised in the income statement.

1.4 Property, plant and equipment
Assets are recognised where there is substantial exposure to all the risks and rewards of those assets. Items of property, plant and equipment are stated at cost less any accumulated depreciation and impairment losses. Depreciation is recognised on a straight line basis at the following maximum default rates, which are estimated to reduce the assets to their realisable values at the end of their useful lives which is 40 years for long leasehold land and buildings, 10 years for freehold and leasehold improvements, 5 years for computers and other equipment, 10 years for furniture and equipment and the life of lease for short leasehold buildings.

All items of property, plant and equipment are reviewed for indications of impairment on a regular basis and at each balance sheet date. If impairment is indicated, the asset's recoverable amount (being the greater of fair value less cost to sell and value in use) is estimated. Value in use is calculated by discounting the future cash flows generated from the continuing use of the asset. If the carrying value of the asset is greater than the recoverable amount, the shortfall is recognised in the income statement.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal, less costs to sell, with the carrying amount and are recognised net within operating expenses in the income statement.

1.5 Intangible assets
Intangible assets (including those which are internally generated) are initially recognised when they are separable or arise from contractual or other legal rights, where it is probable that future economic benefits attributable to the assets will flow from their use and the cost can be measured reliably.

The cost of internally generated assets only include employee costs to the extent that they are directly attributable to the development of the identified asset (indirect and general overhead costs are excluded). Internally generated assets are amortised from the date which they become available for use.

Intangible assets are stated at cost less accumulated amortisation and provisions for impairment, if any, and are amortised over their useful lives, which is 3 to 9 years for computer software and 3 to 5 years for licences.

Intangible assets are reviewed for impairment when there are indications that impairment may have occurred.

1.6 Leases
Bank as a Lessee
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 and an estimate of dismantling/restoration of the underlying asset. 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 measured initially at the present value of unpaid lease payments, excluding VAT. 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 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 expense and similar charges in the income statement.

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);
- Lease liabilities are discounted at the Group's incremental borrowing rate; and
- Non-lease components are not separated from lease components within the lease liability.

Bank as Lessor
Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating. Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease. Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases.

1.7 Cash and cash equivalents
Cash and cash equivalents comprises cash balances and balances with a maturity of three months or less from the origination date, which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

1.8 Income tax
a) Overview
Tax for the year comprises current and deferred tax, which is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in the statement of comprehensive income.

b) Current tax
Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

c) Deferred tax
Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided for is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised and is supported by the plan.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

1.9 Retirement benefits
Defined contribution
A defined contribution (DC) scheme is a plan into which the Group and employees pay fixed contributions which are invested on their behalf by the trustee of the scheme. The Group has no legal or constructive obligation to pay any further contributions. The Group participates in the DC element of The Co-operative Pension Scheme (Pace DC), which is ring-fenced from the defined benefit section of the Pace scheme noted below. The cost of the employer contributions to the Group's DC plan is recognised as an expense in the income statement in the period in which they fall due.

Defined benefit
A defined benefit (DB) scheme is a pension plan that defines the amount of guaranteed pension benefit that an employee will receive on retirement based on a number of factors including the salary and years of service.

The assets of a DB scheme are included at their fair value and scheme liabilities are measured on an actuarial basis using the projected unit credit method in accordance with IAS 19 Employee Benefits (IAS 19). The liabilities are discounted to present value using rates equivalent to market yields on high-quality corporate bonds at the balance sheet date with terms to maturity approximating to the terms of the related pension liability. A high-quality corporate bond is usually taken to mean a bond that has been rated at the level of AA or equivalent status.

The Group's income statement includes the past service costs, net interest income or expense and scheme administration expenses. Past service costs represent the change in the present value of the defined benefit obligation arising from plan amendments or curtailment and are recognised when the plan amendment or curtailment occurs. Net interest income or expense is calculated by applying the discount rate at the beginning of the period to the net defined benefit asset or liability.

Remeasurements, comprising actuarial gains and losses, and the return on plan assets (excluding amounts included in net interest income or expense) are reflected immediately in the balance sheet with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurements relate to the effects of differences between previous actuarial assumptions and what has actually occurred, and changes in forward-looking actuarial assumptions. They will not subsequently be reclassified to profit and loss.

The Group's balance sheet includes the net scheme surplus or deficit, being the difference between the fair value of the schemes' assets and the present value of scheme liabilities at the balance sheet date. Surpluses are recognised as an asset to the extent the Group has an unconditional right under the scheme rules to reduced contributions in future or obtain refunds from the schemes in accordance with IFRIC 14 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.

1.10 Government grants
Government grants are recognised in the balance sheet initially as deferred income when there is reasonable assurance that the grant will be received and the Group will comply with the conditions attached to it.

Government grants related to costs are deducted from the relevant costs to be compensated in the same period. Government grants to compensate for the cost of the assets are released to profit and loss within depreciation and amortisation expense over the expected useful life of the asset.

1.11 Foreign currency
The functional and presentational currency is pounds sterling. Transactions in foreign currencies are translated at the foreign exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to sterling at the foreign exchange rate prevailing at that date. Foreign currency differences arising on translation are recognised in the income statement, except for foreign currency differences arising on translation of FVOCI equity instruments or a qualifying cash flow hedge, which are recognised directly in the statement of other comprehensive income. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to sterling at the exchange rates prevailing at the dates the values were determined.

1.12 Investments in subsidiaries and Group undertakings
Investments in subsidiaries are initially measured at cost and subsequently measured at cost less impairment.

1.13 Provisions
A provision is recognised in the balance sheet if there is a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at an appropriate pre-tax rate, if the expected future cash flows can be reliably estimated.

In the case of restructuring provisions, a constructive obligation arises when a plan is sufficiently detailed and is formalised and when the plan is deemed to have been communicated to relevant stakeholders impacted by the restructure. Restructuring provisions include only direct expenditure arising from the restructuring plan which is both necessary for restructuring and not associated with ongoing activities.

1.14 Share premium
Share premium is the amount by which the fair value of the consideration received exceeds the nominal value of shares issued. Expenses and commissions paid on the issue of shares are written off against the share premium of the same issue.

1.15 Netting arrangements
Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to do so and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2. Standards and interpretations issued but not yet effective

Minor amendments to IFRSs: The IASB has published a number of minor amendments to IFRSs that were effective from 1 January 2020. None of these had a significant effect on the financial statements when adopted.

Major new IFRSs: The IASB has published a new standard, IFRS 17 (Insurance Contracts). The new standard requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. The standard is effective for reporting periods beginning on or after 1 January 2021 but has been tentatively deferred to annual periods beginning on or after 1 January 2023, and is not yet endorsed by the UK. The impact of the new standard has not yet been quantified.

Caution about forward-looking statements
This document contains forward-looking statements with respect to the business, strategy, plans and/or results of the Group and its current targets, goals and expectations relating to its future financial condition, performance, developments and/or prospects. Forward-looking statements sometimes use words such as ‘may’, ‘will’, ‘seek’, ‘continue’, ‘aim’, ‘anticipate’, ‘target’, ‘projected’, ‘expect’, ‘estimate’, ‘intend’, ‘plan’, ‘goal’, ‘believe’, ‘achieve’, ‘predict’, ‘should’ or, in each case, 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 Group’s future financial position and commitments in connection with the plan and other statements that are not historical facts, including statements about the Group’s or its Directors’ and/or management’s beliefs and expectations.

Limitations inherent to forward-looking statements
The Group cautions readers that these forward-looking statements are not historical facts or guarantees of future performance and that actual results or other financial condition 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 and uncertainty because they are based on current plans, estimates, targets, projections, views and assumptions and are subject to significant inherent risks, uncertainties and other factors both external and internal relating to the Group’s plan, strategy or operations that are beyond the Group’s control, which may result in the Group being unable 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. Accordingly, undue reliance should not be placed on forward-looking statements.

Forward-looking statements speak only as at today

Any forward-looking statements made or contained in this Annual Report and Accounts speak only as of the date of this Annual Report and Accounts and it should not be assumed that they have been revised or updated in the light of new information of future events or circumstances arising after the date of these documents. Except as required by the Prudential Regulation Authority, the Financial Conduct Authority, the London Stock Exchange or applicable law, the Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained in these documents as a result of new information or to reflect any change in the Group's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. The reader should, however, consider any additional disclosures that the Group has made or may make in documents it has published or may publish via the Regulatory News Service of the London Stock Exchange.

No offer of securities

The information, statements and opinions contained in this Annual Report and Accounts do not constitute or form part of, and should not be construed as, an offer of, or solicitation of an offer to purchase or subscribe for, any securities or financial instruments to any person in any jurisdiction, and should not be relied on in connection with any contract or commitment whatsoever or be treated as any advice or recommendation with respect to any securities or financial instruments. In particular, this Annual Report and Accounts does not constitute an offer for sale of, or a solicitation to purchase or subscribe for, any securities in the United States. No securities of the Group have been, or will be, registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), and securities of the Group may not be offered or sold in the United States or to U.S. persons absent an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States.