The Co-operative Bank

2023 Annual Report and Accounts

The co-operative bank

Ethical then, now and **always**

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
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Bristol
BS13 8AE

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

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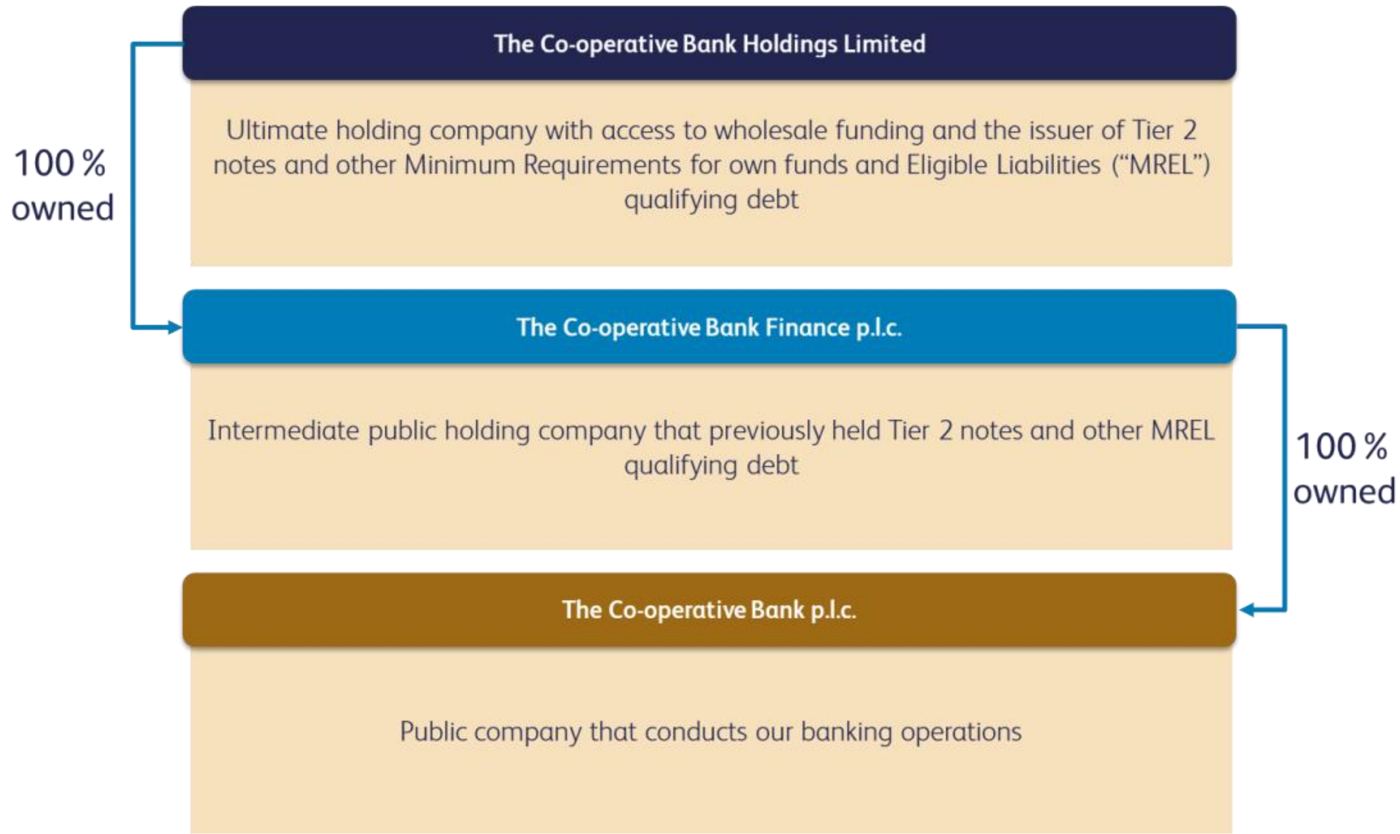
Our Group structure

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 73.



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The Co-operative Bank plc

View information about The Co-operative Bank at:

www.co-operativebank.co.uk/investorrelations

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

The Co-operative Bank at a glance

Our story

The Co-operative Bank's story began 150 years ago in 1872, as the Loans and Deposits department of Co-operative Wholesale Society.

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 370,000 customer responses since 1992.

Our purpose

Driven by co-operative values and our customer-led Ethical Policy, we are the bank that's changing our communities, for good.

Our vision

To be the UK's leading ethical bank, together with our customers we make banking a positive force for good.

Core customer segments

We offer products to both retail and small and medium-sized ("SME") banking customers, which together are referred to as our core customer segments.

Our strategy

We aim to establish sustainable advantage by trusting in our customer-led Ethical Policy, our co-operative values and our committed colleagues, whilst removing cost and income inhibitors.

In 2023, we refreshed our strategy to focus on investment in select, considered growth pillars, rooted in solid foundations and our history where clear ethical and social differentiation in customer proposition is fundamental. For more information on how we are delivering against our strategic priorities see pages 20 to 23.

Our values

- Take Responsibility
- Do the Right Thing
- Step Up
- Stronger Together

Business highlights

Strong operational momentum, pleasing performance against strategic objectives in a challenging environment, and on track to complete our mortgage and savings transformation programme ("Simplification").

Financial highlights

£71.4m

Statutory profit before tax

2022: £132.6m

£120.9m[1]

Underlying profit before tax

2022: £136.0m

1.80%

Net interest margin ("NIM")

2022: 1.66 %

86.1%

Statutory cost:income ratio

2022: 72.8 %

0.3bps

Asset quality ratio ("AQR")

2022: 3.1bps

Key milestones delivered in multi-year Simplification programme	Mortgage platform live for new business, migration of existing customers initiated; new savings platform live for new products, majority of existing customers migrated.
'The Co-operative Bank for Intermediaries'	Rebranded our mortgage platform, reinforcing our brand and identity in the market.
Green bonds issued	Successful issuance of £200m MREL funds in May 2023, refinanced £200m Tier 2 regulatory capital in November 2023 with both issuances under our Green, Social and Sustainability ("GSS") Financing Framework.
Acquisition of mortgage portfolio	Acquired Sainsbury's Bank mortgage portfolio representing approximately 3,500 customers with balances of c.£0.5 billion.

1. Underlying profit 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 56.

Capital, liquidity and balance sheet

Strong capital position with a healthy liquidity surplus

Organic Common Equity Tier 1 ("CET1") growth of 70bps [2]

20.4%

CET1 Ratio[3, 4]

2022: 19.8 %

25.3%

Total capital ratio ("TCR") [3]

2022: 23.8 %

211.4%

Liquidity coverage ratio ("LCR")[5]

2022: 265.3 %

£4.8bn

Risk-weighted assets ("RWAs")

2022: £4.8bn

Stable, low risk mortgage book

Well-positioned in a higher interest rate environment: 0.21% of secured accounts greater than three months in arrears, 10% of the mortgage book with loan-to-value ("LTV") greater than 80%.

Loyal retail and SME deposit franchise

Average customer balances remain high and retail variable deposit average balances increased as higher rates incentivise customers to save.

£4.8bn

Total gross mortgage lending including retention

2022: £5.3bn

55.7%

Average core mortgage book LTV

2022: 53.5 %

£13.8bn

Retail franchise deposits

2022: £15.0bn

£3.3bn

SME deposits

2022: £3.4bn

2. Reported prior to proposed dividend and adjusted for the impact of the mortgage book acquisition on RWAs.

3. Reported prior to proposed dividends.

4. Regulatory minimum: 14.3 % including CRD IV buffers.

5. Calculated in line with Pillar 3 requirements based on a rolling 12-month average. Regulatory minimum of 100 %.

Supporting our colleagues

43.3%

Percentage of senior roles held by women

2022: 41.3 %

18.1%

Gender pay gap (median)

2022: 29.3 %

8.6%

Ethnicity pay gap (median)

2022: 12.5 %

76%[1]

Positive colleague engagement (externally validated engagement survey)

Senior roles held by women increased	We have increased the percentage of women in senior roles and have re-confirmed our commitment to achieving a target of 45%. Our new target date will be published following development of our 2024 Diversity and Inclusion strategy (see page 97 for more info).
Gender pay gap improved	We are confident that in the long term our focussed work on inclusion and balance will result in our gender pay gaps, both mean and median, continuing to reduce.
Ethnicity pay gap median improved	Whilst our ethnicity pay gap median improved, our mean gap increased by 2.1%. In October 2023 we announced a new lead Equality, Diversity and Inclusion role at the Bank to demonstrate our commitment to improve ethnicity balance across the Bank.
Positive colleague engagement	Strong colleague response rate (76%). Positivity is strongest around job enjoyment and motivation, with motivation seven points ahead of the industry benchmark.

1. New in year—no 2022 comparator available. Assessed by Ipsos Karian and Box.

Delivering for customers

4.2

Trustpilot score

2022: 1.7

3.6[2]

Complaints per 1,000 customers

H2 22: 4.6

Our Trustpilot score has increased significantly from 2022 and the number of complaints per 1,000 customers has reduced reflecting focussed improvement to our customer propositions and service across retail and SME.

Enhanced customer journeys and experience

We also continued to invest in our branch network with targeted relocations, giving our customers the opportunity to continuing banking with us in branch.

Addressing customer needs

c.8 mins

Average speed to answer ("ASA"), (retail, annual)

2022: c.15 mins

c.6 mins

ASA

(SME, annual)

2022: c.14 mins

Significant improvement in ASA

Continued investment in customer channels, including recruitment in contact centres, has reduced our ASA for both retail and SME significantly. We expect to continue to improve this metric in 2024 through investment in our telephony capabilities.

2. The volume of regulated banking and credit complaints per 1,000 customers over a rolling 6 month period.

Environmental, social and governance highlights

2,226

Scope 1 and 2 emissions (tCO2e)

2022: 2,167[1]

358,422[2]

Scope 3 emissions (tCO2e)

2022: 360,718

Increased scope 1 and 2 emissions

After consistently reducing our reported Scope 1 and 2 emissions each year since 2019, these metrics have increased in 2023 as a result of on-boarding c. 400 colleagues from Capita in 2023, and the re-opening of Newton House in Leek to accommodate these colleagues. Such emissions would have previously been reflected as indirect scope 3 emissions. Total emissions across scope 1, 2 and 3 have reduced year on year (see page 54).

Starting our Net Zero journey

In 2023 we collated data to report on our Scope 3 indirect emissions for the first time, including our largest category of emissions, financed emissions (Category 15). See pages 50 to 54 for more detail.

8.5

Sustainalytics rating

2022: 8.6[3]

AAA

MSCI rating

2022: AAA

1st decile

ISS rating

2022: 1st decile

Maintained ESG risk ratings

Rated as the UK's best Environmental, Social and Governance high street bank by Morningstar Sustainalytics for the third consecutive year.[4]

Recognised as 'Eco Provider' by Which?

Proud to be one of only three banks labelled as an Eco Provider by consumer champion Which? in October 2023.

1. 2022 full year scope 1 and 2 emissions re-stated from 2,181 due to better availability of data.

2. Emissions data includes Q4 estimates for 2023. See our Climate-related financial disclosures report on pages 43 to 54 for more information on our GHG emissions data.

3. At the beginning of 2023, Morningstar Sustainalytics refreshed their ratings weighting methodology, with the Bank's 2022 score changing from 8.3 to 8.6.

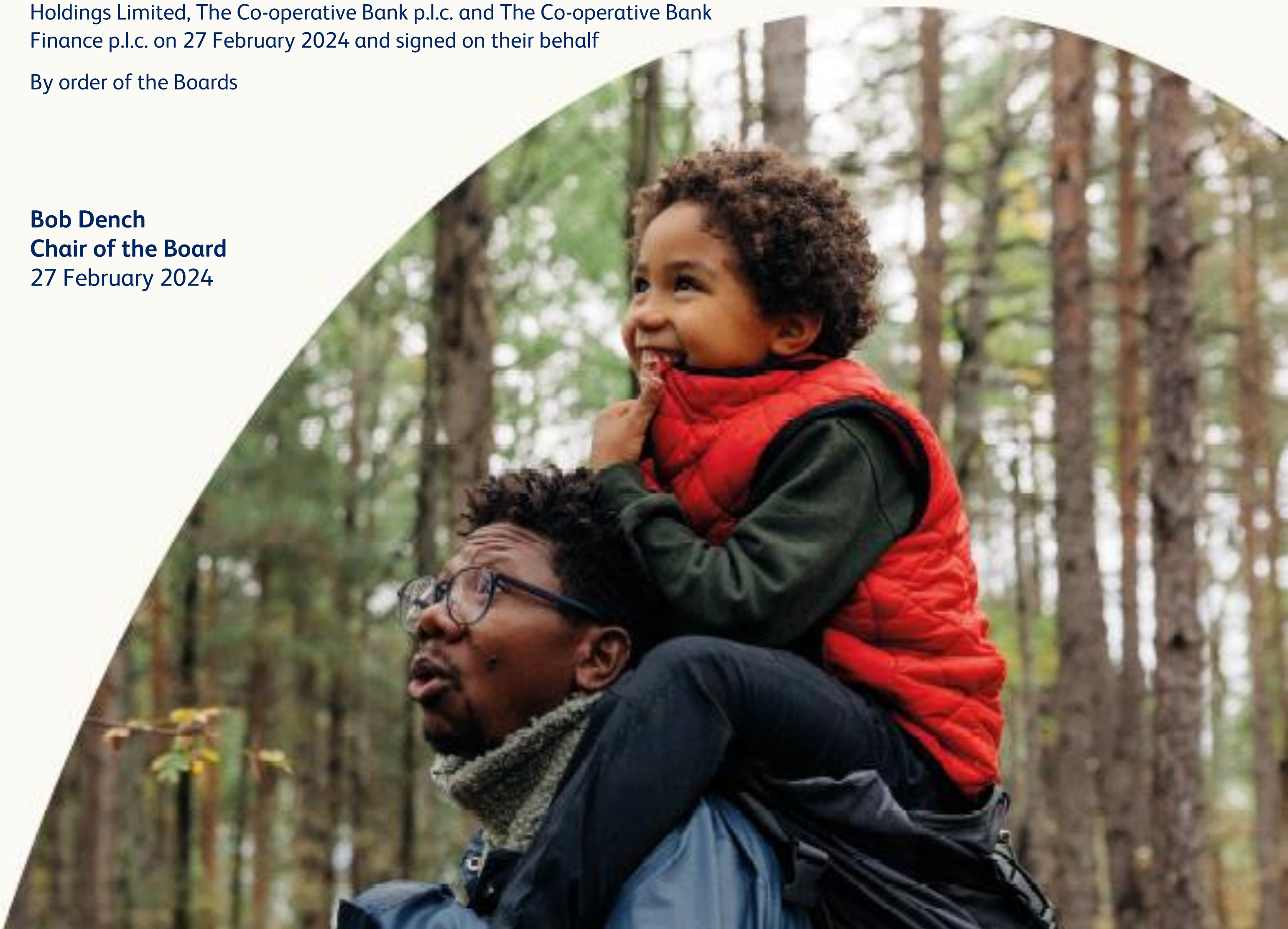
4. As of October 2023, The Co-operative Bank received an ESG Risk Rating of 8.5 from Morningstar Sustainalytics and was assessed to be at negligible risk of experiencing financial impacts from ESG factors. In no event should this Risk Rating be construed as investment advice or expert opinion as defined by the applicable legislation.

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 27 February 2024 and signed on their behalf

By order of the Boards

Bob Dench
Chair of the Board
27 February 2024



Chair of the Board's welcome

I am pleased to present The Co-operative Bank's Annual Report and Accounts for 2023.

It is a great privilege to be leading The Co-operative Bank Board at this time. The business has exciting organic growth plans in place which are beginning to take real advantage of the opportunities open to us, as the transformation of our business begins to bear fruit by providing new capabilities, greater flexibility and lower cost infrastructure. To supplement our organic growth plans, our new capabilities have allowed us to acquire the Sainsbury's Bank mortgage portfolio in 2023, comprising approximately 3,500 customers. We have commenced exclusive discussions with Coventry Building Society to evaluate the merits of combining our two businesses. It is very pleasing indeed to see the options we are now afforded through the resilience and hard work of all our colleagues.

This year saw the departure of two of our extraordinarily talented and dedicated non-executive directors. Derek Weir (Senior Independent Director and Chair of the Risk Committee) and Sir Bill Thomas (Chair of the Remuneration Committee and IT Change specialist) were with the business for nine and ten (respectively) very demanding and turbulent years, and leave us in much, much better shape than they found us. I would like to offer my grateful thanks for the guidance and challenge they have provided me over the period we have worked together. We are fortunate that in their stead we have been able to attract Fiona Clutterbuck and Mark Parker to the Board, where they are already making excellent contributions. Fiona now chairs our Remuneration Committee and Mark is providing expert guidance on business transformation.

Executive changes have seen the appointment of Karen Bassett as our new Chief Internal Auditor and Mike Errington as our new Chief Information Officer.

The Bank's work on ESG and its Sustainability Report demonstrate the Bank's continued commitment to people, planet and the community, remaining, as shown in our rating from Sustainalytics, as the UK's best ESG rated high street bank.

We continue to support other co-operatives and charities through the Business Support for Co-ops Programme enabling real progress in their communities and positioning us as the natural ethical banking choice for SMEs in the UK.

The Bank offers free everyday business banking to eligible co-operative customers and Co-operatives UK members; it is privileged to work with Co-operatives UK and is looking at greater collaboration to support them.

With the Bank having achieved sustainable profitability over the past three years, the Board intends to honour its commitment to maintain a stable and sustainable ordinary dividend policy, and has recommended a dividend of 0.13p per ordinary share, which will be declared subject to shareholder approval at the 2024 Annual General Meeting.

This has been another highly satisfying year for all of us at the Bank and it has been gratifying to see how colleagues have stepped up to support customers and each other. The Board has played a significant role in guiding, challenging and supporting the business and I thank them all for their time, energy and commitment to this unique bank.

Bob Dench

Chair of the Board

Chief Executive's review

2023 was a landmark year for The Co-operative Bank.

We have continued to deliver on our transformation journey and completed our first portfolio acquisition in over a decade, as well as maintaining our position as the UK's most ethical bank. I am pleased to report statutory profit before tax of £71.4m and a CET1 ratio of 20.4%[1], reflecting our strong capital position.

In 2023 we completed vital steps on our transformation journey and delivered against our strategic objectives, with significant progress in our multi-year IT improvement programme and the insourcing of mortgage operations, including c. 400 colleagues, from Capita. In 2024, we will complete the final steps of this significant transformation which is a key enabler of the next phase of our strategy, and I was delighted earlier this month to announce we have successfully migrated c. 120k mortgages totalling over £16.5bn on to our new cloud-based mortgage system.

Robust underlying financial performance

We have delivered underlying profit before tax of £120.9m, supported by increased total income up 3% compared to 2022. Costs have increased year on year as we have spent more on continuous improvement projects which will drive future benefit, but which are not exceptional in nature. This includes improving our telephony and digital services, responding to and embedding changes as a result of regulatory developments and the impact of the inhousing of our Capita mortgage colleagues on our run rate cost base.

We have continued to focus on strategically managing our mortgage book volumes whilst actively protecting our net interest margin ("NIM"), with retention balances comprising 57% of our gross lending this year. Average completion margins over the year reduced to 61bps from 77bps in 2022 in line with market trends, although we have seen this improve in the final quarter of the year as swap rates have reduced. Our investment in our flagship Simplification programme has allowed us to react faster to pricing changes in the market than before.

Following the progress we have made in recent years, in August we acquired the Sainsbury's Bank mortgage portfolio, with approximately 3,500 customers and c.£0.5bn of balances joining the Bank. This demonstrated our strength in a competitive UK mortgage market, allowing us to grow balances whilst protecting margins.

The inflationary environment and cost of living challenges have resulted in core customer liabilities reducing by £1.0bn, to £19.0bn. We have a very loyal customer base, and re-introduced our 'Refer a Friend' campaign to attract new customers to the Bank.

In SME, deposit balances remained stable at £3.3bn (2022: £3.4bn). Decreased current account balances were offset by increased savings balances — including a 34% increase in savings accounts opened in the year, as customers looked to benefit from higher rates.

In November 2023, we received two final decisions from the Financial Ombudsman Service that partly upheld complaints related to historical increases in the Standard Variable Rate applied to a closed book of mortgage customers during 2011 and 2012. In December 2023, the Board approved proposals from management to apply the findings to customers with similar characteristics regardless of whether they had complained, concluding proactive steps should be taken to redress eligible customers. The cost of redress and delivery has been quantified at £28.9m, and a provision of this amount has been recognised.

As a result of ongoing profitability and not having yet recognised deferred tax assets in full, during the year we recognised further deferred tax assets relating to unrecognised historical losses, and we now have an asset of £197.5m that will be used to shelter future taxable profits.

1. Reported prior to proposed dividends.

Strong liquidity and capital position

In 2023 our CET1 ratio improved by 60bps, to 20.4 %, driven by the capital build from profits generated in the year. Our strong capital position and continued sustainable profitability has allowed the Board to recommend a £12m dividend of 0.13p per ordinary share, subject to approval of the shareholders at the 2024 Annual General Meeting, which will result in a net CET1 ratio of 20.1 %. This remains well above our regulatory CET1 minimum of 14.3 %[2].

We remain committed to prudent capital returns in the future and intend to maintain a stable and sustainable ordinary dividend policy, based on continued progression towards a target pay-out ratio against underlying profits, and funded from capital generated organically from year-to-year.

In May we issued MREL qualifying debt of £200m. This was the second issuance under our GSS Framework. Additionally, in November we were successful in refinancing our Tier 2 debt of £200m at 11.75 % ahead of the April 2024 call date.

Our funding structure remains robust with LCR at 211.4 %, £2.4bn above requirements. 79 % of funding is from customer liabilities with the remaining comprised of wholesale funding, the majority consisting of low-cost government funding from the Bank of England ("BoE") Term Funding Scheme with additional incentives for SMEs ("TFSME"), which matures between 2024 and 2027.

We have made voluntary repayments of TFSME funding in 2023 totalling £1.2bn, and have already paid off our first maturity due in August 2024. As we continue to pay down TFSME debt further, we expect this to be refinanced through a combination of retail and wholesale funding.

Our performance this year will help us drive further momentum into 2024 to achieve an improvement in our credit ratings. The Bank's long-term deposit rating with Moody's is one notch off investment grade (Ba1) with a positive outlook, whilst our rating with Fitch was upgraded in January to BB+, with a revised outlook to positive from stable following structural profitability, strong capital buffers, and substantial progress in our transformation programme. Our rating with Fitch has increased three notches in 12 months — a huge achievement and external recognition of the hard work of our colleagues.

Unwavering commitment to co-operative values

Our dedication to the co-operative values and principles that form the foundation of the Bank continues to underpin how we run our business, and we continuously integrate environmental, social and governance ("ESG") principles into our daily business operations.

Our long-standing commitment to ethical banking has resulted in our being rated as the UK's best high street bank for ESG by Morningstar Sustainalytics for the third consecutive year, with a score of 8.5. Throughout the year, we maintained an ESG risk rating of AAA from rating agency MSCI emphasising our role as the joint market leader.

Our campaign with Shelter, calling for an end to unfair evictions through the introduction of a robust Renters Reform Bill, has continued to gain momentum. In July, we covered Parliament Square with 172 moving boxes to represent the number of families served a Section 21 'no-fault' eviction notice every day. In September, we took our campaign to Richmond, projecting a video onto the Prime Minister's constituency office of a local renter who was evicted after asking his landlady to fix a mould problem in their home. In response, the Prime Minister reaffirmed his commitment to introducing the bill. We will continue to campaign with Shelter to demand reform that will protect tenants across the country and deliver lasting change.

In October, we were delighted to be announced as an 'Eco Provider' by consumer champion Which?. Which? examined the environmental policies of 13 of the UK's leading current account providers and noted our high ethical standards for the businesses we offer services and finance to, as well as our exclusion of firms involved in the extraction, production or exploration of fossil fuels or the unsustainable harvest of natural resources.

This is testament to our Ethical Policy and our commitment to protect our People, Planet and Communities.

In January, we set a target to double our colleague volunteering hours in 2023 and I'm pleased to announce that we successfully achieved and exceeded this goal during the year, with our colleagues recording 16,343 hours in 2023 (2,335 days), an increase from 4,170 hours in 2022.

As part of our continued commitment to social responsibility, we launched the OnHand app for all colleagues, which provides hundreds of opportunities to engage in meaningful volunteer work, fostering a culture of giving back to the communities we serve.

Earlier this year, we launched a multi-year partnership with Friends of the Earth to address nature deprivation in communities through the Postcode Gardener programme. Postcode Gardeners are professional gardeners who guide, organise and support local people to work together to help greenery and wildlife flourish in their local area. The idea was born of the realisation that whilst many people want to live on streets thriving with greenery, they need help to make it happen. We're pleased to have introduced Postcode Gardeners in parts of Birmingham and London this quarter – two of the most nature-deprived areas of the country – with many more to come in spring next year.

We are actively showcasing our dedication to environmental protection by collaborating with Zero Hour in their efforts to address the climate and nature crisis. On World Environment Day this year, Bank representatives joined Zero Hour ambassadors and supportive MPs to deliver the United for Nature petition. This petition urged the prime minister to elevate the UK government's environmental ambition from merely halting nature loss to halting and reversing it by 2030, aligning with the Nature Target proposed in the Climate and Ecology Bill.

2. Including CRD IV buffers.

Enhancing our customer proposition and supporting customers through cost of living challenges

At the start of the year, we set challenging targets to improve the service we offer to customers whilst addressing their concerns and issues. We have performed well against the progress targets set for the year. We started to track our customer experience on Trustpilot with our score climbing from 1.7 at the start of the year to 4.2, an achievement reflecting the commitment from our staff to enhancing customer journeys and experience.

Following increased recruitment within our call centres at the end of 2022, we have seen substantial improvement in our 'average speed to answer'. In retail, this now stands at eight minutes, an improvement from fifteen minutes in 2022.

We recognise that the economic environment in 2023 has been particularly challenging and have committed to supporting vulnerable customers through cost of living challenges. We are signatories to the Mortgage Charter set out by the Chancellor in June, meaning customers have the ability to temporarily switch their mortgage from repayment to interest only, or extend the terms of their mortgage.

We have also enhanced our customer propositions, with new products launched for both retail and SME customers. For SME customers, our Business Current Account tariff product allows fee free banking for digitally-transacting customers. We have also improved customer journeys, allowing online applications rather than paper-based.

In retail, we have focussed our efforts on driving efficiency across customer and colleague processes, ensuring customer expectations are achieved. We have also offered several promotions, including "Refer a Friend" and "Switch and Save".

Recognising and celebrating our colleagues

The accomplishments of the past 12 months are due to the dedication and support of our colleagues, who consistently deliver services to our customers in alignment with our co-operative values. This is demonstrated by the Bank being shortlisted in six categories at the 2024 Moneyfacts Consumer Awards:

- Moneyfacts Branch Network of the Year;
- First-Time Mortgage Buyers' Choice;
- High Street Mortgage Provider of the Year;
- Re-mortgage Buyers' Choice;
- Student Account Provider of the Year; and,
- Online Banking Provider of the Year.

These nominations reflect the diligence and talent within our business and our relentless commitment to serving our customers well.

We are making progress in our inclusion and diversity initiatives, with 43.3% of women in senior leadership roles against a target of 45.0%, and improvements in our median gender and ethnicity pay gaps.

Colleague feedback remains important for senior leaders at the Bank, and it was satisfying to see a colleague engagement score of 76% with our highest-ranked characteristics being 'job enjoyment' and 'motivation'.

Delivering our strategy

As we come to the end of the 'Growth and Efficiency' phase of our plan it gives me great pleasure to look back at some of the significant progress we have made.

As part of our transformation measures, Simplification, the mortgage and savings platform improvement project, is a key enabler for us to deliver cost efficiencies and improve flexibility for introducing new products and reduce technical debt.

As expected, 2023 has been a significant year in our transformation journey, and in particular, the Simplification programme delivered several key milestones this year. Whilst some of these milestones were delayed compared to original plans, and our final migration and decommissioning activity will not complete until 2024, this is within tolerance given the complexity and significance of this programme. I am delighted that we are almost at the end of this long journey which started with the acquisition of Britannia over a decade ago.

I am particularly pleased that we have also developed a new broker application system alongside customer migrations to the platform, which allows brokers access to our products and services more efficiently. Alongside this, we have rebranded the mortgage platform to 'The Co-operative Bank for Intermediaries,' reinforcing our brand and identity in the market.

Our savings programme is due to complete in early 2024 with the majority of our active customers already migrated to the new platform. Decommissioning of legacy customers will be completed in 2024.

During the year we welcomed c.400 colleagues from Capita as part of the insourcing of mortgage operations, and also launched new savings products, including a Fixed Rate Cash ISA and a Base Rate Tracker, after the launch of two other savings products in 2022. In February 2024 we also launched a regular savings product.

The successful relocation of our Nottingham branch in 2022 meant we were able to invest in relocating two further branches in December 2023, with another two closely following in early 2024. This shows our commitment to investment in our branch network to help deliver for all our customers. We will continue to maximise the opportunities to review locations to improve commercial performance, putting us in the right place to better serve customers.

With the Bank's strong recovery and growth in the past three years, we are exploring potential strategic opportunities with Coventry Building Society, the assessment of which is currently at a preliminary stage. There is no guarantee that such discussions will result in any eventual transaction. In the meantime, we remain committed to our strategy and continue to drive significant positive outcomes for all of our stakeholders.

Outlook for 2024

Whilst we are successfully delivering against the challenging objectives we set ourselves for this phase of our strategy, we acknowledge that there is more to accomplish as we approach the next stage. Looking towards 2024 and beyond, our focus shifts from large multi-year complex programmes to continuously embedding the efficiency we have enabled and expanding our growth ambitions, which you can read more about on pages 22 to 23.

We are already beginning to leverage the benefits of our Simplification programme, and in the early months of 2024 we have completed our migration of mortgages from the 'Green' system to our new platform and seen large mortgage volumes.

The Bank is well placed to maximise and optimise the potential strategic opportunities that lie ahead, enabling efficient and sustainable growth aligned to our strategic objectives and ethical position, with customers always at the heart of what we do.

Nick Slape

Chief Executive Officer

UK retail banking market overview

Cost of living pressures, inflation and higher interest rates dominated the UK throughout most of 2023. As a bank aligned with co-operative values, we have continued to support our customers, colleagues and communities throughout these issues.

Economic and political overview

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

The Bank of England ("BoE") continued to increase base rate across 2023 in order to reduce inflation back towards the 2% target, with the most recent increase in August to 5.25%. At each meeting since August the BoE have voted to maintain base rate at 5.25% as inflation has continued to decrease, and the wider economic environment showed signs of deterioration.

The driver of lower inflation has been reductions in wholesale gas prices compared to 2022, which has led to reduced utility and fuel prices for households and businesses, which in turn has led to a slowdown of price increases of everyday goods. Latest estimates show that GDP contracted in Q3 as the cost of living crisis and above target inflation continued to squeeze household income, suppressing demand and household consumption. The UK fell into a technical recession in Q4 as GDP contracted 0.3%.

Unemployment rose during the first half of 2023, reaching a peak of 4.3% in Q2 with falling job vacancies and increasing levels of individuals classified as unemployed rather than economically inactive, as many returned from retirement. House prices fell in 2023 as cost of living pressures and high mortgage rates squeezed household disposable income.

We expect that base rate has reached its peak and anticipate that the Bank of England will start cutting base rate over the next year, with the first cut assumed in Q2. This is supported by expectations that inflation will continue to fall towards the 2% target in 2024. GDP is projected to remain broadly flat in 2024, moving out of recession from Q1, as demand remains low. We expect further uplifts in unemployment as GDP remains flat putting further pressure on businesses as demand reduces. High mortgage rates and the economic downturn are expected to lead to further pressure on house prices in 2024. There are both upside and downside risks to these expectations, and the Bank continues to monitor the evolving economic outlook and the impacts on its customers.

The Co-operative Bank's business model, described further on page 19, is low-risk, with the majority of assets being low loan-to-value mortgages. As a result, we are well placed to withstand a downturn in the economy. However, we remain alert to economic risks generally and more information is provided in our principal risk categories disclosed on pages 112 to 125.

Consumer trends

2023 consumer trends are still largely being driven by cost of living pressures. Increased interest rates have led to higher mortgage interest rates and therefore higher repayments, making this a difficult time for many of our customers. In response to this continuing trend, we have continued to build on our StepChange partnership in order to help our customers who are facing financial difficulties.

The trend for customers to interact with their bank digitally has continued in 2023. This has driven a shift to self-service apps and built in chat bot functions. However, customers still need good service across all channels of engagement in order to support a consistent quality of care which is in line with Consumer Duty expectations.

This rise in preference for app-based or online banking has driven a rise in the level of fraud education necessary for customers and providers. Fraud has been a prevalent trend year-on-year and constant education and awareness is a key consideration for us in order to reduce the impact of fraud on our customers and colleagues.

We have partnered with Project 159 (a short-code phone service initiative connecting UK banking customers with their bank) and with Stop Scams UK to be part of this initiative. We have introduced a push notification to customer devices when the app is successfully downloaded to a new device. This means that if it wasn't the customer, they will get a notification straight away and be directed to contact 159 to report it.

Consumers are becoming increasingly passionate about putting the planet first, with many customers willing to spend more money in exchange for a greener product. They expect their bank to be aligning their business accordingly by developing these products.

Ethical banking is at the core of our values and how we approach what we do, this means we have always looked for ways to help our customers in the things that matter to them the most.

We have partnered with Energy Saving Trust ("EST") to create a tool where our customers can create an Energy Saving Improvement Plan. If the customer already has a mortgage with us, they are able to borrow additional funds against their current property in order to enact this plan.

Developments in technology

The main technological breakthrough of 2023 has been the widespread interest in artificial intelligence ("AI") driven by the latest developments in generative AI. A report by UK Finance[1] shows that UK financial institutions see a substantial opportunity in AI, with 90 per cent of survey respondents already leveraging predictive AI in back-office functions, yielding tangible benefits. The majority of predictive AI deployment in financial institutions today is in the risk and fraud prevention areas. At The Co-operative Bank we utilise predictive AI to protect customer identities and help to reduce fraud.

Although generative AI is relatively new, more than 60 % of UK financial institutions believe it has the potential to deliver significant cost savings and improvements to operational effectiveness. More than 70 % of generative AI use cases are in the proof of concept or pilot phase.

UK regulators are confirming their approach to generative AI[2] and the government is also taking a keen interest to understand potential productivity improvements whilst maintaining resilience, with the UK Government AI Safety Summit taking place in November 2023.

As with previous years, the industry continues to broaden its usage of cloud technologies. In 2022 over a quarter of UK banks were planning to migrate 50 % or more of their business operations to the cloud, and during 2023 this has accelerated with some institutions now aiming for 60-80 %.

With the implementation of our mortgage platform onto the cloud, as well as our telephony platform, we have taken steps to increase our use of the cloud. We are working with regulators and suppliers to ensure our target hybrid cloud approach provides increased resilience, improved change agility and a more efficient cost model whilst effectively managing cloud concentration risks. The recently announced consultation by the Bank of England, Prudential Regulation Authority ("PRA") and Financial Conduct Authority ("FCA")[3] evidences how critical third party companies (including cloud providers) are becoming in the UK financial industry.

Regulatory environment

Prudential

In 2020, the PRA published Policy Statement 11/20 ("PS11/20") which covers changes to the modelling of secured credit risk, in particular in relation to the assessment of probability of default and loss given default.

From 1 January 2022, we raised a post model adjustment ("PMA") to reflect the expected impact of PS11/20 on our secured RWAs and expected losses ("EL"), whilst model development remained ongoing.

This PMA was revised in December 2022 to reflect progress in the development of compliant models, and has been continuously monitored throughout the year.

As a result of the Policy Statement, the Bank is required to redevelop its secured internal rated based ("IRB") models.

This activity has progressed over 2023 alongside regular engagement with the PRA, and submission of revised exposure at default ("EAD"), loss given default ("LGD") and probability of default ("PD") models were made during the year, subject to regulatory review and approval.

In November 2022, the PRA published Consultation paper 16/22 ("CP16/22") to implement the remaining revisions to the Basel 3 framework that have yet to be implemented within the UK.

This is known as Basel 3.1. The PRA published Policy Statement 17/23 ("PS17/23") in December 2023, the first of its two near-final policy statements that will finalise Basel 3.1 rules within the UK.

The PRA's second near-final policy statement is expected to be published in Q2 2024. The PRA confirmed a delay of UK implementation by six months with the implementation date now being 1 July 2025.

The proposals make significant changes to the calculations of RWAs across both standardised and IRB approaches. Furthermore, the requirement introduces a standardised RWA floor, which is phased in between 2025 to 2030 and will cap the benefit of the IRB approach at 72.5 % of standardised RWAs by 2030.

The PRA confirmed that there are no new Pillar 2 proposals in CP16/22, however they intend to provide further guidance on interaction of the Pillar 2A framework with Basel 3.1 within their second Basel 3.1 policy statement. The PRA also expect to review their Pillar 2A methodologies once UK Basel 3.1 rules have been finalised.

As at 31 December 2023, we anticipate end-state (1 January 2030) Basel 3.1 requirements to reduce CET1 ratio by 3.7 % on a proforma basis. We also note that the PRA is yet to publish further guidance on how it intends to adjust the Pillar 2 capital frameworks in the context of Basel 3.1. We intend to explore strategic actions to optimise our balance sheet with respect to the proposed changes under Basel 3.1.

In May 2023, the PRA published Supervisory Statement 1/23 ("SS1/23"). Multiple work streams have been established to align the Group's model risk management with the requirements outlined in SS1/23, primarily focusing on extending the model framework to incorporate deterministic quantitative methods.

1. The Impact of AI in Financial Services (https://www.ukfinance.org.uk/system/files/2023-11/The%20impact%20of%20AI%20in%20financial%20services.pdf)

2. FCA emerging approach to Big Tech and AI (https://www.fca.org.uk/news/speeches/our-emerging-regulatory-approach-big-tech-and-artificial-intelligence)

3. The Bank of England, PRA and the FCA issue joint proposals to increase resilience of the financial sector by overseeing critical third parties (https://www.bankofengland.co.uk/news/2023/november/boe-pra-fca-issue-joint-proposals-to-increase-resilience-of-financial-sector)

Conduct and Consumer Duty

The FCA introduced Consumer Duty which is designed to increase the current level of consumer protection in the retail financial services market. Consumer Duty introduced:

- a new Consumer Principle that requires firms to act to deliver good outcomes for retail customers;
- cross-cutting rules requiring firms to act in good faith, avoid causing foreseeable harm, and enable and support customers to pursue their financial objectives; and,
- Four Outcomes rules requiring firms to ensure consumers receive communications they can understand, products and services meet their needs and offer fair value, and the support they need.

The first phase of the new Consumer Duty regulation was implemented at the end of July 2023 and applied to all new and existing products and services that remain open for sale or renewal.

We assessed policies, procedures and processes of our key customer journeys and have taken steps where necessary to ensure they are in line with the new duty, embedding changes into business-as-usual activities for consistent good customer outcomes.

The second phase will be implemented at the end of July 2024 and applies to all other products and services. As an ethical bank, we welcome higher expectations for customer outcomes set through Consumer Duty. We need to utilise data and management information to ensure we make fully informed decisions to ensure our customers receive good outcomes.

We view Consumer Duty as an opportunity to strengthen and sharpen our conduct frameworks to evidence that we deliver good outcomes for our customers.

The Cash Savings Market Review is the first indication of a change in approach by the regulator following the implementation of Consumer Duty. The review focusses on Consumer Understanding and Price and Fair Value outcomes.

This is a more targeted approach by the regulator for banks to take action and act differently to address potential harm where customers are at risk by their inaction. We are dedicated to regulatory compliance, prioritising the delivery of significant regulatory changes in 2024 and beyond to enhance customer protection and outcomes, and strong financial resilience.

Regulatory framework review

The Financial Services and Markets Act 2023 (“FSMA 2023”) has received Royal Assent. The Act is a keystone for delivering the government’s plans for the future regulatory framework.

FSMA 2023 implements proposals from the Future Regulatory Framework (“FRF”) Review including giving HM Treasury and the regulators powers to rewrite EU-derived legislation relating to financial services, complementing a separate Retained EU Law Bill. It also gives the regulators a secondary objective for growth and international competitiveness.

Alongside the ‘Edinburgh Reforms’, which build on the reforms outlined in the FSMA 2023, this represents potentially significant change across the regulated financial services industry.

Payments

The UK payments industry is moving to ISO 20022, the emerging global standard for payments messaging. This standard creates a common language for payments data across the globe.

The Bank of England’s Real-Time Gross Settlement (“RTGS”) renewal programme migrated CHAPS payments onto the new messaging standard (Transition State 2.1) on 19 June 2023. Transition State 3, the introduction of the new RTGS core ledger and settlement engine, will take place in summer 2024, delayed from spring 2024. The mandating of certain elements of enhanced data will take place by December 2024.

We established a change programme in 2023 to ensure impacted payment systems are upgraded to meet the Bank of England’s RTGS renewal timeline. It is expected that this programme will be in place until late 2025 when our end-to-end payment journeys will be ISO 20022 compliant.

Both SWIFT & European Central Bank’s ISO 20022 migrations dates took place in March 2023.

The consultation on the Future Roadmap for RTGS Beyond 2024 proposed a number of ambitious and innovative features to develop an RTGS service which is fit for the future, by offering new ways of connecting, more flexible services and enhanced resilience

Announced in the Autumn Statement, and following the Future of Payments Review, the Government accepted the proposal to create a National Payments Vision.

His Majesty’s Treasury, the PRA and the Payment Systems Regulator will work together to create this vision in 2024. As a consequence, Pay.UK’s New Payments Architecture (“NPA”) programme which would have moved Faster Payments to ISO 20022 has stopped, and will be revisited post publication of the National Payments Vision.

We paused our NPA programme in June 2023, and will remain paused until the National Payments Vision is published and the impacts on NPA become clearer. If NPA forms part of the Vision, it is expected this will be a significant multi-year project for the Bank to deliver.

Our business model

Driven by co-operative values and our customer-led Ethical Policy, we are the Bank that is changing our communities, for good. The Co-operative Bank came together 150 years ago to stand up for the ideal of co-operative values and principles and to build a better society for all.

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 support local small and medium-sized businesses. We support charitable causes close to our customers' hearts.

In 1992 we became the first and remain the only bank to have a customer-led Ethical Policy that guides the business decisions we take on a day-to-day basis. As the original ethical bank, we represent a real alternative for those aligned to our values.

You can read more about how our Ethical Policy drives our business model and how we consider Planet, People and Communities in our day-to-day decision in the Values and Ethics in action report, on pages 28 to 35.

Our business model

Where our funding comes from

- Retail customer deposits.
- Business customer deposits.
- Wholesale funding.

What we do with our funding

- Provide mortgages to homeowners and landlords.
- Provide unsecured lending via credit cards or loans and secured lending to SMEs.

How we generate sustainable profits

- Recognise income on the difference in interest rates received from borrowers relative to that paid to our savers (our net interest margin) and also from fees and commissions receivable on our products and services.
- Pay interest on our wholesale funding and pay interest and commissions to intermediaries.
- Credit losses, operating costs and tax are deducted from the income we earn.

Delivering for our stakeholders

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.

Delivering our strategic priorities

In 2023 we refreshed our financial plan and strategy to 2028 as we move into the next phase of our strategic journey; 'Embed & Expand' our growth and efficiency actions.

We have achieved significant progress against our strategic plan over 2022 and 2023 and are now entering the next steps in our transformation journey. Our goals and strategic priorities continue to be aligned to our Group-wide balanced scorecard and we track our progress using a range of refined KPIs. The following pages contain an overview of achievements against strategic priorities to date, and an outline of our refreshed strategy from 2024 to 2028.

Progress in 2023

Simplifying and transforming

We are close to completing our Simplification programme, with the migration of our mortgage and savings customers to modern, resilient, scalable IT systems that enable our growth plans. In doing so, Simplification will decommission our legacy mortgage and savings IT systems, reducing our data centres and our technical debt.

In 2023, we successfully insourced mortgage operations from Capita, resulting in reduced operating costs and improved customer experience. We implemented our new mortgage originations platform hosted on AWS cloud, providing a flexible and future-proof offering. We introduced a new front office portal for intermediaries and implemented a further release to support various lending and non-lending combinations. The launch of the new platform is paving the way for a more flexible product offering to support a range of mortgage products accelerating the Bank's growth agenda. We are acquiring all new business and servicing some of our mortgage customers on our new platform – with phased mortgage migrations occurring early in 2024.

The savings transformation work streams have also made significant progress, building and delivering five new savings products (with a further six previously on-sale products launched in total on mainframe with our new savings product capability), and enabling the migrations of customers from the legacy savings platform to our enhanced The Co-operative Bank branded system. Customer migrations have taken place successfully throughout 2023, with 67% of customers migrated off the legacy platforms so far, and will complete in Q1 2024.

Delivery of Simplification will result in a better customer experience, simplified technical estate, reduced cyber risk, increased operational resilience and lower operational costs.

You can read more about our transformation in our transformation agenda on pages 24 to 25.

Enhance and grow retail proposition

New deposit products, strategically-managed mortgage lending and improving customer experience were the three anchors of our retail strategy in 2023.

Current accounts and deposits: Following the release of two savings products in 2022, we have launched a Fixed Rate ISA and a Base Rate Tracker Savings Account in 2023. Our focus over the year has been attracting and retaining customers whose values and purpose are aligned with our ethical brand and co-operative heritage. In 2024, we also launched a regular savings account.

Mortgage lending: In 2023, we took a number of key steps to grow our mortgage lending including the launch of the new mortgage platform, allowing intermediaries quick and easy access to our mortgage products, as well as a broader offering with the introduction of interest only and larger loan size products. Whilst we have managed new business volumes in a highly-competitive mortgage lending environment to ensure we maintain margins, we have identified and taken opportunities to grow our mortgage book inorganically with the acquisition of the Sainsbury's Bank portfolio in August, comprising c.3,500 customers and c.£0.5bn of balances.

Customers: Improving customer experience has been a key part of our retail strategy in 2023. We improved on average speed to answer times compared to 2022, with customers showing their appreciation through a greatly improved Trustpilot score of 4.2 compared to 1.7 in 2022.

We also continued to invest in our branch network with targeted relocations, giving our customers the opportunity to continuing banking with us in-branch.

You can read more about our retail segment on pages 59 to 61.

Building on our ESG and Values and Ethics difference

ESG and Values and Ethics continue to be integral to our strategy and differentiate us as a bank.

In 2023, we were rated as the UK's best high street bank for ESG by Morningstar Sustainalytics for the third consecutive year, with a score of 8.5 as of 9 October 2023. We also maintained an ESG risk rating of AAA from rating agency MSCI reinforcing us as the joint ESG market leader.

We have committed to aligning our Scope 1 & 2 direct emissions to Net Zero by 2030, and in 2023 announced we would transition our Scope 3 mortgage lending portfolios to align to Net Zero by 2050 at the latest.

Our Ethical Policy ensures our Values and Ethics are aligned to our banking strategy as we continued to deny banking services to fossil fuel producers and extractors , as well as others who enable climate change and harm biodiversity.

We further embedded ESG throughout the Bank in 2023 by continuing to link Executive and colleague pay to ESG commitments as part of our balanced scorecard — with measures such as maintaining ESG ratings, financing through our green bond framework, and lowering greenhouse gas emissions.

You can read more about our Values and Ethics and ESG commitments on pages 28 to 41. See more on our climate reporting on pages 43 to 54.

Developing our offering to SME customers

Improving customer journeys and digitising our SME proposition were two key priorities that we have progressed in 2023.

We launched a new application process for community customers, who are now able to apply for a business account digitally, significantly reducing friction within the customer journey and replacing the traditional paper-based application process.

We redesigned and rebuilt our public website to help customers find the information they need when researching our Business Current Accounts and completed a proof-of-concept on tracking customer journeys end-to-end, enabling us to understand which marketing channels work best for customers and the Bank.

We also updated our mobile applications to ensure a smoother experience for customers by improving functionality and customer journeys.

Improving our digital functionality allowed us to relaunch our Business Current Account tariff product during the year which is fee free for digitally-transacting customers.

You can read more about our SME segment on pages 62 to 63.

Our refreshed strategy

As we enter the second phase of our strategy, where we 'Embed & Expand' on the progress made to date, the Bank has refreshed its strategic focus for the period 2024 to 2028, built around our three growth pillars; current accounts and deposits, mortgages and SME lending.

Within current accounts and deposits, we will focus on increasing customers across both retail and SME, supporting the Bank's low-cost funding base, whilst improving customer propositions and journeys.

Within mortgages, we will diversify our book by growing in selected niches within a balanced risk appetite, offering more tailored solutions for brokers.

Within SME lending, we will continue to grow through a steady evolution of SME propositions and broadening our client base.

These growth pillars will be underpinned by two growth enablers; operating model transformation and ESG and ethical banking propositions.

We will accelerate change through our operating model transformation, with particular focus on cost efficiency, building the right capabilities, developing digital journeys and optimising our customer channels.

ESG and ethical banking will continue to be fundamental to how we operate. We will continue to develop and leverage the Bank's core reputational strength and continue to embed ESG into all customer interactions.

Growth pillars

Our refreshed strategy is built upon investment in select growth pillars, rooted in solid foundations and our history where clear ethical and social differentiation in customer proposition is fundamental. The aim of the strategy is to deliver a more commercially-focussed mid-tier banking model, growing beyond current market shares.

Across **current accounts and deposits**, we will transform our onboarding processes through an improved digital-first approach and accelerated account opening journeys. In addition, we will increase our market share of segmented retail and SME customers through targeted propositions.

Example 2028 KPIs:

Increase in active Retail current accounts: 40%

Increase market share of SME total deposits: x2

In **mortgages**, we will drive lending through a balanced risk-based lending criteria, increasing the diversification of the mortgage book through executing niche market opportunities, as well as offering a more bespoke service for our brokers.

Example 2028 KPIs:

Increase in new business completions: x2

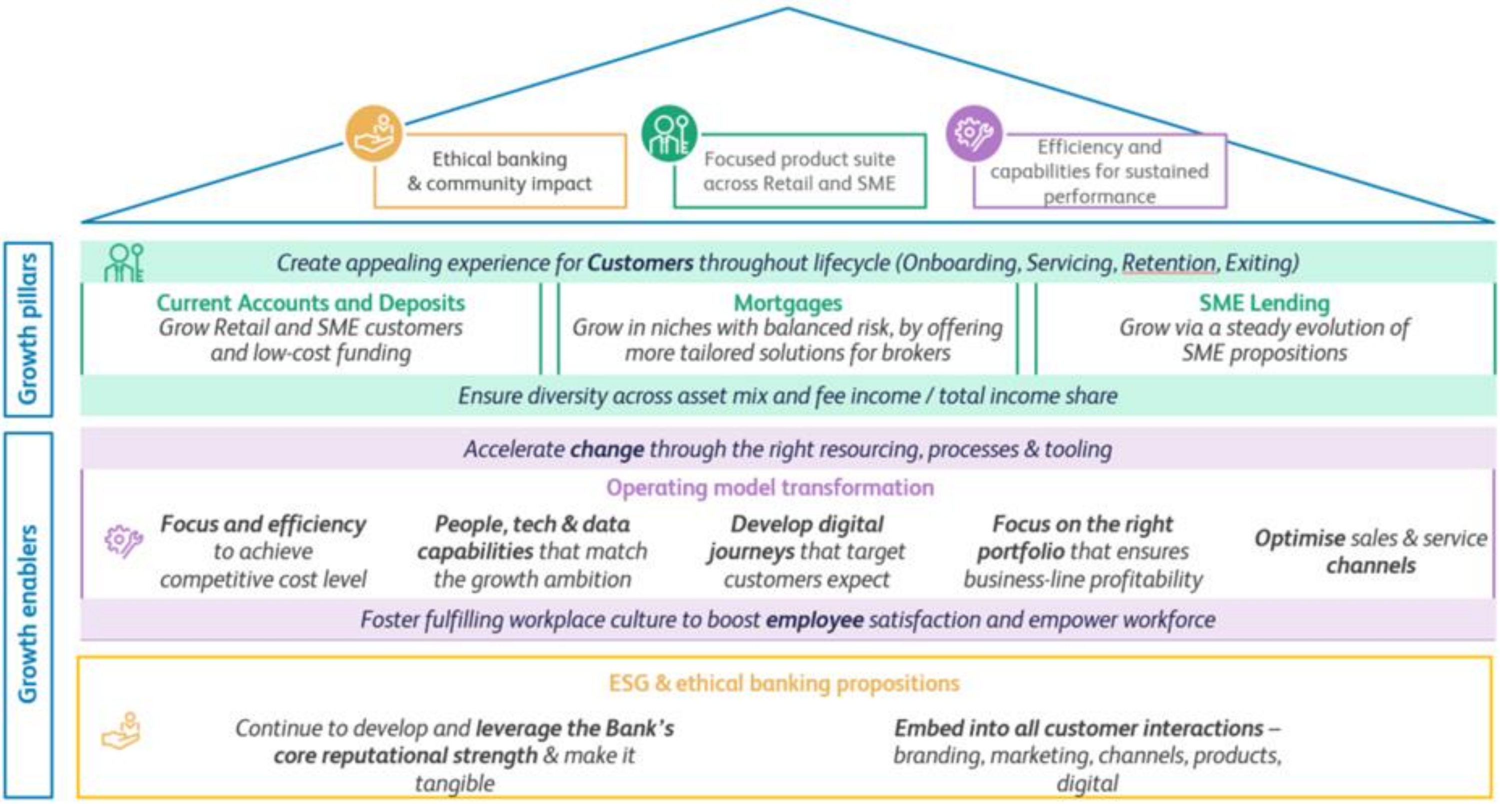
Net growth in mortgage balances: 30%

For **SME**, we will target lending growth through focussing on selected industries and developing targeted propositions to help address growing client needs.

Example 2028 KPIs:

Net growth in SME customer assets: £700m

Increase in new limits drawn: x3



Growth enablers

The success of the strategy is underpinned by accelerating change through the right resourcing, processes & tooling whilst ensuring a fulfilling workplace culture to boost employee satisfaction and empower our workforce.

Our simplified IT estate will have a reduced set of technologies with increased provision in the cloud, resulting in a reduced data centre footprint. Our resilience will have improved, with reduced run costs, levels of technical debt and associated operational risk.

Through our improved digital capabilities all acquisition journeys will be mobile-enabled, simple and straight through, creating same day account opening. Personalised, pre-approved product promotions aligned to industry standard and customer expectations will create multi-product relationships.

Through our improved technology and data delivery models, colleagues will be able to access the data they need to understand current performance and make decisions to drive future performance, facilitating operational efficiency.

Through our multi-channel strategy we will provide improved customer service, using technology to increase automation, real time processes and digital self-serve, allowing colleagues to focus on complex queries. We will create a low cost service model enabled by simplified operating structures, an optimised branch footprint with greater use of automation and self-serve capability. We will continue to drive a step change in external customer perception, supporting growth and increased customer attraction and retention.

We will continue to invest in our people, building new capabilities, skills and behaviours required to drive growth and efficiency. We want to enable personal and professional growth for all of our colleagues through digitisation of development tools to create a high support/high challenge environment building on our ethical foundations. At the same time, we will seek to simplify the Bank, improving efficiency, workforce flexibility and leadership.

Through our marketing strategy we will look to maintain an optimised approach to our marketing activity; enhancing performance through increased reach, personalisation and relevancy. We will retain our ethical leadership, ensuring customers experience our ethics in their day-to-day banking; whilst continuing to maximise brand value from ethical partnerships

ESG and ethical banking is rooted in our distinct co-operative values which underpin how we run our business, providing customers with a real ethical alternative to other high street banks. We will continue to leverage our unique position. Through our ESG strategy we will develop a Net Zero Transition Plan, outlining a set of goals, actions, and accountability mechanisms to align the Bank's activities with a pathway to Net Zero GHG emissions that delivers real economy emissions reduction in line with achieving global Net Zero.

The Bank of Tomorrow

Through targeted investment in the growth pillars and growth enablers, the Bank will build on the significant progress it has made since 2021. We will transform customer journeys and provide products and services that customers need, whilst growing in our selected markets. Values and Ethics will remain at the heart of how we run our business, with ESG fundamental to all strategic and business decisions. This will result in a 'Bank of Tomorrow' that delivers for all our stakeholders.

Our transformation agenda

Our transformation agenda has continued to focus on Simplification, digitisation, regulatory compliance, removing growth inhibitors and risk reduction.

Our transformation journey

The Simplification programme remained at the centre of the Bank's transformation activity in 2023. Significant progress has been made with key milestones being achieved, and we remain on track for full completion in 2024. At the end of 2023, the programme has delivered new savings products and 67 % of customers have been migrated successfully off the legacy platform, with new functionality to support the attraction of new business in 2024. In mortgages, a new mortgage platform has been deployed including a full suite of products that will enable the migration of all customers to take place in 2024.

There have also been a number of key regulatory projects and landmark deployments in the ongoing modernisation of our technical infrastructure in 2023 which include:

- the successful upgrade to authentication technology, ensuring safe and accurate access to digital services;
- the launch of enhanced open banking functionality for personal banking customers. This follows delivery of open banking for SME customers in 2022, meaning all our customers now have this service available;
- the implementation of the first phases of our new, cloud-based telephony platform. With users migrated onto the platform from a range of operational teams, we are on track to complete the migration of all telephony users in 2024, helping to improve colleague and customer experience;
- the deployment of new and improved anti-money laundering monitoring and alerting capability which was deployed in 2023, and we are on track to deliver a new real-time payments monitoring application in early 2024; and
- Consumer Duty, which has been a key focus for the industry, and we are pleased to report that all FCA deadlines have been met including the mitigation of 'high' customer harms, with a follow up plan to address gaps completed by November 2023.

Finally, our digital scrum teams have focussed on maintaining and enhancing critical customer services, with key highlights in 2023 including developing an array of new account opening processes to improve customer experience. SME customers now benefit from a new and improved Business Current Account and improved account opening journeys for sole traders, single director entities and community customers.

Continuing our ethical digital journey

We continue to make good progress against our strategic digital plan, delivering record levels of change and achievement of major milestones in our 'Open for Business' chapter which focussed on rebuilding our technologies, removing technical debt and delivering open banking compliance. Our changes are summarised as follows;

- retail online banking platform – we have launched a new online platform, redesigning and rebuilding customer journeys. Importantly, the new platform offers greater resiliency and speed of change.
- retail mobile app – following the launch of our new app in 2022, across 2023 we were able to nearly treble the number of journeys available to customers. Year-on-year sales through the channel doubled as a result;
- public websites – we have maintained momentum across the channel. Core milestones were the digitisation of paper journeys, the launch of six new sales journeys and a new intermediaries website and an independent accreditation from the Digital Accessibility Centre. Furthermore, there were over 200,000 product applications and over 70 % year-on-year increase in sales; and
- SME onboarding – we launched the digital onboarding journey for SME Community Directplus account openings, which made positive impacts to conversion rates and time taken to open products.

Maintaining compliance and reducing risk

Over 2023, the cyber security threat to the UK has evolved significantly, with a number of high profile cyberattacks reported in the media, resulting in significant operational, financial and data impacts for affected organisations. We continue to enhance our cyber maturity, capability and resilience, using industry-recognised frameworks and independent assessment to validate control enhancements and strategic investments.

Geopolitical cyber threats have emerged as a more significant threat than previous cyber strategies have considered, and this landscape is evolving at pace following the Russian invasion of Ukraine. We continue to take an intelligence-led approach to managing cyber risk, and with cyber security within the Bank accredited to ISO27001, an industry-recognised information security standard.

Simplification is a critical programme for the Bank, and will provide the most material reduction in technical debt and reduction in cyber risk. New ways of working and the adoption of cloud-based technologies require innovative controls and processes to maintain risk appetite.

We have continued to deliver regulatory change successfully 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. An ongoing payments gateway outsourcing initiative is in progress to enable the Bank to meet the future needs of changing payments regulations (e.g. new payments architecture);
- continuing to improve our credit risk and fraud systems to reduce risk and better protect our customers;
- upgrading the Bank's core mainframe platform and ongoing remediation of the legacy technology estate to reduce operational risks; and
- tier 1 (critical business services including payments, treasury and financial reporting) service availability was maintained at an average of 99.9%.

Measuring performance

We use a range of key performance indicators ("KPIs") to support the execution of our refreshed strategy and monitor our performance against strategic objectives throughout the year.

Our KPIs sit under five categories which take a range of stakeholders into consideration and reflect focus on different perspectives; whilst also considering different delivery time horizons — those which support the delivery of strong performance ***now***, and those which support strong performance in the ***future***, enabled by ***growth and efficiency*** decisions; all underpinned by our ***ethical culture***.

To ensure organisational alignment to our strategic goals, variable remuneration for all colleagues is impacted by performance against selected financial and non-financial KPIs and our attitude to and effectiveness in managing risk.

As a result of our improvements, some of these KPIs are being reported for the first time this year.

For more information on how KPI performance directly impacts the remuneration awarded to Executive Directors and other colleagues, please refer to the Directors' Report on Remuneration to the Shareholder on page 102.

Finance

Profit before tax (£m)

2023: £71.4m

2022: £132.6m

2021: £31.1m

Definition: Earnings before tax as per IFRS.

Why we measure: Statutory profit before tax is a well-defined statutory measure of in-year overall financial performance.

Return on Tangible Equity ("RoTE") (%)

2023: 10.1%

2022: 1.3%

2021: 13.8%

2021 and 2022 RoTE are disclosed for the first time. Fluctuations are due to impact of deferred tax movements.

Definition: Profit after tax / average equity less intangibles.

Why we measure: RoTE is a key measure of capital efficiency which shows how effectively we deploy available resources to drive shareholder value.

CET1 Ratio (%, pre-dividend)

2023: 20.4%

2022: 19.8%

2021: 20.7%

Definition: CET1 capital / risk-weighted assets.

Why we measure: CET1 is a core component in maintaining a suitable buffer to capital requirements; which is key to demonstrating the sustainability of our business model and meeting regulatory defined requirements. For performance evaluation, the target measure is adjusted to take account of any distributions (£12m in 2023, £nil in 2022 and 2021) to align to shareholder interests. CET1 ratio in 2023 after dividends is 20.1%.

Current account growth (%)

2023: (10.7)%

2022: (2.9)%

2021: 13.5%

Definition: Net year on year growth in Retail and SME current account balances.

Why we measure: Current account funding is a key component of our strategy. We aim to increase current account growth through both the acquisition of new customers and growth in our existing customers' balances.

People

Engagement survey (%)

2023: 76% positivity

- **Positivity highest around motivation, seven points ahead of industry benchmark**
- **76% employee response rate**

In 2023 we introduced a new third-party engagement survey – prior year results are not available for comparison. We previously reported our Financial Services Culture Board results.

Definition: We use a third party to independently assess colleague engagement via an anonymous survey.

Why we measure: Colleague engagement is a reflection of job satisfaction; we aim to provide an excellent environment in which

Environmental, social and governance

Green, Social and Sustainability ("GSS") financing framework lending (green lending, £m)

2023: £220m

2022: £441m

2021: £535m

Our green lending has reduced year on year as we have delayed the launch of a green mortgage product range, to allow us to focus on supporting customers through cost of living challenges in other ways. To improve this, we have committed to lending 50 % of our May 2023 £200m issuance into green assets within one year, of which £95m has been committed to date.

Definition: Lending to retail customers that meets the 'green' requirements of our GSS framework, which relates to mortgages with a valid A or B EPC rating at completion.

Why we measure: Funding assets with clear environmental or social benefits connects our purpose with our unsecured and secured wholesale financing strategy.

Scope 1 and 2 emissions (tCO_2e)

2023: 2,226

2022: 2,167[1]

2021: 3,150

Definition: Our direct GHG footprint encompasses energy consumption and refrigerant leakages.

Why we measure: Targeting a year on year reduction of scope 1 and 2 emissions is an important step towards our goal of Net Zero carbon emissions which aligns with our customer-led Ethical Policy and ESG ambitions.

ESG Ratings

	2023	2022	2021
Sustainalytics	**8.5**	8.6[2]	9.2
MSCI	**AAA**	AAA	A
ISS	**1st decile**	1st decile	2nd decile

Definition: Ratings from ESG rating agencies

Why we measure: With our new strategy and exciting plans for 2023 and beyond, we are working to maintain our ESG ratings in the future, as we strive to continually deliver our unique, customer-led ethical commitments to customers and other stakeholders.

Customer

Customer perception: Trustpilot score

2023: 4.2

2022: 1.7

2021: N/a

We began to measure our Trustpilot score in 2022.

Definition: Trustpilot is a review platform that is open to everyone. Our score is an aggregation of review scores but is influenced by multiple factors including the number of reviews.

Why we measure: We aim to improve the service we offer to customers and respond to customer feedback.

Transformation

Delivery of key project and strategic milestones

2023 key deliverables completed:

- **In-sourcing of mortgage operations and development of new mortgage and savings platforms**
- **MREL issuance and refinanced Tier 2 debt**
- **Fitch credit rating upgrade**

Definition: We have identified a number of significant milestones to be delivered this year in order to achieve our strategic plan. This measure tracks successful delivery of these milestones.

Why we measure: Achieving these milestones will drive delivery of our strategic objectives on time.

1. 2022 full year scope 1 and 2 emissions re-stated from 2,181 due to better availability of data.

2. At the beginning of 2023, Morningstar Sustainalytics refreshed their ratings weighting methodology, with the Bank's 2022 score changing from 8.3 to 8.6.

Values and Ethics in action report

Our commitment to co-operative values and ethics has been fundamental to our bank since it was established in 1872 and it continues to underpin how we run our business.

Our Ethical Policy

To outline our ethical commitments, in 1992 we took a pioneering step and introduced a customer-led Ethical Policy. We were the first bank in the UK to do so, and are still the only UK high street bank to have a policy of this kind.

We regularly ask our customers to tell us about the things that matter to them and which issues they want us to take action on, regularly updating our Ethical Policy to reflect their views.

In 2021 we conducted our sixth Values and Ethics Poll, which asked our customers to share their views on a range of issues including the environment, poverty and inequality, human rights and animal welfare. 47,177 customers, colleagues and stakeholders participated in the 2021 poll.

Our customers have always been ahead of thinking on ethical issues and we believe this remains the case today. Their responses to the latest poll informed the 2022 update to our Ethical Policy, bringing together a cumulative total of over 370,000 customer responses since 1992 in the latest iteration of our Ethical Policy.

Informed by those responses, our Ethical Policy is built on the three pillars of Planet, People and Community. This reflects the issues that our customers told us mattered to them most and confirms our shared commitment to protect the environment, campaign for change and build a more sustainable society.

83 % of customers told us that our Ethical Policy is a key reason they bank with us. As we marked our 150th year of ethical banking in 2022, this update brings our Ethical Policy into the future while remaining true to the co-operative values on which our bank was founded in 1872.

Our co-operative brand values reflect how we do business, rather than our ownership. Although the ownership of The Co-operative Bank changed in 2017, our commitment to the co-operative values and principles on which we were built remains as strong as ever, with ESG principles embedded within the business every day.

An important element of our Ethical Policy is our commitment to report annually on our performance on values and ethics and the decisions we take under our Ethical Policy. The following pages contain this report, with an expanded version available in our standalone 2023 Sustainability Report which is published alongside the Annual Report and Accounts, and can be found on the Bank's website.

Campaigning with Zero Hour: see page 31 for more information.

Implementing our Ethical Policy

Since 1992, when we launched our Ethical Policy we have ensured that all new and existing business customers complete an Ethical Questionnaire as part of the application process for a new account or service.

Every business application is screened against our Ethical Policy

Business customers are screened based on their responses to make sure we are not providing banking services to any business whose activities conflict with our Ethical Policy. In 2023, 258 businesses were referred for enhanced screening and as a result, 9 applicants were not accepted as Co-operative Bank customers.

Number of business customers referred for screening by issue

In 2023, business customer applications were referred for enhanced screening for the following reasons. Our 2022 figures are shown in brackets for comparison.

Human rights:

We declined banking services to a clothing company that was unable to demonstrate adequate policies to protect the rights of garment workers in developing countries.

We also declined a media organisation whose content was considered to incite hatred towards a section of the community and a company working with organisations that are part owned by the government of an oppressive regime.

Climate change:

We declined banking services to three businesses involved in the oil and gas sector whose activities were considered to be in conflict with our Ethical Policy statement on the exploration, extraction and production of fossil fuels.

We also declined two businesses whose activities were considered to have a negative impact on biodiversity and the environment.

Irresponsible gambling:

One business was declined for failing to protect customers engaged in gambling activities.

Managing customer risk

Our risk policy requires the closure of accounts for risk related issues, such as when customers are involved in or receive profits from organised crime or illegal activities such as the sex trade, drugs or human trafficking, as well as where there are regulatory requirements. In 2023 we closed 674 customer accounts (502 in 2022) due to risk related issues, including suspicion of money laundering and failure to provide documentation to satisfy Customer Due Diligence requirements.

No. of business customers referred for screening by issue	Referrals 2023 (2022)	Declines 2023 (2022)
Labour standards and human rights	**139** (117)	**3** (1)
Social inclusion	**6** (0)	**0** (0)
Irresponsible payment of tax	**0** (1)	**0** (0)
Irresponsible gambling	**10** (15)	**1** (1)
Irresponsible marketing	**3** (4)	**0** (0)
Protecting the environment:		
Climate change	**11** (15)	**3** (6)
Chemicals	**2** (4)	**0** (0)
Waste	**0** (0)	**0** (0)
Biodiversity	**39** (28)	**2** (0)
Protecting animal welfare	**45** (47)	**0** (0)
Other	**3** (2)	**0** (0)
Total	**258** (233)	**9** (8)

Planet

Sustainability and environmental protection have been at the heart of our customer-led Ethical Policy for over 30 years. We are committed to sustainable business practices and in how we enable our personal and business customers to make more sustainable choices.

We seek to operate in ways that minimise further environmental harm and to take actions that measurably improve biodiversity and the environment, support organisations that make a positive impact on the environment and take steps to reduce the environmental impact of our own operations.

We're operationally beyond carbon neutral

We work with Climate Impact Partners, specialists in carbon market solutions for climate action, to deliver this programme. All of their projects are independently verified to assure emission reductions are occurring. This ensures the highest environmental integrity and a commitment to have an immediate, positive impact on the climate.

We select projects that have a positive impact on the environment and the local population and which are aligned to our Ethical Policy. Page 21 of the 2023 Sustainability Report, which can be found on our website, contains further information on the projects we have chosen to support.

Which? Eco Provider

In October we were proud to be one of only three banks labelled as an Eco Provider by consumer champion Which?

Having examined the environmental policies of 13 of the UK's leading current account providers, Which? noted that The Co-operative Bank has no exposure to fossil fuels in their banking activities and sets high ethical standards for the SME businesses it offers services and finance to.

Our longstanding policy to exclude firms involved in the exploration, extraction or production of fossil fuels, and those involved in the unsustainable harvest of natural resources was viewed positively.

Contributing to a circular economy

In 2023 we were able to donate a number of laptops to SocialBox.Biz, a social enterprise that takes unneeded tech from businesses and donates them to people in need. The organisation supports refugees, older people, and people experiencing homelessness who need help with their education and career, while also giving them a platform to communicate with friends and loved ones.

By linking in with this amazing organisation, The Co-operative Bank was able to extend the life of laptops that were no longer needed, avoid sending them for recycling and see them put to good use by vulnerable members of society.

Support for the Zero Hour campaign

In 2021 we joined forces with Zero Hour to use our voice, and the voices of our customers, colleagues, and partners, to call for greater protection for the environment and nature.

In 2023, we continued to work as an ambassador of Zero Hour, the campaign for the Climate and Ecology ("CE") Bill, a piece of legislation that is needed to take real action against the progression of the climate-nature crisis.

On World Environment Day we joined Zero Hour ambassadors and supporting Parliamentarians to hand in the United For Nature petition, calling on the Prime Minister to increase the UK Government's environmental ambition and commit to halting and reversing nature loss by 2030.

Bank.Green Fossil Free Banking Alliance

We're proud to be the first UK high street bank to be part of the Bank.Green Fossil Free Banking Alliance, which helps climate-conscious consumers to choose a bank that isn't financing the climate crisis.

In order to join the Fossil Free Banking Alliance, a bank or credit union needs to have gone on record to state that going forward, they will play no part in the provision of loans, underwriting or investments to aid the expansion of fossil fuel extraction, production or infrastructure - a commitment The Co-operative Bank has made since 1998.

Bringing back nature with Friends of the Earth

We've joined forces with Friends of the Earth to bring back nature. We're helping to restore greenery and wildlife in over 1,000 nature-deprived spaces across the country through the Postcode Gardener programme.

The UK is now one of the most nature-depleted nations in the world. This is devastating for our ecosystems, and has a very real impact on people's mental and physical health. Nature-deprived areas are the most affected by urban heating, pollution, flooding and biodiversity loss.

Our #BringBackNature crowdfunder gave customers and colleagues a chance to win some amazing prizes donated by a host of celebrities from the worlds of film, music and sport, while helping us to kick-start our campaign. All money raised is supporting the Postcode Gardeners Programme with an additional matched funded donation of £25,000 added to the pot from The Co-operative Bank.

Friends of the Earth Charitable Trust is a registered charity no. 281681.

You can read more about our Planet initiatives on pages 20 to 24 of The Co-operative Bank's 2023 Sustainability Report, which can be found on the Bank's website.

People

We are committed to acting in a way that supports individuals in being able to live freely, equitably and safely with consideration of both their physical and mental health.

Supporting our customers through difficult times

All of our customer facing colleagues have received training to help them to identify and assist vulnerable customers and we've developed partnerships with organisations who can step in to offer support. This includes our ground-breaking partnership with Citizens Advice Manchester, whose services are on hand for customers who need advice on anything from access to benefits and managing debt to dealing with housing issues.

In 2023 we referred 818 customers to the service. 158 of those customers were in full time employment but were still struggling to make ends meet. Thanks to the support offered by Citizen's Advice, 28 customers and their families were prevented from losing their home and 434 received advice about their entitlement to benefits. We also work with debt support charities and can provide help to customers who are struggling with their loan or mortgage payments.

Protecting customers from fraud and scams

We continue to support the 159 phone service, which connects our customers safely and securely to the bank when they receive an unexpected or suspicious call about a financial matter. In 2023, we received 47,967 calls on our dedicated 159 number, of which 12,792 related to a scam and 26% needed further support from fraud investigators.

Improving accessibility

Approximately 2,300 of our customers have disclosed 'hearing' as a vulnerability characteristic, the fourth highest vulnerability disclosure by our customers. In order to make our services more accessible to these customers, in 2023 we introduced a new, on-demand service that allows British Sign Language users to contact us using a BSL video interpreter via the InterpretersLive! service, provided by Sign Solutions.

Looking after our people

We are committed to creating an ethical workplace where colleagues feel valued and supported, where pay and rewards are fair and where colleagues can always be themselves.

Read more about how we engage with colleagues on pages 96 to 98, including equality, diversity and inclusion and our colleague networks, as well as metrics relating to our people.

Working in partnership to end youth homelessness

We make a donation to Centrepoint for every new mortgage we provide and our colleagues undertake fundraising for Centrepoint throughout the year. These donations are used to fund the charity's national Helpline and their Homelessness Prevention and Relief Service in Manchester.

In Manchester, the Homelessness Prevention and Relief Service received 1,331 referrals in 2023. The team works closely with other services to provide a package of individual support that helps young rough sleepers, who often have complex needs, to move on from homelessness.

In September colleagues took to the streets to raise funds for Centrepoint as part of our annual Stay Active fundraiser. Teams completed 5 and 10 mile walks, raising over £2,000.

Partnering with Shelter to campaign for fairer renting

As part of our Ethical Policy commitment to drive meaningful change on issues such as human rights and equality, together with Shelter we're campaigning for the Renters Reform Bill, for a fairer private renting system – ending unfair evictions and unsafe housing, and securing stronger rights for all.

It's been over four years since new reforms were proposed that have the potential to fix private renting. Shelter and The Co-operative Bank are campaigning together to demand the long-overdue reforms that could transform renting.

Together with Shelter, we are calling for the Government to fulfil their overdue promise of a life-changing bill for renters. In July, along with Shelter, Bank colleagues took to Parliament Square, and helped to display 172 moving boxes to represent the 172 families who are served a section 21 'no fault' eviction notice every day.

Standing up for human rights with Amnesty International UK

Amnesty International UK is one of our longest-standing corporate charity partners. In 2023 we were proud to become the official sponsors of the charity's fundraisers Team Amnesty.

Raising awareness and working to stop economic abuse with Refuge

We're working to better understand financial and economic abuse, to help end it, and to support survivors. In 2023 we developed Refuge's recommendation of adding definitions of financial and economic abuse and advice on how to access support, without it showing in your browser history, to our website.

Celebrating 20 years of support for Hospice UK

In 2023 The Co-operative Bank and Hospice UK celebrated 20 years in partnership. Since 2003, the Bank has raised over £675,000 for Hospice through initiatives such as the Current Account switching campaign, Everyday Rewards, our 150th birthday last year, and our credit card donation scheme.

You can read more about our People initiatives on pages 25 to 33 of The Co-operative Bank's 2023 Sustainability Report, which can be found on the Bank's website.

Communities

We are committed to being a good local, corporate and world citizen, working to improve all communities: domestic, international and remote (such as those found online). We commit to building stronger, more resilient communities with economic and social opportunities for their members and will campaign for wider change when needed. We will continue to invest in our communities, good causes and co-operative businesses.

Helping co-operatives to thrive

Co-operation is at the heart of our Bank and we are committed to supporting co-operative businesses by offering them free business banking and the advice and support of a dedicated relationship manager.

In June 2023 we were proud to sponsor Co-op Congress for the third consecutive year. This annual event, run by Co-operatives UK, brings together co-ops from across the UK to share ideas and take action to drive the co-operative movement.

Since 2016, we've committed £2.9m to support co-operatives nationally and we're proud to continue funding our Business Support for Co-ops programme through our partnership with Co-operatives UK. This unique programme gives co-operative businesses from all sectors of the economy access to the expert advice and guidance they need to thrive, including specialist technical advice, peer mentoring, training and introductory workshops. In 2023, 319 groups were supported by the programme, with 2,181 groups having been supported in total.

Funding the causes that matter to you

We support our charity and community customers by awarding grants to support their special projects.

All Community Directplus account holders can apply for up to £1,000 from our Customer Donation Fund, with grants distributed twice a year.

In 2023 we donated £100,000 to 103 community projects across the UK, and since the scheme started in 2003, we've donated over £1.1m to 1,252 community organisations.

Everyday Rewards gives eligible current account customers the option to donate their monthly rewards to one of five charities: Amnesty International UK; Hospice UK; Oxfam; Refuge, and the Woodland Trust. Thanks to the generosity of these customers, £158,640 was donated to these charities in 2023.

In total, £1,678,365 has now been donated to our selected charities since Everyday Rewards was launched in 2016.

Engaging with our communities

Our colleagues are dedicated to supporting their local communities and have done this through volunteering and fundraising in 2023. Every Co-operative Bank colleague has the opportunity to take two paid volunteering days every year. In 2023, 51 % of colleagues took part in the programme, donating a total of 16,343 hours to their local communities (2,335 days).

In 2023, colleagues raised £41,689 for their favourite local and national charities and a further £10,347 for our charity partner, Centrepoint. The Bank donated an additional £17,600 to these charities through our colleague matched funding scheme.

Supporting our communities through volunteering

Our colleague volunteering programme gives us the time to make a difference in our communities. We've helped to support The Bread and Butter Thing's warehouse team at regular sessions throughout 2023 and have volunteered at several food banks, including Skelmersdale, Leek & District, and Saltash.

We've also been delighted to support local schools and colleges through providing sessions on money and budgeting, and to offer practical support to many local charities including homeless services, environmental projects, charity shops, hospices and dogs homes.

In September we launched our brand new volunteering platform OnHand, available to all colleagues. OnHand provides colleagues with access to hundreds of local volunteering opportunities, giving them the chance to give back to their communities by choosing 'missions' that align with our values, and their schedule. OnHand also keeps track of how much CO2e colleagues are reducing through taking environmental actions and they plant trees based on how many missions we complete, making even more of an impact.

Good corporate citizens

As an ethical bank our customers rightly expect us to conduct our business with honesty and transparency. This includes our relationships with public institutions.

The Co-operative Bank is a politically neutral organisation.

We publish on our website details of all formal meetings on behalf of the Bank between government ministers and people of political importance, and members of the Bank's Board and Executive. We will never donate to a political party, politician, or party-political campaign group and the causes we support will always be politically neutral.

We are committed to ensuring that we do nothing in our tax affairs that runs contrary to either the letter or spirit of UK tax legislation. As evidence of this, we are signatories of the Code of Practice on Taxation for Banks.

We are committed to regularly assessing the protections for users on social media platforms and will take appropriate action regarding any platform that fails to adequately protect users from false information or financial scams.

You can read more about our Community initiatives on pages 34 to 40 of The Co-operative Bank's 2023 Sustainability Report, which can be found on the Bank's website.

Environmental, social and governance report

Environmental

Protecting the environment has been at the heart of our Ethical Policy since 1992.

In 2023 we are pleased to report our indirect emissions for the first time, marking an important step forward in our journey to achieve Net Zero.

We have made commitments to decarbonise both our direct operations as well as indirect impact. With our partner, Friends of the Earth, we are addressing the pressing issue of biodiversity loss by replenishing nature-deprived spaces across the country with a network of postcode gardeners. You can read more about this on page 30.

Our pathway to Net Zero

We have committed to aligning our Scope 1 & 2 direct emissions to Net Zero by 2030, and to transitioning our Scope 3 mortgage lending portfolios to align to Net Zero by 2050 at the latest.

For over 20 years The Co-operative Bank has refused to provide banking services to businesses whose activities contribute to global climate change. Thanks to this disinvestment, it is mortgage lending that has the largest impact on our emissions. To support decarbonisation of this, our role will continue to focus on supporting the Net Zero transition of the UK housing sector and our customers' homes. We will continue to finance renewable energy projects and to play our role in facilitating a just transition in the real economy through engagement with our customers, and through offering products and services that support decarbonisation.

In setting our Net Zero targets we are adopting the Net Zero Banking Alliance definition of Net Zero alignment and committing to reduce our Scope 1 and 2 emissions from a 2021 base year, with a strategy to ensure carbon removals of remaining emissions. Our targeted reductions in our financed emissions and our scope 1 and 2 emissions will be consistent with a maximum temperature rise of 1.5°C above pre-industrial levels and will align with scenarios from credible, well-recognised sources.

In 2023 we continued to increase the transparency of our Net Zero journey by disclosing the entirety of our emissions inventory – across Scopes 1, 2 and 3 emissions – within this report. The full table of this information since our baseline year of 2021 can be found on page 54. We have also continued to work on understanding the changes we need to make to deliver reductions across our significant emission sources. Our commitment for 2024 is to develop a Transition Plan to demonstrate the details of the approach we need to take in order to achieve our Net Zero ambitions.

Our environmental reporting

We have made disclosures in line with the climate-related financial disclosures recommendations on pages 43 to 54, including details about which disclosures are assured and unassured. This includes more detail on how we consider climate change and the environment in our strategic and financial planning, risk management and governance.

After consistently reducing our reported Scope 1 and 2 emissions since 2019, these metrics have increased in 2023. This was largely a result of on-boarding c. 400 colleagues from Capita in 2023, and the re-opening of Newton House in Leek to accommodate them.

Scope 1, 2 & 3 Greenhouse Gas Emissions by Source[1]

	Total Emissions (tCO2e)		
Source of Emissions	2023[6]	2022[7]	2021
Total Scope 1 Emissions[2]	**684.7**	592.3	968.9
Total Scope 2 Emissions[3]	**1,541.6**	1,574.7	2,181.3
Total Scope 3 Emissions	**358,422.0**	360,717.5	371,213.4
Absolute Emissions (Total Scope 1, 2 & 3) (tC02e)	**360,648.3**	**362,884.5**	**374,363.6**
Carbon Intensity (kgCO2e/FTE)[4]	**109,122.0**	131,567.3	152,676.8
Carbon Intensity (kgCO2e/£Revenue)[5]	**0.70**	0.74	1.07
Energy Intensity (kgCO2/kWh)	**35.9**	33.0	25.5

1. Only 2021, 2022 and 2023 data has been verified by SGS, an independent 3rd party who provide assurance over ESG metrics.
2. Scope 1 emissions are calculated using the sum of direct natural gas combustion through our operations and refrigerant losses that occur through standard use.
3. Total electricity consumption GHG emissions are calculated using a location-based methodology. They are calculated using the UK average GHG emissions figure (conversion factor), as published by the Department for Energy Security and Net Zero.
4. Calculated using the average number of full time equivalent ("FTE") employees for each year.
5. Revenue calculated using IFRS 15 definition.
6. To ensure that 2023 Scope 3 emissions data was verified by SGS ahead of reporting, our 2023 figures are based on Q1-Q3 actual data and Q4 estimates.
7. 2022 full year scope 1 and 2 emissions re-stated from 2,181 due to better availability of data.

Carbon offsetting - beyond carbon neutral

Since 2007 we have offset our operational carbon emissions (Scopes 1 & 2 plus business travel) plus an additional 10% to address the impact of our business activities in the past. This means we are beyond carbon neutral for our operational greenhouse gas emissions.

We will offset 1,810 tCO2e of our 2023 emissions in line with this commitment during 2024. See the 2023 Sustainability Report on the Bank's website for details of the projects we supported through offsetting our 2022 operational emissions.

PVC-free credit and debit cards

In line with our Ethical Policy statement against the release of chemicals that persist in the environment, we continue to issue PVC-free credit and debit cards and have been doing so since 2007. In its place we use the plastic glycol-modified polyethylene terephthalate ("PETG"), which does not contain or use chlorine in its production. Furthermore, all the inks we use in our customer mailings are chlorine-free, and either water or vegetable based.

Source of emissions	tCO2e
Fuel combustion	478
Refrigerant leakages	207
'Non-renewable' electricity consumption	837
Business travel	123
Offset to be carbon neutral	**1,645**
Plus 10% for past activity	165
Offset to be beyond carbon neutral	**1,810**

Additional environmental metrics and targets

Zero waste to landfill

In 2020 we achieved 'zero waste to landfill' for the first time and have maintained this status in subsequent years, including 2023. Alongside this is our commitment to increase the percentage of operational waste we recycle. 73% of operational waste was recycled in 2023, slightly less than we achieved in 2022 at 74%.

We will support our colleagues throughout 2024 to help them to reduce, reuse and recycle more of their everyday waste.

Office paper use

Office paper use is increasing towards pre-pandemic levels as colleagues spend more time in the office. We've also in-housed processes from third parties that are paper intensive. While we don't expect to be able to reduce paper use back to 2020 levels, we will continue to work with colleagues to moderate their use of paper in 2024 and beyond, supported by the introduction of new collaborative working tools.

Direct procurement of electricity from renewables

In previous reports we've stated that 100% of the electricity we've purchased has come from renewables. From September 2023, our electricity supplier was no longer able to provide the recognised Renewable Energy Guarantees of Origin ("REGO") certificates to verify that electricity supplied was generated from renewable sources and therefore we are unable to make that claim for 2023.

Electricity consumption in 2023 that was not included in a REGO backed supply agreement has been assumed to be from a non-renewable electricity source and has been included within our GHG emissions reporting (and will be offset). The percentage of electricity directly procured by the Bank in 2023 that came from a certified renewable source is 69%.

We remain committed to purchasing electricity from renewables will be switching to a supplier that meets these requirements in 2024.

Lending to the renewable energy sector

The value of our lending to the renewable energy sector has reduced year on year as historical loans have been repaid. We remain committed to supporting development in this important sector and have ambitions to build the specialist knowledge and products that will allow us to re-enter this market in the future. We are pleased to be able to support businesses and homeowners in their sustainability journeys through our portfolio of products and services.

Assurance on ESG metrics

As in previous years, we have engaged SGS to provide limited assurance over a suite of metrics. These have been identified in footnotes, where applicable, throughout the ESG report, Values and Ethics in action report, and climate-related financial disclosures report. A full list of metrics assured, and the assurance statement prepared by SGS, can be found in the 2023 Sustainability Report.

Social

Co-operative principles remain at the heart of our business and we strive to demonstrate co-operative values in everything we do.

As a national brand, we recognise our wider impact within UK society and work in partnership and co-operation with charities and community organisations to drive positive social change.

The table below sets out some of our positive social impacts, such as our charity and volunteering activity (for more info see pages 32 to 35 of the Values and Ethics in action report), our business support for charities and co-operatives and the additional support we've offered to customers in 2023.

Supporting our business customers through challenging times

We are proud to look after the banking needs of 94,020 small and medium sized businesses.

In 2023 we have continued our commitment to supporting business customers facing financial difficulty, with dedicated help provided through our business support team. We provide information on how to spot the early warning signs of financial stress, manage cash flow and where to go for additional support. We've also continued to proactively reach out to customers who are showing the early warning signs of financial difficulty to offer additional support.

We have continued to support customers who took a Bounce Back Loan to help them deal with the impact of COVID-19. By the end of 2023, 18% of our Bounce Back Loan customers had repaid their loan in full, and we had supported 2,702 customers (25% of all Bounce Back Loan customers) with Pay As You Grow options to provide flexibility with their repayments. We have continued to promote the availability of Pay As You Grow to customers to ensure that they are aware of the options available to them.

Contribution to national wealth

In 2023 our contribution to national wealth, or 'economic value generated and distributed', was £465m. Of this, our community investment was over £1.5m. Economic value is distributed as operating costs, salaries to employees, donations to charitable causes, and, if relevant, profit and reserves to our owners.

	2023	2022	2021	2020	2019
Total charity donations[1]	**£1,567,498**	£1,126,402	£1,105,583	£1,564,783	£997,996
No. co-operatives that bank with us[1, 2]	**1,164**	1,130	907	787	805
No. charities that bank with us[1, 3]	**3,470**	3,619	3,891	4,128	4,416
No. credit unions that bank with us[1, 3]	**137**	142	157	163	194
Support for the co-operative movement through funding of the Business Support for Co-ops programme (formerly The Hive)[1]	**£400,000**	£400,000	£400,000	£625,000	£158,700
Supporting our local communities through colleague volunteering[1]	**16,343 hrs**	4,170 hrs	1,980 hrs[2]	611 hrs[2]	4,759 hrs
% of colleagues who have taken part in a volunteering activity[1]	**51%**	18%	10%[4]	4%[4]	27%
Number of customers we've helped to buy their first home	**1,959**	3,178	6,403	4,209	3,304
Number of customers supported through our partnership with Citizen's Advice	**818**	751	566	536	418

1. Only 2021, 2022 and 2023 data for these KPIs has been verified by SGS.

2. In 2022 the definition of a co-operative was expanded to include more organisations that are a member of Co-operatives UK. The 4% increase in co-operative accounts reported against our target of 14% is calculated on a like-for-like basis using a revised figure of 1,082 for 2021.

3. Since 2018 we've adjusted our proposition and seen a reduction in the credit union sector and changes in how charity status is recorded. This is being closely managed with customers being supported by Relationship Managers with a continued focus on our community banking proposition.

4. Opportunities for corporate volunteering were impacted by Government restrictions due to COVID-19 in 2020 and 2021.

Governance

ESG Governance

Co-operative values and our Ethical Policy are incorporated into the Bank's Articles of Association, establishing them at the heart of our constitution.

The Board level Values and Ethics Committee continues to provide oversight and governance of the Bank's ESG and ethical activities. With input from the Executive Committee, the Values and Ethics Committee reviews our ESG reporting.

You can read the chair of the committee's report for 2023 on pages 93 to 95.

Since 2022 Executive pay has been linked to delivery of our ESG commitments. Specific ESG performance measures form part of the bank wide scorecard to which all colleague remuneration, including executive, is linked. These include screening 100 % of business customers and suppliers against our customer-led Ethical Policy, progress towards Net Zero and a continued focus on diversity.

Non-customers continue to view The Co-operative Bank as the UK's top ethical banking brand[1]. Key to this is our governance and oversight structure and the Values and Ethics Committee.

Governance of our Ethical Policy exclusions

At the core of our Ethical Policy are statements on the business activities we will not support through our banking services. These statements fall under our planet, people and community pillars and our business account and services application journeys include a detailed questionnaire to determine if there may be a conflict with the policy. See page 29 for details of the accounts we have declined in 2023.

Our 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.

Freedom of association

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

Anti 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 policies

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

	2023	2022	2021	2020	2019
Total number of business current accounts opened	**8,857**	8,703	12,606	12,116	7,473
Total number of applications referred for further Ethical Policy screening (see page 29 for more information) [2]	**258**	233	328	438	223
Total number of applications declined due to a conflict with the Bank's Ethical Policy	**9**	8	10	21	4

1. Q4 2023 non-customer ethical perception score of 20 %. Ranked 1st with a 3 % gap to the 2nd place bank, which has a score of 17 %.

2. Only 2023, 2022 and 2021 data for these KPIs has been verified by SGS.

Our environmental, social and governance commitments

2024 targets and commitments

Environmental
In 2024 we will make strong progress against our Net Zero commitments as we strive to decarbonise the Bank and achieve Net Zero status by 2050. **Scope 1 & 2:** We will reduce Scope 1 & 2 emissions by approximately 10 % by: • reducing energy consumption by 6 % from 2023 levels through optimising energy use across our branches and offices; • ensuring all electricity procured by the Bank is renewable (REGO backed or suitable comparable REGO alternative) by end of 2024; and • progressing our data management programme of work by delivering energy efficiency improvements through 2024. **Scope 1,2 & 3:** We will commence development of a robust Net Zero Transition Plan which will outline a pathway to Net Zero greenhouse gas emissions that delivers real economy decarbonisation in line with our Net Zero commitments and Just Transition principles.
In 2024, we will increase biodiversity in 300 spaces across 12 sites as we work towards our long term target to replenish 1,000 nature-deprived spaces by the end of 2025. We'll do this with our partner, Friends of the Earth, by introducing community gardeners who will engage with at least 1,100 community members and 30 community groups.
We will continue to help our customers to understand the environmental impacts of their actions and become more sustainable by: • conducting customer research to understand how we can better support them with reducing their home emissions; • working with strategic partners to help customers identify the actions they can take to become more sustainable; and • enhancing our Sustainability Hub content to engage and inform customers on the actions they can take to reduce their carbon footprint or have a positive impact in their community.
In line with current work on Net Zero Transition Planning we will review our products and propositions offering to ensure that this will support our customers in their decarbonisation journey.
Social
We will amplify the voices of our customers with our campaign for fairer renting, which demands the transformation of the private rented sector to ensure safe and secure housing for all. We'll do this in partnership with Shelter, by calling for the introduction of a robust Renters Reform Bill and will work with our customers to raise awareness and grow support for the campaign.
We'll demonstrate our support for registered charities, community interest companies and co-operatives, through increasing Community Direct Plus Accounts by 6 % compared to 2023[1] and supporting them in their missions to drive positive change across our communities.
We will continue to give back to our communities by providing charities and community groups 2,000 days of support from colleagues through our volunteering programme.
Governance
The Co-operative Bank Charitable Fund commits a proportion of Bank profits to driving positive social and environmental change, whilst responding to the needs of our communities.
We aspire to have 45 % of senior positions filled by women. In 2024 we will develop a new Diversity & Inclusion strategy that will aim to enhance our commitment to the Women in Finance Charter and broaden all aspects of our diversity commitments going forward, and set an end date to achieve our 45 % target.
All colleagues will have at least one Environmental, Social and Governance related objective for 2024, helping to motivate and empower them to perform at their best, with a clear sense of direction in delivering against the ethical commitments in our customer-led Ethical Policy and ESG strategy.

1. Based on Q3 forecast for 2023 year end accounts.

Alignment to the Sustainable Development Goals

Our responsible banking commitments

The Co-operative Bank is a signatory of the UN Principles for Responsible Banking

The programme brings together over 330 banks from across the globe to accelerate a positive global transition for people and the planet. With signatory banks representing over half of the global banking industry, the Principles are the world's foremost sustainable banking framework.

As signatories we are committed to aligning our strategy and activities with the United Nation's Sustainable Development Goals ("SDGs") and the Paris Climate Agreement. The activities of our Bank can make an impact on all 17 of the Sustainable Development Goals. We have taken steps to consider the impact and influence we have on the SDGs within a framework of our impact on our planet, on people and on our communities. This exercise has identified the ten SDGs where we feel we can make the most positive contribution.

How our objectives and actions align to the SDGs

Our SME business accounts support employment generation in economically underperforming regions and they support female entrepreneurship.

Aligns to SDG targets 5.5, 8.3 and 10.2

We have taken part in Help-to-Buy schemes and provide mortgages to individuals who are self-employed, contractors or entrepreneurs, as well as loans to accredited housing associations and co-operative housing providers registered in the UK, which helps to ensure access for all to adequate, safe and affordable housing.

Aligns to SDG targets 1.2, 10.2 and 11.1

We provide finance to local charities, social enterprises, non -profit organisations, foundations and philanthropic structures, which helps to provide socioeconomic advancement and improvement for vulnerable populations.

Aligns to SDG targets 1.2, 3.8, 4.4 and 11.1

We provide financing to education, child care, healthcare and elderly care providers, helping them to improve access to their services for all.

Aligns to SDG targets 1.2, 3.8, 4.4, 8.3 and 10.2

We encourage the construction of buildings in an energy-efficient manner, reducing emissions and electricity consumption from non-renewable sources and fuels with the support of our Renewable Energy Fund and partnership with Zellar. We offer products to help our customers to undertake renovations that will result in at least a two notch improvement in Energy Performance Certificate ("EPC") rating, helping to mitigate climate change through our Green Further Advances and utilising our Energy Savings Trust online tool.

Aligns to SDG targets 7.3, 11.6 and 13.2

Our people policies promote equality and diversity within our workforce and support the physical and mental wellbeing of colleagues.

Aligns to SDG targets 3.4 and 5.5

Non-financial and sustainability information statement

Our Ethical Policy governs who we bank with, how we provide services, and the ethical stance we take in all our day-to-day business decisions.

Demonstrating compliance with sections 414CA and 414CB of the Companies Act 2006, this section cross-references to non-financial and sustainability information produced in this report and policies and statements available elsewhere.

Key reporting requirements by sections 414CA and 414CB of the Companies Act 2006

	Extra information	Page reference	Other policies and statements
Environmental matters	Our 'Planet' pillar of the Values and Ethics in action report	30	Sustainability Report [1]
	ESG report	36	Ethical Policy [1]
	Climate-related financial disclosures	43	
Colleagues & employees[2]	Our 'People' pillar of the Values and Ethics in action report	32	Freedom of Association statement [3]
	Directors' Report	96	Code of Conduct [3]
Social matters	Our 'People' and 'Communities' pillars of the Values and Ethics in action report	32	Taxation strategy
	ESG report	36	
Respect for human rights	Our 'People' pillar of the Values and Ethics in action report	32	Modern Slavery and Human Trafficking Statement
			Data Privacy Policy [3]
Anti-corruption and anti-bribery matters	Directors' Report	96	Anti-bribery and Anti-corruption Policy

Description of business model, principal risks, and non-financial key performance measures ("KPIs")

1. Our Ethical Policy and Sustainability Report, both of which can be found on the Bank's website, contain information related to all five reporting requirements required by sections 414CA and 414CB of the Companies Act 2006.

	Extra information	Page reference
Business model	Our business model	19
Principal risks, impact of business activity and risk management	Risk Committee report	89
	Principal risks and uncertainties	112
	Risk management report	111
Non-financial KPIs	Measuring performance	26
	ESG report	36

2. A full range of colleague and employee policies which govern how we engage with and support colleagues, collectively People policies, are available to Bank colleagues and are published on the Bank's intranet.

3. Policy only published internally. All other policies referenced are available for public view by visiting the Bank's website.

Climate-related financial disclosures

Climate-related issues continue to be at the heart of our Ethical Policy, which governs our day-to-day banking decisions. We do not finance fossil fuel extraction, production or infrastructure and haven't since 1998.

Overview

This section contains our climate-related financial disclosures ("CFDs"), required by sections 414CA and 414CB of the Companies Act 2006.

While the impact of climate change on the Group's financial statements, risk management, and operations has been assessed as not material, we continue to horizon scan for climate-related risks and opportunities to ensure we are positioned as the ethical banking alternative for our customers and stakeholders.

Our CFDs are laid out in four pillars, described on the right, which are considered in further detail over the next pages. Below is a description of relevant current and upcoming reporting requirements, as well the stakeholders we consider in the context of climate change, climate-related risks and climate-related opportunities.

We are compliant with all UK laws and regulations relating to climate change disclosures.

Relevant requirements

Current requirements

- Companies Act 2006
- Supervisory Statement 3/19 ("SS3/19")
- Taskforce on climate-related financial disclosures ("TCFD"), now brought into legislation
- Streamlined Energy and Carbon Reporting ("SECR") Regulations 2018

Future requirements

- IFRS S1 and IFRS S2—ISSB sustainability standards
- Taskforce on nature-related financial disclosures ("TNFD")
- Corporate governance and audit reforms (inclusion of non-financial and sustainability reporting controls)

Considering our stakeholders

Customers	Regulators
Colleagues	Communities
Investors	Co-operatives
Suppliers	Planet

Four pillars of CFDs

Governance

a) a description of the company's governance arrangements in relation to assessing and managing climate-related risks and opportunities;

Risk management

b) a description of how the company identifies, assesses, and manages climate-related risks and opportunities;

c) a description of how processes for identifying, assessing, and managing climate-related risks are integrated into the company's overall risk management process;

Strategy

d) a description of: (i) the principal climate-related risks and opportunities arising in connection with the company's operations, and (ii) the time periods by reference to which those risks and opportunities are assessed;

e) a description of the actual and potential impacts of the principal climate-related risks and opportunities on the company's business model and strategy;

f) an analysis of the resilience of the company's business model and strategy, taking into consideration different climate-related scenarios;

Metrics and targets

g) a description of the targets used by the company to manage climate-related risks and to realise climate-related opportunities and of performance against those targets; and

h) a description of the key performance indicators used to assess progress against targets used to manage climate-related risks and realise climate-related opportunities and of the calculations on which those key performance indicators are based.

More information

The following page references, policies and statements give more information on how climate impacts our business, and how we approach the planet:

Values and Ethics in action report 28

ESG report 36

Financial statements 157

Sustainability Report Bank website

Ethical Policy Bank website

Governance

Key disclosures

Describe the Bank's governance arrangements in relation to assessing and managing climate-related risks and opportunities.

The Group recognises that ensuring climate change risks are embedded across the Group's governance framework is critical to supporting climate-conscious decision-making.

Board

The Board has collective responsibility for the long-term success of the Bank. It is responsible for approving the Bank's strategic plan, including its ESG strategy and strategic approach to managing climate change risks, and long-term objectives. The Board sets the Bank's values and standards and ensures that its obligations to its shareholders are met.

Co-operative values and the Bank's customer-led Ethical Policy are incorporated in the Articles of Association and established at the heart of our constitution. The Board is responsible for providing oversight and approval of the Ethical Policy.

Values and Ethics Committee

The Bank has delegated responsibility to the Values and Ethics Committee to oversee the development of the co-operative values and ethical policies of the Group and monitor conformity to such values and ethics in the Bank's operations and activities.

This includes oversight of the customer-led Ethical Policy that guides the decisions taken by the Bank on a day-to-day basis.

The Committee also oversaw the progress made to deliver the initiatives and activities that underpin the three core pillars of the Ethical Policy and the development of the ESG strategy, which builds upon the Ethical Policy to identify the Bank's sustainable and inclusive business priorities and define and activate its ESG ambition.

The Sustainability Report is published alongside the Annual Report and Accounts and the Committee oversees progress against the Bank's sustainability agenda in terms of its ESG commitments and responsible banking commitments. The Bank is a signatory of the UN Principles for Responsible Banking, aligning strategy and activities with the United Nation's Sustainable Development Goals and the Paris Climate Agreement.

The Committee continued its regular oversight of the governance in place to manage the refusal of banking services to organisations whose core activities are deemed to conflict with the Ethical Policy, due to their involvement in the extraction and production of fossil fuels.

The Committee is also responsible for monitoring the Bank's compliance with the requirements of Co-operatives UK and discharges this duty through receipt of a quarterly report. This provides the Committee with oversight that, operationally, the Bank manages its environmental impact, its commitments to renewable energy and energy efficiency, and maintains its 'beyond carbon neutral' status which it has held since 2007.

The Committee received regular updates throughout the year on the Bank's continuing work to maintain and improve its ESG ratings. The Bank's market-leading rating from Sustainalytics is based on a number of externally-rated measures of which the Committee provided oversight.

Risk Committee

The Board has delegated responsibility to the Risk Committee to review and challenge the Bank's risk appetite and report its conclusions to the Board for approval, and oversee the implementation of the Risk Management Framework ("RMF"), taking a forward-looking perspective and anticipating changes in business conditions.

The Risk Committee reviewed and recommended the refreshed RMF policy to the Board for annual approval, which includes climate change as a thematic risk.

The Risk Committee reviewed and recommended the 2023 Internal Capital Adequacy Assessment Process ("ICAAP") to the Board for approval. Part of the Committee's review of the ICAAP involved an assessment of the risks within the Bank's operations and activities including specific consideration of climate risk. The outputs of the Individual Capital Requirement ("ICR") assessment undertaken as part of the ICAAP were also reported to the Committee, which included consideration of the Bank's immediate exposure to physical climate change risks (flood, subsidence, coastal erosion) and transitional risks (current/potential EPC ratings) relative to national averages.

The Risk Committee provided oversight of the development of the Bank's modelling and assessment capabilities for quantifying climate change risk. This included the use of climate-related scenario analysis and stress testing to better understand the scale and potential implications of climate-related risks and opportunities for both the Bank and its customers.

Joint Audit Committee

The Boards delegate responsibility to 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.

The Committee is responsible for the disclosures made within the Annual Report and Accounts including consideration and approval of ESG related disclosures.

Remuneration Committee

The purpose of the Committee is to consider and recommend to the Board, remuneration policies which maintain the link between remuneration, including variable pay, and the achievement of the commercial objectives of the Bank and its subsidiary undertakings.

The Committee is also responsible for the preparation of decisions regarding remuneration (including those which have implications for risk and risk management of the Bank) to be taken by the Board. The Committee is required to operate within the defined regulatory framework and take into consideration the long-term interests of shareholders, investors and other stakeholders in the Bank as well as the public interest.

During the year, the Committee approved the 2023 Annual Incentive Plan which links a proportion of executive pay to the delivery of the Bank's ESG commitments. Specific ESG performance measures form part of the Bank-wide scorecard to which all colleague remuneration, including executive, is linked.

Nomination Committee

The Nomination Committee leads 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.

Following the recommendations made by the Committee to the Board in 2022, the appointments of the Corporate and Strategic Development Director, who is accountable for driving ESG long-range strategic thinking and alignment to acquisition and funding, and the Chief People and Sustainability Officer, who is responsible for ESG, values and ethics, and sustainability, commenced in their respective roles during 2023.

The Committee also reviewed and recommended to the Board for annual approval the Board Diversity Policy which forms a key part of the Bank's ESG positioning.

Addressing our climate strategy

In 2023, the Board considered a refreshed ESG strategy, which was approved in February 2024 and which set ambitious targets while acknowledging that there are still many climate-related issues for the Bank to improve upon. The strategy includes a number of initiatives that the Bank will focus on in 2024 and beyond, including developing "Green" products and services, and building a pathway to achieve Net Zero status in partnership with a specialist consultancy firm.

The 2023 Sustainability Report outlines the Bank's ESG targets and notes the commitment by the Bank, as a signatory of the UN Principles for Responsible Banking, to align its strategy and practices with the vision for the future set out in the Sustainable Development Goals ("SDGs") and the Paris Climate Agreement.

The 2023 Sustainability Report also provides further detail around the Bank's role as an ambassador of Zero Hour, the campaign for the Climate and Ecological Bill which aims to tackle the climate and nature emergency.

The Bank's 2023 Sustainability Report is published alongside the 2023 Annual Report and Accounts and contains further information on our ESG targets and commitments than is included in this report.

Addressing climate risk management

Climate change risk has been incorporated into the Risk Management Framework and is managed as a thematic risk, recognising the linkage and impact of climate-related risks upon other principal risks. Decisions to mitigate, transfer, accept or control any significant climate-related risks identified are made in accordance with RMF principles.

All reports presented to the Board and its committees must disclose the risks, including financial risks arising from climate change where relevant, that have been considered in relation to the recommendation.

The corporate governance framework is regularly reviewed to ensure it includes sufficient focus on ESG topics, including climate risks and opportunities. The Bank has established the Values, Ethics & Sustainability Executive Committee to lead the implementation of the Bank's values, ethics, sustainability and ESG strategies and escalate any risk surrounding the delivery of these strategies to the Executive Committee and, where appropriate, the Values and Ethics Committee.

The Bank runs a robust horizon scanning process to identify, action and monitor any regulatory developments relating to climate matters. Each new development is flagged, assigned to the relevant Executive, prioritised and tracked through to compliance. The Director of Risk Governance, Regulatory Affairs and Prudential Oversight also attends material supervisory updates and education sessions with the Prudential Regulation Authority, Financial Conduct Authority and Bank of England to ensure the Bank is at the forefront of any changes concerning climate matters in the banking industry.

Board Training

The Board received ESG and climate training in December 2023 which provided insight and key information to educate the Board on the current market themes and expectations upon businesses in respect of both ESG and climate change. Topics discussed during the training included the embedding and controlling of climate risk within organisations, measuring social impact and value, and stakeholder expectations in respect of data and reporting around ESG and climate-related matters.

Management

The Chief People & Sustainability Officer has Senior Management Function responsibility under the Senior Managers and Certification Regime for identifying and managing risks arising from climate change and oversight of ongoing compliance with climate-related regulation.

Other Executive Responsibilities

In 2023, the Bank raised the profile of climate-related issues by appointing a Chief People & Sustainability Officer. This role does not just provide oversight of climate-related issues but also increases visibility of core ESG practices across the Bank, championing further progress towards realising climate-related opportunities.

The Values & Ethics Committee is regularly attended by the Chief Executive Officer and key members of senior management who provide regular updates on the Bank's ESG activities including the Chief People and Sustainability Officer, the Director of Brand, Marketing & Communications & Sustainability, and the Head of External Communications & Sustainability.

The Chief Executive Officer has ultimate responsibility for climate-related issues affecting the Group and its customers and overall accountability to the Board and shareholders to ensure that ESG practices are embedded into our business operations, including those associated with environmental or climate areas.

The Chief People & Sustainability Officer is responsible for delivery of the Group's ESG strategy which is appropriately devolved to members of executive management both through sponsorship of flagship initiatives and delivery of the Bank's ESG commitments, against which executive pay is linked.

Risk management

Key disclosures

Describe how the Bank identifies, assesses, and manages climate-related risks and opportunities.

Describe how processes for identifying, assessing, and managing climate related risks are integrated into the Bank's overall risk management process.

Definitions

The financial risks arising from climate change can be separated into two distinct risk categories:

Transition risks – risk of losses arising from the movement towards 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.

Physical risks – risk of losses arising from 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.

Governance framework

We have ensured that climate change risks are properly embedded across the Group's risk governance framework. The Risk Committee and Risk Oversight Committee paper submission process requires colleagues to detail any and all considerations for the financial impacts from climate change. As a result, climate concerns are addressed at all levels of risk governance.

Board:

Reviews, challenges, and approves the strategic plan, including its ESG strategy and strategic approach to managing climate change risks.

Risk Committee (RC):

Reviews and approves the results of climate-related scenario analysis and stress testing. Challenges ongoing management of climate change risks.

Executive Risk Oversight Committee (EROC):

Provides oversight of prioritisation, treatment and management of any significant climate-related risks identified. Reviews the embedding of climate change risk within the RMF, policy development, developing materiality determinations and scenario analysis/stress testing.

Risk Oversight:

Delivers the day-to-day management of climate change risk through the RMF. Scenario analysis and developing materiality determinations are owned within the risk function, including modelling of climate change risks.

Assessing climate change risks

As a part of the 2023 ICAAP, we assessed our material exposures relating to financial risks arising from climate related risks. This assessment was based on both scenario analysis (for the retail secured portfolio) and qualitative assessments to understand the short, medium and long term financial risks to the business model (for retail unsecured, corporate and other risks).

The 2023 climate change assessment concluded that no additional capital requirement is required at this stage for the financial impacts of climate change.

Horizon scanning

We operate a robust horizon scanning process in order to identify, action and monitor any regulatory developments relating to climate matters. Each new development (such as new or amended policy statements) is flagged, assigned to the relevant member of the Executive Committee, prioritised and tracked through to compliance with oversight provided by RC and EROC. The Director of Risk Governance, Regulatory Affairs and Prudential Oversight also attends material supervisory updates and education sessions with the PRA, FCA and BoE to ensure the Group is at the forefront of any changes concerning climate matters in the banking industry.

The Group is compliant with PRA expectations set out in SS3/19 that requires firms to consider how climate-related risks might impact all aspects of their risk profiles and take action in specific areas.

Managing climate change risks

Climate change has been established as a ‘thematic risk’ holistically across the RMF and integrated through the current suite of principal risks. The rationale for this decision is that climate change risks are expected to impact other risks, such as increased credit risk, operational risk and capital risk. This also demonstrates that we have considered the relative significance and linkage of climate-related risks in relation to other risks.

Emerging risks are monitored (including climate change risks) as part of the Bank Risk Report, which is produced by the risk function and is reviewed and challenged by both RC and EROC. Climate change risks are also monitored through the statutory and sustainability reporting, and the ICAAP and Internal Liquidity Adequacy Assessment Process (“ILAAP”).

Decisions to mitigate, transfer, accept or control any significant climate-related risks identified are made in accordance with RMF principles. This involves engaging the relevant principal risk framework owner in the first instance, assessing the potential impact and likelihood of risk crystallisation using approved risk measurement tools, making a materiality determination and escalating through the risk governance and committee structure outlined above.

Annual ICAAP assessments provide opportunities to conduct strategic risk assessments relating to climate change risks and assist materiality determinations.

Scenario analysis

We are in the process of assessing the physical and transition risks of climate change on our mortgage portfolio for 2024 and beyond. Although the Group’s IFRS9 models do not explicitly consider the potential impacts of climate risk, the Group recognises a small climate related judgement adjustment in respect of relevant transitional risks.

Through the use of a bespoke climate risk model, we are able to assess exposure to climate risks against key credit risk parameters, the outputs of which feed into the ICAAP.

Given our most recent climate risk assessment is still underway, there has been no change in the Group’s position with respect to physical and transition risks since publication of our 2022 Annual Report and Accounts.

Physical risks: Through matching the address of the properties within our secured portfolio against the spatial coordinates (longitude and latitude) using AddressBase, and remapping these coordinates against geospatial files showing locations of flood plains and areas with subsidence, we can conclude that the number of properties within the residential mortgage book is broadly in line with the national average.

We monitor exposure to physical risks on the retail secured book on an ongoing basis, however we have determined that reasonably possible credit losses associated with physical climate risk (e.g. flooding damage to secured properties) remains unlikely to be material. As such, no further post model adjustments (“PMAs”) have been recognised in respect of this risk.

Transition risks: We source energy performance certificate (“EPC”) data through matching the address of each property in the residential mortgage portfolio to addresses contained in the EPC register. Based on a previous assessment, the results showed that the energy performance of the properties in the Group’s portfolio is lower than the overall EPC register. We have recognised a £0.2m climate-related judgemental adjustment in respect of the transition risk associated with the low-energy efficient housing stock, where low EPC rated properties are assumed to be exposed to value risk, in our ECL calculation.

Strategy

Key disclosures

Provide a description of:

(i) the principal climate-related risks and opportunities arising in connection with the Bank's operations, and

(ii) the time periods by reference to which those risks and opportunities are assessed.

Describe the actual and potential impacts of the principal climate-related risks and opportunities on the Bank's business model and strategy.

Provide an analysis of the resilience of the Bank's business model and strategy, taking into consideration different climate-related scenarios.

Our Net Zero journey

We have committed to aligning our Scope 1 & 2 direct emissions to Net Zero by 2030, and to transitioning our Scope 3 mortgage lending portfolios to align to Net Zero by 2050 at the latest.

For over 20 years The Co-operative Bank has refused to provide banking services to businesses whose activities contribute to global climate change. Thanks to this disinvestment, it is mortgage lending that has the largest impact on our emissions. To support decarbonisation of this, our role will continue to focus on supporting the Net Zero transition of the UK housing sector and our customers' homes. We will continue to finance renewable energy projects and to play our role in facilitating a just transition in the real economy through engagement with our customers, and through offering products and services that support decarbonisation.

The Bank announced its commitment to align to Net Zero as defined by the Science Based Targets Initiative ("SBTi") by 2030 for its Scope 1 and 2 emissions and by 2050 for its Scope 3 emissions. In particular, the Bank will follow Net Zero Banking Alliance ("NZBA") best practice concerning decarbonising its investments/financed emissions (Scope 3 Category 15).

The Bank has designated 2021 as the baseline year for its Net Zero ambitions and is committed to publishing its Scope 1, 2 and 3 emissions from 2021 onwards. This includes both absolute emissions as well as intensity metrics in relation to number of full time employees and turnover. Also disclosed is building intensity which represents the carbon intensity of the Bank's mortgage portfolio based on floor area.

Our targeted reductions in our financed emissions and our scope 1 and 2 emissions will be consistent with a maximum temperature rise of 1.5°C above pre-industrial levels and will align with scenarios from credible, well-recognised sources.

In 2023 we continued to increase the transparency of our Net Zero journey. We are furthering this by disclosing the entirety of our emissions inventory – across Scopes 1, 2 and 3 emissions. We have also continued to work on understanding the changes we need to make to deliver reductions across our significant emission sources. Our commitment for 2024 is to develop a Transition Plan to demonstrate the details of the approach we need to take in order to achieve our Net Zero ambitions.

In addition to its carbon emissions, the Bank reports a number of environmental performance metrics. These include percentage of waste to landfill, percentage of procurement of electricity from renewable sources, and lending to the renewable energy sector.

Supporting customer sustainability

As we look to support the UK transition to a low carbon economy, we have helped customers achieve sustainability through three key focus areas:

Understanding sustainability: many of our customers are just starting to consider their environmental impact and what it could mean for them. During 2023 we have continued to develop our 'Sustainability Hub', providing engaging information and tips to help customers to make more sustainable choices. We have also worked with strategic partners to pilot a webinar that introduced our business customers to tools that can support them in understanding the environmental impact of their business and how they can make small changes to become more sustainable whilst reducing business costs.

Helping homeowners to reduce their home carbon footprint: the UK has some of the oldest and least energy-efficient housing stock in Europe, so improving the energy efficiency of our customers' homes is a top priority. In 2023 over 2,200 homeowners have engaged with our Home Energy Improvement Tool, developed in partnership with the Energy Saving Trust, giving them a tailored action plan on improvements that could make their home more energy-efficient.

Helping SMEs to measure, manage and improve their environmental impact: in partnership with Zellar in 2023 we have helped over 200 SMEs develop a sustainability action plan which has enabled clients to save 85 tonnes in CO_2, and identify energy bill savings of £100,000.

Climate-related risks

Outlined below is how climate change risks may impact the Bank, our stakeholders, and other principal risks in the short term (1-5 years), medium term (5-10 years) and long term (10-30 years). None of the below risks and events are currently deemed to have a material financial impact on the Bank.

Risk type	Example event	Principal risks impacted	Time horizon	Potential impact on the Bank, its operations and customers
Physical	Increased severity of extreme weather events such as cyclones and floods; increased severity of damage to physical assets including property and disruption to business, services, supply chains and transport links leading to market volatility. Changing climate patterns, affecting ecosystems, food production and living conditions; rising temperatures affecting working and living conditions and local infrastructure and rising sea levels driving subsidence and flooding.	Operational Credit Capital Market Liquidity and funding	Short to long term	Business disruption including workforce requirement changes. Asset impairment as a result of damage caused to property against which the Group secures mortgages and other loans. Increased operating costs due to logistical challenges caused by weather events and climate pattern shifts and increased insurance premiums.
Transition	Increased cost of greenhouse gas emissions through taxation and other fiscal policy; enhanced emissions reporting or other climate-related reporting obligations and additional regulatory requirements for firms to meet mandated minimum climate standards or policy.	Operational Credit Capital	Short to medium term	Higher carbon prices increasing the cost of living and business operations, greater credit risk across the balance sheet. Increased cost of climate related compliance and reporting.
Transition	Additional scrutiny from media and the government on businesses, supply chains, and financiers; shifts in consumer preferences to greener products and services and competitors forced to move away from practices that adversely impact the environment.	Operational Capital Liquidity and funding	Short to medium term	Reduced demand for Group products and services. Risk that the Group's position as an ethical bank becomes diluted by competition shifting towards greater climate consciousness.
Transition	Substitution of existing products and services with lower emissions options; investment in new technologies to reduce emissions or improve energy efficiency of physical sites and households and additional costs associated with the transition to lower emissions.	Operational Capital	Short to medium term	Rising cost of embedding new climate-friendly technologies. Devaluation and diminished utility of existing technology.
Transition	Bottlenecking in the housing market due to limited supply and increased demand for energy efficient and low flood risk properties; changing customer behaviour to less carbon-dependent alternatives and greater volatility in cost and sourcing of carbon heavy raw materials.	Credit Capital Liquidity and funding Market	Short to medium term	Asset impairment or net interest margin volatility due to changes in the housing market. Additional funding costs as a result of price volatility. Abrupt shifts in operating costs such as energy costs.

Greening our products

In 2023, we said we would introduce new 'green' mortgage products (those that have an A or B EPC rating) and increase the proportion of A or B EPC-rated property mortgage lending by 20% year-on-year.

Increasing interest rates and affordability pressures have impacted mortgage borrowers in 2023. We have therefore focussed our efforts on supporting borrowers facing these challenges, while prioritising investment to deliver better and more robust customer service. As a result, it was necessary to delay the launch of a range of 'green' mortgage products in 2023. However, we remain committed to delivering this in 2024, alongside our strategy to continue to support our customers to become more sustainable.

We have continued to provide lending to homes that meet EPC A & B, which are typically newly built homes or those that are well insulated and consume lower levels of energy. We acknowledge that there is a need to incentivise the appeal for homeowners to own a more energy-efficient home.

Metrics and targets

Key disclosures

Provide a description of the targets used by the Bank to manage climate-related risks and to realise climate related opportunities and of performance against those targets.

Provide a description of the key performance indicators used to assess progress against targets used to manage climate-related risks and realise climate-related opportunities and of the calculations on which those key performance indicators are based.

Metrics — approach

The Bank has updated its climate-related metrics in 2023 as it has progressed with its Net Zero transition and decarbonisation pathway. This section contains our approach to our emissions metrics, our 2024 climate-related targets and how these align to our refreshed strategy. Further environmental metrics, not specifically related to climate, are included in the 'Environmental' section of the ESG report on pages 36 to 37. Our 2023 emissions data is reported overleaf.

Metrics — Scope 1, 2 and 3 emissions

In 2023, the Bank announced its commitment to align to Net Zero as defined by the SBTi by 2030 for its Scope 1 and 2 emissions and by 2050 for its Scope 3 emissions. In particular, the Bank will follow Net Zero Banking Alliance best practice concerning decarbonising its investments/ financed emissions (Scope 3 Category 15).

The Bank has designated 2021 as the baseline year for its Net Zero ambitions and is committed to publishing its Scope 1, 2 and 3 emissions from 2021 onwards. This includes both absolute emissions as well as intensity metrics in relation to number of full time employees and turnover. Also disclosed is building intensity which represents the carbon intensity of the Bank's mortgage portfolio based on floor area.

In line with our Net Zero strategy, we have disclosed our Scope 1, 2 and 3 Greenhouse Gas Emissions by source. Our 2021, 2022 and 2023 emissions data is reported overleaf, along with definitions, data sources and calculation methodologies.

Our 2024 targets and commitments

Our 2024 commitments are aligned to our refreshed 2023 strategy, and are laid out below:

Transition plan & emissions reductions

Align ESG strategy with refreshed five year Bank-wide strategy, with strategic goals supporting overlapping priorities.

We will seek to maintain our ESG ratings scored by our major ESG rating agencies.

We have committed to developing a Transition Plan to deliver decarbonisation in line with our Net Zero commitment.

Develop and deliver against our Net Zero Transition Plan supported by a fully embedded Net Zero Taskforce authorised to implement changes required to decarbonise the Bank.

We will commit to necessary investment and resource to achieve Net Zero ambitions by 2030 and 2050.

We will develop a comprehensive ESG risk framework, complete with ESG risk policies and control standards, as well as a suite of key risk appetite measures ("KRAMs") and key risk indicators ("KRIs").

We will fully embed ESG within credit decision-making.

We will provide training to ensure our colleague base is fully engaged with ESG risk and objectives.

Customer & community ESG propositions

In line with current work on Net Zero Transition Planning we will review our products and propositions offering to ensure that this will support our customers in their decarbonisation journey.

We will enhance our Green Digital Hub content to engage and support customers to better understand what actions they can take to reduce their carbon footprint or have a positive impact in their community.

We will continue to support our customers to understand the environmental impacts of their actions to enable them to become more sustainable by:

- conducting customer research to understand how we can better support customer needs to reduce home emissions; and,
- working with strategic partners to support customers become more sustainable through enhanced knowledge and develop engaging educational content.

With our partner, Friends of the Earth, we will replenish nature-deprived spaces across the country by increasing biodiversity in 300 spaces across 12 sites. We'll do this by introducing community gardeners who will engage with at least 1,100 community members and 30 community groups.

Our Net Zero ambition and definition

We recognise that financial institutions have an important part to play in the allocation of capital towards facilitating real-world decarbonisation activities.

For Scopes 1, 2 and 3 categories 1-14, we have aligned to the SBTi definition of Net Zero, which mandates a 90 % reduction by the agreed target date with a maximum of 10 % residual emissions, balanced via carbon removals. We have committed to reducing scope 1 & 2 emissions by 90 % by 2030, and scope 3 categories 1-14 emissions by 50 % by the same target year. Furthermore, we are committing to achieving a 90 % reduction across scopes 1, 2, and 3 categories 1-14 by 2050 at the latest, from a 2021 base year. These targets will be reviewed at regular intervals and updated wherever possible.

To align to best practice, we have calculated our Net Zero pathway for financed emissions (Scope 3 Category 15) to the requirements of the Net Zero Banking Alliance.

Scope of emissions disclosures

In 2023 we completed a detailed review of our emissions to identify and assess the materiality of the sources most applicable to the Bank. The following emission categories were determined to be relevant:

Emission Type
Scope 1 Emissions
Scope 2 Emissions (Location-based)
Scope 2 Emissions (Market-based)
Scope 3 Category 1 - Purchased Good & Services
Scope 3 Category 2 - Capital goods
Scope 3 Category 3 - Fuel-and-energy-related activities
Scope 3 Category 4 - Upstream transportation and distribution
Scope 3 Category 5 - Waste
Scope 3 Category 6 - Business Travel
Scope 3 Category 7 - Employee Commuting
Scope 3 Category 13 - Downstream Leased Assets
Scope 3 Category 15 - Investments (Financed Emissions)

As a financial institution, our role within the Net Zero agenda is to finance the transition to a low carbon economy. This means we must work alongside the UK Government to help our customers decarbonise their homes and businesses. As the energy efficiency of our customers' buildings and businesses increases, powered more and more by green energy, the emissions from our loan book will decrease.

To direct our efforts to where our financing can have the biggest impact not just to our loan book emissions footprint but to our customers' lives, we have taken a proportional approach to reduce our financed emissions. To do this, we have acknowledged that mortgage lending represents the most significant portion of our financing activity compared to SME lending and that, due to the strict ethical screening applied to all our lending, the SME loan book excludes any fossil fuel-linked activities. Based on the data we currently have available, our mortgage book is therefore considered to be the most material contributor of our financed emissions and consequently, is our priority focus area to transition in line with Net Zero. This is why we have committed 100 % of our mortgage book to be Net Zero by 2050.

Remaining Scope 3 categories (all applicable excluding Category 15) are reduced in line with an absolute contraction methodology. We will continue to monitor and report, with targets to reduce emissions for all categories.

Data sources and data quality considerations

All emissions data reported is externally verified to a limited assurance basis to ensure a consistent approach and independent review. Wherever possible, primary source data is used as the basis for the emission calculations (such as invoices and maintenance reports for Scope 1 and 2 emissions).

However, the Bank recognises that further work is required to improve the accuracy of its emission data. In particular, the Bank has identified two areas with low data quality:

- Scope 3 Category 1 (Purchased Goods and Services); we currently use spend data to calculate associated emissions. More accurate reporting will be enabled by using more granular data, in particular, in relation to high spend suppliers and contractors using a 'supplier -specific method', which takes into account the specific supplier's scope 1, 2 and upstream scope 3 emissions.
- Scope 3 Category 15 (Investments/Financed Emissions); we recognise that there are limitations to the availability and accuracy of EPC data which is currently being used wherever possible to calculate emissions associated with mortgaged properties. As part of its transition planning we will review the accuracy of the data used to identify means to improve our reporting and performance against Net Zero.

Using estimation methodologies

Due to the timing of the assurance report to allow emissions data to be published in line with annual reporting cycles, some data is not available to be published for the final quarter of 2023. All 2023 emissions totals therefore contain estimates for Q4. The Bank uses robust methodologies to calculate estimates for Q4 based on historical and proxy data. The data for the final quarter is assured as part of the next reporting cycle, and will be restated in the 2024 Annual Report and Accounts as required, allowing timely and accurate reporting of the Bank's emissions impact.

The following steps are taken when calculating estimated data:

- Where partial data is received for any given quarter, data will be extrapolated on a pro-rated basis to cover the period for which data is missing.
- Historic data is used as a proxy.
- If no data is available, either an industry benchmark or Bank-specific benchmark data is used.
- The financed emissions data is forecasted using actual data calculated at a consistent point in time, being calculated based on the mortgage lending portfolio as at 31 October 2023.

Alignment to Just Transition

We recognise the importance of ensuring that decarbonisation follows Just Transition principles wherever possible to ensure that the impacts of transitioning the economy are not borne disproportionately by vulnerable sections of society. As we develop our detailed Transition Plan, these considerations will be embedded into the design of our decarbonisation pathway.

Table of emission types, definitions, data sources and calculation methodologies[1]

Emission Type	Definition/Emission Sources	Data Source	Calculation Methodology
Scope 1 Emissions (Direct)	Direct emissions resulting from activities directly owned or controlled by the Bank which includes the following: Fuel combustion; Refrigerant leakages; Emergency backup generator use; Fire suppression.	**Fuel combustion:** Invoices from gas supplier **Refrigerant leaks:** Maintenance record from landlords or maintenance contractor **Emergency backup generator use:** Diesel invoices **Fire suppression:** Contractor invoices following full discharge at location	**Fuel Combustion:** The final kWh amount is converted to tC02e using the UK average GHG emissions figure (conversion factor), as published by the Department for Energy Security and Net Zero. **Refrigerant leaks:** Type of refrigerant is multiplied by the global warming potential of the refrigerant type and then converted to GHG using UK Conversion factors. **Emergency backup generator use:** Diesel consumption is converted to GHG using UK Conversion factors. **Fire suppression:** Type of discharge is multiplied by associated global warming potential and converted into GHG using UK Conversion factors.
Scope 2 Emissions (Location-based)	Total indirect emissions due to purchased energy including electricity, steam and heating/cooling which includes the following: Electricity consumption at offices and branches; Location-based emission figure calculates the electricity consumed at the carbon intensity of the UK electricity grid.	Invoices from electricity provider	The final kWh amount is converted to tC02e using the UK average GHG emissions figure (conversion factor), as published by the Department for Energy Security and Net Zero.
Scope 2 Emissions (Market-based)	Indirect emissions due to purchased energy including electricity, steam and heating/cooling which includes the following: Electricity consumption at offices and branches; Market-based emissions take into account the difference in emissions associated with using renewable electricity.	Invoices from electricity provider Confirmation of renewable electricity procured	Where locations are not included in the direct supply agreement due to inclusion in landlord service provision, a market-based approach assuming a non-renewable electricity source is used. The relevant electricity consumption is converted to tCO2e using the UK average GHG emissions figure.
Scope 3 Category 1 - Purchased Good & Services	Extraction, production, and transportation of goods and services purchased or acquired by the reporting company in the reporting year which includes the following: Purchased Goods & Services; Water.	Internal spend data	The Bank uses both the process-based and EEIO modelling method to calculate the emissions associated with goods and services.
Scope 3 Category 2 - Capital goods	Extraction, production, and transportation of capital goods purchased or acquired by the reporting company in the reporting year.	Internal spend data	The Bank's capital goods emissions are calculated using a spend-based methodology, using EEIO.
Scope 3 Category 3 - Fuel-and-energy-related activities	Extraction, production, and transportation of fuels and energy purchased or acquired by the Bank in the reporting year, not already accounted for in scope 1 or scope 2.	Gas and Electricity invoices	Convert consumption into GHG using Defra Well-to-Tank emissions factors and Transmission and Distribution (T&D) emissions factors
Scope 3 Category 4 - Upstream transportation and distribution	Transportation and distribution of products purchased by the Bank in the reporting year between a company's tier 1 suppliers and its own operations (in vehicles and facilities not owned or controlled by the Bank) including inbound logistics, outbound logistics (e.g. of sold products), and transportation and distribution between a company's own facilities (in vehicles and facilities not owned or controlled by the Bank).	Internal spend data	Emissions are calculated using the applicable DEFRA and DEFRA WTT factors. Where no data is available, spend is identified in the procurement ledger as relevant to Upstream T&D. This spend is then multiplied by a relevant EEIO emission factor. Logistics spend on couriers is classified as Upstream T&D.

1. Includes only those emission types relevant to the Bank's operations, as identified on the previous page.

Emission Type	Definition/Emission Sources	Data Source	Calculation Methodology
Scope 3 Category 5 - Waste	Waste generated in operations.	Waste contractor data.	Waste emissions is calculated using the process-based method as follows: a. Collecting primary data from the facilities based on the following waste treatment types: Reuse; Recycling; Incineration or treatment; Landfill. b. Where no actual data is available, waste generation is estimated based on site floor area and site open and closure, and only regular waste collections are estimated (ad hoc waste collections will not be applied to sites with no actual data available). c. Emissions are calculated using the DEFRA emission factors based on the waste disposal and treatment. d. Multiply the applicable Defra UK waste disposal and treatment factors by volumes of waste.
Scope 3 Category 6 - Business Travel	Transportation of employees for business-related activities during the reporting year (in vehicles not owned or operated by the reporting company).	Data from third party suppliers who provide rail ticket booking and expense claims for car mileage.	Rail, plane and car mileage are converted into GHG using UK conversion factor.
Scope 3 Category 7 - Employee Commuting	Transportation of employees between their homes and their worksites during the reporting year (in vehicles not owned or operated by the reporting company).	Internal HR data.	a. Determine the number commuting days in a year: total number of business days – annual leave days * **working from home** %. b. Calculate the km per year per FTE metric for each mode of transport. This is derived from: https://www.numbeo.com/traffic/country_result.jsp?country=United+Kingdom which is a crowd-sourced online database with commuting data by region. c. Calculate the distance travelled per FTE per mode of transport for each region. d. Emissions are calculated using the applicable DEFRA TTW and DEFRA WTT factors. **Working from home** a. Obtain office FTE figures and calculate the number of days the FTE works from home. b. FTE markets are defined as requiring heating and/or cooling based on the climate. c. Fuel and energy requirements are calculated using the EcoAct homeworking emissions methodology where fuel and energy consumption is calculated for laptops, lighting, heating (for markets requiring heating) and cooling (for markets requiring cooling). d. Emissions are calculated by applying the suitable DEFRA scope 1 or scope 2 emission factor.
Scope 3 Category 13 - Downstream Leased Assets	Operation of assets owned by the reporting company (lessor) and leased to other entities in the reporting year, not included in scope 1 and scope 2 – reported by lessor.	Reports sourced from lessee.	Where tenant energy use data is readily available, these figures should are multiplied by the relevant DEFRA and DEFRA WTT factors.
Scope 3 Category 15 - Investments (Financed Emissions)	Operation of investments (including equity and debt investments and project finance) in the reporting year, not included in scope 1 or scope 2. This makes up the largest portion of the Bank's emissions as it includes indirect emissions faced through mortgages.	Internal mortgage portfolio data matched with the public EPC database.	Data points required for each mortgaged property (if known) are: Property ID; Outstanding Loan Amount; Property Value at Origination; Attribution Factor; Date of Valuation; Dwelling Type; Country; Region; Floor Area; EPC Rating; Primary Energy Use; Main Source of Heating. The data is broken down by dwelling type and the correct emission factors for each dwelling type will be applied, according to the UK government's annually refreshed Conversion Factors (https://www.gov.uk/government/publications/greenhouse-gas-reporting-conversion-factors-2022). In the absence of complete data points for a property, weighted averages will be applied based on dwelling type. The data is then aggregated to calculate the total emissions based on the outstanding loan value held by the Bank which provides a total tC02e figure.

Table of emissions data by source—Scope 1, 2 & 3

Source of Emissions [1] (tCO2e)	Total Emissions (tCO2e) 2023 [7]	2022 [8]	2021
Scope 1 - Fuel combustion	**477.8**	522.0	805.4
Scope 1 - Refrigerant leakages	**206.9**	70.3	163.5
Total Scope 1 Emissions (Direct emissions) [2]	**684.7**	**592.0**	**968.9**
Total Scope 2 Emissions (Indirect emissions) [3] (location based)	**1,541.6**	**1,574.7**	**2,181.3**
Total Scope 2 Emissions (Indirect emissions) [3] (market based)	**837.1**	**441.0**	**198.7**
Scope 3 Category 1 - Purchased Good & Services	**49,994.8**	42,029.5	27,412.0
Scope 3 Category 2 - Capital goods	**1,905.2**	1,763.1	36.3
Scope 3 Category 3 - Fuel-and-energy-related activities	**347.1**	323.3	412.4
Scope 3 Category 4 - Upstream transportation and distribution	**227.2**	168.0	-
Scope 3 Category 5 - Waste	**21.3**	28.6	22.3
Scope 3 Category 6 - Business Travel	**122.6**	136.6	35.7
Scope 3 Category 7 - Employee Commuting	**3,238.9**	2,435.8	2,449.7
Scope 3 Category 8 - Upstream Leased Assets [4]	**N/A**	N/A	N/A
Scope 3 Category 9 - Downstream Transportation and Distribution	**N/A**	N/A	N/A
Scope 3 Category 10 - Processing of Sold Products	**N/A**	N/A	N/A
Scope 3 Category 11 - Use of Sold Products	**N/A**	N/A	N/A
Scope 3 Category 12 - End-of-Life Treatment of Sold Products	**N/A**	N/A	N/A
Scope 3 Category 13 - Downstream Leased Assets	**-**	-	-
Scope 3 Category 14 - Franchises	**N/A**	N/A	N/A
Total Value-chain Emissions	**55,857.1**	**46,884.9**	**30,368.4**
Scope 3 Category 15 - Investments (Financed Emissions) [5]	**302,564.9**	313,832.6	340,845.0
Mortgage Portfolio Building Intensity (kgCO2e/m2)	**46.2**	44.9	46.9
Total Scope 3 Emissions	**358,422.0**	**360,717.5**	**371,213.4**
Absolute Emissions—Total Scope 1, 2 (Location-based) & 3	**360,648.3**	**362,884.5**	**374,363.6**
Absolute Emissions—Total Scope 1, 2 (Market-based) & 3	**359,943.8**	361,750.8	372,381.0
Carbon Intensity (kgCO2e/FTE) [6]	**109,122.0**	131,567.3	152,676.8
Carbon Intensity (kgCO2e/£Revenue)	**0.70**	0.74	1.07
Total Direct Energy Consumption (kWh)	**10,056,526.6**	11,002,688.2	14,670,098.0
Energy Intensity (kgCO2/kWh)	**35.9**	33.0	25.5

1 Only 2021, 2022 and 2023 data has been verified by SGS, an independent 3rd party who provide assurance over ESG metrics.
2 Scope 1 emissions includes Natural gas consumption (fuel combustion), F-gas losses (refrigerant leaks) and Emergency backup generator use. Emergency backup generator use is 0.
3 Scope 2 emissions are made of total electricity consumption across the business. Total electricity consumption GHG emissions are calculated using a location-based methodology. They are calculated using the UK average GHG emissions figure (conversion factor), as published by the Department for Energy Security and Net Zero. Where locations are not included in a direct supply agreement due to inclusion in landlord service provision, a market-based approach assuming a non-renewable electricity source is used to calculate GHG emissions from these locations. This allows us to accurately offset the emissions generated.
4 Metrics marked as N/a are due to the Bank having no exposure to this category of emissions.
5 Financed emissions data represents a point-in-time position of the Bank's mortgage portfolio as Q4 could not be obtained and assured within the reporting timeframe. Therefore, the 2023 figure represents the portfolio as of 31 October 2023 and will be updated in next year's reporting cycle to include Q4 data.
6 Calculated using the average number of full time equivalent ("FTE") employees for each year.
7 To ensure that 2023 Scope 3 emissions data were verified by SGS ahead of reporting, our 2023 figures are based on Q1-Q3 actual data and Q4 estimates.
8 2022 full year scope 1 and 2 emissions re-stated from 2,181 following a detailed review as part of our Scope 3 emissions reporting.

Financial performance

2023 has been an important year in which we progressed our mortgage and savings transformation programme.

Further investment in this programme, as well as other strategic projects, will realise benefits in 2024 and beyond. As expected, this increased spend has impacted our exceptional costs in 2023. Overall our results reflect good performance against our financial KPIs.

Alternative performance measures ("APMs")

A number of alternative performance measures are used, including underlying profit or loss, to monitor financial performance relative to the strategic plan. Statutory profit before tax of £71.4m, which is defined by accounting rules according to international accounting standards, is also monitored.

Underlying performance

Underlying performance is monitored by management on a segmental basis (retail and SME) which together reflect our core business. Legacy and unallocated relates to legacy operations which we are looking to exit, or where items cannot be allocated to any other segment. 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 2023 £m	Core			Legacy & unallocated	Group
	Retail	SME	Total		
Net interest income	377.3	97.7	475.0	2.0	**477.0**
Other operating income	21.8	15.8	37.6	0.6	**38.2**
Operating income	**399.1**	**113.5**	**512.6**	**2.6**	**515.2**
Credit impairment (losses)/gains	(0.7)	(1.3)	(2.0)	1.4	(0.6)
Operating costs – staff	(113.5)	(28.3)	(141.8)	(3.8)	(145.6)
Operating costs – non-staff	(181.7)	(35.7)	(217.4)	(1.6)	(219.0)
Continuous improvement projects	(25.1)	(3.7)	(28.8)	(0.3)	(29.1)
Operating expenses	**(320.3)**	**(67.7)**	**(388.0)**	**(5.7)**	**(393.7)**
Underlying profit/(loss)	**78.1**	**44.5**	**122.6**	**(1.7)**	**120.9**

Year ended 31 December 2022 £m	Core			Legacy & unallocated	Group
	Retail	SME	Total		
Net interest income/(expense)	397.0	69.3	466.3	(8.0)	458.3
Other operating income/(expense)	22.7	18.7	41.4	(0.3)	41.1
Operating income/(expense)	**419.7**	**88.0**	**507.7**	**(8.3)**	**499.4**
Credit impairment losses/(gains)	(5.2)	(1.6)	(6.8)	0.4	(6.4)
Operating costs – staff	(92.8)	(24.7)	(117.5)	(2.9)	(120.4)
Operating costs – non-staff	(179.4)	(33.5)	(212.9)	(1.6)	(214.5)
Continuous improvement projects	(16.4)	(5.4)	(21.8)	(0.3)	(22.1)
Operating expenses	**(288.6)**	**(63.6)**	**(352.2)**	**(4.8)**	**(357.0)**
Underlying profit/(loss)	**125.9**	**22.8**	**148.7**	**(12.7)**	**136.0**

Underlying profit for the year decreased to £120.9m (2022: £136.0m). Income generated by core segments of £512.6m is 1% higher than in 2022, driven by improving deposit margins following increases in the base rate to 5.25%. This has contributed to a higher net interest margin of 1.80% (2022: 1.66%).

Credit impairment losses reduced by 91% in 2023 compared to 2022, driven by a decline in forward looking commercial real estate property values and revised macroeconomics earlier in the year slightly offset by a £1.6m release relating to one specific connection.

Underlying operating expenses increased by 10.3 % from £357.0m to £393.7m. Non-staff operating costs have increased by 2.1 % (£4.5m) to £219.0m following inflationary pressures during the year and an increase in continuous improvement project costs to £29.1m. Staff costs also increased by 20.9 % to £145.6m due to planned insourcing and investment in contact centres, along with inflationary pay rises.

Income statement reconciliation to IFRS basis

Year ended 31 December	2023 £m	2022 Re-presented [1] £m
Underlying profit	**120.9**	136.0
Exceptional project expenditure	**(22.5)**	(15.6)
Exceptional redress costs	**(28.9)**	-
Other exceptional gains	**1.9**	12.2
Statutory profit before tax	**71.4**	132.6

1. Certain advisory and transformation related costs have been reclassified into exceptional project expenditure from other exceptional gains/(losses).

Statutory profit before tax reported for 2023 reduced by £61.2m compared to 2022. Growth in income was outweighed by increased operating expenditure. Exceptional project spend relates to strategic investment in our mortgage and savings transformation programme of £14.7m: (2022: £15.0m), alongside advisory costs relating to the review of strategic options announced in 2023 of £7.8m (2022: £0.6m).

An exceptional provision of £28.9m (2022: £nil) has been recognised following the outcome of two final decisions by the Financial Ombudsman Service in relation to historic changes made to the Standard Variable Rate in a closed book of mortgage customers and the subsequent decision by the Bank's Board to take proactive steps to compensate eligible customers with similar characteristics. More information is provided in note 26 of the financial statements.

Other exceptional gains includes revaluation of Visa shareholdings as well as remediation and redress, which reduced by £10.3m as a result of an exceptional profit on disposal of a small legacy loan book in the first quarter of 2022.

Taxation

Year ended 31 December	2023 £m	2022 £m
Current tax		
Current year	**1.4**	5.7
Adjustments in respect of previous year	**0.2**	-
Total current tax charge	**1.6**	5.7
Deferred tax		
Current year	**(58.3)**	2.7
Adjustments in respect of previous year	**0.6**	0.4
Impact of rate changes	**(2.2)**	43.3
Write-down of previously recognised deferred tax asset	-	58.4
Total deferred tax (credit)/charge	**(59.9)**	104.8
Total tax (credit)/charge	**(58.3)**	110.5

The Group has a tax credit for the period of £58.3m (2022: charge of £110.5m). The Group's continuing profitability has resulted in a current tax charge of £1.6m (2022: £5.7m) after the utilisation of historical tax losses to offset profits. Additional deferred tax assets in respect of historical tax losses that will shelter future taxable profits were also recognised. The net increase in tax losses recognised has resulted in a credit to the income statement of £59.9m. Deferred tax assets of £233.9m remain on the balance sheet and £413.4m of unrecognised deferred tax assets are available to offset future taxable profits.

The tax charge in 2022 of £110.5m was caused by the pension "buy-in" resulting in a decrease in deferred tax assets, the impact of the decrease of the banking surcharge rate on deferred tax assets, and the tax charge on profits in the period.

Balance sheet

As at 31 December 2023 £m	Core			Legacy & unallocated	Group
	Retail	SME	Total		
Assets	**19,302.9**	**378.4**	**19,681.3**	**6,390.0**	**26,071.3**
Liabilities	**15,690.4**	**3,320.7**	**19,011.1**	**5,651.2**	**24,662.3**

As at 31 December 2022 £m	Core			Legacy & unallocated	Group
	Retail	SME	Total		
Assets	19,841.3	388.2	20,229.5	7,903.3	28,132.8
Liabilities	16,607.8	3,396.8	20,004.6	6,829.2	26,833.8

Core segment assets reduced to £19.7bn as we have actively managed new business volumes to preserve Bank margins. Core segment liabilities reduced by £1.0bn over the same period, following a decrease in customer average balances primarily attributed to the cost of living crisis.

Legacy and unallocated assets decreased by 19.1 % to £6.4bn as the legacy business continues to run-off and we re-deploy the capital for the benefit of our core business. Legacy and unallocated liabilities reduced by 17.2 % to £5.7bn in the year as we started to make voluntary TFSME repayments totalling £1.2bn. Legacy customer liabilities represent the balances which the Group is seeking to exit and such deposit balances can fluctuate month-on-month.

Capital

Total capital and MREL-qualifying resources [1]

£m unless stated	2023	2022
Capital ratios and other capital metrics		
CET1 ratio	**20.4%**	19.8 %
Total Capital Ratio	**25.3%**	23.8 %
Total Capital Requirement ("TCR")	**623.9**	628.5
Overall Capital Requirement ("OCR")	**837.5**	797.1
Risk-weighted assets ("RWAs")		
Credit risk	**4,206.7**	4,312.9
Operational risk	**574.0**	503.3
Total risk-weighted assets	**4,780.7**	4,816.2

CET1 resources have increased by £20.2m since 31 December 2022, and MREL-qualifying resources increased by £264.5m to £1,863.8m, predominantly due to the successful £200m Green MREL Senior transaction in May 2023. In November 2023, the Group's Tier 2 subordinated debt capital was refinanced, which had an original call date in April 2024.

The reported CET1 ratio of 20.4 % (2022: 19.8 %) remains well above the regulatory minimum (14.3 % , including CRD IV buffers). The Group has a TCR of 13.1 % of RWAs, which is required to be met by a minimum of 9.8 % of CET1 capital resources, and a maximum of 3.3 % Tier 2 capital resources. At the end of 2023, the Group had Pillar 1 requirements equivalent to 8.0 % (2022: 8.0 %) of total RWAs and an Individual Capital Requirement ("ICR") equivalent to 5.05 % of total RWAs (2022: 5.05 %).

The Group's MREL requirement is equivalent to two times TCR, resulting in a total MREL requirement of £1,247.8m. The Group's current MREL resources total £1,863.8m, providing significant headroom to current MREL requirements. The Group currently has a CRD IV buffer of 4.5 % of RWAs above the TCR. This buffer increases the MREL requirement to £1,461.4m giving a surplus of £402.4m.

The Directors have recommended a final dividend in respect of the year ended 31 December 2023 of £12m, equating to 0.13p per ordinary share in The Co-operative Bank Holdings Limited, to be paid in 2024. The payment of the final dividend is subject to approval of the shareholders at the 2024 AGM which will consider the circumstances at the time. CET1 ratio post dividend is 20.1 % , well above the regulatory CET1 minimum of 14.3 % including CRD IV buffers.

1. All balances and ratios reported prior to proposed dividends.

Risk-weighted assets

Total RWAs, which include both credit and operational RWAs, decreased in the year by £35.5m, primarily due to a reduced balance sheet offset by the impact of the Sainsbury's Bank mortgage portfolio acquisition. In retail, credit RWAs decreased by £124.2m and in SME, credit RWAs increased by £26.9m.

Leverage ratio

The PRA leverage ratio (i.e. CET1 resources divided by leverage exposures) of 4.1% (2022: 4.0%) has increased, mainly as a result of higher CET1 resources. The Group is not bound by a minimum leverage ratio currently, since its retail deposits are less than £50bn.

Liquidity

Liquidity remains strong and significantly above the 100% regulatory minimum. Liquidity Coverage Ratio ("LCR") has reduced by 53.9 percentage points to 211.4% (2022: 265.3%) predominantly due to £1.2bn TFSME repayments in the period, calculated on a 12 month rolling average in line with Pillar 3 requirements.

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

	Year ended 31 December		
£m	2023	2022	Change
Net interest income	**377.3**	397.0	(5.0) %
Other operating income	**21.8**	22.7	(4.0) %
Operating income	**399.1**	419.7	(4.9) %
Operating expenses	**(320.3)**	(288.6)	11.0 %
Credit impairment losses	**(0.7)**	(5.2)	<100 %
Underlying profit	**78.1**	125.9	(38.0) %

Segmental assets and liabilities—retail

	At 31 December		
£m	2023	2022	Change
Secured	**19,067.6**	19,604.3	(2.7) %
Unsecured	**235.3**	237.0	(0.7) %
Customer assets - lending	**19,302.9**	19,841.3	(2.7) %
Customer liabilities - deposits	**15,690.4**	16,607.8	(5.5) %
Risk-weighted assets (credit)	**3,018.4**	3,142.6	(4.0) %

Lending

The mortgage market in 2023 remained very competitive with total average mortgage book margins reducing to 114bps from 147bps in 2022, and as a result we strategically preserved Bank margins by continuing to manage new business volumes. Gross mortgage lending was £4.8bn, with £2.7bn relating to retention. Average completion margins reduced from 77bps to 61bps compared to 2022. Whilst completion margins remain low, the comparatively low volume of business at these margins has mitigated the impact on the blended book margin.

The majority of our mortgage book is prime mortgages, highlighting that we maintain a low-risk portfolio. Average loan-to-value ("LTV") is 55.7 % (2022: 53.5 %), which continues to provide significant protection from potential house price reductions. In the third quarter of the year, we acquired Sainsbury's Bank's mortgage portfolio comprising approximately 3,500 customers and c.£0.5bn of balances. Average LTV of the acquired portfolio is 51.6 %, demonstrating our commitment to identifying low-risk opportunities to grow our mortgage book.

There has been a significant shift in the year towards shorter term duration products for new business completions in comparison to 2022. This has been due to interest rates peaking during the year and customers responding to prevailing market conditions. 27 % of our completions during the year were for two-year tenor business compared to 18 % in 2022. The blended tenor across our whole mortgage portfolio of mortgages with a five-year fixed term increased from 67 % to 70 % due to lower volumes during the period.

Secured lending

£m	2023	2022
Gross lending at the start of the year	**19,604**	19,508
Maturities	**(4,413)**	(3,427)
Retention	**2,746**	2,178
New mortgage completions	**2,078**	3,169
Other movements [1]	**(947)**	(1,824)
Net residential lending	**(536)**	96
Gross lending at the end of the year	**19,068**	19,604

1. Predominantly relates to repayments. Includes mortgage portfolio acquisition balances of c.£0.3bn.

Deposits

Total deposits reduced by 5.5 % since 2022 to £15.7bn, due to a reduction in customer average balances as a result of the cost of living challenges. Our individual current account average balance decreased to £4,367 (2022: £4,785), however this remains higher than before the outbreak of COVID-19. We have seen a shift towards term deposits in the year, which has increased to £1.9bn (2022: £1.6bn), as customers look to take advantage of higher rates. Wholesale balances have reduced to £5.0bn (2022: £6.1bn) predominantly due to £1.2bn of TFSME repayments during the year. As we continue to make these payments, we will look at opportunities to ensure the deposit balances remain in line with the Bank's strategy.

Our franchise deposit balances reduced by 8 % to £13.8bn (2022: £15.0bn) primarily attributed to the cost of living challenges and switch outs, partially mitigated by our 'Refer a Friend' incentive. Retail current account balances of £5.1bn reduced compared to 2022 (2022: £5.8bn). Our focus is on attracting and retaining customers whose values and purpose are aligned with our ethical brand and co-operative heritage.

During 2023, we launched a new savings product, Fixed Rate ISA, following the launch of two other savings products in 2022. This ISA has attracted £162.4m of deposit balances to date which has helped contribute to our increase in term deposits. In October we launched a Base Rate Tracker Savings Account to attract new customer deposits. The account offers instant access with interest rates linked to the Bank of England base rate, designed to meet the needs of customers who are looking to benefit from rising interest rates. This is exclusively available to current account customers, supporting our relationship and cross sell strategy.

£m unless otherwise stated	2023	2022	Change
Deposits			
Current accounts	**5,123**	5,848	(12.4) %
Savings	**8,643**	9,114	(5.2) %
Total franchise	**13,766**	14,962	**(8.0)%**
Term deposits	**1,924**	1,646	16.9 %
Total	**15,690**	16,608	**(5.5)%**

Key performance indicators	2023	2022
Growth in franchise (%)	**(8.0)%**	(3.5 %)
Prime customers (% of total)	**48.5%**	48.6 %
Acquisitions of new customers (number)	**55,610**	38,560
Net switching (number)	**(13,086)**	(16,971)
Total current accounts (number)	**1,220k**	1,229k

Customer

In 2023 we have focussed our efforts on driving efficiency across customer and colleague processes, ensuring customer expectations are achieved. We collaborated with colleagues to understand what was causing our customers difficulties, resulting in processes becoming quicker and easier as well as enabling our teams to deliver better and more efficient customer service.

These efficiencies have helped deliver improvements in our average speed to answer (“ASA”) within retail, reducing by 47% compared to 2022, which is a significant improvement compared to the historic highs seen in 2022. We aim to continuously improve the service we offer to customers whilst addressing their concerns.

Following the successful relocation of our Nottingham branch last year, we strategically relocated three more branches in December followed by another in January 2024. This shows our commitment to investing in our branch network by maximising opportunities to review our locations to improve commercial performance and put us in the right place to better serve our customers. We will continue to review the locations of our remaining branch estate on an on-going basis.

The environment in 2023 has been challenging and we are aware that our customers may need support through the cost of living crisis. Earlier this year we became signatories of the Mortgage Charter set out by the Chancellor in June 2023. This means that customers have the ability to temporarily switch their mortgage from repayment to interest only, or extend the terms of their mortgage. We will continue to support customers through the current economic and cost of living uncertainties.

Our values and ethics remain a key part of our commitment to our customers. Earlier this year we campaigned with Shelter calling for an end to unfair evictions through the introduction of a robust Renters Reform Bill. We will continue to campaign with Shelter to ensure the Government upholds its commitments to bring the Renters Reform Bill that will protect tenants across the country and deliver lasting change into statute.

As part of our dedication to our customers and the planet, we have committed to originating £100m of Green Lending within 12 months of our Green MREL bond issuance in May. Currently we have originated £95m and remain on track to meet our future financing commitment.

Earlier this year, we launched a new Visa promotion giving customers the chance to win up to £2,500 when they make a purchase using their Co-operative Bank credit or debit card. To allow our customers to make a difference to the causes that matter to them, we're matching the total customer prize pot and customers will get to vote how the donation is allocated. The promotion will have three monthly draws and, as at 31 December 2023, there were 6,414 entries. This follows an earlier promotion between April and July, which had 27,825 entries.

To date, there has been lots of competition in the industry for current account customers, with a wide variety of different switch incentives across the market. To ensure we remained competitive we introduced our ‘Refer a Friend’ incentive in 2023. This incentive gave customers the opportunity to introduce like-minded friends to our ethical banking proposition and has helped mitigate balance reductions driven by switch outs.

Our Everyday Rewards current account continues to be an effective way for us to reward customers for their good everyday banking behaviours. Customers can choose to receive their rewards either as money transferred to their nominated Co-operative Bank current account or, if they prefer, they can make a donation to one of our designated charities. In 2023 £159k was donated, bringing the total amount donated since 2016 to £1.7m.

Segment update: SME

We provide straightforward, value for money products to our SME customers, including transactional banking, overdrafts, credit cards and loans. The SME business remains a key strategic focus for the Bank and we have seen deposit resiliency against the current economic backdrop. Our SME business only provides services to UK-based customers.

Segmental income—SME

	Year ended 31 December		
£m	2023	2022	Change
Net interest income	**97.7**	69.3	41.0 %
Other operating income	**15.8**	18.7	(15.5) %
Operating income	**113.5**	88.0	29.0 %
Operating expenses	**(67.7)**	(63.6)	6.4 %
Credit impairment losses	**(1.3)**	(1.6)	(18.8) %
Underlying profit	**44.5**	22.8	95.2 %

Segmental assets and liabilities—SME

	At 31 December		
£m	2023	2022	Change
Customer assets - lending	**378.4**	388.2	(2.5) %
Customer liabilities - deposits	**3,320.7**	3,396.8	(2.2) %
Risk-weighted assets (credit)	**222.0**	195.1	13.8 %

SME income increased to £113.5m (2022: £88.0m) due to a high proportion of the SME balance sheet comprising deposits which have benefitted from the rising rate environment. Operating expenses have increased to £67.7m (2022: £63.6m). Our lending reduced by 2.5 % in 2023 compared to 2022, whilst liabilities reduced by 2.2 % to £3,320.7m. The decrease is primarily attributed to a reduction in SME current account average balances which is due to industry-wide cost of living pressures and a release of liquidity built up over COVID-19 (with average balances still higher than before COVID-19). Within SME savings, our balances increased by 17.4 % to £0.8bn (2022: £0.7bn).

£m unless otherwise stated	2023	2022
SME deposits		
Current accounts	**2,546**	2,737
Savings	**775**	660
Total franchise	**3,321**	3,397
Total current accounts (number)	**102,007**	101,944
New current accounts opened (number)	**8,857**	8,703
Total savings accounts (number)	**30,678**	29,863
New savings accounts opened (number)	**3,567**	2,670

Products

In July we relaunched our Business Current Account tariff product, making it fee free to digital transacting customers. This enabled us to be more competitive for new businesses and has contributed to a 2% growth in the number of new current accounts being opened. We also increased our community business accounts by 5% compared to 2022. Throughout the year, customers opened 8,857 new current accounts (2022: 8,703) and 3,567 new savings accounts (2022: 2,670), with the latter reflecting the improvement in customer onboarding journeys as a result of progress in our transformation projects as well as customers seeking higher rate accounts in a high rate environment.

Customer experience

Within our SME segment, our community customers are now able to apply for a business account digitally, significantly reducing friction within the customer journey and replacing the traditional paper-based application process. Since the implementation, there has been a 35% increase in the number of new community accounts opened compared to the same period in 2022.

We redesigned and rebuilt our public website to help customers find the information they need when researching our Business Current Accounts. We've completed a proof of concept on how to track customer journeys end-to-end, which will help us to understand which marketing channels work best for our customers and the Bank.

In 2023, we were once again awarded 'Moneyfacts Best Charity Banking Provider' in the Business Moneyfacts Awards for the eighth time running. This is testament to the continued great service that we provide to our charity customers. Additionally, we were announced as an 'Eco Provider' by consumer champion Which? highlighting our high ethical standards for the businesses we offer services and finance to, as well as our exclusion of firms involved in the extraction, production or exploration of fossil fuels or the unsustainable harvest of natural resources.

Earlier this year, we launched new updates for our mobile applications. This update was designed to make our customers' experience much smoother, improving app functionality and making their journeys through the app as straight forward and easy as possible. We are continuing to review our customer feedback to deliver as many improvements as we can.

Board focus in 2023

In 2023, the Board has focussed on:

- The refresh of the Bank's strategy to ensure it is forward looking and growth focussed, offering enhanced product propositions that enable and support our customers to pursue their financial objectives. The Board also considered inorganic growth opportunities as they arose, resulting in the successful purchase of a closed book mortgage portfolio from Sainsbury's Bank and the business is in exclusive discussions with Coventry Building Society to evaluate the merits of a combination.
- Through reports provided to the Board, consideration of an ESG thematic risk which would incorporate and expand on the existing climate change thematic risk, and of the Bank's environmental, social and governance commitments through the receipt of oral updates from the Values & Ethics Committee Chair, oversight of the Bank's ESG Strategy and approval of the Sustainability Report.
- The implementation of the FCA's Consumer Duty including the updating of the Bank's governance arrangements, a review of its product set, monitoring the remediation of customer harms identified, update of the data and MI framework, work on the closed book and embedding of Consumer Duty in the Bank's culture.
- Ensuring the Group's continued compliance with capital requirements plus all buffers through the issuance in May 2023 of £200m fixed rate reset callable notes due in 2028, the early re-financing of its £200m Tier 2 instruments in November 2023 and the restructuring of the Group's existing debt structure culminating in the substitution of the Finance Company with the Holding Company as the issuer of the Group's debt and Tier 2 instruments.
- Oversight of the Bank's liquidity position through the quarterly going concern assessments presented to the Joint Audit Committee and annual approval of the Individual Liquidity Adequacy Assessment Process ("ILAAP").
- The voluntary adoption of the Government's Mortgage Charter in June 2023 and the other initiatives such as the Cost of Living Taskforce to help our customers throughout the cost of living crisis.
- Continued oversight of the Simplification programme via the Board Sub-Committee that was established during 2021. The Sub-Committee oversaw the successful implementation of a new platform for savings customers, with the first new savings products in over a decade launched in 2023; the migration of mortgage customers to a new platform and the insourcing of mortgage services colleagues in Q1 2023. The Board also considered other IT related matters such as the remediation of IT infrastructure, the results of externally led testing of cyber security arrangements and the management of technology risks to ensure a secure banking environment for customers.
- The outcome of two final decisions of the Financial Ombudsman Service in relation to historic closed-book Standard Variable Rate mortgage customers, taking the decision to proactively redress customers with similar characteristics as the complainants.
- The recruitment of two new Non-Executive Directors, Fiona Clutterbuck and Mark Parker, who replaced long serving Directors Derek Weir and Sir Bill Thomas who rolled off the Board at the end of their tenure and the appointment of Glyn Smith as Senior Independent Director.
- The oversight of the setting of the regulatory agenda, including the annual review and approval of the RMF and the Group's risk appetite and the impact of upcoming regulatory changes such as Basel 3.1 on capital forecasts.
- The review and approval of the Annual Report and Accounts, the quarterly trading updates and half-year Interim Financial Report and associated financial information, receiving regular updates from the Chair of the Joint Audit Committee. It also approved the Group's tax strategy and continuing adoption of the HMRC Code of Practice on Taxation for Banks.
- The oversight of progress towards reaching 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 review and discussion of people matters, including approving the remuneration policy and variable pay. The Board also oversaw changes to the Executive team, including the change in Chief Information Officer and appointment of the Chief Internal Auditor.

In addition, the Board has overseen the continued commitment to co-operative values including those matters specifically referred to on pages 65 to 66 with regard to Section 172 ("s172") 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 strategic plan ("the 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 19.

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;

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 Group's values and ethics have been incorporated in the Plan and its alignment with our customer-led 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 our customer-led Ethical Policy and how this informs strategic activity can be found on pages 28 to 35.

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

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 Group's employees are fundamental to the long-term success of the Group, and the Group aims to be a responsible employer in its approach to pay and benefits. The health, safety and well-being of the Group's employees is a primary consideration for the way in which the Group conducts its business and promoting an ethical workplace falls under the 'People' pillar of our refreshed Ethical Policy.

Further information on the Group's engagement with its employees and how it promotes an ethical workplace can be found in the Directors' Report, on pages 96 to 101 and in the strategic report on pages 9 to 66. During the year, the Directors continued to spend time reviewing the arrangements put in place by management to ensure safe working conditions for employees and wider support for employees during a time of economic uncertainty. As set out within the Joint Audit Committee report on page 84, 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 Group 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. During 2022 the Group was proud to launch its refreshed Ethical Policy that had been updated following consultation with customers and its employees.

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 decisions around use of suppliers, including 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 100.

The principal risks and uncertainties described in the risk management report on pages 112 to 125 set out a number of risks which could impact the long-term success of the Group and consideration of 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 Group 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 on pages 93 to 95.

Our purpose is to pioneer banking that makes a positive difference to the lives of our customers and communities and the five-year 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 Group'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 2 of this report. Their Boards ensure that matters are referred to their respective shareholders in line with each company's Articles of Association (which are publicly available on the Companies House website free of charge at **find-and-update.company-information.service.gov.uk**) and relevant statutory requirements.

The Group's Disclosure Committee reviews all information shared with the shareholders to determine whether it is inside information that needs to be publicly disclosed to comply with the European Market Abuse Regulation 596/2014 (MAR), as it forms part of UK law by virtue of the European Union (Withdrawal) Act 2018 in the context of the Bank's covered bonds (from time to time as such bonds are in issuance) and the Holding Company's listed £200m fixed rate reset callable notes due in 2025, £250m fixed rate reset callable notes due in 2027, £200m fixed rate reset callable notes due in 2028, £36.5m fixed rate callable subordinated Tier 2 notes due in 2029 and £200m fixed rate callable subordinated Tier 2 notes due in 2034.

Further information on relations with shareholders can be found in the ownership section of the corporate governance report on page 73 and on the investor relations page of the Bank's website.

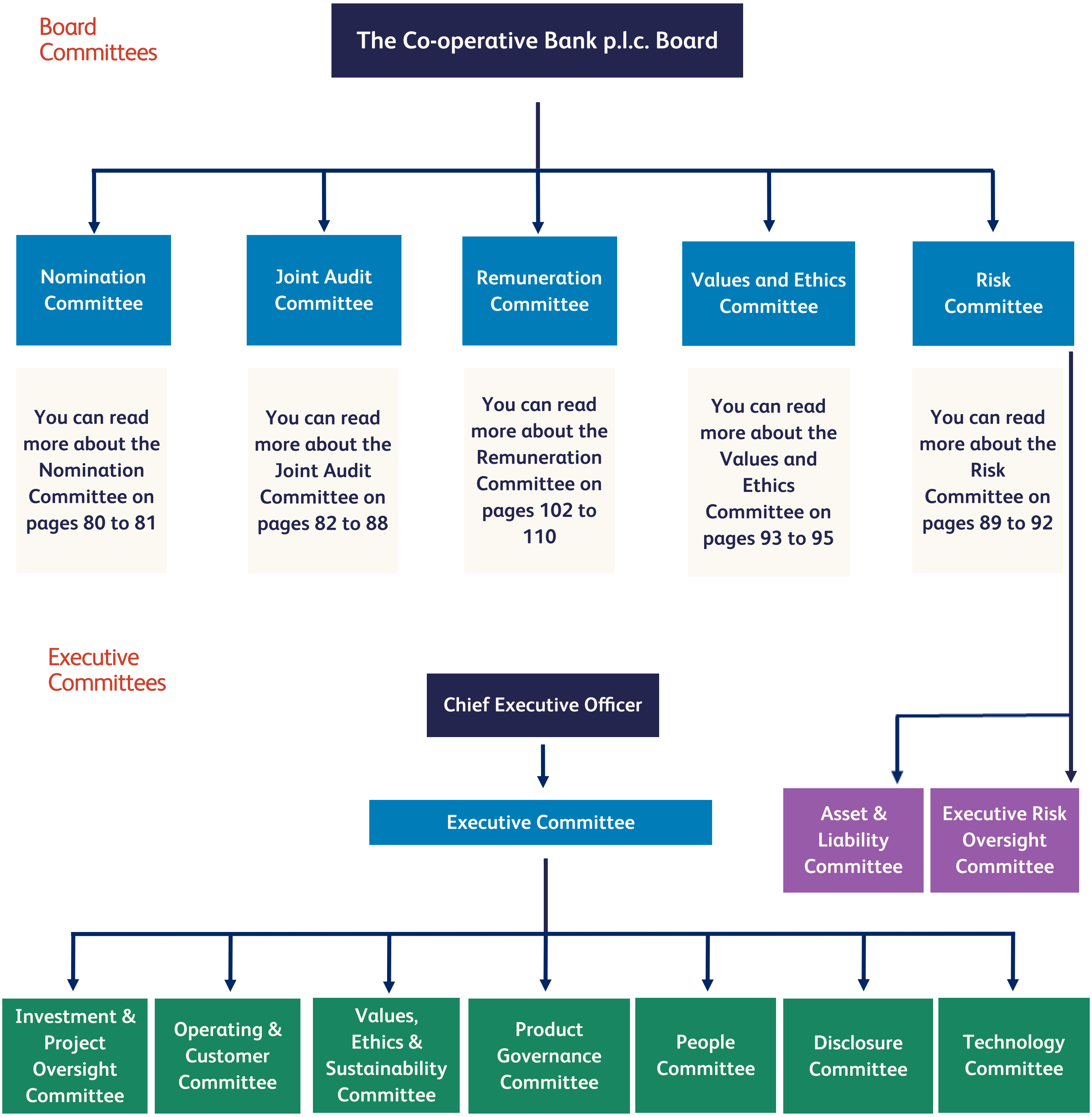
As a privately-owned bank, the Board acknowledges that its ultimate shareholders may, at their discretion, consider potential strategic opportunities if and when they may arise and that there is a possibility of consolidation within the UK retail banking industry in the future. As such, the business is currently in exclusive discussions with Coventry Building Society to evaluate the merits of a combination.

The Board is committed to prudent capital returns in the future, and paying regard to stakeholder feedback amongst other factors, intends to maintain a stable and sustainable ordinary dividend policy. See page 96 for further detail.

Corporate governance report

Corporate governance framework

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



From time to time the Board sets up temporary sub-committees to oversee specific projects. A temporary sub-committee was set up in December 2021 to oversee the Simplification programme and associated eradication of technical debt across the IT estate.

Board of Directors

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

(blue circle)	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

N VE

Chair of the Board

Independent: On appointment

Appointed: February 2018 (Bank Board), March 2018 (Chair)

Skills and experience: Extensive banking experience with strong strategic, regulatory and stakeholder management skills.

Career History: Bob 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.

External Appointments: None

Glyn Smith

A N RE R

Senior Independent Director

Independent: Yes

Appointed: October 2016 (Bank Board and Chair of Audit Committee), August 2023 (Senior Independent Director)

Skills and experience: Extensive financial, banking, regulatory, governance and audit experience. Chartered Accountant.

Career History: Glyn has over 40 years' experience in the financial services sector, most notably in senior executive roles at 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, Stroud & Swindon Building Society and Reclaim Fund in the financial services sector.

External Appointments: Chair of West Bromwich Building Society Pension Trustee.

Sue Harris

VE A RE R

Non-Executive Director

Independent: Yes

Appointed: May 2019 (Bank Board); August 2019 (Chair of Values and Ethics Committee)

Skills and experience: Significant financial, accounting, corporate development and audit experience. Extensive experience in both financial and retail businesses.

Career History: Sue 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/Financial Controller. Prior to that, she was the Chief Financial Officer of LBG's Retail Bank and Chief Financial Officer 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 (a 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.

External Appointments: Senior Independent Director and Chair of Audit and Risk Committee of Clarkson plc. Non-Executive Director and Chair of Audit Committee of FNZ (UK) Ltd. Non-Executive Director of Schroders & Co. Limited and Chair of the Audit and Risk Committee of Schroder's Wealth Management Division. Non-Executive Director of Barclays Pension Funds Trustees Limited.

Raj Singh

R VE A

Non-Executive Director

Independent: Yes

Appointed: September 2022 (Bank Board); August 2023 (Chair of Risk Committee)

Skills and experience: International risk leader and board director with C-Suite leadership experience in banking, insurance, and asset management. He has served as an executive and chief risk officer in large, listed businesses, as well as in smaller and mid-sized businesses. Current knowledge of financial and technology risks affecting financial institutions as well as the broader conduct, operational and sustainability risk agenda.

Career History: Raj has worked in the US and Europe in a range of second line risk and first line roles and brings an international perspective and diversity of thought. His career has spanned chief risk officer and executive committee roles at Allianz SE, Swiss Re, Standard Life Aberdeen and EFG Bank. He has served on the retail banking boards of Citibank in Germany and Belgium. He has chaired and been a board member of subsidiary entities at Standard Life Aberdeen, Swiss Re and Allianz. He was an early pioneer with regard to the sustainability agenda and ethical underwriting at Allianz SE, which at the time also included Dresdner Bank and later at Swiss Re. He has also served as Chair of Muscat Insurance Company, a listed insurance group in the Sultanate of Oman and as a Non-Executive Director of HSBC Bank Oman SAOG, a listed bank in the Sultanate of Oman, where he was Chair of the Audit Committee and a member of the Risk Committee.

External Appointments: Independent Non-Executive Director of Allied Irish Banks plc, and member of the Risk and Sustainability Committees. Independent Non-Executive Director and member of the Audit Committee of Vanguard Group (Ireland) Limited and Non-Executive Director of Vanguard Investment Series plc and Vanguard Funds plc. Independent Non-Executive Director of AXA UK plc, AXA UK Insurance plc and AXA PPP Healthcare Limited and Chair of the combined Risk Committee and member of the Audit, Nomination and Remuneration Committees of AXA UK plc. Independent advisor for Accredere AG Switzerland.

Fiona Clutterbuck

RE A R N

Non-Executive Director

Independent: Yes

Appointed: April 2023 (Bank Board); October 2023 (Chair of Remuneration Committee)

Skills and experience: Extensive corporate finance experience at leading UK and international investment banks, specialising in financial services. Fiona is a lawyer by training.

Career History: Fiona has held many positions during her executive career, including Head of Strategy at Phoenix Group, Head of Financial Institutions Advisory at ABN AMRO, and Global Co-Head of Financial Institutions at HSBC Investment Bank. She has over fifteen years of experience as a non-executive director on various public company boards, including Chair of the Remuneration Committee at Hargreaves Lansdown, Senior Independent Director of M&G plc, and Chair of the Remuneration and Risk Committees, Senior Independent Director and latterly Chair of Paragon Bank plc.

External Appointments: Non-Executive Director and member of the Audit Committee of Sampo plc (a Nordic listed financial services company). Chair of AJ Bell plc and its Nomination Committee and a member of its Risk and Compliance and Remuneration Committees.

Mark Parker

VE R

Non-Executive Director

Independent: Yes

Appointed: September 2023 (Bank Board)

Skills and experience: Significant experience in technology, digital, data and change with extensive experience of driving and enabling business transformation and efficiency through technology. In addition, Mark has a comprehensive background in customer operations and service.

Career History: Mark has held several senior executive positions in the financial services sector, most recently as Chief Operating Officer at Hastings Insurance Services Limited. He was appointed as Chief Operating Officer at Virgin Money plc, following the restructuring and sale of Northern Rock plc to Virgin Money plc. Prior to joining Northern Rock plc in 2009 as Chief Operating Officer leading the technology and operations restructuring, Mark held senior executive positions at HBOS plc within Group Services and Group Technology, and was appointed Chief Executive Officer of Intelligent Finance Bank, part of the HBOS group.

External Appointments: None

Richard Slimmon

RE

Non-Executive Director

Independent: No

Appointed: January 2021 (Bank Board)

Skills and experience: Significant Board level strategic and financial experience including mergers and acquisitions, equity and debt capital structuring. Extensive investment banking experience.

Career History: Richard 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.

External Appointments: Chairman, Financial Institutions Group at Gleacher Shacklock LLP.

Sebastian Grigg

R N

Non-Executive Director

Independent: No

Appointed: January 2021 (Bank Board)

Skills and experience: Investment banking experience.

Career History: Sebastian was a banker with Goldman Sachs and Credit Suisse where he was Head of UK Investment Banking. He led the Credit Suisse team that advised HM Treasury on the rescue recapitalisations of The Royal Bank of Scotland and Lloyds Banking Group in 2008.

External Appointments: Director of South Molton Street Capital Limited. Member of the House of Lords.

Nick Slape

Chief Executive Officer

Appointed: December 2019 (Bank Board), October 2020 (CEO)

Skills and experience: Extensive operational and financial experience in strategic and financial planning and control. Fellow of the Chartered Institute of Management Accountants.

Career History: Nick has worked in the financial services sector in the UK and overseas for more than 35 years and throughout his career he has worked at a number of investment banks including Lehman Bros, Dresdner Bank, Deutsche Bank and Merrill Lynch. Prior to joining the Bank, he spent five years as Chief Financial Officer of the Commercial Division at Lloyds Banking Group. He was appointed as Chief Financial Officer in December 2018, appointed to the Board in December 2019, and assumed full CEO responsibilities in October 2020.

External Appointments: None

Louise Britnell

Chief Financial Officer

Appointed: March 2021 (Bank Board), October 2020 (CFO)

Skills and experience: Over 20 years of experience working across a wide range of financial disciplines, including finance transformation, financial planning, taxation, reporting and control. Fellow of the Institute of Chartered Accountants in England and Wales.

Career History: Louise joined the Bank in 2018 initially as Chief Accounting Officer, having been Deputy CFO at one of the UK's largest pension funds, Universities Superannuation Scheme, and its investment management subsidiary. Louise spent 13 years at Deloitte LLP as an external auditor.

External Appointments: None

Corporate governance report

Ownership

The Co-operative Bank p.l.c. (Bank Company) is a public limited company with no listed securities at present, although it has the capability to issue listed securities on the London Stock Exchange. Its equity is not listed. 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.

The Finance Company is a public limited company. Its equity is not listed. As at 31 December 2023, 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.

On 6 November 2023, the Holding Company was substituted in place of the Finance Company as the principal issuer of Notes and resolution entity for the Group. The debt in issue is £200m Fixed Rate Reset Callable MREL-qualifying Notes due 2025, £250m Fixed Rate Reset Callable MREL-qualifying Notes due 2027, £200m Fixed Rate Reset Callable MREL-qualifying Notes due 2028, £36.5m Fixed Rate Reset Callable Subordinated Tier 2 Notes due 2029 and £200m Fixed Rate Reset Callable Subordinated Tier 2 Notes due 2034.

The Holding Company has undertaken to re-register as a public company as soon as reasonably practicable following the publication of its audited financial statements for the financial year ended 31 December 2023 and, in any event, by no later than 14 May 2024.

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 prior written approval of the holders of more than 50% of the ordinary shares in issue. 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 prior written approval of the holders of more than 50% of the ordinary shares in issue.

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.

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

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 27 February 2024, the B shareholders of the Holding Company (and their percentage B shareholding) were:

SP Coop Investments, Ltd	28.92 %
Anchorage Illiquid Opportunities Offshore Master V.L.P	18.07 %
Goldentree Asset Management Lux S.A.R.L	16.88 %
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 %
JCF BC Manchester Acquisition Ltd	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 Group's business to the extent practicable, in a manner informed by the established values of the co-operative movement, in particular with regard to:

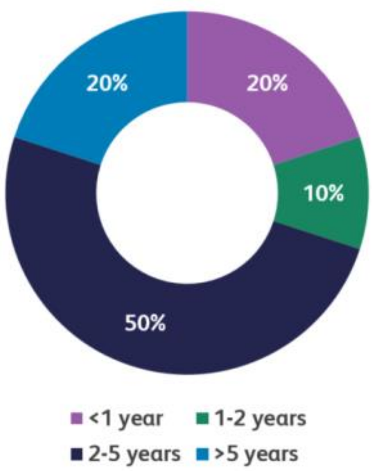
- how it relates to, communicates with, balances the interests of, and otherwise deals with its stakeholders; and
- how it applies the profits of the Group, in accordance with the dividend policy set out in its Articles of Association.

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 69.

Derek Weir and Sir Bill Thomas stepped down from the Boards as Non-Executive Directors on 31 July 2023 and 27 October 2023 respectively. Fiona Clutterbuck and Mark Parker joined the Boards as Non-Executive Directors on 17 April 2023 and 1 September 2023 respectively.

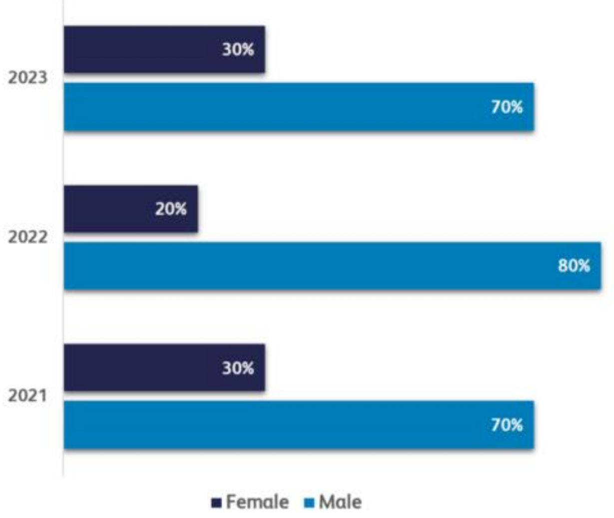
Length of tenure as Director of Bank as at 31 December 2023:



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.

Gender split of Directors



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 customers, employees, shareholders 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 2023. 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.

Board changes

During 2023, two Directors were appointed to the Boards of the Holding Company, the Finance Company and the Bank Company, and two Directors stood down from these Boards.

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]
Glyn Smith	Senior Independent Director[2]	Independent	1 Sep 2017	1 Feb 2019	10 Oct 2016
Sue Harris	Non-Executive	Independent	7 May 2019	7 May 2019	7 May 2019
Raj Singh	Non-Executive	Independent	12 Sep 2022	12 Sep 2022	12 Sep 2022
Fiona Clutterbuck	Non-Executive	Independent	17 Apr 2023	17 Apr 2023	17 Apr 2023
Mark Parker	Non-Executive	Independent	1 Sep 2023	1 Sep 2023	1 Sep 2023
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
Nick Slape	Chief Executive Officer	N/A	9 Dec 2019	9 Dec 2019	9 Dec 2019
Louise Britnell	Chief Financial Officer	N/A	1 Mar 2021	1 Mar 2021	1 Mar 2021

1. Chair since 14 March 2018
2. Senior Independent Director since 1 August 2023

Members of the Boards stepping down since 1 January 2023		Independent	Appointed to Holding Board	Appointed to Finance Company Board	Appointed to Bank Company Board	Ceased to be a Director of these Boards
Derek Weir	Non-Executive	Independent	1 Sep 2017	1 Feb 2019	25 Jul 2014	31 Jul 2023
Sir Bill Thomas	Non-Executive	Independent	1 Sept 2017	1 Feb 2019	28 Oct 2013	27 Oct 2023

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 2024. 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 provided on pages 69 to 72 and can also be found on our website at:

www.co-operativebank.co.uk/about-us/our-business/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 2023:

Attended[1] (entitled to attend)[2]	Board	Joint Audit	Risk	Values and Ethics	Remuneration	Nomination
Bob Dench	8 (8)			3 (4)		4 (4)
Derek Weir	5 (5)	5 (5)	4 (4)		4 (4)	3 (3)
Glyn Smith	8 (8)	6 (6)	5 (5)	3 (3)	6 (6)	1 (1)
Sir Bill Thomas	6 (6)		4 (4)	3 (3)	4 (4)	3 (3)
Sue Harris	8 (8)	6 (6)	5 (5)	4 (4)	6 (6)	
Raj Singh	8 (8)	5 (6)	5 (5)	1 (1)		
Nick Slape	7 (8)					
Louise Britnell	8 (8)					
Richard Slimmon	8 (8)				6 (6)	
Sebastian Grigg	8 (8)		5 (5)			0 (4)[3]
Fiona Clutterbuck	4 (6)	1 (1)	1 (1)		2 (2)	1 (1)
Mark Parker	3 (3)		1 (1)	1 (1)		

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. Richard Slimmon attended the four Nomination Committee meetings in 2023 as Sebastian Grigg's alternate .

Number of Bank Company Board and Committee meetings in 2023

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

Board meetings	**18**
Joint Audit Committee meetings	**6**
Risk Committee meetings	**5**
Values and Ethics Committee meetings	**4**
Remuneration Committee meetings	**7**
Nomination Committee meetings	**4**

Where Directors are unable to attend Board and Committee 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. These provide 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. There is 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/about-us/our-business

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

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

- Senior Managers and Certification Regime
- Capital Allocation
- Market Abuse Regime
- Takeover Code
- Retail Secured Hybrid Internal Ratings Based Models
- ESG

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

Nomination Committee	**80**
Joint Audit Committee	**82**
Risk Committee	**89**
Values and Ethics Committee	**93**
Remuneration Committee	**102**

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.

In July 2022, following a process led by the Nomination Committee and Board, the Bank engaged the Chartered Governance Institute UK & Ireland ("CGI") to carry out an external review of the effectiveness of the Bank Board and Committees of the Bank Board. The review comprised a series of one-to-one interviews with all directors and members of senior management and observation by the CGI of Board and Committee meetings in November 2022. The outputs of the review were presented to the Bank Board in February 2023.

The review proposed a number of recommendations, which included the formalising of processes to review the performance of the Non-Executive Directors, continually updating the talent pipeline for Executive and senior management roles, and the quality and conciseness of Board reporting. A complete list of actions arising from the recommendations was presented to the Nomination Committee and Bank Board in July 2023 outlining how all actions had been, or were in the process of being, addressed.

The outputs of the director evaluation reports were provided to the individual directors and the Chair (the Senior Independent Director in respect of the Chair) to support with their individual and continuing development. A summary of each individual evaluation report was presented to the Nomination Committee in July 2023.

As the Bank does not have a premium equity listing and does not voluntarily comply with the Financial Reporting Council's (FRC) 2024 UK Corporate Governance Code (the Code), it is not required to conduct an annual evaluation nor an externally facilitated board evaluation. However, in line with good governance, it is set out within the Matters Reserved for the Board of the Bank, and the terms of reference for each of the Committees, that they should arrange periodic reviews of their own performance. Following the external review in 2022/23, it is proposed that internal self assessments of the Bank Board and its Committees will take place in 2024.

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.

To facilitate the directors' continuing professional development, individual training needs are reviewed periodically by the Nomination Committee. Throughout 2023, the Board held collective training sessions, which took place in February, June and September 2023. In addition to formal training sessions, the Directors, where appropriate, have one-to-one sessions with members of the Executive. An electronic 'Document Library' 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 enhancing 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 Group continues to deliver robust compliance with its governance over the Senior Managers and Certification Regime as set out in the Directors' Report on page 100. Directors have been briefed extensively and received training in February 2023 on the responsibilities and accountabilities of individuals captured by the SMCR.

Climate change

The Group complies with the Task Force on Climate-related Financial Disclosures ("TCFD") and other related regulations and further details are set out on pages 43 to 54.

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 2023 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 2023 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 £0.0001 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 73.

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 73.

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 the right skill set underpins the succession planning for senior Executive and Board appointments

Dear Stakeholder

During 2023, the Nomination Committee continued to focus on effective succession planning for the Board, Executive Committee and individuals identified as Material Risk Takers under the Financial Conduct Authority's Senior Managers and Certification Regime. The identification and development of people capable of driving the success of our business whilst maintaining a unique culture is at the forefront of the Committee's efforts.

During the year, Derek Weir and Sir Bill Thomas stepped down from the Board in July and October respectively and leave with the grateful thanks of the Board and of the management team.

We are very fortunate to have been able to attract two very able replacement Non-Executive Directors. Fiona Clutterbuck has long experience as a retail banking chair, as a Non-Executive Director in a broad range of other businesses and is an expert on corporate finance. Mark Parker's digital transformation experience is already proving of value to our business transformation teams as is his broad financial services experience.

Bob Dench, Nomination Committee Chair, 27 February 2024

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.

During 2023, the Nomination Committee met four times with continued focus on succession planning in order to strengthen the Executive Committee and the Board to meet the needs of the business and to be responsive to the regulatory environment in which the Group operates.

Full regard to the benefits of diversity in all its elements, including gender diversity, ethnicity, disability and LGBTQ, is given, with an aspirational target of 40 % diverse membership of the Board. The Group 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, encouraging ethnically diverse longlists and 50:50 male:female shortlists. As at the end of 2023, the number of women on the Board was three (of ten).

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.

Committee membership	Date of appointment	Date of resignation
Bob Dench (Chair)	14 Mar 2018	
Sir Bill Thomas	26 Sep 2017	27 Oct 2023
Derek Weir	14 Mar 2018	31 Jul 2023
Sebastian Grigg	11 Jan 2021	
Glyn Smith	1 August 2023	
Fiona Clutterbuck	1 August 2023	

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 Joint 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 2023

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 2023 the Nomination Committee considered nominations at both Board and senior Executive level and reviewed succession plans. The Nomination Committee oversaw the appointments of Fiona Clutterbuck and Mark Parker to the Board as Non-Executive Directors with effect from 17 April 2023 and 1 September 2023 respectively. The process for their appointments was led by the Bank's external recruitment agency, who were asked to ensure a strong and diverse pool of candidates was identified for each appointment. A three stage selection process was undertaken by the external recruitment agency to ensure candidate suitability, capability and fit. Following the departure of Derek Weir, the Nomination Committee recommended to the Board the appointment of Glyn Smith as Senior Independent Director ("SID"). This recommendation was approved and Glyn Smith commenced in role as SID on 1 August 2023. The Committee considered, and recommended to the Board which duly approved, the extension of Richard Slimmon and Sebastian Grigg's terms of office, as well as the Chair of the Board. A Chief Information Officer was appointed in April 2023 but stepped down after six months. Mike Errington was appointed as the new Chief Information Officer in October 2023. The Committee recommended the appointment of Karen Bassett as Chief Internal Auditor to the Joint Audit Committee following an intensive sourcing and research process undertaken by an executive search consultancy. Succession planning for the Board, Executives and Material Risk Takers was reviewed in detail in July and December 2023. This included the identification of internal successors and potential external candidates for senior vacancies. At the request of the Committee, Board Directors agreed to mentor senior executive team members to support with coaching and their continuous professional development. This activity will continue in 2024.
Diversity policy	The Board re-adopted the Board Diversity Policy, as recommended by the Nomination Committee in July 2022, bearing in mind the FCA's 2022 Policy Statement regarding diversity and inclusion on Boards and Executive Management.
Committee membership	During the year, the Nomination Committee considered committee composition across all Board Committees. Following Derek Weir's departure, the Committee recommended that Raj Singh be appointed as Chair of the Risk Committee. He was also appointed as a member of the Values and Ethics Committee. Fiona Clutterbuck was recommended for appointment to the Risk Committee, Nomination Committee and Remuneration Committee. These appointments took effect from 1 August 2023. Following Sir Bill Thomas' departure, the Committee recommended that Fiona Clutterbuck be appointed as Chair of the Remuneration Committee. The Committee also recommended the Mark Parker be appointed to the Risk Committee and Values and Ethics Committee. These appointments took effect on 28 October 2023.
Performance evaluation	In November 2022, the Chartered Governance Institute UK & Ireland (CGI) conducted an external evaluation of Board and Committee performance. The findings of this review were presented to the Board in February 2023. Actions arising from the recommendations within CGI's report were tracked and monitored by the Nomination Committee and presented in July 2023. Summaries of the individual director evaluation reports which formed part of CGI's review were also presented to the Nomination Committee in July 2023. The Directors conducted their first skills self-assessment in late 2015 and the Board has completed one periodically since then. A skills self-assessment was undertaken in 2023 and a summary Board skills matrix was produced and reviewed by the Committee to inform generic skills gaps and individual development needs throughout 2023.
Election and re-election	The Committee reviewed the position of Directors offering themselves for election and re-election at the 2023 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 and related internal controls

Dear Stakeholder

The Joint Audit Committee provides oversight and informed challenge over the systems of financial reporting and control, accounts preparation and internal and external audit processes. During 2023, it maintained its focus on the key accounting judgements for the Group, which included those judgements associated with, amongst others, the Bank's acquisition of Sainsbury's Bank mortgage portfolio in August 2023 and the transfer of the Bank's listed tier 2 notes and debt instruments from the Finance Company to the Holding Company in November 2023.

Throughout the year, the Committee received regular updates from management on the enhancements made to the independent assurance of the Bank's regulatory reporting governance processes and it also considered the impacts and requirements of the corporate reporting reforms proposed by the Department for Business, Energy and Industrial Strategy (BEIS).

The Committee considered the impact of the final decisions received from the Financial Ombudsman Service in respect of the historical changes to closed-book SVR mortgage rates upon the Group's key accounting judgements.

The Committee also received regular updates from Internal Audit ("IA"), including approving quarterly refreshes of the IA plan. The Committee has overall responsibility for climate-related financial disclosures, including consideration and approval of ESG-related disclosures. The Committee has continued to oversee the Group's Concern at Work (Whistleblowing) arrangements.

Glyn Smith, Joint Audit Committee Chair, 27 February 2024

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.

Meetings of the Joint Audit Committee are generally attended by all Non-Executive Directors. The Chief Executive Officer, Chief Financial Officer, invited members of the Finance and Risk teams and the Chief Internal Auditor also attend, 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 six times during the financial year. The Chair of the Joint Audit Committee reports to the Board on the outcome of meetings and the Board receives the minutes of all Committee meetings.

The principal responsibilities and key areas of discussion of the Joint Audit Committee are set out overleaf.

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.

Committee membership	Date of appointment	Date of resignation
Glyn Smith (Chair)	10 Oct 2016	
Derek Weir	9 Dec 2014	31 July 2023
Sue Harris	7 May 2019	
Raj Singh	12 Sep 2022	
Fiona Clutterbuck	1 Aug 2023	

Principal responsibilities of the Joint Audit Committee

Key areas discussed and reviewed by the Joint Audit Committee in 2023

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;
- the clarity and completeness of disclosure in the financial reports and the context in which statements are made; and
- all material information presented with the financial statements, including the strategic report and the corporate governance statements relating to audit and risk management.

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 2023, 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 2023 accounts process are detailed on page 86, including reports by the external auditor throughout the year.

The Boards receive a report from the Joint Audit Committee during 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 2023, 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, and the way in which the basis of conclusion was disclosed in the financial reports.

The Joint Audit Committee received updates on key regulatory developments including those that could impact the financial reporting process. These included the Financial Reporting Council's Audit Committees and External Audit: Minimum Standard and the emerging BEIS reforms to corporate reporting, on which the Committee received updates throughout the year.

The Joint Audit Committee is responsible for the non-financial and financial disclosures made within the Annual Report and Accounts including consideration and approval of ESG related disclosures.

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 Group'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 2023 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 Chief Internal Auditor and the Chief Risk Officer attended Joint Audit Committee meetings throughout the year.

During 2023 the Joint Audit Committee considered reports on risk management, internal controls and other reports from management in relation to the Risk Management Framework or in relation to the Annual Report and Accounts.

Principal responsibilities of the Joint Audit Committee	Key areas discussed and reviewed by the Joint Audit Committee in 2023
Raising a concern at work (whistleblowing)	
Review and challenge the adequacy, effectiveness 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 Group'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 Group's Raising a Concern at Work (Whistleblowing) Policy including the identification of any trends. In November 2023, the Joint Audit Committee carried out an annual review of the Concern at Work report and reviewed and re-approved 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 performance 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 Chief Internal Auditor 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 approve the annual Internal Audit 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 Chief Internal Auditor at least once a year without the presence of management. Monitor and review the effectiveness of the Group'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 Chief Internal Auditor.	An external assessment of the internal audit function is conducted at least every four years in accordance with the Group's Internal Audit Charter. This was last conducted in 2021 and the next assessment would normally be due in 2025. The Joint Audit Committee reviewed the internal audit function's self-assessment against the Chartered Institute of Internal Audit's Financial Services Code of Practice. During 2023, the Committee provided a review and challenge of the Internal Audit Charter, the resources of the function and the plan of activities taking place throughout the year. On recommendation of the Nomination Committee, the Joint Audit Committee approved the appointment of Karen Bassett as Chief Internal Auditor who commenced in role on 1 November 2023 after the previous incumbent left to pursue other opportunities. The Joint Audit Committee regularly received and challenged changes to the Internal Audit Plan to ensure an appropriate level of oversight. The Committee continued to monitor the '6 (months) + 6' approach to the Internal Audit Plan, which had been introduced during 2020. The Joint Audit Committee receives all 'red' rated internal audit reports and invites management to present findings and remedial actions. During the year, in camera sessions were held with the Chief Internal Auditor. The Chair of the Committee also met regularly with the Chief Internal Auditor between meetings.

Principal responsibilities of the Joint Audit Committee

Key areas discussed and reviewed by the Joint Audit Committee in 2023

External audit

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.

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 oversees the appointment of a new audit partner every five years, in line with the requirements of auditor independence rules.

If an auditor resigns, investigate the issues leading to this and decide whether any action is required.

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.

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.

Annually assess the independence and objectivity of the external auditor and compliance with all applicable independence requirements.

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.

Meet regularly with the external auditor and at least once a year without the presence of management.

The Joint Audit Committee recommended the reappointment of Ernst & Young LLP ("EY") to the Boards and the relevant member(s) at the 2023 AGMs.

During 2022, the Board approved, on the recommendation of the Joint Audit Committee, the appointment of PricewaterhouseCoopers LLP ("PwC") as the Group's external auditor for the year ending 31 December 2024 (subject to their appointment at the 2024 AGMs). Throughout 2023, the Committee received regular updates from management on the status of the transition from EY to PwC.

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.

The Joint Audit Committee received and reviewed the external audit plan and considered and evaluated the results of the external audit.

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.

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.

The Joint Audit Committee reviewed and approved the policy for the supply of non-audit services by the external auditor in February 2023.

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 reports from management around independence risks, 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 2024.

In line with regulatory requirements, the Joint Audit Committee received a review opinion from the external auditor around the profit reported in the 2023 Interim Financial Report.

During the year, in camera sessions were held with the external auditor.

1. Significant accounting matters considered by the Joint Audit Committee

In relation to the 2023 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, Ernst & Young LLP ("EY").

1.1 Going concern

The Group has used the most recent Board-approved five-year Financial Plan 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 the forecast liquidity position, capital ratios, regulatory capital considerations and projected profitability, which management expects to be reasonable and sustainable over the Financial Plan period, despite the impact of higher interest rates, higher inflation and the consequent affordability constraints. The assessment also considered further, more pessimistic scenarios that could 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 ongoing macroeconomic uncertainty has resulted in continued scrutiny of the forecasting of credit impairment losses. 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 adjustments subsequently applied to counteract changes in modelled impairment provisions incongruent with the specific risk profile of the Group's credit exposures;
- changes to post model adjustments associated with affordability designed to quantify additional risks associated with customers with heightened exposure to the impact of cost of living pressures;
- the adequacy of significant post model adjustments designed to address the issues around confidence in historical default data on the Group's main prime mortgage portfolio; 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 operational model adjustments designed to compensate for specific model limitations. The Joint Audit Committee also reviewed management's governance and controls over the ECL assessment process. 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 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 continued ability of the pension surplus to be recognised on balance sheet and the pension assumptions adopted within the IAS 19 valuation, including changes in assumptions used relative to previous years.

1.4 Deferred tax assets in respect of future taxable profits

The Joint Audit Committee reviewed papers prepared by management that confirmed that it remained appropriate to recognise a deferred tax asset in respect of future taxable profits and concurred with the appropriateness of the year end value of the deferred tax asset. The Joint Audit Committee also concurred with management's recommendation to adopt a number of possible future profitability scenarios based on the most recent Board approved plan, to estimate the utilisation of historical tax losses and to determine a range of deferred tax asset values; and that the deferred tax asset valuation would continue to be reviewed on a regular basis for appropriateness in the context of that range.

1.5 Effective interest rate

Management presented papers documenting the assumptions behind behavioural lives and economic assumptions used in estimating the carrying value of the Group's fixed rate mortgage portfolio under the effective interest rate ("EIR") method. The Joint Audit Committee reviewed the impact of changes in customer behaviour during 2023 on the EIR assumptions at the year end and concurred with the appropriateness of the year end value of the EIR asset and the judgemental assumptions set out within the paper.

1.6 Conduct risk and legal provisions

For conduct matters, a key focus of the Joint Audit Committee throughout the year was the matter relating to historical changes made to the SVR rate for certain closed-book mortgage customers, which had been subject to complaints in recent years.

Following the final decision of the Financial Ombudsman Service to partially uphold two of these complaints and the Board's subsequent decision to take steps to proactively address the findings, the Joint Audit Committee considered in detail, and satisfied itself as to the reasonableness, the underlying assumptions forming the basis of the provision recognised; chiefly, the affected population, the estimated size of compensation payments and the likely cost to deliver the redress scheme.

1.7 Other accounting matters

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

- the impairment review of tangible and intangible assets;
- the accounting treatment of the acquisition of a mortgage portfolio from Sainsbury's Bank;
- the accounting impacts of the transfer of listed debt from The Co-operative Bank Finance plc to The Co-operative Bank Holdings plc; and
- the continued appropriateness of not consolidating the Warwick, Avon and Stratton unconsolidated structured entities.

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 2023 Annual Report and Accounts 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 the mitigation of financial reporting risk, including the process through which accounting judgements are 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 is conscious of the requirement to conduct a mandatory tender at least every ten years and rotate auditors at least every 20 years. An audit tender process commenced in 2022 with PwC due to be appointed as the Bank's statutory auditor for the year ending 31 December 2024 at the 2024 AGM.

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 £3.2m (2022: £2.8m). 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; and
- the external auditor's response to FRC quality reviews of EY.

During 2023, the external auditor provided the Joint Audit Committee with a management letter summarising its main observations and conclusions arising from the 2022 year end audit, and any recommendations for enhancements to reporting and controls. Mitigating actions were identified for implementation. Internal Audit has 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 – its 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 Chief Internal Auditor reports directly to the Chair of the Joint Audit Committee and administratively to the Chief Executive Officer. Karen Bassett was appointed to the role of Chief Internal Auditor in November 2023.

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 remediation activity in response. Audit reports are issued to Executive management, with high-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. The last EQA was performed in 2021 and the function was rated as Generally Conforms to the IIA Standards. No high priority issues were raised. Internal audit is committed to continuous improvement and the incoming Chief Internal Auditor presented for approval a roadmap for continuous improvement to the Joint Audit Committee in February 2024 for approval.

The Joint Audit Committee assesses the coverage of the audit plan over key risks and areas of the Group. The plan is approved by the Joint Audit Committee and shared with the regulator. The Internal Audit plan is constructed using a risk based approach by considering audit need. Audit need is assessed by using an Audit Universe which covers all areas of the Group and alignment to the Group's strategic priorities. Internal Audit produces an annual control opinion. During 2023, Internal Audit concluded that the Bank's control framework effectively identifies and mitigates risks across most areas of the Bank, with some specific areas that require strengthening. Where areas require strengthening, management has put plans in place. Internal Audit has not identified any issues from its audit work which would have a significant impact on the Group's financial statements.

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.	**158**
The Co-operative Banking Holdings Limited	**170**
The Co-operative Bank Finance p.l.c.	**182**

Risk Committee report

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

Dear Stakeholder

This is my first report as Chair of the Risk Committee having succeeded Derek Weir in Q3 2023. I would like to thank Derek Weir for his significant contribution to the effective running of the Risk Committee over many years. During 2023, the Committee spent significant time focussing on the new Consumer Duty requirements, ensuring they were considered and rolled out across the Bank. This will remain a key area of focus for the Committee as management continue to embed the requirements and monitor their application. The Committee reviewed the Bank's capital and liquidity management prior to submissions to the regulator. The Committee considered the effectiveness of the Risk Management Framework, as well as the controls around large credit approvals as the Bank looks to grow its SME business. Other areas of focus for the Committee throughout 2023 included fraud prevention, the Bank's cyber security measures, and the simplification of our IT estate and the continued evolution of the Bank's risk models.

Raj Singh, Risk Committee Chair, 27 February 2024

Purpose of the Risk Committee

The purpose of the Risk Committee 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 Risk Management Framework, taking a forward-looking perspective and anticipating changes in business conditions.

The Risk Committee met in total five 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, the Chief Internal Auditor, the Chief Operating Officer and the Chief Information Officer, 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.

Glyn Smith, Sue Harris and Fiona Clutterbuck are also members of the Remuneration Committee. 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 2023 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 2023, 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 set out in more detail on pages 112 to 125.

Committee membership	Date of appointment	Date of resignation
Raj Singh (Chair)[2]	12 Sep 2022	
Derek Weir (Chair)	30 Sep 2014[1]	31 Jul 2023
Sir Bill Thomas	1 Jan 2014	27 Oct 2023
Glyn Smith	10 Oct 2016	
Sue Harris	29 Jul 2020	
Sebastian Grigg	11 Jan 2021	
Fiona Clutterbuck	1 Aug 2023	
Mark Parker	28 Oct 2023	

1. Chair since 26 January 2016

2. Chair since 1 August 2023

The principal responsibilities and key areas of discussion of the Risk Committee are set out overleaf.

Principal responsibilities of the Risk Committee	Key areas discussed and reviewed by the Risk Committee in 2023
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 considered a proposal to change how risk metrics were constructed and reported. The desired outcome was that the new Key Risk Appetite Metrics (KRAMs), underpinned by a set of Principal Risk specific Key Risk Indicators (KRIs) would provide better early warning signs of significant risk to the Bank. The Risk Committee reviewed these changes at the beginning of the year and recommended them to the Bank Board for approval. Meanwhile, the 2024 refresh is underway. The Risk Committee reviewed and recommended the refreshed RMF policy 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. The Risk Committee reviewed any breaches of Board level risk appetites and discussed the benefit of an independent review of the risk culture. 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 2023. The Chief Risk Officer has reviewed risk weightings applying to Executive remuneration structures and provided analysis to support Remuneration Committee activities in this area.
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.	The Risk Committee continues 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 2023. The Risk Committee reviewed and challenged the utilisation of delegated lending within the boundaries of the Lending Discretion Framework during 2023. The Risk Committee reviewed, challenged and recommended the ICAAP, ILAAP and Recovery Plan 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 2023. Prior to recommending to the Board for approval, the Risk Committee reviewed all material submissions to be provided to regulatory bodies.

Principal responsibilities of the Risk Committee	Key areas discussed and reviewed by the Risk Committee in 2023

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 2023, discussed and monitored the principal risks and uncertainties faced. The members of the Risk Committee reviewed the proposed strategic plan refresh as part of the approval process in December 2023.

Risk monitoring

Consider, oversee and advise the Board on, and provide challenge on the Group'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 BoE, the PRA, the FCA and other authoritative sources that may be relevant for the Group'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 Risk Committee also receives and challenges reporting on areas such as credit risk and financial crime and has introduced cost of living affordability monitoring. The Risk Committee discussed management's decision to voluntarily adopt the Mortgage Charter introduced by the Government and also received regular updates from the Cost of Living Taskforce established by the Bank to support customers at risk of experiencing financial difficulty. During 2023, 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 as and when relevant. The Risk Committee has received regular reporting to help it review IT and cyber risks. The Risk Committee has considered reporting of emerging risks during the year, together with regulatory feedback given to the Bank by the PRA and the FCA and the plans agreed with regulators published to the market from time to time.

Regulatory risks and compliance

Review and approve the annual Compliance 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 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, applicable regulations including the Capital Requirements Regulation and the PRA's Policy Statement 11/20. The Risk Committee reviewed, challenged and approved the 2023 Compliance Assurance Plan in February 2023 which provides coverage of principal risks including conduct, regulatory, fraud and AML. The Chief Risk Officer and Director of Compliance attended Risk Committee meetings during the year providing regular reporting analysis. They also attended regular in camera sessions with the Risk Committee to ensure relevant topics could be discussed in detail without management in attendance. During 2023 the Risk Committee considered a report which reviewed the remit, independence and effectiveness of the risk and compliance functions.

Principal responsibilities of the Risk Committee

Key areas discussed and reviewed by the Risk Committee in 2023

Bribery prevention, anti-money laundering/terrorist financing and Code of Conduct

Principal responsibilities of the Risk Committee	Key areas discussed and reviewed by the Risk Committee in 2023
Review and challenge the adequacy and effectiveness of the systems and procedures for the prevention of bribery and annually review and approve the Group's Internal Fraud and 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 Group's Internal Fraud and Anti-Bribery and Corruption Control Standard was updated and approved in July 2023 by the Risk Committee with no material changes. 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

Principal responsibilities of the Risk Committee	Key areas discussed and reviewed by the Risk Committee in 2023
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. In April 2023, the Risk Committee approved the terms of reference for the Executive Risk Oversight Committee and in November 2023, it discussed the results of the Executive Risk Oversight Committee's self-effectiveness review. The Risk Committee continues to work closely with the Joint Audit Committee in determining the Group's annual reporting. The Risk Committee received a paper summarising key discussion topics from the Asset and Liability Committee at each BAU meeting. In November 2023, the Asset and Liability Committee's terms of reference were amended, and approved by the Risk Committee, to report independently into the Risk Committee rather than the Executive Committee.

Chief Risk Officer

Principal responsibilities of the Risk Committee	Key areas discussed and reviewed by the Risk Committee in 2023
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. In camera sessions were held regularly between the Risk Committee and the Chief Risk Officer. During 2023 the Risk Committee considered a report which reviewed the remit, independence and effectiveness of the risk and compliance functions.

Values and Ethics Committee report

Our long-held commitment to co-operative values and ethics secures our market leadership in ESG for the third consecutive year

Dear Stakeholder,

Our commitment to co-operative values and ethics, on which the Bank was built over 150 years ago, remains as important now as ever before. These values guide our day-to-day decision-making and ensure we continue to champion the commitments in our unique customer-led Ethical Policy, to deliver a financial, social and environmentally sustainable future for our Bank and the communities we serve.

Our long-held ethical approach to banking continues to make us a natural leader in ESG. As such, we were delighted to be recognised for the third year running as the UK's best ESG rated high street bank, with a score of 8.5, by Morningstar Sustainalytics. We also maintained our AAA ESG risk rating from MSCI and strengthened our score with ISS in the year, providing further evidence of our market-leading approach. I was particularly pleased that the Bank has been recognised by Which? as an 'Eco Provider', adding to a growing list of accolades and accreditations including our membership of the Fossil Free Banking Alliance.

I'm extremely proud of the strides we've made this this year in co-operation with our customers, colleagues and partners – putting our commitments into action as we drive positive social and environmental change.

Working together to tackle the climate-nature crisis

Our customers consistently tell us that protecting the environment remains the most important issue facing society today and we recognise that addressing climate change and protecting biodiversity are closely linked. The UK is now one of the most nature-depleted countries in the world, making our communities more vulnerable to the effects of climate change.

In 2023, we proudly partnered with Friends of the Earth. Together, we'll be acting on today's most urgent environmental issues. Earlier in the year, we announced our partnership ambition - to replenish greenery and wildlife in over 1,000 nature-deprived spaces across the country. We'll do this by introducing community gardeners who will engage with dozens of community groups and thousands of local community members. We've also been working closely with Zero Hour, the campaign group behind the Climate and Ecology Bill, to fund events and facilitate the environmental influencers movement to campaign for legislation which protects us against the climate-nature crisis.

Addressing our own business' impact on the environment has been one of our highest priorities since our Ethical Policy was introduced over 30 years ago. This year, I'm delighted that we've begun the process of accurately accounting and reporting our indirect Scope 3 emissions in this year's Sustainability Report. This enhanced transparency of our indirect impact on the environment will help inform our actions as we track the Bank's decarbonisation and progress against our Net Zero commitments. We'll bring our customers along our journey to a just and equitable transition to Net Zero by continuing to review our products and propositions to ensure that they can pursue their own decarbonisation journeys.

Campaigning for equality and human rights

Our campaigning spirit is something that makes our Bank unique and we were delighted to announce another new flagship partnership with Shelter in May last year. Together with Shelter, we're campaigning for fairer renting through the delivery of a robust Renters Reform Bill, calling for an end to unfair evictions and unsafe housing. Our customers have told us that upholding human rights and creating equality in society is of great importance to them, and in partnership with Shelter, we believe that a home is a human right. I look forward to seeing this campaign grow in 2024, amplifying the voices of our customers and challenging the issues faced by so many in the private rented sector.

During the year, customers and colleagues have showed their dedication to Centrepoint's mission to end youth homelessness in the near future, through activities such as Sleep Out and Stay Active, raising vital funds to allow 16-24 year olds to exit the cycle of homelessness.

Additionally, our work with Amnesty international UK, standing in solidarity with those facing human rights abuses around the world, has championed our commitments to human rights. Our participation in the annual Write for Rights campaign ensured that thousands of letters were sent to those facing injustice and persecution across the world, and we're very grateful to our customers and colleagues for their support in making this campaign so impactful.

Working to build stronger communities, co-operatives and charities

Our determination to build stronger and more resilient communities throughout 2023 has been hugely motivating. Our partnership with Citizens Advice has ensured that hundreds of our customers are referred and signposted to resources and support with inflationary cost of living pressures. Phenomenally, our colleagues exceeded our expectations by completing almost four times more volunteering hours in 2023 than they did in 2022, with over 2,300 days completed in their local communities.

Supporting co-operative businesses and the co-operative movement has been a real priority over the past year. Since 2016, we've committed £2.9 million to support co-operatives nationally and we're proud to continue funding for the Business Support for Co-ops programme in partnership with Co-operatives UK. Over 300 co-operative groups were supported by the programme in 2023 alone, and over 2,000 have been supported since the programme's inception.

Internationally, we've supported communities affected by the worst impacts of the climate crisis, raising around £130,000 for the DEC's Turkey-Syria Earthquake Appeal. We were incredibly proud to join their Rapid Response Network in December 2023, committing the Bank to supporting future appeals for those facing unspeakable hardships.

I've also been deeply moved by the impact we've been able to make in the first year of our newly established Co-operative Bank Charitable Fund. Next year and in years to come, we'll be reaffirming our commitment to assigning a proportion of Bank profits, through the Charitable Fund, to drive positive social and environmental change for our planet, people and communities.

Reflecting on 2023

As I approach my fifth year as Chair of The Co-operative Bank's Values and Ethics Committee, I'm incredibly proud to reflect on the consistency with which the Bank's colleagues and customers have upheld our co-operative values and ethics year after year. As Chair, I have the immense pleasure of overseeing the activities which make the Bank a leader in ESG and ethical banking. The Committee continues to play an important role in ensuring the effective governance of the Bank's guiding principles - its customer-led Ethical Policy.

Our annual Sustainability Report, which is published alongside our Annual Report and Accounts, best demonstrates just how integral our values and ethics are to everything we do. Its timely publication is indicative of our strongly held belief that our ESG performance is just as important, to all of us here at The Co-operative Bank, as our financial performance.

Finally, I'd like to say a huge thank you to our loyal customers, committed colleagues and our exceptional corporate partners, who continue to support us in delivering our ethical commitments, as we work co-operatively to realise a fairer, more equal and sustainable society.

Sue Harris, Chair of the Values and Ethics Committee, 27 February 2024

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 Group, and to report at least annually to the Board on the Bank's compliance with its Statement to Co-operatives UK and with the Bank's values, ethics and sustainability strategies.

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 meetings of 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. The policy has now been in place for over 30 years and is refreshed periodically, most recently in 2022. It 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 terms of reference, the Values and Ethics Committee focussed on review of performance against co-operative values and its ethical policies, review and challenge of the Sustainability Report 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 Values and Ethics Committee has expanded its remit to ensure appropriate oversight of compliance with the Group's ESG and sustainability aims, and oversight of the activities undertaken by the Values, Ethics & Sustainability Executive Committee, which is chaired by the Chief People and Sustainability Officer.

Committee membership	Date of	Date of
Sue Harris (Chair)	7 May 2019[1]	
Glyn Smith	26 Sep 2017	31 Jul 2023
Bob Dench	14 Mar 2018	
Sir Bill Thomas	5 May 2020	27 Oct 2023
Raj Singh	1 Aug 2023	
Mark Parker	28 Oct 2023	

1. Chair since 1 August 2019

The principal responsibilities and key areas of discussion of the Values and Ethics Committee are set out overleaf.

Principal responsibilities of the Values and Ethics Committee	Key areas discussed and reviewed by the Values and Ethics Committee in 2023
Values and ethical policies	
Recommend to the Board for approval and adoption the co-operative values and ethical policies of the Group. Represent, monitor and advise the Board on matters concerning the interests of all stakeholders in their dealings with the Group in line with the Articles of Association having regard to: i) applicable legal and regulatory requirements; 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 Group's continued adherence to the Ethical Policy which was refreshed in June 2022 to reflect changing priorities and the findings of a customer and colleague consultation which took place during the summer of 2021. The Values and Ethics Committee also received regular reports on external ESG ratings. The Values and Ethics Committee recommended for the Board's approval the Bank's Scope 3 Category 15 (Financial Emissions) target of 100 % by 2050. The Values and Ethics Committee discussed the Group's activities to support positive social change, including support for the Postcode Gardener Project with 'Friends of the Earth', campaigning to transform the private rental sector with Shelter and support for The Co-operative Bank Charitable Fund whereby 1 % of the Bank's profits go towards supporting values and ethics activities in our community. The Bank has also continued to support Amnesty International and its initiatives in 2023.
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 Group'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 Business Support Programme for Co-ops, which promotes social and economic development and enterprise in accordance with co-operative values.

The Values and Ethics Committee has reviewed a number of key initiatives during 2023, more details of which can be found on the following pages:

1	Our partnership with Friends of the Earth to restore greenery and wildlife in urban spaces across the UK	30
2	Taking a stand against unfair private renting with Shelter	32
3	Launching our OnHand volunteering platform, providing colleagues access to volunteering opportunities	34

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 2023.

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 19 for a full description of our business model and focus.

Dividends

The Directors recommend a final dividend in respect of the year ended 31 December 2023 of £12m, representing 0.13p per class A ordinary share. The payment of the final dividend is subject to approval of the shareholders at the 2024 Annual General Meeting.

The Board remains committed to prudent capital returns in the future and intends to maintain a stable and sustainable ordinary dividend policy, based on continued progression towards a target pay-out ratio against underlying profits, and funded from capital generated organically from year-to-year.

Due consideration will also be given to further distribution of surplus capital, as appropriate, over time and dependent on the preceding optimisation of the Group's capital resources composition through issuance of replacement capital instruments.

Surplus capital represents capital over and above the amount management determine is required to continue to meet the Bank's medium-term CET1 % target ratio of 15 %-17 %, which will enable it to maintain and grow the business, deploy in suitable investment opportunities, meet current and future regulatory requirements and cover uncertainties. The amount of required capital may vary from time-to-time depending on circumstances and by its nature there can be no guarantee that any return of surplus capital will be made.

The ability of the Group to pay a dividend is also subject to constraints including the availability of distributable reserves, legal and regulatory restrictions and the Group's financial and operating performance.

Distributable reserves are determined as required by the Companies Act 2006 by reference to a company's individual financial statements.

As at 31 December 2023, the Group's parent company, The Co-operative Bank Holdings Limited (HoldCo) had, in the view of the directors, sufficient distributable reserves to support the recommended dividend.

The profitability of HoldCo, and its ability to sustain dividend payments, is primarily dependent upon the continued receipt of dividends from its main operating subsidiary, the Bank. At 31 December 2023, the Bank had a CET1 capital ratio that exceeded minimum regulatory requirements and internal risk appetite levels.

The Group actively manages the capital of its subsidiaries, which includes monitoring their respective regulatory capital ratios and, on a consolidated basis, that of the Group against approved risk appetite levels.

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 112 to 125. Financial risk management objectives and policies can be found as detailed below:

	Pages
Detailed financial performance review	55 to 58
Risk management objectives and policies	112 to 115
Principal risks and uncertainties	116 to 125

Post balance sheet events

There are no post balance sheet events to report.

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. ('the Companies') in the 2023 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 Board -approved five-year Financial Plan. The Directors have also considered the principal risks and uncertainties, along with the most relevant regulatory requirements, including future anticipated capital requirements, in addition to any other relevant and material information. After making enquiries of management and considering the five-year forecast, in particular for the period ended 30 June 2025, the Directors have a reasonable expectation that the Companies will have adequate resources to remain in operational existence.

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 75 within the corporate governance report. Details of the Directors offering themselves for election and re-election at the 2024 Annual General Meeting are provided on page 75.

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 31 to the consolidated financial statements, note 23 to the Bank Company financial statements, note 25 to the Finance Company financial statements and note 6 to the Holding Company financial statements.

Corporate responsibility

Corporate responsibility activities are outlined on pages 93 to 95.

CO_2 emissions

The GHG emissions report is detailed on page 54.

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 2023, there are no anti-bribery matters to disclose and no material risks have been identified. The Group has a comprehensive Internal Fraud and Anti-Bribery & 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 commitment to our customer-led Ethical Policy continues to shape our evolving approach to ensuring an ethical workplace. 'People' remains one of the core pillars of our Ethical Policy as we're committed to acting in a way that helps people live their lives freely, equitably and safely. This includes how we treat our colleagues as well as how we treat our customers.

Our people approach is underpinned by our values and expected 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 demonstrate our values consistently, ensuring we are at our best for our customers, communities, stakeholders and each other.

We completed an externally benchmarked engagement survey in Q4 2023. 76% of colleagues took part in the survey and our overall engagement score was 76%. Positivity is strongest around job enjoyment and motivation, with motivation seven points ahead of the industry benchmark. Advocacy of the Bank as a place to work scored high and three points above the industry benchmark, and intent to stay with the Bank is strong. Engagement levels remain broadly stable across tenures which is positive as typically this declines for mid-tenure colleagues. Our colleagues have a strong believe in the Bank's purpose, with over four in five colleagues saying it is one that they really believe in. The results also show that perceptions of leader integrity and empathy are strong in the Bank.

Leadership and succession planning

Good leadership is integral to shaping the right culture for the Bank. In 2023 we have delivered over 950 hours of leadership development training to colleagues. Our internal leadership development offering provides a range of opportunities for colleagues to select from, including regular fundamental knowledge and skills sessions for people managers; a programme of masterclasses and leader drop-ins run by senior leaders focussed on the Group's core leadership capabilities; updated leader guides, and a Bank-wide mentoring programme.

The leadership development offering focusses on different career stages and has helped colleagues to translate ambition into action through personal development opportunities. Programmes are available from entry level talent and development to a leadership group for leaders with future ambition and capability to be our next generation senior leadership.

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, means we have been able to continue to offer progression through internal moves to support structure and operating model changes.

Entry talent and development

Our graduate programme continues to build a strong pipeline of future leaders. Our 2023 recruitment campaign attracted over 2,300 applications and resulted in 18 graduates joining the Bank in September across seven programmes, the Bank's largest graduate intake to date. In addition, we successfully recruited seven summer interns to support growth of future entry talent pipeline; and also ran an internal talent development programme for a cohort of recently promoted leaders to provide a blended learning approach supporting colleagues' transition to their new roles.

We have 137 colleagues studying towards an apprenticeship programme across a variety of areas, including accountancy and taxation, customer service, credit risk, human resources, risk and compliance, IT, mortgages and management qualifications.

Inclusion and diversity

The Co-operative Bank came together 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 2023: 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 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.

Throughout 2023 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.

We remain committed to recruiting and retaining people with disabilities or health conditions for their skills and talent. Under this commitment, interviews continued to be 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.

Our commitment to HM Treasury's Women in Finance Charter remains as strong in 2023 as it was in 2016 when we were one of the first banks to sign up to the charter and had 32% female representation at senior leadership level.

Embedding our commitments to make a difference in gender equality in 2023, we stretched our original goal of 40% to an aspirational target of 45% women in senior roles by the end of 2023. We can now report we have 43.3% women in senior roles. Despite falling slightly short of our aim, we have some exciting opportunities ahead and our determination remains strong to achieve a greater gender balance.

We will continue to encourage and support women to develop their confidence in seeking progression opportunities alongside their male colleagues in 2024. Our mean gender pay gap has continued to improve and now sits at 22.8% (down from 25.0% in 2022) whilst our median gender pay gap has also improved and now stands at 18.1% (down from 29.3% in 2022). In 2023 we again reported our ethnicity pay gap alongside our gender pay gap data, with mean ethnicity pay gap up slightly from 2022 to 18.1% (16% in 2022). Our median ethnicity pay gap has improved from 2022 and is now 8.6%. We are confident that in the long term our focussed work on inclusion and balance will result in these gaps continuing to reduce.

We are proud of what we've achieved so far but know there is still more work to do. To galvanise our commitment, not only to improve the gender and ethnicity balance across our Bank, but in all other aspects of diversity, we were pleased to announce a new lead Equality, Diversity, and Inclusion ("EDI") role at the Bank in October 2023.

2024 will see us undertake the development of a new Diversity & Inclusion ("D&I") strategy that will aim to enhance our dedication towards the Women in Finance Charter and our pay gap reporting going forward. This will also align our EDI approaches to any future D&I regulation.

Once our enhanced D&I strategy is in operation in 2024, and to enable consistency of approach, we will generally maintain our existing five point diversity plan for 2024 with the existing expectations:

1. listening to our colleagues and supporting progression through our values-led workplace environment and family friendly policies;
2. focussed programmes and initiatives to encourage internal progression;
3. proactive attraction of diverse candidate shortlists for all externally advertised roles;
4. ensuring equal pay between colleagues and a tailored business; and
5. tailored business plans to target specific challenges.

See our Women In Finance Charter and Pay Gap Reporting for more detail on the five point plan on the Bank's website.

We promote equality of opportunity and aim to create a workforce that is representative of our society, knowing that embracing difference enhances the capability of The Co-operative Bank. In addition to our five point plan, during 2024 we are committed to:

- Development of D&I strategy for a better inclusive culture and society;
- Comply and support proposed D&I regulation;
- Continued promotion of inclusive behaviours across our bank to benefit our colleagues and our customers lead by the EDI role;
- Continued positive action to focus on wider diversity groups and gender inclusivity; and
- Acting on insight and feedback to support positive progress in support of all demographics.

HR key performance indicators

Gender diversity (headcount) as at 31 December

2023	Female No.	Female %	Male No.	Male %	Grand total No.
Board[1]	3	30 %	7	70 %	10
Executive management team[2]	2	40 %	3	60 %	5
Other employees	1,985	59 %	1,406	41 %	3,391
Grand total	**1,990**	58 %	**1,416**	42 %	**3,406**

2022	Female No.	Female %	Male No.	Male %	Grand total No.
Board[1]	2	20 %	8	80 %	10
Executive management team[2]	2	40 %	3	60 %	5
Other employees	1,657	57 %	1,253	43 %	2,910
Grand total	**1,661**	**57%**	**1,264**	**43%**	**2,925**

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 also part of the Board are not included here.

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

2023	Full time	Part time	Grand total
Female	1,374	616	1,990
Male	1,338	78	1,416
Grand total	**2,712**	**694**	**3,406**

2022	Full time	Part time	Grand total
Female	1,165	496	1,661
Male	1,211	53	1,264
Grand total	**2,376**	**549**	**2,925**

A great place to work

We have taken the opportunity to review our office utilisation and branch premises strategy against our future requirements, maintaining a hybrid working model across as many sites as possible. Our approach to place of work continues to be monitored and will evolve over time. We remain committed to seeking to get the balance right to meet colleague and operational needs and we continue to be a member of the Greater Manchester Good Employment Charter.

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.

In 2023 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. The Foundation announced a significant increase in the Real Living Wage during 2023 building on the increases in 2022, on the back of this we implemented a change in our minimum annual salaries effective from November 2023 ahead of the Living Wage Foundation deadline of 1 May 2024. We offer colleagues a range of benefits and wellbeing endeavours which we plan on further developing in 2024.

As we look ahead to 2024 and beyond we are focussed on our purpose; to help create a thriving Bank for this generation and the next, benefiting our customers, our colleagues, our communities and our planet. As a people function, we aim to deliver a great experience for our people when it matters most, where our shared values shine through. We believe when we live our values, we will make a real difference. They reflect the very best of The Co-operative Bank and our strengths, and they all come to life in our colleague promise – to be recognised as an inclusive, responsible, fulfilling and enjoyable place to work by our people and industry peers.

Our people strategy sets the direction for 2024 and beyond and provides focus around six key pillars of activity;

- equality, diversity and inclusion;
- talent and succession;
- learning and development;
- leadership;
- performance and reward; and
- wellbeing.

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 People Directorate, 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 an Independent Non-Executive Director and deals with all such concerns confidentially whilst ensuring appropriate investigation and follow-up procedures are conducted.

Engagement with suppliers

In 2023 the Group delivered efficiencies in its third party supplier base through proactive management of renewals and exploring strategic opportunities.

The Group continues to prioritise and embed third party risk management aimed at improving processes and the governance applied to manage our third parties to ensure resilience; regulatory compliance and to obtain early indicators of supplier risk and issues. The procurement team continues to maximise outcomes and obtain best value from our suppliers through supporting the reduction in the cost of delivering change for the Group.

The Group encountered growing pressure on third party spend in 2023 due to heightened inflation, with some suppliers attempting to recover cost increases in their supply chain. The Group's focus has been on reducing its exposure to fluctuating cost pressures through negotiation of transparency, duration and term, indexing, periodic limits to price escalations and frequency of price adjustments. In addition, a result of the economic challenges has seen an increase to suppliers facing financial difficulty, the Group has managed this by increasing our financial monitoring procedure and strengthening our procedures in relation to exit and continuity plans.

The Group has invested in procurement by seeking consultancy advise to ensure our processes and framework to manage and monitor suppliers is enhanced and validated that they are in line with PRA regulatory changes.

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 UK-adopted international accounting standards.

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;
- Make judgements and accounting estimates that are reasonable and prudent;
- 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 UK-adopted international accounting standards is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the financial performance;
- state that the Group, Finance Group, Bank, Holding Company, Finance Company and Bank Company have complied with UK-adopted international accounting standards, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group, Finance Group, Bank, Holding Company, Finance Company and Bank Company will continue in business.

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 Bank'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 on 22 January 2024 (the "2024 Code"). The Group reviewed the 2024 Code, and is comfortable that its corporate governance framework reflects many of the principles and provisions set out in the 2024 Code, even though the Group is not required to and does not comply with the 2024 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. In 2023, the Group started to take a forward looking view of the introduction of Sarbanes-Oxley ("SOx") style reporting requirements. Following the withdrawal of the draft Audit and Corporate Governance reforms by the UK Government in October 2023, there is no binding requirement for the Group to make changes to its reporting on material internal controls. However, the Group recognises the importance of maintaining a sound internal control environment and will continue to review the Group's internal controls.

This responsibility statement was approved by the Board of Directors of the Holding Company, Finance Company and Bank Company on 27 February 2024 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.

Bob Dench

Chair of the Board

27 February 2024

Directors' Report on remuneration to the shareholder

Continuing to recognise and reward our colleagues to deliver our strategy

Dear Stakeholder

This is my first report as Chair of the Remuneration Committee having succeeded Sir Bill Thomas in Q4 2023. I would like to thank Sir Bill for his significant contribution to remuneration governance during his tenure on the Board and for steering the Remuneration Committee through a time of external and internal turbulence.

I am therefore pleased to present, as the incoming chair, an overview of the key developments relating to remuneration in 2023 together with The Co-operative Bank Pillar 3 remuneration disclosure for 2023.

Looking back on 2023

2023 has proved to be a good year for the Bank, despite continued macroeconomic headwinds and a strong labour market. The collective effort of all colleagues has resulted in robust results but with a backdrop of continued media speculation regarding the future of the Bank which I recognise has been challenging for colleagues. There has, however, been a great deal for colleagues to be proud of with the Bank's first acquisition in a decade, the successful insourcing of c.400 colleagues from Capita and a full refresh of the Bank's five year strategy, including our People strategy. We have continued to deliver for customers and colleagues and have embedded the remuneration structure changes that were implemented last year. Our approach to pay continues to be underpinned by the principles of commercial focus, fairness, and alignment to market.

The focus for the first half of 2023 was to support colleagues in a high inflation environment, and ensure we paid colleagues fairly in the round. This resulted in an investment in pay of 8% for lower paid colleagues in 2023 which was well received by colleagues and supported by our Union. We invested again in those colleagues this year with the early adoption of the new Real Living Wage rates in November 2023 (ahead of the April 2024 deadline). We will continue to monitor the impact of the macro economic environment on our colleagues, in the way we do for our customers, and look to balance the needs of all our stakeholders as part of our oversight of performance and remuneration. Going forward as we align our people plan with our strategic plan, we will continue to focus on the overall employee value proposition for all colleagues including fair pay.

Maintaining a stable Executive Team to deliver our strategy was also critical, particularly against a background of speculation with regards to the future ownership of the Bank, and our approach to ensuring this balance and leadership for colleagues was a key focus of 2023 for the Remuneration Committee.

For 2023, as in previous years, a portion of remuneration is variable, based on performance delivered against a balanced scorecard. The scorecard is monitored monthly, setting out five key performance areas of customer, people, finance, ESG and transformation. The annual results of the scorecard are taken into consideration by the Remuneration Committee when determining variable pay outcomes. This year's overall performance achieved for 2023 was 69.9% (vs 99.7% last year), more detail on the scorecard outcome is included on page 105. Based on the achievement of the pre grant conditions set, an award was made under the Long Term Incentive Plan ("LTIP") to the senior colleagues who are eligible to participate in the plan. These awards will remain subject to underpins over the next five years and will be released in accordance with regulatory requirements.

Looking ahead to 2024

In 2024, the Remuneration Committee will continue to oversee the development and implementation of the Group'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 colleagues.

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 Group over the short and long term. Chairs of the Joint Audit and Values & Ethics Committees are all Remuneration Committee members, and myself, Glyn Smith and Sue Harris are all members of both the Risk and Remuneration Committees ensuring that different perspectives are fully considered on remuneration-related decisions.

In 2024, we will continue our focus on diversity and inclusion following the seventh annual publication of our gender pay gap and our second year of voluntarily disclosing on ethnicity. While we know we still have work to do, our ED&I strategy continues to be a critical focus and feeds into making systemic progress in reducing our pay gaps.

In 2023, the Bank continued to drive our profile as an ESG leader amongst high street banks. From a remuneration perspective this includes specific ESG measures in the scorecard to which all colleagues' remuneration, including the remuneration of our executive directors, are linked. For 2024, these include targets focussed on our ESG ratings, Scope 1 and 2 emissions and GSS framework lending.

As we enter 2024 we will take account of emerging regulation including but not limited to discussing our approach to the removal of the bonus cap for UK banks. We will also ensure we comply with appropriate regulation including rules related to deferral, malus and clawback.

Fiona Clutterbuck, Remuneration Committee Chair
27 February 2024

The Co-operative Bank Pillar 3 Disclosures as at 31 December 2023

Introduction

The following disclosure explains how the Group has complied with the regulatory requirements under the PRA's remuneration rules and the FCA's remuneration code for dual-regulated banks ("PRA and FCA remuneration rules").

Remuneration governance

The Group has an established Remuneration Committee consisting of Non-Executive Directors. The Remuneration Committee met seven times in 2023. Its responsibilities include recommending to the Board for approval the overarching principles and parameters of the remuneration policy across the Group, 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 during the year were as follows:

Committee membership	Date of	Date of
Fiona Clutterbuck (Chair)	1 Aug 2023[1]	
Sir Bill Thomas (Chair)	26 Sep 2017[1]	27 Oct 2023
Derek Weir	26 Sep 2017	31 July 2023
Glyn Smith	27 Mar 2019	
Richard Slimmon	11 Jan 2021	
Sue Harris	26 Jul 2022	

1. Sir Bill Thomas Chair since 19 December 2017 and Fiona Clutterbuck Chair since 28 October 2023

In setting remuneration policies, the Remuneration Committee seeks to:

- link reward to business and individual performance, ensuring that performance metrics include financial and non-financial measures so as not to encourage undue/inappropriate risk;
- ensure that the remuneration of senior management is informed, but not driven 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 Group, taking into account quantum, market comparators and affordability;
- determine the specific conditions for annual bonus and long-term incentive awards 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 for the first part of 2023 who, following their appointment as the Group's external auditors for the year ended 31 December 2024, were replaced by Deloitte as the Remuneration Committee's external advisor. A full review of the most appropriate advisor was completed at this time. PwC and Deloitte 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, Chief People and Sustainability Officer, the Chief Risk Officer and the Company Secretary. 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 Group is a Level 2 firm based on the proportionality guidance issued for the purpose of the PRA and FCA remuneration rules.

Material Risk Taker criteria

The Remuneration Committee oversees remuneration for staff identified as Material Risk Takers ("MRTs"). In 2023, 48 MRTs were identified within the Group, according to the qualitative and quantitative criteria set out under the PRA and FCA remuneration rules and the Group's own assessment of individuals who can create material risks through their professional activities. The Group has a robust process for identifying MRTs. The Remuneration Committee reviews the MRT list on an annual basis.

The remuneration of MRTs is subject to the requirements set out in the PRA and FCA remuneration rules.

Link between pay and performance

Components of remuneration

Employee remuneration, including that of MRTs, 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 Group'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. In addition to the annual bonus, senior colleagues (Executive Committee members and certain other senior colleagues) are eligible for grants under a Long-Term Incentive Plan ("LTIP"), as provided under our approved policy. The Committee granted such awards in 2023. 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 Annual Report and Accounts. The Senior Leader Retention award granted in 2021 lapsed during the year and was replaced by an updated similarly intended award.

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. In addition employee pension contributions to our Defined Contribution Scheme are matched up to 10 % by the Bank. A range of benefits including wellbeing support, volunteering opportunities and financial support products are offered to colleagues.

Variable remuneration

The annual bonus incorporates the use of a balanced scorecard of financial and non-financial measures, overlaid by our risk and control framework, which are directly aligned to the Group's strategic plan and includes metrics that measure performance related to:

- our customers (including brand strength and digital adoption);
- our people (including culture);
- transformation (including performance against the Group's key strategic priorities);
- our finances (including performance against our key performance indicators (KPIs) including profitability, operating costs and CET1 ratio); and
- our progress against ESG objectives.

Awards may not be made if underlying capital conditions are not met.

The LTIP, under which senior colleagues are eligible for an award, delivers share-linked awards based on the achievement of pre-grant conditions based on customer and risk metrics. Awards are then subject to capital and affordability assessments over five years.

Variable remuneration awarded to employees whose roles have a material impact on the Group's risk profile meets with the requirements of the PRA and FCA remuneration rules. This includes appropriate deferral of awards and the awards being subject to malus (cancellation or reduction of unvested awards) and clawback (recoupment of paid and/or vested awards) provisions as set out in the PRA and FCA remuneration rules. In line with the PRA and FCA remuneration rules, the Bank does not award guaranteed variable remuneration, unless it is exceptional, it occurs in the context of hiring, is limited to the first year of service and the Bank has a sound and strong capital base. In addition any severance payments made to this population will take into consideration a number of factors, including but not limited to, contractual obligations (such as payment in lieu of notice) and tenure.

Risk consideration

Any risk related failure or risks not being managed within appetites would result in consideration of a risk-based remuneration adjustment via:

- individual performance assessment;
- individual or collective assessment through the risk adjustment process; and
- adjustment of bonus pool through Remuneration Committee applied risk modifier informed by the Chief Risk Officer risk report to the Committee and broader risk reporting (e.g. Risk Committee).

The Chief Risk Officer's ("CRO") bi-annual report to the Committee provides a summary of the Bank's risk performance, including:

- individual MRT performance in relation to risk management and Risk Management Framework ("RMF") adherence and any recommendations for risk adjustments;
- an overview of Key Risk Appetite Metrics ("KRAMs") and Key Risk Indicators ("KRIs") used to monitor risk, including tolerances, outcomes for the year to date and any trends or significant movements. This covers all the Group's principal risks identified through the RMF;
- a commentary on the strength of the risk governance and control environment, together with the cultural attitude to risk within the Group;
- an outlook on any material emerging issues that are likely to present new risks to the Group over the next year, areas requiring further enhancement and any planned changes to be made during the next performance year;
- an opinion of Risk Adjustment Forum ("RAF") performance and opinion on all material risk events and issues identified; and
- a commentary on other risks, such as significant regulatory correspondence and cultural or behavioural issues.

When deciding whether the CRO applies risk adjustments all relevant criteria are taken into account, including:

- the cost of fines and other regulatory actions (e.g. section 166 reviews);
- direct and indirect financial losses attributable to the relevant failure;
- reputational damage;
- the impact of the failure on the firm's relationships with its stakeholders including shareholders, customers, employees, creditors, the taxpayer, counterparties, and regulators;
- the impact on profitability from the event (e.g. profit before tax) – actual/accounting and provisioned;
- the timeframe during which the event occurred and whether losses/costs are still accumulating;
- the extent of customer detriment (e.g. number and value of mis-sold policies); and
- redress costs.

The Group bonus pool is determined taking into account the following:

- performance against financial and non-financial measures in the Group balanced scorecard;
- status of risk appetite and consideration of their potential future impact;
- risk events which have already happened and which are reported through to Remuneration Committee via the Group's People Committee and RAF; and
- discretionary adjustment by the Remuneration Committee, having regard to the Group'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 role and accountability of the individual in relation to the relevant risk event.

The annual performance of the Group is taken into consideration by the Remuneration Committee when reviewing variable pay. At the end of the year, overall performance achieved was 69.9 % against all measures, where target performance is 100 % and maximum performance 200 %. Within the scorecard, financial measures had a weighting of 50 %, transformation, customer and ESG measures each had a weighting of 15 % and people had a weighting of 5 %. In this regard, the overall performance reflects the following achievement in each area:

- performance for our customers was measured at 14.6 %.
- performance for our people was measured at 3.5 %.
- transformation performance was measured at 13.5 %.
- our financial performance was measured at 31.7 %, and;
- ESG performance was measured at 6.6 %

Integral to this focus on performance is the Remuneration Committee's continued attention to the Bank's wider risk performance as advised by the Chief Risk Officer and Chair of the Risk Committee.

Once the final performance for 2023 was determined, the Remuneration Committee oversaw the distribution of variable pay, including annual bonuses for all employees and long-term incentive awards to selected key leaders, for the 2023 performance year. Awards varied subject to both the Group-wide scorecard, and individual performance against agreed personal objectives including both 'what' colleagues achieved and behaviours in terms of 'how' they achieved this. Appropriate consideration was also given to the underlying capital performance of the Group, in accordance with regulatory requirements.

The Committee believes that the final scorecard result and subsequent bonus pool are a fair reflection of delivery against a number of key financial and non-financial objectives across 2023. The financial metrics on the scorecard take into account an exceptional customer redress provision of £28.9m, which has reduced this year's bonus pool. Further details on the basis of this provision are outlined in note 26 of the financial statements.

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, assessed based on a set of financial and non-financial measures and including risk management considerations. Variable pay for control functions is based on role-specific objectives, independent of the performance of the business units that they oversee. Individual performance outcomes include input from the Chairs of Risk and Audit Committee. The 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. In line with regulatory requirements the following is applied to employees' (including MRTs') annual incentives where necessary:

- the deferral of at least 40-60 % of their variable remuneration over a period of at least four years;
- the delivery of at least 50 % of their variable remuneration in the form of share-linked instruments. This element of deferred remuneration is also subject to a retention period of up to 12 months;
- 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. 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 Group, 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 Group'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, continued to apply for 2023. As noted in the introduction in 2024 the Remuneration Committee will consider the most appropriate ratio going forward following the removal of the variable pay cap.

Quantitative remuneration disclosure

1. Remuneration awarded for the financial year *(audited)*

£m		Management Body (MB) Supervisory function	MB Management function	Other senior management	Other identified staff
Fixed remuneration	**Number of identified staff**	**10.0**	**2.0**	**8.0**	**27.7**
	Total fixed remuneration	**1.7**	**1.6**	**2.5**	**3.9**
	Of which: cash-based	1.7	1.6	2.5	3.9
	Of which: shares or equivalent ownership interests	-	-	-	-
	Of which: share-linked instruments or equivalent non-cash instruments	-	-	-	-
	Of which: other instruments	-	-	-	-
	Of which: other forms	-	-	-	-
Variable remuneration	**Number of identified staff**	-	**2.0**	**6.0**	**25.7**
	Total variable remuneration	-	**1.5**	**1.4**	**1.1**
	Of which: cash-based	-	0.4	0.6	0.7
	Of which: deferred	-	0.2	-	-
	Of which: shares or equivalent ownership interests	-	-	-	-
	Of which: deferred	-	-	-	-
	Of which: share-linked instruments or equivalent non-cash instruments	-	1.1	0.8	0.4
	Of which: deferred	-	0.8	0.5	0.3
	Of which: other instruments	-	-	-	-
	Of which: deferred	-	-	-	-
	Of which: other forms	-	-	-	-
	Of which: deferred	-	-	-	-
Total remuneration		**1.7**	**3.1**	**3.9**	**5.0**

2. Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff) *(audited)*

£m	MB Supervisory function	MB Management function	Other senior management	Other identified staff
Guaranteed variable remuneration awards				
Guaranteed variable remuneration awards - Number of identified staff	-	-	-	-
Guaranteed variable remuneration awards - Total amount	-	-	-	-
Of which guaranteed variable remuneration awards paid during the financial year, that are not taken into account in the bonus cap	-	-	-	-
Severance payments awarded in previous periods, that have been paid out during the financial year				
Severance payments awarded in previous periods, that have been paid out during the financial year - Number of identified staff	-	-	-	-
Severance payments awarded in previous periods, that have been paid out during the financial year - Total amount	-	-	-	-
Severance payments awarded during the financial year				
Severance payments awarded during the financial year - Number of identified staff	-	-	1.0	3.0
Severance payments awarded during the financial year - Total amount	-	-	0.2	0.2
Of which paid during the financial year	-	-	0.2	0.2
Of which deferred	-	-	-	-
Of which severance payments paid during the financial year, that are not taken into account in the bonus cap	-	-	-	-
Of which highest payment that has been awarded to a single person	-	-	0.2	0.1

3. Deferred remuneration *(audited)*

£m	Total amount of deferred remuneration awarded for previous performance periods	Of which due to vest in the financial year	Of which vesting in subsequent financial years	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year
MB Supervisory function	-	-	-	-
Cash-based	-	-	-	-
Shares or equivalent ownership interests	-	-	-	-
Share-linked instruments or equivalent non-cash instruments	-	-	-	-
Other instruments	-	-	-	-
Other forms	-	-	-	-
MB Management function	4.5	0.3	4.3	-
Cash-based	0.7	-	0.7	-
Shares or equivalent ownership interests	-	-	-	-
Share-linked instruments or equivalent non-cash instruments	3.8	0.3	3.6	-
Other instruments	-	-	-	-
Other forms	-	-	-	-
Other senior management	2.7	0.3	2.3	-
Cash-based	0.2	-	0.2	-
Shares or equivalent ownership interests	-	-	-	-
Share-linked instruments or equivalent non-cash instruments	2.5	0.3	2.1	-
Other instruments	-	-	-	-
Other forms	-	-	-	-
Other identified staff	3.1	0.7	2.4	-
Cash-based	0.3	-	0.3	-
Shares or equivalent ownership interests	-	-	-	-
Share-linked instruments or equivalent non-cash instruments	2.8	0.7	2.1	-
Other instruments	-	-	-	-
Other forms	-	-	-	-
Total amount	10.3	1.3	9.0	-

3. Deferred remuneration (continued) *(audited)*

£m	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years	Total amount of adjustment during the financial year due to ex post implicit adjustments (i.e. changes of value of deferred remuneration due to the changes of prices of instruments)	Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year	Total of amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods
MB Supervisory function	-	-	-	-
Cash-based	-	-	-	-
Shares or equivalent ownership interests	-	-	-	-
Share-linked instruments or equivalent non-cash instruments	-	-	-	-
Other instruments	-	-	-	-
Other forms	-	-	-	-
MB Management function	-	0.8	-	0.4
Cash-based	-	-	-	-
Shares or equivalent ownership interests	-	-	-	-
Share-linked instruments or equivalent non-cash instruments	-	0.8	-	0.4
Other instruments	-	-	-	-
Other forms	-	-	-	-
Other senior management	-	0.8	-	0.4
Cash-based	-	-	-	-
Shares or equivalent ownership interests	-	-	-	-
Share-linked instruments or equivalent non-cash instruments	-	0.8	-	0.4
Other instruments	-	-	-	-
Other forms	-	-	-	-
Other identified staff	-	0.6	-	1.1
Cash-based	-	-	-	-
Shares or equivalent ownership interests	-	-	-	-
Share-linked instruments or equivalent non-cash instruments	-	0.6	-	1.1
Other instruments	-	-	-	-
Other forms	-	-	-	-
Total amount	-	2.2	-	1.9

4. Remuneration of 1 million EUR or more per year *(audited)*

EUR	Identified staff that are higher earners as set out in Article 450(i) CRR
1.0m to below 1.5m	-
1.5m to below 2.0m	-
2.0m to below 2.5m	-
2.5m to below 3.0m	1

5. Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff) *(audited)*

	Management body remuneration			Business areas						
£m	MB Supervisory function	MB Management function	Total MB	Investment banking	Retail banking	Asset management	Corporate functions	Independent internal control functions	All other	Total
Total number of identified staff										47.7
Of which: members of the MB	10.0	2.0	12.0							
Of which: other senior management				-	2.0	-	5.0	1.0	-	8.0
Of which: other identified staff				-	3.0	-	13.9	10.8	-	27.7
Total remuneration of identified staff	1.7	3.1	4.8	-	2.2	-	4.4	2.2	-	
Of which: variable remuneration	-	1.5	1.5	-	0.9	-	1.0	0.5	-	
Of which: fixed remuneration	1.7	1.6	3.3	-	1.3	-	3.4	1.7	-	

Chief Executive Officer and Chief Financial Officer remuneration *(audited)*

The total remuneration for Nick Slape ("CEO") during 2023 was £1.9m. The total remuneration for Louise Britnell ("CFO") during 2023 was £0.6m. This was made up of the following:

Fixed remuneration	**CEO £000s**	**CFO £000s**
Basic salary	930	366
Allowances and benefits	258	52
	1,188	**418**
Variable remuneration		
2023 bonus	701	220
Total	**1,889**	**638**

Risk management

1.1 Our approach to risk management

Responsibility for risk management resides at all levels within the Group and is supported by both Board and management level committees. A three lines of defence ("3LOD") model is deployed on the following basis:

- First line – 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 risk and control self-assessment ("RCSA"), and are responsible for reporting the performance, losses, near-misses and status of risks through governance.
- Second line - the risk function acts as the second line of defence ("2LOD"). The risk framework owners ("RFOs") are responsible for setting risk policies, control standards, Group-wide procedures and risk appetite. RFOs sit within the second line with the exception of some specialist areas where the RFO sits within first line (for example legal, financial reporting and people risk); the second line risk function will provide oversight over the RFO activities in such cases.
- Third 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").

1.2 Chief Risk Officer Update

I am pleased to report that in 2023 the Group has made improvements across a range of key risks. Of particular note is the work done to reduce the Group's technology risk thanks to the ongoing progress made on our transformation journey, particularly with regards to the Simplification programme. Further, the work done to effectively control the Group's credit risk profile and support the Bank's customers who are in financial difficulties amidst a turbulent external operating environment has been essential throughout the year.

Significant risks

We continue to have end-of-life IT systems which require remediation, known as technical debt. These systems pose a risk to operations and service reliability for customers. To mitigate this, we have made significant progress throughout 2023 with our flagship mortgage and savings Simplification programme, which includes the delivery of a new mortgage origination platform. Work will continue to mitigate the potential risk of service interruption for our customers, and the financial risk of losses arising from technical debt.

The ongoing cost of living crisis has resulted in financial loss for banks across the industry. The Monetary Policy Committee's decision on 1 February 2024 to maintain current base rate level continues to put pressure on customers with respect to their credit obligations, something we remain highly vigilant of. As a result of this, we have worked throughout the year to identify what the right type of forbearance treatments are in limiting customers falling into arrears. We are well positioned to continue supporting customers in this way and will continue to monitor customer segments for potential signs of financial difficulty.

Further to losses, financial organisations have also experienced cost pressures as a result of the record levels of inflation seen throughout 2023. With our ongoing business transformation programmes underway, higher operational costs incurred have had an adverse impact on our overall profitability. We understand the importance of tight cost control, and seek wherever possible to operate in the most efficient way possible. Through 2024, we will remain vigilant of these cost pressures and look to limit overall impact to profitability they cause.

In November 2023, the Group received two final decisions from the Financial Ombudsman Service ("FOS") which in part upheld complaints related to historical increases in the Standard Variable Rate applied to a closed book of mortgage customers between 2011 and 2012. In order to limit potential further harm, the Group's Board concluded that proactive steps should be taken to compensate eligible customers with similar characteristics regardless of whether they had complained.

Key 2023 achievements and looking ahead

We have achieved some significant milestones through 2023. In the year, we successfully completed the acquisition of the Sainsbury's Bank mortgage portfolio, adding to our strong existing mortgage business. We have obtained permission to risk weight these mortgages using our existing internal ratings based ("IRB") model as part of this transaction.

We were also able to refinance our existing Tier 2 capital issuance, with a large order book reflecting the market's view of performance. This supports future profitability and ensures that we maintain a strong capital position to preserve resilience and enable future growth.

We have delivered the requirements of Consumer Duty by the regulatory implementation date of 31 July 2023. This included prioritisation of high priority open book products which were then subject to a full assessment against the Consumer Duty requirements. An assessment of price and fair value was undertaken against all remaining open book products along with in-depth reviews of key customer journeys. Critical repairs of customer communications were completed. Our governance framework and management information capabilities have been enhanced to continually evidence good customer outcomes. To support the implementation, we have delivered mandatory e-learning to all colleagues, regular Q&A sessions and face to face training to support embedding of the Consumer Duty for all colleagues.

This year, we rebranded our mortgage origination services from 'Platform' to 'The Co-operative Bank for Intermediaries', a move partnered with the launch of our new mortgage platform. This is another step forward in our Simplification programme, aiming to simplify our product brands and systems, ultimately making our operations leaner and more dynamic when change is needed. Having a unified platform for mortgage origination reduces operational risks associated with managing multiple origination platforms.

We have worked effectively with regulatory bodies over the year to deliver new retail secured IRB exposure at default ("EAD"), loss given default ("LGD") and hybrid probably of default ("PD") models in line with the requirements set out in policy statement PS11/20. We have now submitted our EAD, LGD and PD models and await Prudential Regulation Authority ("PRA") approval whilst holding post model adjustments in respect of the anticipated impact of the model change.

1.3 Governance overview

The Board oversees and approves the RMF and is supported by the Risk Committee ("RC"). The RC's purpose is to review principal risk categories and risk appetite, report conclusions to the Board for approval and oversee the implementation of the RMF, whilst anticipating changes in business conditions. The purpose of the RC is to review and challenge risk appetite and the RMF.

There is a formal structure for identifying, reporting, monitoring and managing risks. This comprises, at its highest level, risk appetite statements and appetite metrics which are set and approved by the Board and are supported by granular risk appetite measures across each of the principal risk categories within the RMF. 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 as part of the RMF.

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.

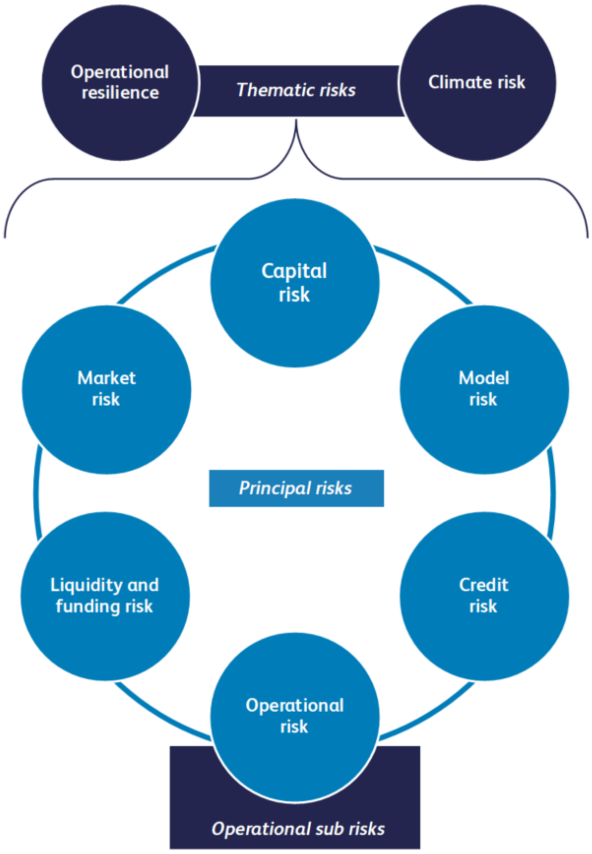
1.4 Our risk management framework ("RMF")

The RMF establishes the principles for managing risks throughout the business. This includes defining processes, ownership and responsibilities for effective risk management. We operate a three lines of defence model, with the RMF supporting the implementation of this operating model. The core aim of the RMF is to support the prudential management of Group risk and promote appropriate customer outcomes.

We continually seek to enhance and further embed the RMF to ensure efficient and effective risk ownership and management within risk appetite, supporting appropriate customer outcomes and the delivery of the strategic plan (the Plan). Following significant enhancements to our RMF in 2022, only select strategic changes were needed through 2023 to ensure the RMF was optimised to mitigate the risks the Group faces. This year, further embedded those changes (e.g. changes to the principal risk taxonomy) and monitored their effectiveness. No adverse impacts have been identified with efficiencies realised such as removal of effort for testing.

Enhancements have been made in 2023 to our risk management system. These have been implemented to provide improved reporting on key risk areas (e.g. technical debt) and preparedness activities for the introduction of UK Sarbanes-Oxley ("UK SOx") requirements. As a result, the RMF continues to be suitable for the Group's current and future operating model.

1.5 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 Group is prepared to take both qualitatively and quantitatively in pursuit of our 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 key risk appetite metrics ("KRAMs") which are tracked, monitored and reported to the appropriate risk committees (refer to section 1.7). Our refreshed risk appetite framework has been embedded through 2023, with KRAMs and key risk indicators ("KRIs") being reported into the appropriate governance committees highlighting where we are outside appetite and the achievement of the strategy is at risk.

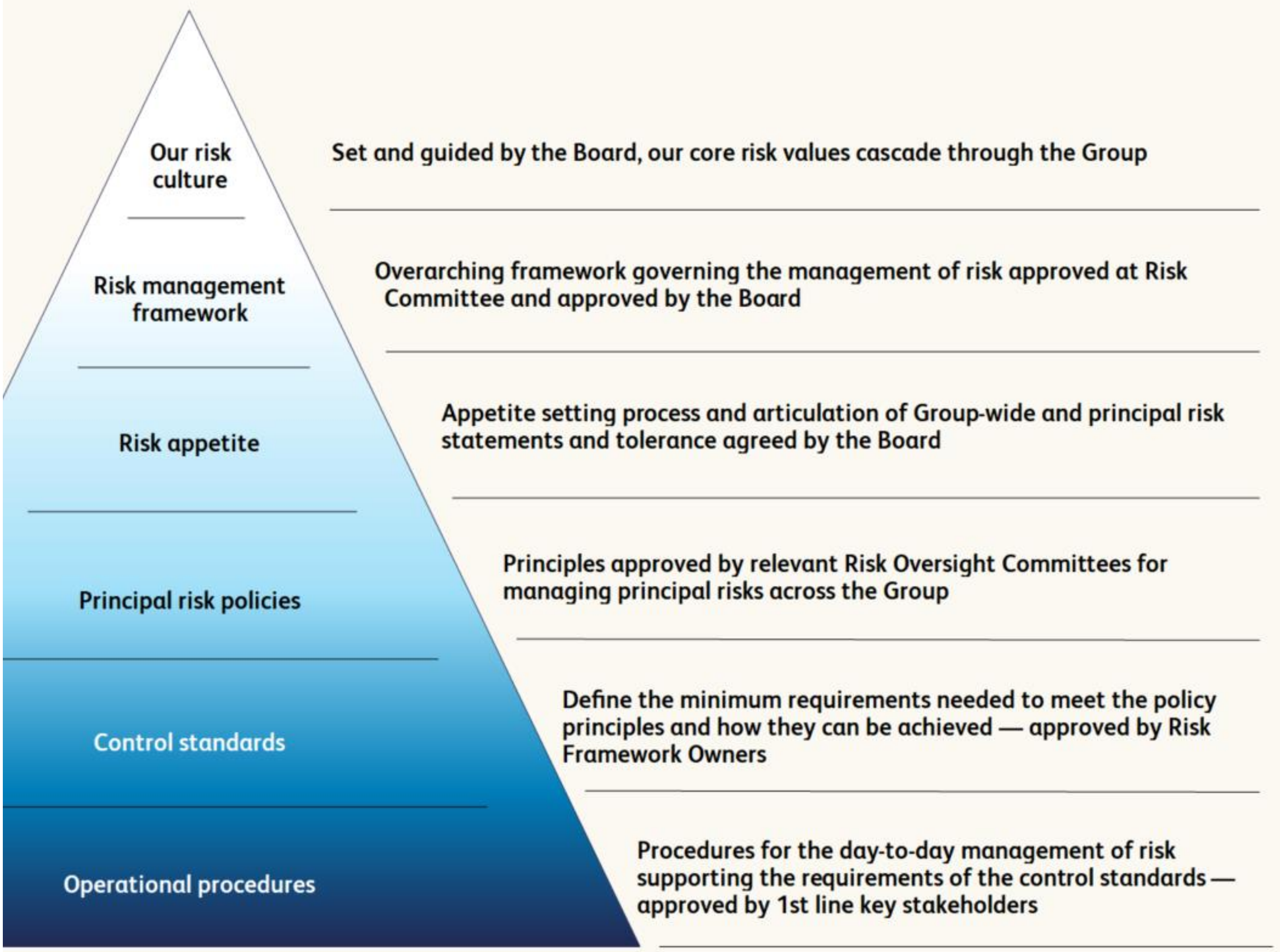
1.6 Our risk culture

A critical supporting factor of the RMF is risk culture; 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 Board and the executive team who lead by example with consistent and clear communication of their commitment to managing risk at all levels of the business. Risk management is included in every colleague's objectives each year and is embedded within the Group scorecard against which performance is measured.

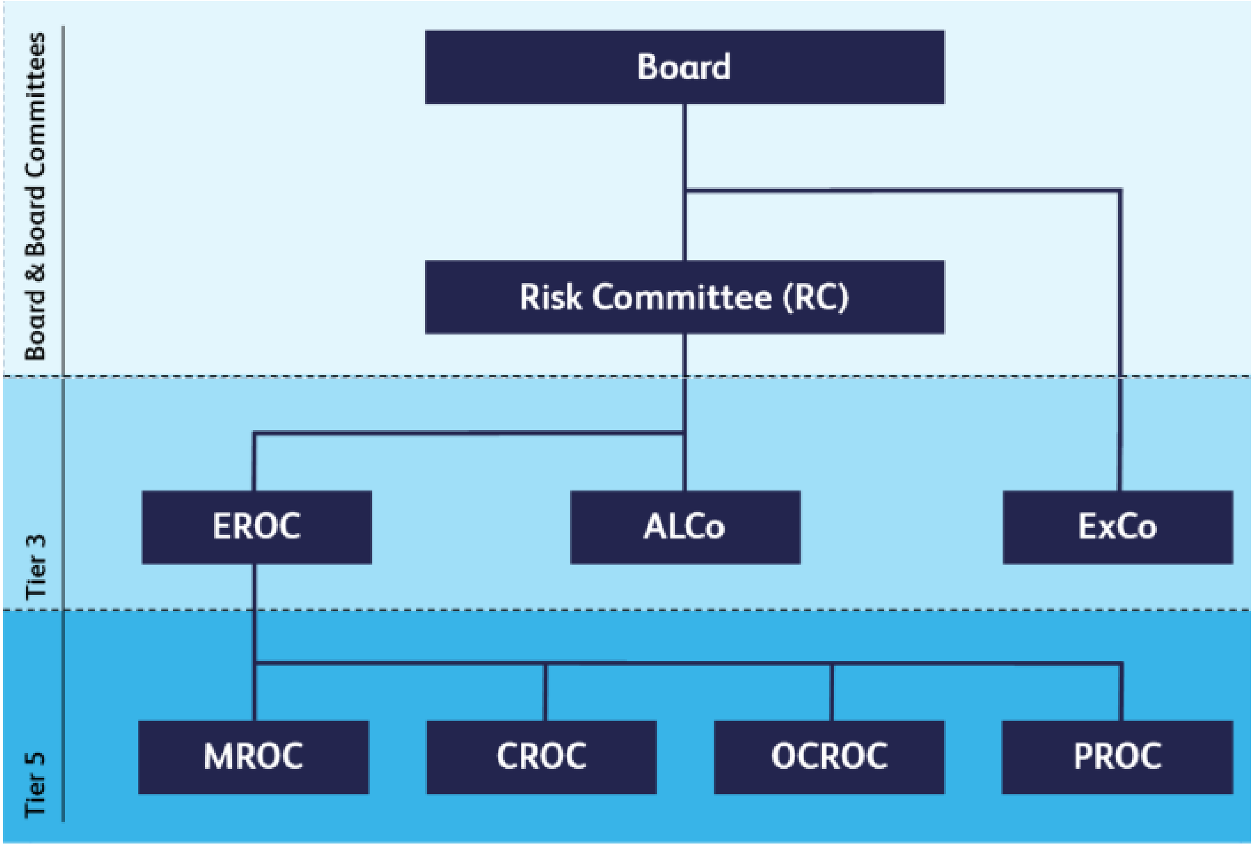
We have committed to embedding a strong culture of risk management and provide mandatory annual training and additional opportunities for colleagues to refresh knowledge on the RMF. In addition, there are opportunities for leaders to share knowledge and experience in respect of risk management in their roles. Culture is measured through continued monitoring of the risk section of the scorecard, the RMF dashboard, which includes metrics on risk process adherence through RMF-focussed second line of defence assurance reviews, and through second line of defence oversight and feedback.

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 the approved strategy and 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.



Board & Committee	Risk focus
Board Chair: Bob Dench	The Board has collective responsibility for the long-term success of the business. Its role is to provide leadership 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 strategy and approves plans presented by management for the achievement of strategic objectives it has set. It determines the nature and extent of the significant risks it is willing to take in achieving strategic objectives and is responsible for ensuring maintenance of sound risk management and internal control systems.
Risk Committee (RC) Chair: Raj Singh	RC is responsible for reviewing and reporting its conclusions to the Board on the Bank's risk appetite and propose for approval by the Board and oversee the implementation of an RMF, taking a forward-looking perspective and anticipating changes in business conditions.
Executive Risk Oversight Committee (EROC) Chair: Chief Risk Officer	EROC is responsible for oversight of the risk profile of the Group (within the agreed Board risk appetite). EROC reviews and challenges the risks associated with 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.
Executive Committee (ExCo) Chair: Chief Executive Officer	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) Chair: Chief Financial Officer	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. In order to align the function of key committees more closely, ALCo started to report directly to the Risk Committee. This change will further reinforce the mitigation of financial risks through embedding a structure whereby key asset and liability management decisions are set within a risk governance setting.
Model Risk Oversight Committee (MROC) Chair: Director of Capital, Impairment and Model Development	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 business model and strategy. MROC also provides oversight of IRB permissions, including the exemptions where the standardised approach to calculate Pillar 1 capital requirements is applied.
Credit Risk Oversight Committee (CROC) Chair: Head of Retail Credit Risk, Head of SME Credit Risk	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 reviews the credit risk strategy on an ongoing basis, making recommendations to EROC as appropriate.
Operational, Compliance, & Financial Crime Oversight Committee (OCROC) Chair: Director of Compliance, Director of Operational Risk	OCROC is responsible for monitoring significant operational risks and issues including significant conduct, regulatory, product, reputational, fraud and anti-money laundering ("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.
Pensions Risk Oversight Committee (PROC) Chair: Director of Capital, Impairment and Model Development	PROC is responsible for oversight of all aspects of pension arrangements which the Group either sponsors or participates in, to ensure cost, risk, capital, investment and employee requirements are met.



1.8 Principal risk categories

Sections 1.8.1 – 1.8.6 provide an overview of the key themes, risk mitigation activity, and future focus of each of our principal risks categories as laid out within our RMF. Where applicable we will make reference to our thematic risks of climate risk and operational resilience. Climate risk is discussed in further detail in the Climate-related financial disclosures report on pages 43 to 54.

1.8.1 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, small and medium-sized enterprises ("SME") and treasury.

Retail secured and unsecured credit risk

Key themes:

Managing lending profiles to new and existing customers is key to the ongoing management of exposure to credit risk. This involves the continual optimisation of our strategies across all portfolios, using both internal and external customer performance data, as well as ensuring the appropriate oversight of their performance.

Strategy continues to focus on growth in new mortgage business volumes, principally through mortgage intermediaries. Nevertheless, we recognise that we remain reliant on interest income from our mortgage portfolio and are therefore still committed to seeking opportunities to diversify our income streams and yield whilst remaining cognisant of the credit implications of this approach. The progress of Simplification with regards to mortgage re-platforming in 2023 further facilities our ability to leverage diversification opportunities in future.

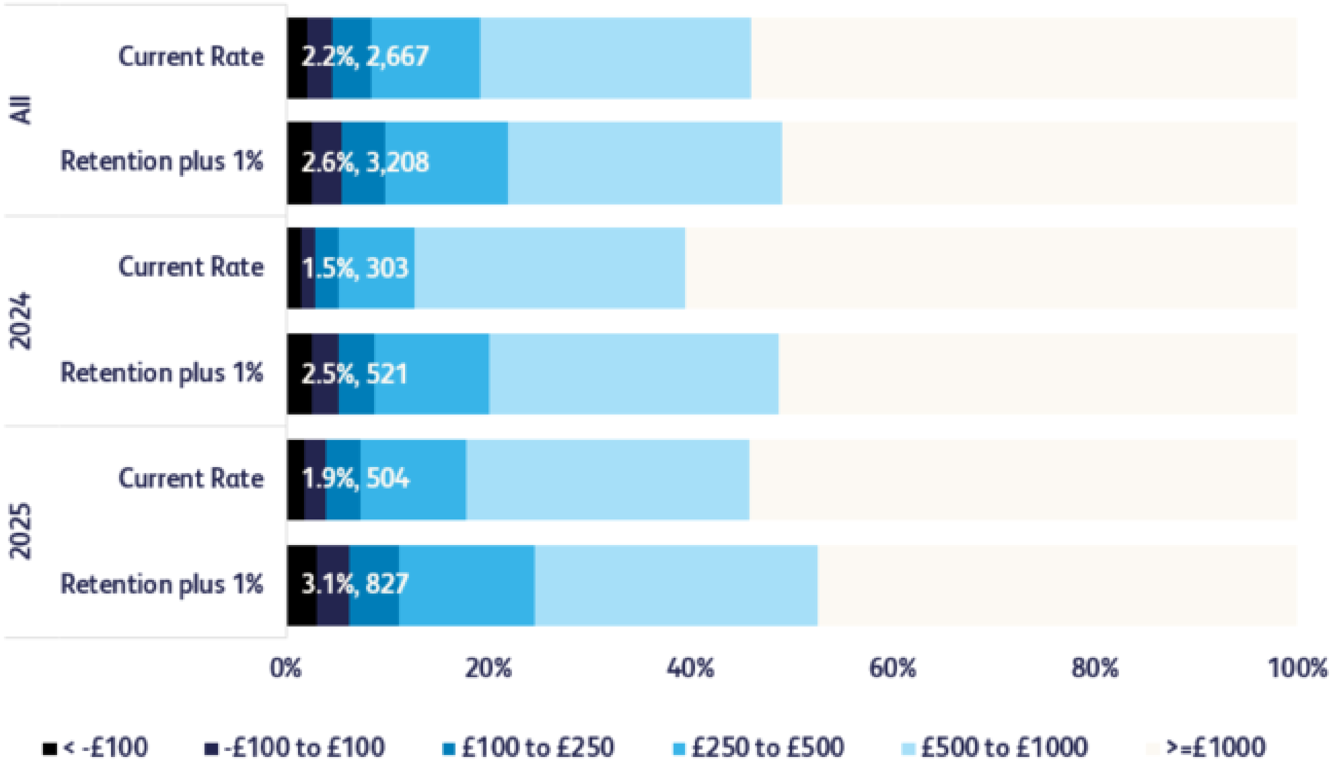
Key risks across 2023 and into 2024 relate to the cost of living crisis impacts on our customer base due to the impact of macroeconomic factors including inflation and interest rates. With unemployment also likely to increase in 2024, the culmination of these factors could lead to an increased number of customers facing financial difficulty or falling into arrears.

Mitigation:

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

To support customers facing financial difficulty, we operate a pre-arrears contact strategy to unsecured and secured customers. 95 % loan-to-value ("LTV") lending has been managed through higher score cut-offs and restricting flats/maisonettes as acceptable collateral. A significant proportion of 95 % LTV applications are also reviewed by the underwriting team.

Whilst the mortgage portfolio is low risk and underpinned by robust credit strategies, the cost of living crisis is impacting everyone across the UK. We have undertaken an updated affordability assessment of our residential secured portfolio to understand the impact of rising cost of living alongside rate increases for customers, in particular the impact on disposable household income for customers holding products maturating in 2024 and 2025. This has enabled us to identify those customers most at risk of falling into a negative disposable income position and therefore needing support. Positively, as the charts below show, the average level of disposable income for the current portfolio is £1,463 per month and 92 % of these customers have a monthly disposable income estimated to be more than £250, based on their current mortgage rate. Applying a rate shock to customers with products maturing in the next 2 years, average disposable income reduces to £1,300 per month. Customers considered "at risk" based on their refreshed net disposable income (less than minus £100) have been profiled compared to those not at risk. Additionally, this analysis is used to inform our expected credit loss ("ECL") judgements and has



incorporated customers who may be showing potential signs of stress into our stage 2 population thereby appropriately capturing the expected financial impact of the affordability shock.

As at year end, the weighted average LTV on the Sainsbury's Bank portfolio is 51.6 % (vs. 55.7 % for Bank). The proportion of Sainsbury's balances with an LTV of 60 % or less stood at 69.9 % (vs. 55.5 % for Bank). The proportion of interest only balances is also comparable, standing at 10.5 % for Sainsbury's Bank (vs. 9.1 % for Bank). There are 16 cases in arrears on the Sainsbury's Bank mortgage book.

The monitoring of the unsecured portfolio is a key risk focus, especially given prevailing macroeconomic conditions. In response to this, we created an unsecured cost of living task force at the start of 2023 to review key components of customer management, arrears strategies and processes to ensure they remain fit for purpose. In addition to this, a suite of new unsecured stress early warning indicators ("EWIs") were developed in order to more closely monitor potential changes to asset quality. Furthermore, our annual affordability calculator refresh has incorporated rising costs into the affordability calculation for new secured and unsecured credit applications.

In relation to climate change risk, the secured portfolio is slightly less exposed to both river/sea and surface flood risk when compared to the UK property market as a whole. In addition, the risk to the secured portfolio from subsidence is also slightly lower than the UK as a whole.

Future focus:

The housing market has slowed in 2023, however there are signs house prices will fall as we go into 2024 and this will be closely monitored. Further, there is a risk that base rate will remain high for longer than forecast, prolonging interest rate strain on customers resulting in them being unable to meet their credit obligations. To date, secured and unsecured assets remain high quality, with the secured portfolio being resilient to higher interest rates as noted above.

SME credit risk

Key themes:

SME customers continue to grapple with persistently high (although falling) inflation rates, elevated interest rates and the need to increase wages. Throughout 2023 a key risk relates to visible tightening on affordability assessments which has been driven by the impacts of COVID-19 and now subsequently the macroeconomic environment. Due to the current climate, there is an increased risk of rising numbers of those entering into financial difficulty and subsequently recoveries.

Throughout 2023 the focus has been on establishing growth within the SME portfolio for new and existing customers, with new money applications coming primarily through broker introductions into the relationship management team.

Mitigation:

Credit risk is managed within an agreed set of risk indicator and appetite measures for each portfolio, monitored through a clearly defined, well embedded RMF, with enhanced and effective controls. All credit delegated lending authorities are approved within a clearly defined credit approval authority framework.

Throughout 2023, we focussed on affordability assessments throughout the loan lifecycle, conducting robust sensitivity analysis at origination to account for high costs and interest rates, and implement customer strategies for those facing financial difficulty. We have enhanced the use of EWIs and pre-arrears strategies to identify and contact 'at risk' customers, making adjustments identified as vulnerable to support the best outcomes.

For SMEs facing financial challenges, we provide tailored forbearance and collections solutions where appropriate, as they navigate the management of their businesses. Our approach to proactive engagement, particularly for recipients of Bounce-Back Loan ("BBLs") scheme and Coronavirus Business Interruption Loan Scheme ("CBILS") facilities has minimised the need for recovery actions. This remains a closely monitored area, given the rising insolvency rates in the UK and potential for stagnant growth, leading to ongoing uncertainty around the longer term viability of SMEs.

Through corporate lending, we consider climate risk qualitatively within our relationship managed portfolio. Climate risk analysis is carried out on a case by case basis at the point of acquisition and upon annual review. Additionally, ethical business screening is undertaken upon origination, and we do not lend to businesses involved in fossil fuels or activity which contradicts our Ethical Policy.

We have identified substantial growth opportunities in the SME portfolio within selected sectors. In 2023, our primary focus has been enhancing the RMF and processes to bolster efficiency and support this future growth strategy. Simultaneously, we maintain vigilant oversight of the existing portfolio aiding customers in rebuilding their businesses post pandemic and addressing challenges associated with the cost of living.

Future focus:

Looking ahead to 2024, our focus will be on closely monitoring SMEs unable to pass on rising costs to their customers and the expanding cohort of government loan scheme customers that have exhausted Pay as You Grow solutions. Early interventions persist to allow flexibility for viable businesses. The resourcing levels of the business support teams are continuously under review to ensure our capacity to meet the escalating challenges in the upcoming year.

Key indicators:

Impairment losses: £0.6m (2022: £6.4m)

Core mortgage accounts >3 months in arrears (by balance): 0.18 % (2022: 0.09 %)

1.8.2 Operational risk

Definition:

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

Operational resilience

Key themes:

Operational resilience is a thematic risk within the RMF and is defined as the risk of the Group suffering operational disruptions arising from the inability to prevent, adapt, respond to, recover and learn from previous events.

Operational resilience events are expected to occur, however our appetite is to have plans in place that mitigate and/or minimise disruptions, ensuring reduced harm to customers, maintaining the safety and soundness of the business and limiting impacts to the wider financial sector. We have no appetite for any breach of regulation in relation to operational resilience and will, at all times, seek to achieve and maintain compliance with all relevant legal and regulatory requirements.

Mitigation:

We have completed a programme of work to identify our important business services ("IBS"), set impact tolerance thresholds for the maximum tolerable levels of disruption to each IBS, map the IBS, complete scenario testing and identify operational resilience vulnerabilities. In 2023 we have made improvements in IBS mapping, enabling easier identification of vulnerabilities requiring remediation. Our approach to scenario testing has also matured in 2023, with testing now considering severe but plausible scenarios which could impact multiple pillars of resilience and multiple IBS at once.

Future focus:

Between now and 31 March 2025 we will focus on remediation of vulnerabilities and continue to manage operational resilience as business-as-usual ("BAU") through completing the aforementioned activity annually. In 2024 it is expected that identified vulnerabilities are remediated and that operational resilience processes are further developed in line with recently updated industry guidance.

We will continue to monitor the effectiveness of operational resilience risk management through RMF activity, dedicated operational resilience reporting in governance, dedicated assurance reviews completed as part of the three lines of defence risk management model and a multi-year scenario testing plan.

Change risk

Key themes:

2023 has seen the continuation of enhanced governance and oversight of business change, namely the Simplification programme to re-platform our mortgages and savings. Failure to deliver these key change projects in a safe and timely manner limit the agility with which we can adapt our products and pricing, alongside requiring us to hold heightened capital requirements as a result of technical debt.

Mitigation:

The 2023 transformation portfolio has delivered a set of initiatives in support of the overall strategy, with a focus on risk remediation, improved customer experience and regulatory compliance.

Through the Simplification programme, we have now seen the successful delivery of our new, in-house mortgage system providing origination and variation capabilities, alongside the insourcing of servicing teams from Capita. This implementation is a step change in our mortgage offering to customers as we can now directly service our own customers and have control over mortgage products, pricing with flexibility and tailoring our offerings to current and potential customers.

As part of the same programme of work, the majority of our savings customers have now been migrated away from legacy IT systems to newly developed Group-owned systems. This initiative has led to the introduction of multiple new savings products since the beginning of the year.

Contributing to the successful delivery of the programme was the significant time and effort invested in oversight and assurance across all three lines of defence. This included executive and Board sub-committee focus applied to the programme, with clear accountability for ownership and delivery. Throughout the year we have continually improved our business change methodology, and the operating financial control framework is demonstrating its effectiveness through a dedicated committee.

Finally, the progress made in the Simplification programme has allowed us to take significant steps to reduce our dependency and exposure to legacy IT systems. This work will continue into 2024, aligning with objectives to meet our risk appetite targets related to technical debt levels (for more information, refer to technical debt below).

Future focus:

In 2024, robust programme monitoring and oversight of key developments will continue across all three lines of defence. Frequent updates on the Group's transformation progress will continue to be provided to the regulators. The completion of Simplification, the mortgage and savings re-platforming and transformation programme, will lead to a significant reduction to the Group's operational risk profile and technical debt exposure. Robust programme monitoring and oversight of key developments has been and will continue to be in place through 2024.

Technical debt

Key themes:

As with many other financial institutions, we are grappling with end-of-life IT systems that provide key services. To reduce the associated risks and minimise the impact of any disruptions, we have devised a strategy to eliminate the highest risk legacy systems and have implemented additional resilience arrangements to safeguard IT services until replacement.

Mitigation:

Various programmes and projects, most notably the Simplification programme will further reduce the level of technical debt. Ongoing investment and monitoring for 2024 is in place to continuously modernise our environment and minimise future technical debt as technologies continue to age.

Future focus:

We anticipate that a significant volume of technical debt will be decommissioned by the end of 2024 through application and server remediation. This will result in a reduction of the associated residual risk to an acceptable level.

Financial crime

Key themes:

We have a zero tolerance for money laundering, terrorism financing or the circumvention of financial sanctions, and will not knowingly do business with or facilitate the activities, individuals or entities that we believe to be engaged in financial crime. We consciously act to reduce the risk that we are exposed to uncontrolled levels of financial crime causing unplanned fraud losses, reduced customer confidence or reputational damage.

Fraud losses continue to be a significant contributing factor to operational losses in 2023 with case volumes for both account takeover ("ATO") and authorised push payments ("APP") increasing.

Mitigation:

Our risk appetite framework sets out a list of high risk activities and customer types with which we will not enter into a relationship with, and action will be taken to terminate any existing relationships, which fall into a prohibited category.

Our financial crime risk policies and standards set out the minimum requirements for mitigating money laundering and fraud risks. We conduct regular financial crime risk assessments to ensure that adequate identification, assessment, mitigation, management and monitoring of all financial crime risks is undertaken across all business activities.

We have delivered various change projects throughout 2023 to enhance our financial crime framework; these included strengthening our AML and sanctions controls, payment-filtering screening and additional fraud controls to ensure we continue protecting customers from fraud throughout 2024.

Future focus:

We continue to invest in improvements to our financial crime systems and controls and this will continue through 2024, with improved monitoring and integration of behavioural biometrics that will improve detection against both APP and ATO fraud. Further to this, we are currently undergoing a proof of concept to implement machine-learning capabilities to augment our existing money laundering transactional monitoring solution.

Finally, our dedicated regulatory risk team monitors industry developments via a fully embedded horizon scanning process, and attends industry-led working groups to ensure a consistent approach to regulatory change is fully understood and aligned to our peers.

Cybercrime

Key themes:

Over the last year, the cyber security threat to the UK has evolved significantly. The National Cyber Security Centre has identified the UK as the third most targeted country for cyberattacks, behind Ukraine and the United States. This has resulted in an increase in the number of firms falling victim to cyber-attacks, with ransomware continuing as a popular attack vector for cyber criminals – causing significant operational, financial and data impacts for targeted organisations. In addition, geo-political cyber threats have emerged as a more significant threat than our previous cyber strategies have considered, and this landscape is evolving at pace following the Russian invasion of Ukraine and concerns around China.

Mitigation:

The Board-approved 2022 cyber security strategy has delivered an intelligence-led approach to managing cyber risk that is aligned to industry standards and independent assessment. Through this, we have been awarded ISO27001 accreditation, one of the industry's most recognised information security standards.

Our 2023 cyber security programme has ensured that we respond effectively to the evolving threat landscape, support the adoption of new technologies. Through the programme, we have significantly developed our cyber maturity, capability and resilience, using industry-recognised frameworks and independent assessment to validate control enhancements and strategic investments.

Additionally, progress in our Simplification programme continues to provide material reductions in our technical debt, in turn reducing our exposures to cyber risks as a result of legacy IT systems.

Future Focus:

With the embedding of the new Chief Information Officer, we will refresh our cyber strategy in 2024 to build on its successes of protecting customers and operations from the ever-evolving cyber threats. The strategy will be informed by external key threats and intelligence, and focus on necessary improvements, identified by internal and independent external assessments, to ensure we keep pace with industry peers.

Third party supplier risk

Key Themes:

We continue to be dependent on suppliers to support or provide key banking services.

Mitigation:

Following the engagement of an external third party, support has been provided in assessing supplier risk management, alignment of our framework to industry best practise and providing guidance on how to deliver further improvements. As a result, a new operating model and associated controls have been implemented with enhancements in place for the risk management of all suppliers. Risk policies and controls standards as part of the RMF have been updated to reflect the new requirements, and any identified gaps will be managed through established monitoring and reporting.

2023 has seen the successful integration of Capita colleagues who now provide mortgage servicing operations in-house. This change ensures that resourcing levels are appropriate to support our customers.

Future focus:

Our focus for 2024 will be on our strategic IT suppliers and reviewing existing contracts and service provision. This will utilise enhancements made to the procurement lifecycle and upskilling of internal capabilities to achieve better outcomes through our commercial partnerships.

Compliance risk

Key themes:

We aim for continuous compliance with all relevant regulatory requirements, promptly remedying any unintentional breaches. Recognising the substantial execution risks associated with regulatory changes, we acknowledge the significant resource demand across the business.

Mitigation:

This year, we demonstrated regulatory compliance with the Financial Conduct Authority's ("FCA") Consumer Duty for open products and services by the implementation date of 31 July 2023. We are on track to implement the duty for closed products and services by 31 July 2024. We assessed policies, procedures and processes of our key customer journeys and have taken steps where necessary to ensure they are in line with the new duty, embedding changes into business-as-usual activities for consistent good customer outcomes.

Future focus:

We are dedicated to regulatory compliance, prioritising the delivery of significant regulatory changes in 2024 and beyond to enhance customer protection and outcomes, and strong financial resilience.

Key changes from the PRA, FCA, His Majesty's Treasury and the Bank of England include:

- regulatory reform – with the 'Edinburgh Reforms' and the Financial Services and Markets Bill, this potentially represents significant change across the regulated financial services industry. We will engage in consultations and discussions with regulators.
- PRA implementation of the Basel 3.1 standards – we are on track to deliver these substantial reforms which will provide a consistent approach and are aligned to international and EU standards. We are engaged on this topic and are working through the capital requirements and

implications.

- Payment Systems Regulator – new reimbursement requirements for victims of APP fraud (including Faster Payments and CHAPS). This will provide consistency for consumers as the industry moves from a voluntary code to mandatory regulations. It will increase consumer protection for authorised transactions which consumers currently receive for unauthorised transactions today.

Conduct and reputational risk

Key themes:

We are committed to delivering good customer outcomes and to avoiding causing material customer harm. We support our customers to make effective, timely and properly informed decisions, acting in good faith, avoiding foreseeable harm and supporting customers to pursue their financial objectives. If harm arises we will take appropriate remedial action where necessary.

As an ethical bank, we welcome higher expectations for customer outcomes set through Consumer Duty. We view Consumer Duty as an opportunity to strengthen and sharpen our conduct frameworks to evidence that we deliver good outcomes for our customers.

Mitigation:

We have continued to react and support our customers' need for forbearance in light of increased cost of living. We proactively signed up and implemented the FCA's Mortgage Charter, and we provide our customers with an appropriate level of care and support through reviewing policies, procedures, lending criteria and oversight through our cost of living working groups. This ensures our customers receive appropriate tailored forbearance that is in their interests and takes account of their individual circumstances. We continue to offer support through an emergency hardship fund in severe circumstances.

We have supported vulnerable customers by becoming one of the founding members of the Experian Support Hub. This is an online platform that allows our customers to share their support needs once to multiple organisations. Further, we have partnered with InterpretersLive! to offer customers access to sign language facilities to communicate with us so we can adequately support those who wish to communicate using British Sign Language.

We continue to invest in digital channels to ensure we treat all customers fairly and allow all customers to access Bank services through their preferred channel. An example of our investment was the award we received by the expert independent organisation Digital Accessibility Centre - AA Web Content Accessibility Guidelines ("WCAG") accreditation. This is an internationally recognised standard for web accessibility. This will support our vulnerable customers and provide information in ways that they can understand and use it. We also recognise the diverse needs of our customers and have maintained commitment to our other channels through our investment into new branches.

We also keep informing and educating our customers to the ever-changing tactics of fraudsters and continue to support the industry-recognised 'Take Five' national campaign.

During a period of increased interest rates, we have adopted a pricing policy where all our savings customers have benefitted from rate rises and ensuring fairness for all customers with a similar product holding. We have actively participated in the FCA Cash Savings Market Review and are in line with industry commitments, and will implement enhancements to our approach to ensure products meet the fair price and value outcome.

In November 2023, the Group received two final decisions from the FOS that partially upheld complaints brought by customers regarding historical changes to the Standard Variable Rate ("SVR") within a closed book of mortgages acquired by the Group as part of its merger with the Britannia Building Society in 2009. In light of these decisions, the Group's Board approved proposals from management to take proactive steps concerning other closed-book SVR mortgage customers, regardless of whether or not they had complained. It was concluded that eligible closed-book SVR customers impacted by the decisions will be partially refunded interest charged historically in line with the Bank's obligations under the FCA's complaint handling rules.

Future focus:

As we achieved the key 31 July 2023 milestone for Consumer Duty (Open Book), investing time in embedding knowledge and processes across the business will ultimately ensure that we remain regulatory compliant. We need to utilise data and management information to ensure we make fully informed decisions to ensure our customers receive good outcomes.

The Cash Savings Market review is the first indication of a change in approach by the regulator following the implementation of Consumer Duty. The review focusses on consumer understanding and price and fair value outcomes.

There is a requirement for banks to act and engage differently, using data and management information to identify customers and communicate with customers in low and lower paying savings accounts and non-interest bearing accounts. This is a more targeted approach by the regulator for banks to take action and act differently to address potential harm where customers are at risk by their inaction.

Key indicators:

Net operational losses: £18.1m (2022: £16.8m)

1.8.3 Capital risk

Definition:

The risk that regulatory capital resources are inadequate to cover regulatory capital requirements.

Key themes:

Risk-weighted assets ("RWAs") at 31 December 2023 total £4.8bn. RWAs reflect risk adjusted assets factoring in PD, LGD and EAD. This calculation is used to derive the Group's capital requirement. Increases in RWAs are driven either by increases in underlying assets or increases in the risk weighting (or density) assigned to these assets. Significant changes in RWAs are typically driven by changes in modelling requirements, for banks that have permission to use the IRB approach. We, alongside other IRB institutions, have faced challenges with respect to the development of our secured IRB models to ensure compliance with PS11/20.

From 1 January 2022, we raised a post model adjustment ("PMA") to reflect the expected impact of PS11/20 on our secured RWAs and expected losses ("EL"), whilst model development remained ongoing. This PMA was revised in December 2022 to reflect progress in the development of compliant models, and has been continuously monitored throughout the year. In 2023, the Group submitted our new secured IRB EAD, LGD, and hybrid PD models to the PRA, with full implementation expected in 2024.

Our capital position is influenced by changes in the wider UK and global economy, with capital risks arising from changes in unemployment, interest rates, inflation, house prices, economic growth and other variables. 2023 has been a year of macroeconomic uncertainty, with the Bank of England continuing to take monetary policy action to return to its mandated inflation target 2% (+/- 1%). Higher interest rates and quantitative tightening have increased funding costs and therefore placed downward pressure on net interest margin, profitability and capital. This action is expected to put pressure on consumer and business affordability, which also drives additional credit risk, with a concurrent impact on RWAs, EL and expected credit loss provisions under IFRS 9. These impacts are being closely monitored across all of our credit portfolios.

Mitigation:

Effective capital risk management is a key priority of the Board and executive team. We closely monitor current and future capital positions across all regulatory frameworks (total capital ratio ("TCR"), MREL and leverage ratio), including capital buffers. Capital management is a key activity across all three lines of defence, with oversight of the strategy and resulting capital impacts being a key priority, alongside regulatory activities. We engage closely with our regulators to ensure they are well informed of actual and expected changes in capital position.

We are well-positioned for the risk of a material deterioration in the macroeconomic environment, with capital available to absorb losses and increases in capital requirements based on the results of our annual stress testing exercise. Capital resources continue to grow organically through ongoing profitability, and we have evidenced our ability to complete capital transactions in recent years, including the issuance of senior Minimum Requirements for Eligible Liabilities ("MREL") qualifying notes in May 2023, and refinancing of our 2019 Tier 2 subordinated notes issuance in November 2023.

Future focus:

In November 2022, the PRA published Consultation Paper 16/22 ("CP16/22"): Implementation of the Basel 3.1 Standards, outlining the PRA's proposed rules and expectations. On 27 September 2023, the PRA announced that it intends to delay implementation of the final Basel 3.1 policies by six months, to 1 July 2025. Basel 3.1 represents the most significant change to the regulatory capital framework since Basel 3 implementation, and a significant amount of activity is required to meet the proposed requirements. On 12 December 2023, the PRA published Policy Statement 17/23 ("PS17/23"), outlining part 1 of its near-final Basel 3.1 standards.

The key changes proposed in CP16/22 and PS17/23 include:

- the transitional implementation of a standardised RWA output floor;
- changes to the standardised approaches to credit risk and operational risk; and
- amendments to IRB approaches, credit risk mitigation ("CRM"), credit valuation adjustment ("CVA") risk, as well as further requirements for disclosures and reporting.

We have completed a full interpretation of the proposed changes outlined in CP16/22, alongside an initial impact assessment, with Board and executive engagement also conducted. An initial comparison of CP16/22 and PS17/23 has been conducted and there are no material changes anticipated between the papers. As at 31 December 2023, we anticipate end-state (1 January 2030) Basel 3.1 requirements to reduce CET1 ratio by 3.7% on a pro-forma basis. We also note that the PRA is yet to publish further guidance on how it intends to adjust the Pillar 2 capital frameworks in the context of Basel 3.1. We intend to explore strategic actions to optimise our balance sheet with respect to the proposed changes under Basel 3.1.

We are cognisant of our dependency on net interest income, particularly generated through mortgage lending. We are exposed to volatility in the mortgage trading environment, with risks to capital arising from the potential income volatility and impacts on profitability and capital resource accrual. Throughout 2024, and with further pressures arising from Basel 3.1, we will continue to explore options available to drive balance sheet and income stream diversification. Alongside Basel 3.1 implementation, we continue to monitor the regulatory environment and understand potential future impact of changes to regulatory capital frameworks. Regulatory changes can have a material impact on our capital position and as such the Bank closely monitors for these changes.

Key indicators:

CET1 Ratio: 20.4 %[1] (2022: 19.8 %)

Total Capital Ratio: 25.3 % (2022: 23.8 %)[1]

Leverage ratio: 4.1 % (2022: 4.0 %)

1.8.4 Model risk

Definition:

Model risk is the potential for adverse consequences caused by models. Model risk can lead to financial loss, regulatory penalties or fines, poor business or strategic decision-making, incorrect financial reporting, damage to a bank's reputation or adverse customer outcomes.

Key themes:

As we have permission to adopt an IRB approach, providing a significant capital benefit to the organisation relative to the standardised approach, we acknowledge an exposure to capital risk implications from regulatory change. In 2023, all secured IRB models have been submitted for PRA review and we are currently awaiting feedback.

The development of second generation IFRS 9 models for unsecured retail assets remains an important priority with notable progress being made for retail credit cards. However, uncertainty in the UK economy has continued to complicate ongoing model assessments.

Multiple work streams have been established to align with the requirements outlined in Supervisory Statement SS1/23 for model risk management ("MRM"), primarily focusing on extending the model framework to incorporate deterministic quantitative methods.

Mitigation:

Throughout 2023, we have maintained an active dialogue with the PRA, adapting our secured models in line with regulatory expectations of PS11/20, leading to the regulatory submissions noted above. Additionally, we maintain an independent second line function to review both new and existing models in a timely manner, with recommendations submitted through model governance as part of approval for model use. A robust IRB attestation is completed annually to ensure our permission is retained.

Assessment of continued suitability of capital requirements for all models, including the paused developments for unsecured retail assets, is performed biannually, to consider any reasons that would suggest a change in position, with PMAs approved as required through model governance committees.

We continue to focus on PMAs for IFRS 9 provisioning to mitigate risks deriving from the economic environment, reflecting concerns to specific sectors and to address model limitations.

Future focus:

In 2024, our focus will be on the implementation of secured hybrid models post PRA approval. Should further remediation be necessary following regulatory feedback, a reassessment to timelines and expected capital requirements will be conducted. Furthermore, the development of our second generation IFRS 9 models will continue, alongside the planned implementation of MRM requirements for Q2 2024.

Key indicators:

N/a

1.8.5 Liquidity and funding risk

Definition:

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

Key themes:

We maintained a strong level of liquidity through 2023. Whilst liquidity coverage ratio ("LCR") reduced, primarily due to Term Funding for Small to Medium-sized Enterprises ("TFSME") repayments of £1.2bn, significant headroom continued to be held against regulatory minimum. We have repaid TFSME funding whilst managing our funding and refinancing position, and remaining funding continues to provide support for our lending activities, funding profile and liquidity resources as we recognise the potential impact of the economic environment and market conditions on customer funds.

We are predominantly customer-funded, with strong retail and SME deposit franchises. Customer behaviour and balances have reflected both cost of living pressures and the higher rate environment, but this has been offset in funding position where we have not been required to compete for more expensive funding.

We have responded to base rate rises by increasing customer rates across deposits (both on sale and

[1] Reported prior to proposed dividends.

closed products), ensuring all customers receive higher interest on their balances.

Wholesale funding comprises secured and unsecured debt programmes as well as participation in the Bank of England TFSME. Wholesale funding activity in 2023 has continued to be limited to MREL and Tier 2 transactions to support our capital resources.

Mitigation:

Liquidity and funding risk is managed primarily with respect to liquidity risk appetite and liquidity coverage ratio. We prepare an annual Internal Liquidity Adequacy Assessment Process ("ILAAP") to ensure that our liquidity risk framework remains appropriate and that we hold sufficient liquidity resources.

We also hold a portfolio of high-quality liquid assets ("HQLA"), alongside contingency funding actions which enable us to raise or preserve liquidity in adverse conditions, and assets available for Bank of England facilities.

Future focus:

Whilst liquidity and funding position continues to be strong, we recognise that cost of living challenges, a higher rate environment and market volatility relating to broader economic, domestic and geopolitical factors may impact the level and cost of liquidity and funding risk in the future. The impact of wholesale market conditions on our liquidity and funding position is limited as we maintain surplus funding, though we recognise the need to refinance TFSME in coming years as well as supporting broader balance sheet strategy. We recognise the potential for uncertainty in customer behaviour as the economic situation evolves, considering such risks in our management of liquidity resources.

Key indicators:

Loan to deposit ratio: 106.4% (2022: 104.1%)

High quality liquid assets ("HQLA"): £4.5bn (2022: £5.9bn)

Liquidity coverage ratio: 211.4% (2022: 265.3%)

1.8.6 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 business model and market risk framework mean that our main exposure to market risk is through potential mismatches in the profiles of customer assets and deposit liabilities. Underlying economic uncertainties and market volatilities have continued to present challenging conditions in which to manage market risk exposures. Market risks associated with fixed term mortgages are a continued area of focus, including pipeline risk and prepayment behaviour. Our acquisition of Sainsbury's Bank's mortgage book has not resulted in a material change to net interest rate risk exposure, and was managed within existing risk appetite. We continue to maintain a structural hedge for current account, non-maturing deposits and other non-interest bearing balances, seeking to provide a natural hedge to mortgage origination and a smoother income profile, while acknowledging the lag effect of investment in a higher rate environment.

Mitigation:

We operate a clear market risk framework, with risk limits in place to monitor and manage exposures and impacts of market movements. We seek to hedge market risks where appropriate, including matching of assets and liabilities, as well as use of derivative instruments (interest rate swaps) to manage remaining exposures. The framework has continued to provide a robust structure, adapted to changing conditions and continued to appropriately manage overall exposure to market risk.

Future focus:

We recognise the potential for further volatility in market conditions, in response to economic, domestic and geopolitical conditions. Customer behaviours in response to economic and market conditions are expected to materialise through prepayment and pipeline risks, deposit levels and mix, as well as potential impacts of the Mortgage Charter. Following a period of rising rates, market risk will likely be influenced by the risk of reducing rates and volatility as the rate environment responds to economic conditions and central bank actions.

The impact of severe events due to changing climate patterns or rapid shifts in climate change-related regulation around the world has the potential to cause sharp adjustments to market prices as well as interest rates and exchange rates. Increased market risk as well as operational risk could also arise as a result of disruption to business services, supply chains and transport links.

Key indicators:

PV01: measures the sensitivity of future cash flows to a one basis point shift in interest rates. See market risk – section 4.2 on page 145.

1.9 Risk profile of the group

This table shows the business activities of each of the divisions of the Group 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)** 19,337.8	**RWAs (£m)** Credit risk: 3,018.4 Operational risk: 452.8
SME	**Business activities:** • Corporate lending including business banking • Deposits to the SME sector	**L&A to customers[1] (£m)** 375.3	**RWAs (£m)** Credit risk: 222.0 Operational risk: 130.4
Legacy and unallocated	**Business activities**: • Closed books of corporate, unsecured and residential (Optimum) lending and all treasury-related activity. Activity relating to bank-wide operations or not associated with a particular segment.	**L&A to customers[1] (£m)** 603.8 **Other assets[2] (£m)** 2,621.2	**RWAs (£m)** Credit risk L&A: 363.9 Non-customer assets[3]: 602.4 Operational risk: (9.2)

1. L&A to customer balances include other accounting adjustments but exclude FVAHR and total £20,316.9m (2022: £20,921.9m) as disclosed in note 14 to the Group and Bank financial statements.
2. Combination of loans and advances to banks, investment securities, derivative financial instruments and other assets.
3. RWAs include central items such as treasury, other assets 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 Group's interpretation of final published rules, including related regulatory Technical Standards.

The strategic report and the 2023 Pillar 3 report provide further detail on the capital risk and common leverage rate disclosures.

3. Credit risk

Credit risk is the risk to profits and capital that arises from a customer's failure to meet their legal and contractual payment 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 (within the UK), and customer segments.

3.1.1 Credit exposure

The Group quantifies its exposure to credit risk via the calculation of expected credit losses (ECLs) on a forward-looking basis for certain financial instruments and exposures related to loan commitments and financial guarantee contracts – further information on the policies adopted in the quantification of the Group's ECLs is outlined in the Explanatory Information section and specific judgements made by the Group (e.g. use of forward-looking information and post-model adjustments) are disclosed in note 2 to the Group and Bank financial statements.

The table below reconciles the Group's drawn and undrawn credit exposures subject to ECL assessment to accounting balances across statutory balance sheet reporting lines:

(audited) 31 December 2023	Loans and advances to banks	Loans and advances to customers	Investment securities	Derivative financial instruments	Other assets	Total
Risk management section	3.2.3	3.2.1	3.2.2	3.2.4	3.2.6	
Note in Group and Bank financial statements	13	14[2]	15	16	17[3]	
Analysis of credit risk exposure						
Gross accounting balances	212.6	20,354.3	2,088.3	309.1	11.2	**22,975.5**
Less: accounting adjustments[1]	-	(68.8)	-	-	-	**(68.8)**
Gross customer balances	212.6	20,285.5	2,088.3	309.1	11.2	**22,906.7**
Credit commitments	-	1,578.6	-	-	-	**1,578.6**
Gross customer exposure	**212.6**	**21,864.1**	**2,088.3**	**309.1**	**11.2**	**24,485.3**
Less customer balances measured at FVTPL[1]	-	(88.1)	(3.3)	(309.1)	-	**(400.5)**
Net customer exposure subject to ECL calculation	**212.6**	**21,776.0**	**2,085.0**	**-**	**11.2**	**24,084.8**
Allowance for losses						
Collectively modelled ECL	-	13.5	-	-	-	**13.5**
Individually assessed ECL	-	2.9	-	-	-	**2.9**
Judgemental adjustment	-	19.7	-	-	-	**19.7**
Operational adjustment	-	1.3	-	-	-	**1.3**
Total ECL	**-**	**37.4**	**-**	**-**	**-**	**37.4**

1. Accounting adjustments include the FV element above the customer balance amount for those loans measured at FVTPL.
2. Excludes fair value adjustments for hedge risk (FVAHR) (£(167.5)m)
3. Excludes equity shares (£12.6m) and prepayments (£24.1m).

(audited) 31 December 2022	Loans and advances to banks	Loans and advances to customers	Investment securities	Derivative financial instruments	Other assets	Total
Risk management section	3.2.3	3.2.1	3.2.2	3.2.4	3.2.6	
Note in Group and Bank financial statements	13	14[2]	15	16	17[3]	
Analysis of credit risk exposure						
Gross accounting balances	387.1	20,962.2	942.7	520.1	14.3	**22,826.4**
Less: accounting adjustments[1]	-	(83.2)	-	-	-	**(83.2)**
Gross customer balances	387.1	20,879.0	942.7	520.1	14.3	**22,743.2**
Credit commitments	-	1,989.1	-	-	-	**1,989.1**
Gross customer exposure	**387.1**	**22,868.1**	**942.7**	**520.1**	**14.3**	**24,732.3**
Less customer balances measured at FVTPL[1]	-	(95.0)	(3.0)	(520.1)	-	**(618.1)**
Net customer exposure subject to ECL calculation	**387.1**	**22,773.1**	**939.7**	**-**	**14.3**	**24,114.2**
Allowance for losses						
Collectively modelled ECL	-	12.0	-	-	0.1	**12.1**
Individually assessed ECL	-	3.7	-	-	-	**3.7**
Judgemental adjustment	-	23.1	-	-	-	**23.1**
Operational adjustment	-	1.5	-	-	0.1	**1.6**
Total ECL	**-**	**40.3**	**-**	**-**	**0.2**	**40.5**

1. Accounting adjustments include the FV element above the customer balance amount for those loans measured at FVTPL.
2. Excludes FVAHR (£(430.7)m)
3. Excludes equity shares (£11.1m) and prepayments (£21.4m).

All exposures except those within loans and advances to customers are categorised as stage 1 (2022: stage 1) and none of these exposures transferred between stages during the year. The exposures within loans and advances to customers are analysed further in the credit risk management section below.

3.2 Credit risk management

3.2.1 Loans and advances to customers

Loans and advances to customers make up the vast majority of the Group's credit risk exposure. These exposures are concentrated within the UK (see section 4 - Market risk for further information on the foreign currency balances) and are managed and reported internally within the following business segments;

- Retail – further categorised into secured residential and unsecured products;
- SME; and
- Legacy and unallocated – primarily legacy corporate loans.

Below is a summary of the exposures within loans and advances to customers analysed by business segment.

(audited) **31 December 2023** Risk management section	Core Retail 3.2.1.1	Core SME 3.2.1.2	Legacy & unallocated 3.2.1.3	Total
Analysis of credit risk exposure				
Gross accounting balances	19,363.9	383.8	606.6	20,354.3
Less: accounting adjustments[1]	(61.0)	(5.4)	(2.4)	(68.8)
Gross customer balances	19,302.9	378.4	604.2	20,285.5
Credit commitments	1,444.9	94.2	39.5	1,578.6
Gross customer exposure	**20,747.8**	**472.6**	**643.7**	**21,864.1**
Less customer balances measured at FVTPL[1]	(1.3)	(1.8)	(85.0)	(88.1)
Net customer exposure subject ECL to calculation	**20,746.5**	**470.8**	**558.7**	**21,776.0**
Allowance for losses				
Collectively modelled ECL	10.9	1.1	1.5	13.5
Individually assessed ECL	-	2.1	0.8	2.9
Judgemental adjustment	15.0	4.5	0.2	19.7
Operational adjustment	0.2	0.8	0.3	1.3
Total ECL	**26.1**	**8.5**	**2.8**	**37.4**

1. Accounting adjustments include the FV element above the customer balance amount for those loans measured at FVTPL.

(audited) **31 December 2022** Risk management section	Core Retail 3.2.1.1	Core SME 3.2.1.2	Legacy & unallocated 3.2.1.3	Total
Analysis of credit risk exposure				
Gross accounting balances	19,918.3	393.2	650.7	20,962.2
Less: accounting adjustments[1]	(77.0)	(5.0)	(1.2)	(83.2)
Gross customer balances	19,841.3	388.2	649.5	20,879.0
Credit commitments	1,826.6	127.5	35.0	1,989.1
Gross customer exposure	**21,667.9**	**515.7**	**684.5**	**22,868.1**
Less customer balances measured at FVTPL[1]	(1.6)	(2.9)	(90.5)	(95.0)
Net customer exposure subject ECL to calculation	**21,666.3**	**512.8**	**594.0**	**22,773.1**
Allowance for losses				
Collectively modelled ECL	9.8	0.8	1.4	12.0
Individually assessed ECL	-	1.3	2.4	3.7
Judgemental adjustment	18.0	4.8	0.3	23.1
Operational adjustment	0.3	1.0	0.2	1.5
Total ECL	**28.1**	**7.9**	**4.3**	**40.3**

1. Accounting adjustments include the FV element above the customer balance amount for those loans measured at FVTPL.

3.2.1.1 Retail - secured residential mortgage and unsecured credit risk

The retail business segment is comprised of two main portfolios:

- Retail secured – predominantly prime residential and buy-to-let (BTL) mortgages; and
- Retail unsecured – comprised of two sub-portfolios of credit cards and overdrafts.

Movement in gross customer exposure and allowance for losses

The tables below reconcile the opening and closing credit risk exposure and allowance for losses by stage (including assets Purchased or Originated Credit Impaired (POCI)). Stage transfers have been disclosed on the basis of the underlying exposure's staging at the beginning and end of the year only (e.g. if a case transferred from stage 1 to stage 2 and then returned to stage 1 during the year, the stage transfer would not be captured in the below).

(audited) Gross customer exposure	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2023	18,103.2	3,453.1	50.8	59.2	**21,666.3**
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	(836.0)	836.0	-	-	**-**
To credit impaired (stage 1 or 2 to 3)	(22.9)	(20.6)	43.5	-	**-**
To 12 month ECL (stage 2 or 3 to 1)	1,673.8	(1,673.8)	-	-	**-**
From credit impaired (stage 3 to 2 or 1)	4.5	4.9	(9.4)	-	**-**
Net changes arising from stage transfers	**819.4**	**(853.5)**	**34.1**	**-**	**-**
Other changes:					
New assets originated or purchased	2,838.1	-	-	0.8	**2,838.9**
Other changes to risk parameters[1]	(566.1)	-	-	-	**(566.1)**
Redemptions and repayments	(2,771.0)	(393.0)	(14.0)	(9.9)	**(3,187.9)**
Net increases/(decreases) in exposure	**320.4**	**(1,246.5)**	**20.1**	**(9.1)**	**(915.1)**
Assets written off	(0.9)	(1.6)	(2.2)	-	**(4.7)**
Gross exposure at 31 December 2023	**18,422.7**	**2,205.0[2]**	**68.7[3]**	**50.1**	**20,746.5**

1. Mainly relates to movements in the mortgage pipeline.
2. Reasons for stage 2 classification, 64 % quantitative SICR triggers (primarily PD deterioration), 2 % qualitative SICR triggers and 34 % staging overide SICR triggers from affordability and.cost of living measures.
3. Of stage 3 balances, 75 % in active default and 25 % in a cure period.

(audited) Gross customer exposure	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2022	20,979.7	501.3	49.5	70.6	**21,601.1**
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	(3,185.9)	3,185.9	-	-	**-**
To credit impaired (stage 1 or 2 to 3)	(18.2)	(9.0)	27.2	-	**-**
To 12 month ECL (stage 2 or 3 to 1)	138.2	(138.2)	-	-	**-**
From credit impaired (stage 3 to 2 or 1)	4.0	3.9	(7.9)	-	**-**
Net changes arising from stage transfers	**(3,061.9)**	**3,042.6**	**19.3**	**-**	**-**
Other changes:					
New assets originated or purchased	3,441.1	-	-	-	**3,441.1**
Other changes to risk parameters	37.2	0.1	0.1	-	**37.4**
Redemptions and repayments	(3,291.5)	(89.7)	(16.3)	(11.3)	**(3,408.8)**
Net increases/(decreases) in exposure	**(2,875.1)**	**2,953.0**	**3.1**	**(11.3)**	**69.7**
Assets written off	(1.4)	(1.2)	(1.8)	(0.1)	**(4.5)**
Gross exposure at 31 December 2022	**18,103.2**	**3,453.1[1]**	**50.8[2]**	**59.2**	**21,666.3**

1. Reasons for stage 2 classification, 44 % quantitative SICR triggers (primarily PD deterioration), 3 % qualitative SICR triggers and 53 % staging override SICR triggers from affordability and.cost of living measures.
2. Of stage 3 balances, 70 % in active default and 30 % in a cure period.

The key changes in gross customer exposure and associated ECL between stages 1 and 2 during the year are broadly driven by the reduction of the PMA focused on specific affordability risks partially offset by the worsening economic impact on the model including lower HPI. Further details can be found in section 2.2.1 Estimation of expected credit losses.

(audited) Allowance for losses	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2023	8.5	15.5	3.9	0.2	**28.1**
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	(0.6)	6.6	-	-	**6.0**
To credit impaired (stage 1 or 2 to 3)	-	(0.4)	2.5	-	**2.1**
To 12 month ECL (stage 2 or 3 to 1)	0.8	(5.3)	-	-	**(4.5)**
From credit impaired (stage 3 to 2 or 1)	-	-	(0.2)	-	**(0.2)**
Net changes arising from stage transfers	**0.2**	**0.9**	**2.3**		**3.4**
Other charges/(releases):					
New assets originated or purchased	1.8	-	-	-	**1.8**
Other changes to risk parameters	(2.7)	1.6	0.2	-	**(0.9)**
Redemptions and repayments	(0.8)	(1.3)	(0.6)	-	**(2.7)**
Net income statement charge/(release)	**(1.5)**	**1.2**	**1.9**	**-**	**1.6**
Assets written off	(0.8)	(1.4)	(1.4)	-	**(3.6)**
Loss allowance at 31 December 2023	**6.2**	**15.3**	**4.4**	**0.2**	**26.1**
Coverage ratio	**0.0.%**	**0.7%**	**6.4%**	**0.4%**	**0.1%**

(audited) Allowance for losses	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2022	19.2	2.2	4.0	0.1	**25.5**
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	(4.7)	13.9	-	-	**9.2**
To credit impaired (stage 1 or 2 to 3)	-	(0.1)	2.2	-	**2.1**
To 12 month ECL (stage 2 or 3 to 1)	-	(0.5)	-	-	**(0.5)**
From credit impaired (stage 3 to 2 or 1)	-	0.1	(0.4)	-	**(0.3)**
Net changes arising from stage transfers	**(4.7)**	**13.4**	**1.8**	**-**	**10.5**
Other charges/(releases):					
New assets originated or purchased	4.6	-		-	**4.6**
Other changes to risk parameters	(6.9)	1.2	0.1	0.1	**(5.5)**
Redemptions and repayments	(2.7)	(0.3)	(0.7)	-	**(3.7)**
Net income statement charge/(release)	**(9.7)**	**14.3**	**1.2**	**0.1**	**5.9**
Assets written off	(1.0)	(1.0)	(1.3)	-	**(3.3)**
Loss allowance at 31 December 2022	**8.5**	**15.5**	**3.9**	**0.2**	**28.1**
Coverage ratio	**0.0%**	**0.4%**	**7.7%**	**0.3%**	**0.1%**

3.2.1.1.1 Retail - secured residential mortgages

The following section provides analysis 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. Under the Group's current business model, the vast majority of new mortgages are originated via intermediaries under the Co-operative Bank for Intermediaries brand. Of the mortgage completions (including ports) in the year to 31 December 2023, 97.7 % (2022: 98.9 %) were originated through intermediaries and 2.3 % (2022: 1.1 %) were further advances or variations associated with historically advanced direct business. Additionally, during the year a mortgage book was acquired from Sainsbury's bank (£0.3bn balance at the year end; with 99 % of the book in stage 1).

The Group primarily advances a combination of prime residential and buy-to-let mortgages. Historically, these loans have been advanced on a capital repayment basis, where the loan is repaid over the term of the loan, or interest-only, where the capital element of the loan is repayable only at the end of the term. All new advances since 2012 are on a capital repayment basis with the exception of BTL lending and existing interest-only loans for customers moving home. However, the Group has recommenced a residential interest-only offering from October 2023, with nil completions in 2023.

All POCI cases are historical (mainly through the Britannia acquisition) and it is not the Group's practice to generate Retail POCI assets.

During the term of the mortgage, interest-only mortgages are managed in the same way as capital repayment mortgages, however the Group has communication strategies in place to remind customers that they must ensure they have a satisfactory repayment plan in place on loan maturity.

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 value of new completions in the year (excluding Sainsbury's Bank), together with associated average LTVs and interest-only percentage is shown below.

(unaudited)	2023			2022		
Origination	Advanced amount	Average LTV %	Interest-only %	Advanced amount	Average LTV %	Interest-only %
Britannia and Co-operative Bank prime	**48.3**	**53.5**	**14.3**	36.4	52.3	2.8
The Co-operative Bank for Intermediaries	**1,918.0**	**67.4**	**-**	2,962.7	72.4	-
Total prime residential	**1,966.3**	**67.1**	**0.4**	2,999.1	72.1	0.1
Buy-to-let	**126.8**	**49.6**	**80.8**	191.3	56.1	69.7
Total completions (including ports)	**2,093.1**	**66.0**	**5.2**	3,190.4	71.2	4.3

The table below shows gross customer balance (including Sainsbury's Bank but excluding commitments) analysed by the number of years after the initial origination.

(audited) Origination by age	2023	2022
<1 year	**2,093.6**	3,190.4
1-4 years	**9,502.7**	9,909.7
4-7 years	**4,887.8**	4,209.0
7+ years	**2,583.5**	2,295.2
Total	**19,067.6**	19,604.3

Portfolio analysis

The following tables show the secured retail residential balances analysed by a number of key risk metrics that the Group uses to monitor its credit risk exposure.

Loan-to-value (LTV) and repayment type

The table shows gross customer balances analysed by indexed LTV bandings and repayment type. The book has declined by £0.5bn over the year alongside HPI movements. The proportion of interest-only mortgages has slightly increased by 0.3 % to 9.1 %, with the majority of interest-only mortgages being buy-to-let.

(audited)	2023			2022		
LTV %	Capital repayment	Interest-only	Total	Capital repayment	Interest-only	Total
Less than 50 %	**6,000.0**	**934.1**	**6,934.1**	6,641.3	1,118.0	7,759.3
50 % to 60 %	**3,197.3**	**484.1**	**3,681.4**	3,508.8	432.4	3,941.2
60 % to 70 %	**3,348.3**	**225.7**	**3,574.0**	3,747.7	160.3	3,908.0
70 % to 80 %	**2,860.2**	**69.4**	**2,929.6**	2,864.8	15.3	2,880.1
80 % to 90 %	**1,478.1**	**10.9**	**1,489.0**	974.8	0.9	975.7
90 % to 100 %	**455.5**	**1.8**	**457.3**	138.9	0.2	139.1
Greater than or equal to 100 %	**1.7**	**0.5**	**2.2**	0.6	0.3	0.9
	17,341.1	**1,726.5**	**19,067.6**	17,876.9	1,727.4	19,604.3

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
2023	**42.2**	**195.2**	**411.1**	**789.7**	**288.3**	**1,726.5**
2022	37.8	210.7	439.9	804.4	234.6	1,727.4

Mortgage type

The table below shows gross customer balances for mortgages analysed by lending type. The decrease in mortgages has been in prime residential mortgages, with buy-to-let stable. There has been an increase in the average LTV with mortgage lending and HPI movements.

(unaudited)	2023			2022		
	Gross customer balance	Average LTV %	Interest only %	Gross customer balance	Average LTV %	Interest only %
Prime residential	**17,644.4**	**56.3**	**3.1**	18,178.2	54.0	3.1
Buy-to-let	**1,396.7**	**49.2**	**82.5**	1,395.2	47.2	81.5
Self-certified	**17.0**	**34.1**	**92.9**	20.4	30.9	92.8
Almost prime	**7.2**	**28.9**	**37.3**	8.5	28.3	35.6
Non-conforming	**2.3**	**45.6**	**80.4**	2.0	47.4	76.1
	19,067.6	**55.7**	**9.1**	19,604.3	53.5	8.8

UK regional distribution

The table below shows the analysis of LTVs and gross customer balances by UK regions (Government Office Regions, was Economic Planning Regions with 2022 re-presented). The London and South East remains the largest regional sector with all LTV's increasing over the year.

(audited)	2023		2022	
	£m	LTV %	£m	LTV %
London & South East	**6,016.3**	**56.4**	6,144.0	53.7
Northern England	**4,430.2**	**56.1**	4,542.9	54.2
Midlands & East Anglia	**5,230.4**	**55.1**	5,430.1	52.9
Wales & South West	**2,316.4**	**54.6**	2,400.5	51.7
Other	**1,074.3**	**56.2**	1,086.8	55.5
	19,067.6	**55.7**	19,604.3	53.5

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 Group's approved panel, or through the use of an Automated Valuation Model (AVM).

The Group 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 Group did not take possession of any of its collateral onto its balance sheet.

The table below analyses the indexed value of property collateral (capped at 100 % of LTV) held against the retail residential secured book.

(audited)	2023				2022			
IFRS 9 stage	Gross customer exposure	Collateral	Cover %	Loss allowance	Gross customer exposure	Collateral	Cover %	Loss allowance
Stage 1	**17,259.0**	**17,259.0**	**100.0**	**4.4**	16,897.3	16,897.3	100.0	5.7
Stage 2	**2,161.1**	**2,161.0**	**100.0**	**11.8**	3,406.5	3,406.3	100.0	10.6
Stage 3	**64.3**	**64.3**	**100.0**	**0.7**	46.4	46.4	100.0	0.2
POCI	**47.6**	**47.6**	**100.0**	**0.1**	56.4	56.4	100.0	-
	19,532.0	**19,531.9**	**100.0**	**17.0**	20,406.6	20,406.4	100.0	16.5

Risk grade (PDs)
The table below analyses the credit risk exposure by PD of retail secured mortgages. All PDs are calculated using the Internal Ratings Based (IRB) approach under CRD IV (12-month PDs). The risk distribution has reduced between the periods with the vast majority of the book with a grade under 1 %.

(audited) 2023 - Credit grade	Stage 1	Stage 2	Stage 3	POCI	Total
≤ 0.04 %	-	-	-	-	**-**
> 0.04 % ≤ 0.07 %	7,865.3	259.6	0.1	10.7	**8,135.7**
> 0.07 % ≤ 0.31 %	277.6	12.3	-	2.7	**292.6**
> 0.31 % ≤ 1.00 %	8,875.5	1,378.0	1.4	24.7	**10,279.6**
> 1.00 % ≤ 3.00 %	216.9	362.7	0.9	2.0	**582.5**
> 3.00 % ≤ 15.32 %	10.3	85.1	0.5	2.2	**98.1**
> 15.32 % ≤ 100.00 %	13.2	63.2	16.3	3.5	**96.2**
= 100.00 %	0.2	0.2	45.1	1.8	**47.3**
Gross customer exposure	**17,259.0**	**2,161.1**	**64.3**	**47.6**	**19,532.0**
Less: allowance for losses	(4.4)	(11.8)	(0.7)	(0.1)	**(17.0)**
Net customer exposure	**17,254.6**	**2,149.3**	**63.6**	**47.5**	**19,515.0**

(audited) 2022 - Credit grade	Stage 1	Stage 2	Stage 3	POCI	Total
≤ 0.04 %	-	-	-	-	-
> 0.04 % ≤ 0.07 %	8,355.5	649.2	0.6	13.5	9,018.8
> 0.07 % ≤ 0.31 %	292.8	9.7	-	4.4	306.9
> 0.31 % ≤ 1.00 %	8,055.5	2,314.2	1.4	31.0	10,402.1
> 1.00 % ≤ 3.00 %	169.3	330.3	1.3	1.4	502.3
> 3.00 % ≤ 15.32 %	3.6	70.5	0.4	1.6	76.1
> 15.32 % ≤ 100.00 %	20.6	32.6	10.9	2.1	66.2
= 100.00 %	-	-	31.8	2.4	34.2
Gross customer exposure	16,897.3	3,406.5	46.4	56.4	20,406.6
Less: allowance for losses	(5.7)	(10.6)	(0.2)	-	(16.5)
Net customer exposure	16,891.6	3,395.9	46.2	56.4	20,390.1

Forbearance
Forbearance is when a lender, 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. Forbearance facilities may be made to customers in arrears or financial difficulty or those unable to meet outstanding financial commitments to the Group. The identification of financial difficulty is a key part of the forbearance process – customers may be identified as potentially in financial difficulty through various customer contact points and can be confirmed through more thorough financial assessment.

The table below analyses secured residential mortgage balances by type of forbearance and the associated loss allowance.

(unaudited) 2023 Forbearance category	Stage 1	Stage 2	Stage 3	POCI	Total	Allowance for losses
Concessions	34.0	24.3	27.2	1.0	**86.5**	**0.6**
Arrangements	5.6	8.2	9.2	1.5	**24.5**	**0.5**
Term extension	0.1	-	0.4	-	**0.5**	**-**
I/O capitalisation/switch	0.2	0.3	0.4	0.3	**1.2**	**-**
Term expired	-	-	3.4	-	**3.4**	**-**
Payment deferral	3.6	1.4	-	0.2	**5.2**	**-**
Deceased grace period	0.5	0.3	6.7	-	**7.5**	**-**
Total forborne balances	**44.0**	**34.5**	**47.3**	**3.0**	**128.8**	**1.1**

(unaudited) 2022 Forbearance category	Stage 1	Stage 2	Stage 3	POCI	Total	Allowance for losses
Concessions	31.2	17.7	16.5	1.3	66.7	0.2
Arrangements	2.6	5.3	7.0	1.6	16.5	0.1
Term extension	0.1	-	0.5	-	0.6	-
I/O capitalisation/switch	0.8	0.2	0.6	-	1.6	-
Term expired	-	-	3.5	0.3	3.8	-
Payment deferral	2.6	2.6	-	0.2	5.4	-
Deceased grace period	0.3	0.5	5.7	-	6.5	-
Total forborne balances	37.6	26.3	33.8	3.4	101.1	0.3

3.2.1.1.2 Retail - unsecured

The retail unsecured book comprises 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. The gross customer exposure represents the Group's maximum exposure to credit risk on these assets. Total drawn balances have seen a minimal reduction over the year alongside the undrawn exposure.

(audited)	Gross customer balance		Gross customer exposure		Allowance for losses	
	2023	2022	2023	2022	2023	2022
Credit cards	**223.6**	225.4	**1,033.9**	1,074.7	**5.2**	7.5
Overdrafts	**11.7**	11.6	**180.6**	185.0	**3.9**	4.1
	235.3	237.0	**1,214.5**	1,259.7	**9.1**	11.6

Risk grade (PD)

The table below analyses the credit risk exposure by PD of retail unsecured products. All PDs are calculated using the Internal Ratings Based (IRB) approach under CRD IV (12-month PDs). The majority of the book is in grades under 1 %.

(audited) 2023 Credit grade	Stage 1	Stage 2	Stage 3	POCI	Total
≤ 0.04 %	127.7	0.8	-	-	**128.5**
> 0.04 % ≤ 0.07 %	80.5	0.1	-	-	**80.6**
> 0.07 % ≤ 0.12 %	-	-	-	-	**-**
> 0.12 % ≤ 0.31 %	689.2	2.2	-	0.1	**691.5**
> 0.31 % ≤ 0.50 %	123.5	3.4	-	0.5	**127.4**
> 0.50 % ≤ 1.00 %	12.6	0.9	-	-	**13.5**
> 1.00 % ≤ 5.00 %	96.4	9.1	-	1.0	**106.5**
> 5.00 % ≤ 10.00 %	2.7	1.2	-	-	**3.9**
> 10.00 % ≤ 20.00 %	30.8	25.2	-	0.9	**56.9**
> 20.00 % ≤ 50.00 %	0.3	0.5	-	-	**0.8**
> 50.00 % < 100.00 %	-	0.5	-	-	**0.5**
100.00 %	-	-	4.4	-	**4.4**
Gross customer exposure	**1,163.7**	**43.9**	**4.4**	**2.5**	**1,214.5**
Less: allowance for losses	(1.8)	(3.5)	(3.7)	(0.1)	**(9.1)**
Net customer exposure	**1,161.9**	**40.4**	**0.7**	**2.4**	**1,205.4**

(audited) 2022 Credit grade	Stage 1	Stage 2	Stage 3	POCI	Total
≤ 0.04 %	132.8	0.7	-	-	133.5
> 0.04 % ≤ 0.07 %	91.9	0.1	-	-	92.0
> 0.07 % ≤ 0.12 %	-	-	-	-	-
> 0.12 % ≤ 0.31 %	719.7	2.1	-	-	721.8
> 0.31 % ≤ 0.50 %	122.9	3.6	-	0.5	127.0
> 0.50 % ≤ 1.00 %	11.6	0.8	-	-	12.4
> 1.00 % ≤ 5.00 %	93.7	11.3	-	1.2	106.2
> 5.00 % ≤ 10.00 %	2.4	1.0	-	-	3.4
> 10.00 % ≤ 20.00 %	30.6	25.8	-	1.1	57.5
> 20.00 % ≤ 50.00 %	0.3	0.6	-	-	0.9
> 50.00 % < 100.00 %	-	0.6	-	-	0.6
100.00 %	-	-	4.4	-	4.4
Gross exposure	1,205.9	46.6	4.4	2.8	1,259.7
Less: allowance for losses	(2.8)	(4.9)	(3.7)	(0.2)	(11.6)
Net exposure	1,203.1	41.7	0.7	2.6	1,248.1

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 facility, 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.

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.

The table below analyses unsecured facility balances by forbearance type and the associated gross allowance for losses coverage.

(unaudited) 2023 Forbearance category	Stage 1	Stage 2	Stage 3	POCI	Total	Allowance for losses
Arrangements	-	0.1	0.4	-	**0.5**	**0.4**
Hardship	-	0.1	0.8	-	**0.9**	**0.8**
Temporary reducing overdraft	0.2	0.2	0.9	-	**1.3**	**0.6**
Total forborne exposures	0.2	0.4	2.1	-	**2.7**	**1.8**

(unaudited) 2022 Forbearance category	Stage 1	Stage 2	Stage 3	POCI	Total	Allowance for losses
Arrangements	0.1	0.2	0.1	-	0.4	0.1
Hardship	-	0.1	0.7	-	0.8	0.7
Temporary reducing overdraft	0.2	0.2	0.9	-	1.3	0.6
Total forborne exposures	0.3	0.5	1.7	-	2.5	1.4

3.2.1.2 SME credit risk

The SME segment comprises business loans that are considered core to the operation of the Group. There have not been significant movements in gross customer exposure and allowance for losses over the year.

The tables below reconcile the opening and closing credit risk exposure and allowance for losses by stage. Stage transfers have been disclosed on the basis of the underlying exposure's staging at the beginning and end of the year only (e.g. if a case transferred from stage 1 to stage 2 and then returned to stage 1 during the year, the stage transfer would not be captured in the below).

(audited) **Gross customer exposure – SME**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
At 1 January 2023	262.2	232.4	17.1	1.1	**512.8**
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	(30.5)	30.5	-	-	**-**
To credit impaired (stage 1 or 2 to 3)	(4.9)	(8.6)	13.5	-	**-**
To 12 month ECL (stage 2 or 3 to 1)	2.7	(2.7)	-	-	**-**
From credit impaired (stage 3 to 2 or 1)	0.2	1.3	(1.5)	-	**-**
Net changes arising from stage transfers	**(32.5)**	**20.5**	**12.0**	**-**	**-**
Other changes:					
New assets originated or purchased	90.5	-	-	-	**90.5**
Other changes to risk parameters	-	-	-	-	**-**
Redemptions and repayments	(68.7)	(53.6)	(8.0)	-	**(130.3)**
Net increases/(decreases) in exposure	**(10.7)**	**(33.1)**	**4.0**	**-**	**(39.8)**
Assets written off	-	(0.2)	(2.0)	-	**(2.2)**
Gross exposure at 31 December 2023	**251.5**	**199.1**[1]	**19.1**[2]	**1.1**	**470.8**

1. Reasons for stage 2 classification: 90 % 'at risk sector' staging overlay, 8 % backstop SICR triggers and 2 % quantitative SICR triggers.
2. Of stage 3 balances, 100 % in active default.

(audited) **Gross customer exposure – SME**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
At 1 January 2022	114.5	411.4	3.9	1.2	**531.0**
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	(37.7)	37.7	-	-	**-**
To credit impaired (stage 1 or 2 to 3)	(1.1)	(12.8)	13.9	-	**-**
To 12 month ECL (stage 2 or 3 to 1)	113.9	(113.9)	-	-	**-**
From credit impaired (stage 3 to 2 or 1)	-	0.1	(0.1)	-	**-**
Net changes arising from stage transfers	**75.1**	**(88.9)**	**13.8**	**-**	**-**
Other changes:					
New assets originated or purchased	136.8	-	-	-	**136.8**
Other changes to risk parameters	-	-	-	(0.1)	**(0.1)**
Redemptions and repayments	(64.1)	(89.8)	(0.4)	-	**(154.3)**
Net increases/(decreases) in exposure	**147.8**	**(178.7)**	**13.4**	**(0.1)**	**(17.6)**
Assets written off	(0.1)	(0.3)	(0.2)	-	**(0.6)**
Gross exposure at 31 December 2022	**262.2**	**232.4**[1]	**17.1**[1]	**1.1**	**512.8**

1. Reasons for stage 2 classification: 96 % 'at risk sector' staging overlay, 3 % backstop SICR triggers and 1 % quantitative SICR triggers.
2. Of stage 3 balances, 100 % in active default.

There have been no significant movements in exposures between the stages over the year. Balances have declined as Bounce Back loans have continued to be re-paid.

(audited) Allowance for losses – SME	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2023	1.3	5.3	1.3	-	**7.9**
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	(0.2)	0.7	-	-	**0.5**
To credit impaired (stage 1 or 2 to 3)	-	(0.2)	1.6	-	**1.4**
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	**(0.2)**	**0.5**	**1.6**	**-**	**1.9**
Other charges/(releases):					
New assets originated or purchased	0.8	-	-	-	**0.8**
Other changes to risk parameters	(0.1)	(0.1)	-	0.1	**(0.1)**
Redemptions and repayments	(0.2)	(0.8)	-	-	**(1.0)**
Net income statement charge/(release)	**0.3**	**(0.4)**	**1.6**	**0.1**	**1.6**
Assets written off	-	(0.1)	(0.9)	-	**(1.0)**
Loss allowance at 31 December 2023	**1.6**	**4.8**	**2.0**	**0.1**	**8.5**
Coverage ratio	**0.6%**	**2.4%**	**10.5%**	**9.1%**	**1.8%**

(audited) Allowance for losses – SME	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2022	0.4	4.2	1.6	0.5	6.7
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	(0.1)	1.2	-	-	1.1
To credit impaired (stage 1 or 2 to 3)	-	(0.1)	0.3	-	0.2
To 12 month ECL (stage 2 or 3 to 1)	0.7	(0.8)	-	-	(0.1)
From credit impaired (stage 3 to 2 or 1)	-	-	-	-	-
Net changes arising from stage transfers	0.6	0.3	0.3	-	1.2
Other charges/(releases):					
New assets originated or purchased	0.4	-	-	-	0.4
Other changes to risk parameters	0.2	1.7	(0.3)	(0.5)	1.1
Redemptions and repayments	(0.1)	(0.7)	-	-	(0.8)
Net income statement charge/(release)	1.1	1.3	-	(0.5)	1.9
Assets written off	(0.2)	(0.2)	(0.3)	-	(0.7)
Loss allowance at 31 December 2022	1.3	5.3	1.3	-	7.9
Coverage ratio	0.5 %	2.3 %	7.6 %	-	1.5 %

Origination and account management

At origination the sector based key credit criteria detail the requirements that must be met by the majority of borrowers. Exceptions to that are monitored via a key risk indicator. The Bank operates a strict policy with regards to reporting single name concentrations.

There are a number of triggers which, when met, will result in the customer being classed as watchlist, and classed as higher risk or default and will be subject to closer monitoring. These triggers include: payments past due, cash flow pressures, the need for temporary tailored support, insolvency, or other signs of financial distress.

Portfolio analysis

Lending sectors

The following table shows the Group's SME lending exposures by industry sector. The gross customer exposure represents the Group's maximum exposure to credit risk on these assets and excludes the principal element of loans measured at FVTPL of £1.8m (2022: £2.9m).

(audited)	2023		2022	
Split by industry	Gross customer exposure	of which CBILS/Bounce-Back loans	Gross customer exposure	of which CBILS/Bounce-Back loans
Business banking	**152.7**	**120.8**	200.9	168.1
Commercial real estate	**112.7**	**1.4**	98.4	1.9
Food/hotel	**41.2**	**11.4**	32.2	13.6
Retail/wholesale	**37.2**	**4.1**	40.1	6.9
Care	**18.6**	**8.7**	17.3	8.9
Charities	**13.5**	**2.2**	14.6	2.4
Education	**11.7**	**3.7**	9.0	4.1
Renewable energy	**6.4**	**-**	7.9	-
Financial/legal	**4.0**	**0.4**	14.2	0.5
Housing association	**2.2**	**-**	1.7	-
Other	**70.6**	**15.8**	76.5	22.3
	470.8	**168.5**	512.8	228.7

Loan-to-value (LTV) and repayment type

The table shows gross customer exposure analysed by indexed LTV bandings, Coronavirus Business Interruption Loan Scheme (CBILS) and BBLs and other unsecured. Excludes fair value assets.

(audited) LTV %	2023	2022
≤50 % LTV	**114.6**	111.2
>50 % ≤ 80 % LTV	**98.3**	70.2
>80 % ≤ 100 % LTV	**7.4**	10.0
>100 % LTV	**34.9**	39.0
Secured	**255.2**	230.4
CBILS & Bounce-Back loans	**168.5**	228.7
Unsecured	**47.1**	53.7
Gross customer exposure	**470.8**	512.8

Collateral

Various forms of collateral are used to mitigate the Group's exposure to credit risk. These can vary depending on the lend type and include property collateral, debentures (England and Wales), floating charges (Scotland), cash cover and personal guarantees. Government guarantees apply to the CBILS and BBLs books (80 % and 100 % respectively).

Property valuations are obtained when the facility is first approved. Thereafter the Group's lending procedures require collateral values to be reviewed annually to assess whether a material change has occurred. As a minimum a property must be revalued no less than every five years; or more frequently where a customer's facilities exceed £2.5m (when a maximum 3 yearly revaluation is required) and when lending exposures are considered to be higher risk (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 syndicated lending arrangements, multi-party facility letters may preclude revaluations at the customer's expense of all the assets as frequently as this and a decision is required by all syndicate lenders as to whether they wish to cover the cost if more frequent updates are required.

The table below analyses the market value of the property collateral (capped at 100 % of LTV) held against assets across all sectors. As noted above the Group also has non-property collateral to utilise.

(audited)	2023				2022			
IFRS 9 stage	Gross customer exposure	Collateral	Cover %	Loss allowance	Gross customer exposure	Collateral	Cover %	Loss allowance
Stage 1	**159.2**	**156.2**	**98.1**	**0.9**	131.0	125.9	96.1	0.3
Stage 2	**90.8**	**90.1**	**99.2**	**1.4**	95.6	94.1	98.4	1.5
Stage 3	**4.1**	**3.5**	**85.4**	**0.5**	2.7	2.0	74.1	0.8
POCI	**1.1**	**1.1**	**100.0**	**0.1**	1.1	1.1	100.0	-
	255.2	**250.9**	**98.3**	**2.9**	230.4	223.1	96.8	2.6

Risk grade
The table below analyses the credit risk exposure by credit grade of SME customers.

(audited) 2023 - Credit grade	Stage 1	Stage 2	Stage 3	POCI	Total
Standardised	179.3	165.2	1.2	-	**345.7**
Internal Ratings Based (IRB)	1.1	-	-	-	**1.1**
Strong	-	-	-	-	**-**
Good	69.7	29.1	-	-	**98.8**
Satisfactory	1.4	3.6	-	-	**5.0**
Weak	-	-	-	1.1	**1.1**
Default	-	1.2	17.9	-	**19.1**
Gross customer exposure	**251.5**	**199.1**	**19.1**	**1.1**	**470.8**
Less: allowance for losses	(1.6)	(4.8)	(2.0)	(0.1)	**(8.5)**
Net customer exposure	**249.9**	**194.3**	**17.1**	**1.0**	**462.3**

(audited) 2022 - Credit grade	Stage 1	Stage 2	Stage 3	POCI	Total
Standardised	217.8	188.4	-	-	406.2
Internal Ratings Based (IRB)	1.2	-	-	-	1.2
Strong	-	-	-	-	-
Good	42.5	41.7	-	-	84.2
Satisfactory	0.5	0.8	-	-	1.3
Weak	-	0.6	-	1.1	1.7
Default	0.2	0.9	17.1	-	18.2
Gross customer exposure	262.2	232.4	17.1	1.1	512.8
Less: allowance for losses	(1.3)	(5.3)	(1.3)	-	(7.9)
Net customer exposure	260.9	227.1	15.8	1.1	504.9

Forbearance
Forbearance may be made to customers who are in financial difficulty. The identification of financial difficulty may occur either through the use of early warning indicator reporting or various customer contact points and will be confirmed through more thorough financial assessment.

The table below analyses gross customer exposures subject to forbearance.

(unaudited) 2023 Forbearance category	Stage 1	Stage 2	Stage 3	POCI	Total	Allowance for losses
Forborne exposure	0.1	2.5	6.4	-	**9.0**	**0.6**

(unaudited) 2022 Forbearance category	Stage 1	Stage 2	Stage 3	POCI	Total	Allowance for losses
Forborne exposure	2.2	3.1	8.4	-	13.7	0.6

3.2.1.3 Legacy risk

The legacy portfolio consists of books which the Group no longer considers to be part of its core operations. These include the following closed portfolios:

- Corporate – primarily long-term, low-margin sectors such as registered social landlords (RSLs) and private finance initiatives (PFI). These are considered to be low-risk in nature.
- Unsecured – the Group's closed personal loan book.
- Optimum – the Group's legacy sub-prime and self-certification mortgage book.

Movement in gross customer exposure and allowance for losses

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 2023	568.2	6.5	12.6	6.7	**594.0**
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	(14.3)	14.3	-	-	**-**
To credit impaired (stage 1 or 2 to 3)	(0.1)	(0.2)	0.3	-	**-**
To 12 month ECL (stage 2 or 3 to 1)	0.4	(0.4)	-	-	**-**
From credit impaired (stage 3 to 2 or 1)	-	-	-	-	**-**
Net changes arising from stage transfers	**(14.0)**	**13.7**	**0.3**	**-**	**-**
Other changes:					
New assets originated or purchased	-	-	-	-	**-**
Other changes to risk parameters	(0.2)	-	-	-	**(0.2)**
Redemptions and repayments	(28.8)	(2.7)	(1.9)	(1.2)	**(34.6)**
Net increases/(decreases) in exposure	**(43.0)**	**11.0**	**(1.6)**	**(1.2)**	**(34.8)**
Assets written off	-	-	(0.3)	(0.2)	**(0.5)**
Gross exposure at 31 December 2023	**525.2**	**17.5**[1]	**10.7**[2]	**5.3**	**558.7**

1. Reasons for stage 2 classification: 89 % quantitative triggers (primarily PD deterioration) and 11 % 'at risk sector' staging overlay.
2. Of stage 3 balances, 100 % in active default.

(audited) Gross customer exposure – Legacy	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2022	732.7	10.2	14.2	7.9	765.0
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	(1.5)	1.5	-	-	-
To credit impaired (stage 1 or 2 to 3)	(0.3)	(0.3)	0.6	-	-
To 12 month ECL (stage 2 or 3 to 1)	0.5	(0.5)	-	-	-
From credit impaired (stage 3 to 2 or 1)	-	-	-	-	-
Net changes arising from stage transfers	(1.3)	0.7	0.6	-	-
Other changes:					
New assets originated or purchased	-	-	-	-	-
Other changes to risk parameters	(6.1)	(0.8)	(0.4)	-	(7.3)
Redemptions and repayments	(157.1)	(3.6)	(0.6)	(1.1)	(162.4)
Net increases/(decreases) in exposure	(164.5)	(3.7)	(0.4)	(1.1)	(169.7)
Assets written off	-	-	(1.2)	(0.1)	(1.3)
Gross exposure at 31 December 2022	568.2	6.5[1]	12.6[2]	6.7	594.0

1. Reasons for stage 2 classification: 72 % 'at risk sector' staging overlay, 19 % quantitative triggers (primarily PD deterioration) and 9 % qualitative SICR triggers.
2. Of stage 3 balances, 98 % in active default and 2 % in a cure period.

(audited) Allowance for losses – Legacy	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2023	1.4	0.1	2.7	0.1	**4.3**
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)	-	-	-	-	**-**
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	**-**	**0.4**	**-**	**-**	**0.4**
Other charges/(releases):					
New assets originated or purchased	-	-	-	-	**-**
Other changes to risk parameters	(0.2)	0.1	(1.5)	-	**(1.6)**
Redemptions and repayments	(0.2)	-	-	-	**(0.2)**
Net income statement charge/(release)	**(0.4)**	**0.5**	**(1.5)**	**-**	**(1.4)**
Assets written off	-	-	(0.1)	-	**(0.1)**
Loss allowance at 31 December 2023	**1.0**	**0.6**	**1.1**	**0.1**	**2.8**

(audited) Allowance for losses – Legacy	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2022	1.6	0.4	1.3	-	3.3
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)	-	(0.1)	-	-	(0.1)
From credit impaired (stage 3 to 2 or 1)	-	-	-	-	-
Net changes arising from stage transfers	-	(0.2)	-	-	(0.2)
Other charges/(releases):					
New assets originated or purchased	-	-	-	-	-
Other changes to risk parameters	0.1	-	1.6	0.1	1.8
Redemptions and repayments	(0.3)	(0.1)	-	-	(0.4)
Net income statement charge/(release)	(0.2)	(0.3)	1.6	0.1	1.2
Assets written off	-	-	(0.2)	-	(0.2)
Loss allowance at 31 December 2022	1.4	0.1	2.7	0.1	4.3

Origination and account management
The Legacy book is comprised of only closed books with no further loans being advanced. The books are risk managed in the same way as the core retail and SME books described in section 3.2.1.1 and 3.2.1.2.

Portfolio analysis
The following table shows the Group's legacy customer balances, gross exposures and loss allowance by broad asset class. The gross customer exposure represents the Group's maximum exposure to credit risk on these assets.

(audited)	Gross customer balance		Gross customer exposure		Allowance for losses	
	2023	2022	2023	2022	2023	2022
Corporate – PFI	**333.7**	347.9	**372.5**	381.9	**2.1**	3.4
Corporate – RSL	**238.7**	257.1	**238.7**	257.1	**0.1**	0.1
Corporate – other	**15.7**	25.3	**16.4**	26.3	**0.1**	0.2
Corporate – total	**588.1**	630.3	**627.6**	665.3	**2.3**	3.7
Less FVTPL	**(85.0)**	(90.5)	**(85.0)**	(90.5)	**-**	-
Corporate – total	**503.1**	539.8	**542.6**	574.8	**2.3**	3.7
Unsecured – personal loans	**0.5**	1.1	**0.5**	1.1	**0.1**	0.1
Secured – Optimum	**15.6**	18.1	**15.6**	18.1	**0.4**	0.5
	519.2	559.0	**558.7**	594.0	**2.8**	4.3

Collateral
The use of collateral to mitigate credit risk exposure for the legacy corporate and Optimum books is similar in approach to the core SME and retail secured books respectively. These exclude the corporate deals held at fair value with collateral capped at 100 % of LTV.

(audited)	2023				2022			
IFRS 9 stage	Gross customer exposure	Collateral	Cover %	Loss allowance	Gross customer exposure	Collateral	Cover %	Loss allowance
Corporate								
Stage 1	**292.4**	**272.4**	**93.2**	**0.2**	311.2	290.9	93.5	0.3
Stage 2	**1.8**	**1.8**	**100.0**	**0.1**	3.7	3.7	100.0	-
Stage 3	**-**	**-**	**-**	**-**	-	-	-	-
POCI	**-**	**-**	**-**	**-**	-	-	-	-
	294.2	**274.2**	**93.2**	**0.3**	314.9	294.6	93.6	0.3
Optimum								
Stage 1	**5.8**	**5.8**	**100.0**	**-**	7.3	7.3	100.0	0.1
Stage 2	**2.8**	**2.8**	**100.0**	**-**	2.0	2.0	100.0	0.1
Stage 3	**1.7**	**1.7**	**100.0**	**0.3**	2.1	2.0	95.2	0.2
POCI	**5.3**	**5.3**	**100.0**	**0.1**	6.7	6.7	100.0	0.1
	15.6	**15.6**	**100.0**	**0.4**	18.1	18.0	99.4	0.5
	309.8	**289.8**	**93.5**	**0.7**	333.0	312.6	93.9	0.8

Risk grade
The table below analyses the credit risk exposure by credit grade of legacy corporate lending. The credit grades for legacy unsecured and Optimum assets has not been disclosed on the grounds of materiality.

(audited) 2023- Credit grade	Stage 1	Stage 2	Stage 3	POCI	Total
Standardised	4.5	-	-	-	**4.5**
IRB	191.3	-	-	-	**191.3**
Strong	308.5	-	-	-	**308.5**
Good	14.9	1.8	-	-	**16.7**
Satisfactory	-	-	-	-	**-**
Weak	-	12.7	-	-	**12.7**
Default	-	-	8.9	-	**8.9**
Gross customer exposure	**519.2**	**14.5**	**8.9**	**-**	**542.6**
Less: allowance for losses	(1.0)	(0.5)	(0.8)	-	**(2.3)**
Net customer exposure	**518.2**	**14.0**	**8.1**	**-**	**540.3**

(audited) 2022 Credit grade	Stage 1	Stage 2	Stage 3	POCI	Total
Standardised	10.6	0.4	-	-	11.0
IRB	206.5	-	-	-	206.5
Strong	327.5	-	-	-	327.5
Good	15.6	3.8	-	-	19.4
Satisfactory	-	-	-	-	-
Weak	-	-	-	-	-
Default	-	-	10.4	-	10.4
Gross customer exposure	560.2	4.2	10.4	-	574.8
Less: allowance for losses	(1.3)	-	(2.4)	-	(3.7)
Net customer exposure	558.9	4.2	8.0	-	571.1

Forbearance

The table below analyses gross customer exposures subject to forbearance. The overall increase reflects the current macro-economic climate.

(unaudited) 2023 Forbearance category	Stage 1	Stage 2	Stage 3	POCI	Total	Allowance for losses
Corporate forbearance	-	12.0	8.9	-	**20.9**	**1.3**
Retail unsecured forbearance	-	-	-	-	**-**	**-**
Optimum forbearance	-	-	1.0	1.7	**2.7**	**0.1**
Total forborne exposures	-	12.0	9.9	1.7	**23.6**	**1.4**

(unaudited) 2022 Forbearance category	Stage 1	Stage 2	Stage 3	POCI	Total	Allowance for losses
Corporate forbearance	-	-	10.4	-	10.4	2.4
Retail unsecured forbearance	-	-	0.1	-	0.1	-
Optimum forbearance	-	-	1.5	1.4	2.9	0.1
Total forborne exposures	-	-	12.0	1.4	13.4	2.5

3.2.2 Investment securities credit risk

No allowance for losses has been recognised for investment securities in either 2023 or 2022. All are classified as low-to-medium risk and within stage 1 (2022: stage 1). The Group 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, section 1.3.j.ii.

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 Group or one of its subsidiaries, a third-party issued Prime MBS or a AAA-rated Covered Bond; are accepted as collateral. The Group has documented procedures 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

The Group has applied the low credit risk exemption available within IFRS 9 to treasury assets with an external rating of investment grade. 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 2023 or 2022. These exposures are 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 2023, the majority of new derivative transactions continued to be cleared through a central clearing counterparty. In accordance with IFRS 13, an immaterial net credit value adjustment was recorded (31 December 2022: immaterial) in relation to non-collateralised swaps.

The exposure for the ECL calculation is nil as the balance sheet is all measured through FVTPL.

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 BoE account for 66% (2022: 82%) of all treasury exposures. The remaining exposures are split 2% (2022: 1%) to residential mortgage-backed securities, 21% (2022: 10%) to financial institutions and 11% (2022: 7%) to non-domestic sovereign and qualifying multi-lateral development bank bonds. No allowance for losses has been recognised in either 2023 or 2022.

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 weekly for appropriate risk status bandings and any associated management actions, whilst exposures are monitored daily to ensure appropriate oversight of trading activity within agreed counterparty limits. As at 31 December 2023, there were no red (highest-risk) exposures outstanding (2022: £nil).

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 an immaterial provision, at the end of 2023 (2022: £0.2m). The exposures are currently considered to be of low risk.

4. Market risk

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

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 Group does not have a trading book, the main sources of market risk include: fixed rate mortgages and savings products, the Group'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 Group's ICR requirement.

The main market risk measure utilised by the Group 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 based swaps. 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 in 2023, interest rate risk when expressed in terms of PV01 averaged £(37)k during 2023 with a lowest of £(108)k and a largest of £83k (2022: £(50)k / £(86)k / £8k respectively). The Group-wide market risk position was managed to a short asset position ahead of the year end, with total net sensitivity across the Group's balance sheet reflected in a total PV01 of £83k (2022: £8k).

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	2023	2022
Total PV01 (£k)	**83**	8
Average PV01 for the year (£k)	**(37)**	(50)
Largest short asset PV01 for the year (£k)	**83**	8
Longest long asset PV01 for the year (£k)	**(108)**	(86)
Average basis risk (£m)	**1.7**	3.4
Swap spread PV01 (£k)	**(620)**	(414)
Average swap spread PV01 (£k)	**(528)**	(606)
FX notional (£m)	**(0.6)**	(0.5)
Average FX notional (£m)	**(0.5)**	(0.5)

Interest rate risk

Sensitivity of the Group'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 (NIBBs), other non-rate sensitive deposits (Retail demand deposits), 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.

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 SONIA, base, and administered rates. BoE 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 position primarily reflects the net SONIA-base rate exposure.

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 2023 reflecting the portfolio size and composition in terms of security type and duration.

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 with only 0.1 % (2022: 0.1 %) of the assets being in a mix of Euro, US dollars or other foreign currency. The assets comprise loans to banks and the unlisted equity shares. The foreign currency liabilities are immaterial.

At 31 December 2023, the Group's open currency position was £(0.5)m (2022: £(0.5)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 Group's shareholding of Visa B series preferred stock. A 10 % increase in the value of equity shares at 31 December 2023 would equate to an increase of £1.3m (2022: £1.1m). 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.

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.	In the Group's mortgage macro fair value hedge, 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.
	Interest rate risk on non-interest bearing current accounts and equity.	In the Group's NIBBs macro fair value hedge, macro hedge accounting is similarly used to recognise fair value changes related to changes in net interest rate risk in non-interest bearing current accounts 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.

Interest rate risk on fixed rate mortgages and customer deposits (macro fair value hedge)

The Group is exposed to interest rate risk on non- interest bearing (primarily current accounts) due to changes in SONIA. The interest rate risk is managed by entering into pay float/receive fixed interest rate swaps, held in a layered portfolio (the 'layer approach'). The hedging strategy is in line with the requirements of the UK-endorsed version of IAS 39 'Financial Instruments: Recognition and Measurement', which unlike the version issued by the IASB does not prohibit hedging customer deposits and its associated effectiveness testing using a layer approach in a macro fair value hedge. The effectiveness of the hedging relationship is tested both at inception and throughout its life and if at any point it is concluded that it is no longer highly effective in achieving its documented objective, hedge accounting is discontinued.

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.

The hedging relationship is established prospectively 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 hundred basis point move in the underlying yield curves.

A prospective test for the portfolio is performed at each month end for future designation. 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 retired its macro cash flow hedge on 31 December 2020, replacing it with the NIBBs macro fair value hedge referred to above. The remaining swap was de-designated from the cash flow hedge and re-designated to the new NIBBs macro fair value hedge at its inception. The cash flow hedge reserve is amortised through net interest income over the remaining life of the swaps.

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) 2023	Maturity 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	**-**	**-**	**10.0**	**216.8**	**384.6**	**611.4**
Average fixed interest rate	**-**	**-**	**5.16%**	**2.37%**	**3.08%**	

(audited) 2022	Maturity 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	-	-	-	234.0	278.8	512.8
Average fixed interest rate	-	-	-	1.41 %	1.40 %	

The following tables show details of the hedging instruments used by the Group.

(audited) 2023	Carrying amount Notional	Assets	Liabilities	Balance sheet line items	Changes in fair value used for calculating hedge ineffectiveness
Fair value hedges (interest rate risk)					
Interest rate swaps	8,419.2	279.5	83.3	Derivative financial instruments	164.7
Cash flow hedges					
Interest rate swaps	-	-	-	Derivative financial instruments	-

(audited) 2022	Carrying amount Notional	Assets	Liabilities	Balance sheet line items	Changes in fair value used for calculating hedge ineffectiveness
Fair value hedges (interest rate risk)					
Interest rate swaps	8,300.4	468.4	58.7	Derivative financial instruments	392.2
Cash flow hedges					
Interest rate swaps	-	-	-	Derivative financial instruments	-

The following table contains details of the hedged exposures covered by the Group's hedging strategies.

(audited)	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
2023								
Fair value hedges (interest rate risk)								
Fixed rate mortgages	4,000.4	-	(167.5)	-	Loans and advances to customers	241.9	N/A	N/A
Fixed rate bonds	319.4	-	(7.4)	-	Investment securities – FVOCI	16.3	N/A	N/A
Fixed rate bonds	-	-	-	-	Debt securities in issue	-	N/A	N/A
Fixed rate bonds	-	-	-	-	Other borrowed funds	(5.0)	N/A	N/A
Fixed rate gilts	527.4	-	(19.8)	-	Investment securities – FVOCI	11.1	N/A	N/A
NIBBS	-	3,856.8	-	(18.7)	Customer accounts	(41.0)		
Cash flow hedges (interest rate risk)								
Floating rate mortgages	-	-	-	-	Loans and advances to customers	-	N/A	(7.5)

(audited)	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
2022								
Macro fair value hedges (interest rate risk)								
Fixed rate mortgages	5,907.8	-	(430.7)	-	Loans and advances to customers	(277.1)	N/A	N/A
Fixed rate bonds	133.6	-	(23.7)	-	Investment securities – FVOCI	(18.9)	N/A	N/A
Fixed rate bonds	-	-	-	-	Debt securities in issue	-	N/A	N/A
Fixed rate bonds	-	-	-	-	Other borrowed funds	-	N/A	N/A
Fixed rate gilts	152.6	-	(30.9)	-	Investment securities – FVOCI	(18.0)	N/A	N/A
NIBBs	-	4,407.6	-	(34.6)	Customer Accounts	27.1	N/A	N/A
Cash flow hedges (interest rate risk)								
Floating rate mortgages	-	-	-	-	Loans and advances to customers	-	N/A	(14.8)

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 £(5.7)m (2022: £(51.7)m).

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) 2023	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
NIBBs	N/A	(2.6)		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	(0.4)	Other operating (expense)/income net	N/A	N/A	N/A
Cash flow hedges (interest rate risk)						
Floating rate mortgages	-	-	Other operating (expense)/income net	N/A	-	Net interest income on financial instruments not in a hedging relationship (drip of terminated IRS)

(audited) 2022	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	(1.2)	Other operating (expense)/income net	N/A	N/A	N/A
NIBBs	N/A	(0.4)		N/A	N/A	N/A
Micro fair value						
Fixed rate bonds	N/A	0.1	Other operating (expense)/income net	N/A	N/A	N/A
Fixed rate gilts	N/A	0.2	Other operating (expense)/income net	N/A	N/A	N/A
Cash flow hedges (interest rate risk)						
Floating rate mortgages	-	-	Other operating (expense)/income net	N/A	-	Net interest income on financial instruments not in a hedging relationship (drip of terminated IRS)

(audited)	2023	2022
Cash flow hedge reserve as at 1 January	**10.6**	14.7
Net changes in fair value recognised directly in equity	-	-
Transfers from equity to income or expense	(7.2)	(6.9)
Income tax	2.0	2.8
Cash flow hedge reserve as at 31 December	**5.4**	10.6

4.4 LIBOR transition

The Group has exposure to legacy LIBOR-linked products, only across its legacy retail secured portfolio. LIBOR was phased out at the end of 2021, and the work to transition the Group's affected exposures to appropriate replacement rates now been materially completed.

During the year, the Group successfully transitioned the majority of its remaining retail secured and all of its corporate LIBOR exposures to replacement rates. The remaining residual exposures summarised in the below table will transition to replacement rates in early 2024. The carrying amounts of financial assets are presented gross of any expected credit losses (ECLs).

	31 December 2023			31 December 2022		
	Non-derivatives		Derivatives	Non-derivatives		Derivatives
	Financial assets Carrying value	Financial liabilities Carrying value	Financial assets Carrying value	Financial assets Carrying value	Financial liabilities Carrying value	Financial assets Carrying value
GBP LIBOR	0.3	-	-	105.9	-	68.7

The Group also has responsibility for the migration of certain legacy LIBOR retail secured assets sold to unconsolidated structured entities or other third parties but where it continues to hold legal title. The gross outstanding balances of these LIBOR assets not recognised on the Group's balance sheet are £125.0m (2022: £142.6m) – all remaining exposures will transition to replacement rates in early 2024.

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 Bank manages liquidity and funding risk through a mature and comprehensive risk framework, which includes a clearly defined risk appetite, policy, limit structure and monitoring, stress testing and governance.

The Bank aims to ensure that it maintains, at all times, sufficient liquidity resources to meet obligations as they fall due, in normal and stressed conditions. Liquidity resources should be appropriate in both quantum and composition to support this objective. This is achieved through a framework of forecasting and stress-testing of cashflows, setting and monitoring against appropriate risk limits supported by metrics including encumbrance, concentration risk, funding and risk profiles.

The Board is responsible for setting liquidity and funding risk appetite. The Asset and Liability Committee (ALCo), chaired by the CFO, oversees the management of liquidity and funding risk within this defined appetite. The Bank's liquidity and funding risk frameworks are owned by Treasury and overseen by an independent second line risk team. Day-to-day management of the liquidity buffer and wholesale funding management is performed by the Bank's Treasury Markets function. The Bank operates a 3 lines of defence model, with Internal Audit providing further independent challenge, oversight and assurance of liquidity management.

Management of the liquid asset buffer is centralised in the Treasury function, which also includes wholesale funding operations. Broader management of funding and liquidity includes contributions from across the Bank, including finance, products, risk oversight and internal audit.

The Bank's liquidity position is monitored on a daily basis, including a suite of liquidity EWIs (supporting the Liquidity Contingency Plan (LCP)). Formal governance of the full suite of liquidity reporting is prepared on a monthly basis and reported to ALCo, with escalation to EROC and Risk Committee. Liquidity reporting is maintained in line with the requirements of the Bank's L&F Control Standard which ensures appropriate controls are in place to meet the objectives of the Policy.

Liquidity and Funding Risk is managed in line with the Bank's Liquidity Risk Appetite and Liquidity and Funding policy which is owned by Treasury. These ensure the Bank maintains appropriate liquidity resources to meet anticipated outflows on a business as usual and stressed basis, as well as meeting the regulatory Liquidity Coverage Ratio. Additional limits are set to manage the composition of the liquid asset buffer, to ensure it is high-quality and appropriately diversified.

The Bank's LCP, part of the wider recovery plan framework, is approved on an annual basis, and is tested regularly. The LCP establishes early warning indicators to identify and monitor a liquidity stress, escalation and governance requirements, and actions that could be considered to preserve or raise incremental liquidity to ensure sufficient liquidity is maintained to meet stressed cashflows.

Stress and sensitivity testing is a core component of the Bank's liquidity and funding risk management framework. The Bank monitors its liquidity position against internally defined stress scenarios, including as a minimum market-wide, Bank-specific and combined stress tests, measured across appropriate time horizons. Stress testing assesses the appropriateness of the Bank's liquid asset buffer as well as contingency action capacity. Stress testing results are reported to ALCo, who approve changes to the stress testing framework, ahead of Board approval as part of the ILAAP.

The Bank's Board ensures through its annual review and approval of risk appetite, risk appetite measures and limits and ILAAP, that material liquidity risks continue to be appropriately identified, quantified (including stress testing), monitored and managed.

The Bank's liquidity risk appetite and liquidity risk framework aims to ensure the Bank maintains sufficient liquidity resources at all times to meet cashflows as they fall due, in normal and stressed conditions. This is monitored against the Bank's internal stress scenarios, where a Combined stress typically represents the most severe requirement. In addition the Bank's risk appetite aims to always maintain a level of liquid assets to exceed the minimum regulatory Liquidity Coverage Ratio requirements, including any applicable Pillar 2 add-ons, and a Net Stable Funding Ratio exceeding the minimum regulatory requirement.

5.2 Liquidity risk metrics

The Group monitors a suite of liquidity metrics which includes the following:

(unaudited) Metric	2023	2022	
LCR	211.4 %	265.3 %	• Represents a surplus to regulatory minima of 100 % • Aligns to the risk strategy to maintain a prudent liquidity position • Pillar 1 12 month rolling average (as reported in Pillar 3).
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	132.5 %	137.4 %	• Based on current interpretation of requirements and guidance
Customer loan/deposit ratio	106.4 %	104.1 %	• Ratio of customer loans (excluding credit commitments) to customer deposits
Encumbrance ratio	26.8 %	30.0 %	• According to the 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 tables are presented in the Pillar 3 disclosures (AE1-AE4). The year end asset encumbrance ratio is 23.5 % (2022: 30.2 %).

5.3 Liquid asset portfolios

Total liquidity resources as at 31 December 2023 were £6,112.5m (2022: £7,482.5m). 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 and other high-quality government bonds (all are eligible under regulations (High-Quality Liquid Assets)).

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	2023	2022
Operational balances with central banks	2,489.3	5,045.3
Gilts	341.3	24.0
Central government and multilateral development bank bonds	1,232.0	517.6
Total primary liquid assets	**4,062.6**	**5,586.9**
Other liquid assets	162.3	248.1
Contingent liquidity	1,887.6	1,647.5
Total secondary liquid assets	**2,049.9**	**1,895.6**
Total liquidity	**6,112.5**	**7,482.5**
Average balance	6,311.7	7,738.1

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. 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, repos (including BoE indexed long-term repo) and BoE TFSME drawings, as summarised in the table below.

(unaudited) Wholesale funding	2023	2022
Subordinated debt	**892.6**	646.9
Secured funding	**4,051.0**	5,419.1
Repos	**53.4**	31.8
	4,997.0	6,097.8

The wholesale funding position has seen a reduction following the part repayment of the BoE TFSME funding partially offset by further MREL debt issuance in 2023. Gilt repos make up £51.4m of total repo funding. The following table sets out contractual wholesale funding by maturity, with the maturity based on call dates. Silk Road Finance Number Six plc MBS was repaid in 2023, with Silk Road Finance Number Five plc MBS due for repayment in 2024. 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	2023	2022
Repayable in less than 1 month	**108.4**	68.8
Repayable between 1 and 3 months	**-**	0.2
Repayable between 3 and 6 months	**47.2**	8.8
Repayable between 6 and 9 months	**-**	181.9
Repayable between 9 and 12 months	**745.5**	-
Repayable between 1 and 2 years	**3,189.0**	2,148.1
Repayable between 2 and 5 years	**906.9**	3,690.0
Repayable in more than 5 years	**-**	
	4,997.0	6,097.8

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 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) 2023 – 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	2,708.3	2,708.3	2,708.3	-	-	-	-	-	-	-
Loans and advances to banks[1]	212.6	222.1	156.4	19.1	0.5	0.5	0.5	1.9	5.7	37.5
Loans and advances to customers	20,316.9	43,281.2	393.7	251.6	375.4	384.9	394.1	1,659.1	6,008.5	33,813.9
Investment securities	2,088.3	4,482.3	224.8	204.1	360.1	223.4	273.3	1,041.4	1,433.6	721.6
Derivative financial instruments	309.1	428.2	30.7	43.4	43.0	39.7	37.6	126.6	79.2	28.0
Other assets	436.1	-	-	-	-	-	-	-	-	-
Total recognised assets	**26,071.3**	**51,122.1**	**3,513.9**	**518.2**	**779.0**	**648.5**	**705.5**	**2,829.0**	**7,527.0**	**34,601.0**

(audited) 2023 – 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	4,288.9	4,654.2	311.5	35.3	53.8	54.4	599.1	3,321.2	278.9	-
Customer accounts[2]	19,233.8	19,304.4	17,469.0	138.7	366.8	384.5	324.1	465.2	156.1	-
Debt securities in issue	-	-	-	-	-	-	-	-	-	-
Derivative financial instruments	110.3	(88.0)	5.3	0.3	2.0	(1.6)	(3.1)	(15.4)	(33.4)	(42.1)
Other borrowed funds	891.2	1,127.8	-	-	76.0	-	237.8	57.5	756.5	-
Lease liabilities	30.1	39.6	0.1	1.7	1.4	1.3	1.2	4.7	10.7	18.5
Other liabilities	108.0	-	-	-	-	-	-	-	-	-
Total recognised liabilities	**24,662.3**	**25,038.0**	**17,785.9**	**176.0**	**500.0**	**438.6**	**1,159.1**	**3,833.2**	**1,168.8**	**(23.6)**
Unrecognised loan commitments[3]	1,578.6	1,578.6	1,578.6	-	-	-	-	-	-	-
Total liabilities	**26,240.9**	**26,616.6**	**19,364.5**	**176.0**	**500.0**	**438.6**	**1,159.1**	**3,833.2**	**1,168.8**	**(23.6)**

(audited) 2022 – 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	5,270.4	5,270.4	5,270.4	-	-	-	-	-	-	-
Loans and advances to banks[1]	387.1	393.0	281.3	68.4	0.3	0.3	0.3	1.2	3.7	37.5
Loans and advances to customers	20,921.9	35,410.3	356.5	222.8	345.6	355.6	362.0	1,473.5	4,948.3	27,346.0
Investment securities	942.7	1,119.3	2.6	51.8	14.9	26.9	26.8	88.7	545.7	361.9
Derivative financial instruments	520.1	464.0	29.0	43.5	48.7	41.5	32.0	99.0	122.2	48.1
Other assets	90.6	-	-	-	-	-	-	-	-	-
Total recognised assets	**28,132.8**	**42,657.0**	**5,939.8**	**386.5**	**409.5**	**424.3**	**421.1**	**1,662.4**	**5,619.9**	**27,793.5**

(audited) 2022 – 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	5,683.4	6,042.2	495.9	23.7	36.2	36.6	37.0	1,885.3	3,527.5	-
Customer accounts[2]	20,107.3	20,118.0	18,554.4	93.7	417.1	365.9	221.9	334.8	130.2	-
Debt securities in issue	181.9	188.1	0.7	1.4	2.1	183.9	-	-	-	-
Derivative financial instruments	103.5	105.5	7.1	9.1	12.5	12.2	8.0	20.8	20.9	14.9
Other borrowed funds	646.9	767.0	-	-	26.0	-	26.0	442.5	272.5	-
Lease liabilities	31.0	39.8	-	1.5	1.4	1.4	1.4	5.1	11.0	18.0
Other liabilities	79.8	-	-	-	-	-	-	-	-	-
Total recognised liabilities	**26,833.8**	**27,260.6**	**19,058.1**	**129.4**	**495.3**	**600.0**	**294.3**	**2,688.5**	**3,962.1**	**32.9**
Unrecognised loan commitments[3]	1,989.1	1,989.1	1,989.1	-	-	-	-	-	-	-
Total liabilities	**28,822.9**	**29,249.7**	**21,047.2**	**129.4**	**495.3**	**600.0**	**294.3**	**2,688.5**	**3,962.1**	**32.9**

1. Loans and advances to banks with a contractual maturity of over 5 years includes £37.5m (2022: £37.5m) in the Pace escrow account. Refer to note 28 to the Group and Bank consolidated financial statements for more information.
2. The carrying value of customer accounts for the Bank is £19,234.4m (2022: £20,107.9m) and the gross nominal flow is £19,305.0m (2022: £20,118.6m). The additional £0.6m (2022: £0.6m) is within the less than 1 month band. All other balances and timing bands are consistent with the Group.
3. 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) 2023	Gross amount[1]	Master netting arrangements	Financial collateral[2]	Net amount
Financial assets				
Derivative financial instruments	309.1	(101.0)	(183.3)	24.8
Total financial assets	**309.1**	**(101.0)**	**(183.3)**	**24.8**
Financial liabilities				
Derivative financial instruments	110.3	(101.0)	(8.1)	1.2
Sale and repurchase agreements	53.4	-	(53.4)	-
Total financial liabilities	**163.7**	**(101.0)**	**(61.5)**	**1.2**

(unaudited) 2022	Gross amount[1]	Master netting arrangements	Financial collateral[2]	Net amount
Financial assets				
Derivative financial instruments	520.1	(69.5)	(437.6)	13.0
Total financial assets	520.1	(69.5)	(437.6)	13.0
Financial liabilities				
Derivative financial instruments	103.5	(69.5)	(31.7)	2.3
Sale and repurchase agreements	31.8	-	(31.8)	-
Total financial liabilities	135.3	(69.5)	(63.5)	2.3

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

Ethical then, now and always

Opinion

In our opinion:

- the financial statements of The Co-operative Bank p.l.c (the "Bank Company") and its subsidiaries (together the "Bank") give a true and fair view of the state of the Bank's and of the Bank Company's affairs as at 31 December 2023 and of the Bank's profit for the year then ended;
- the Bank financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the Bank Company financial statements have been properly prepared in accordance with UK adopted international accounting standards 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.

We have audited the financial statements (as defined in the table below) of the Bank Company and the Bank for the year ended 31 December 2023, which comprise:

Bank	Bank Company
Consolidated balance sheet as at 31 December 2023	Balance sheet as at 31 December 2023
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	Statement of cashflows for the year then ended
Consolidated statement of changes in equity for the year then ended	Related notes 1 to 26 to the Bank Company financial statements (except for the columns marked as "unaudited" in Note 30 of the Group and Bank financial statements, which are referenced in Note 22 of the Bank Company financial statements), including material accounting policy information, including those disclosed within the explanatory information on pages 281 to 290
Consolidated statement of cash flows for the year then ended	
Related notes 1 to 36 to the financial statements, (except for the columns marked as "unaudited" in Note 30), including material accounting policy information, including those disclosed within the explanatory information on pages 281 to 290	
Tables within the Directors' Report on remuneration to the shareholder identified as "audited" on pages 107 to 110 and information in the risk management section of the Business Review, identified as "audited" on pages 126 to 156	

The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards 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 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 the following procedures:

- We confirmed our understanding of the Directors' going concern assessment process, including the Financial Statement Close Process, and the process by which the Financial Plan is created and approved. We engaged with Management early to ensure all key factors that we considered to be material were considered in the Bank's going concern assessment.
- We obtained Management's Board approved Financial Plan covering the period of Management's going concern assessment to 30 June 2025. Management has modelled stress scenarios to the financial plans to incorporate unexpected changes to the forecasted profitability and liquidity.
- We evaluated the relevance and reliability of the underlying data used in the financial plan which supports the going concern assessment, and tested assumptions to third party evidence, where appropriate.
- Using our understanding of the business, we evaluated the approach adopted by the Directors in assessing going concern, including considering plausible alternative downside scenarios, and concluded that the approach adopted was reasonable.
- We used our internal valuation specialists to test the mathematical accuracy of the financial forecasting models used to develop the Financial Plan.
- We reconciled the Bank's capital and liquidity position to its regulatory reporting returns and challenged the assumptions within the Bank's capital and liquidity forecasts over the going concern period, considering the Bank's current position and availability of additional capital and liquidity should it be required. We also evaluated the Bank's ability to replace maturing debt instruments over the going concern period to manage capital and buffer requirements. We challenged the Bank's ability to refinance £996m of TFSME funding over the going concern period through customer deposit growth and liquidity wholesale actions and considered the Bank's ability to make TFSME repayments under stressed scenarios.
- We evaluated Management's plans for future actions within the control of the Bank and Bank Company to maintain a surplus to binding regulatory requirements over the going concern period in order to determine if such actions are feasible in the current circumstances.
- 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.
- We considered Management's assessment of the impact on the going concern assessment of entering into exclusivity discussions with Coventry Building Society (as describe within accounting policies on page 193). We note that these discussions are currently at a preliminary stage and there is no guarantee that these discussions will result in any potential transaction.
- We considered whether the disclosures (as described within accounting policies on page 193 of the Group and Bank 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 2025.

The Bank retains headroom to its binding liquidity and capital requirements over the going concern period and we therefore do not consider that these requirements give rise to a material uncertainty.

We have concluded that the Bank's forecasts and expected outcome over the going concern period are reasonable.

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 the period to 30 June 2025.

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 or Bank Company'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 the Bank Company
Key audit matters	• Credit impairment provisions • Valuation of the deferred tax asset relating to the Bank's future profitability • Completeness and valuation of conduct risk provisions • Valuation of the defined benefit pension scheme surplus in the Britannia pension scheme • 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 which represents 0.9 % of Bank equity (2022: £13.0m representing 1.0 % of Bank equity).

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.

Climate change
Stakeholders are increasingly interested in how climate change will impact the Bank and the Bank Company. The Bank and Bank Company has determined that the most significant future impacts from climate change on their operations will be from physical and transition risks. These are explained on pages 43 to 54 in the required Task Force for Climate related Financial Disclosures. Within these disclosures the Bank also explains that climate change has been established as a "thematic risk" holistically across the Risk Management Framework and integrated through the Group's principal risks, which are disclosed on pages 116 to 125. All of these disclosures form part of the "Other Information", rather than the audited financial statements. Our procedures on these unaudited disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated, in line with our responsibilities on "Other Information".

In planning and performing our audit we assessed the potential impacts of climate change on the Bank's and Bank Company's business to determine whether they had a material impact on the financial statements.

The Bank and Bank Company have explained in Note 1.2 within the Basis of Preparation how they have reflected the impact of climate change in their financial statements. Note 1.2 explains that where forward-looking information is relied on in preparing the financial statements, the Bank and Bank Company have given due consideration, where appropriate and quantifiable, to potential future impacts of climate-related risk. The Bank recognises that governmental and societal responses to climate change risks are still developing and thus their ultimate impacts on the Bank and the Bank Company are inherently uncertain and cannot be fully known. In Note 2.2.1.c to the financial statements supplementary narrative explanations of the impact of reasonably possible changes in key assumptions and estimates related to climate risk have been provided and significant judgements and estimates relating to climate change have been described.

Our audit effort in considering the impact of climate change on the financial statements was focused on evaluating management's assessment of the impact of climate risk, physical and transition, their climate commitments, the effects of material climate risks disclosed on pages 43 to 54 and the significant judgements and estimates disclosed in Note 2 and whether these have been appropriately reflected the financial statements, following the requirements of UK adopted international accounting standards. As part of this evaluation, we performed our own risk assessment, supported by our climate change internal specialists, to determine the risks of material misstatement in the financial statements from climate change which needed to be considered in our audit.

We also challenged the Directors' considerations of climate change risks in their assessment of going concern and associated disclosures. Where considerations of climate change were relevant to our assessment of going concern, these are described above.

Based on our work we have considered the impact of climate change on the financial statements to principally impact the Credit Impairment Provisions key audit matter. Details of our procedures and findings are included in our Credit Impairment Provisions key audit matter below.

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 82); Accounting policies (page 286); and Note 14 of the Bank Consolidated Financial Statements (page 208).* At 31 December 2023, the Bank reported total gross loans and advances to customers of £20,354.3m (2022: £20,962.2m) and credit impairment provisions of £37.4m (2022: £40.3m). The determination of expected credit losses ("ECL") continues to be highly subjective and judgemental. Key judgements and estimates in respect of the timing and measurement of ECL include: - The appropriateness of staging criteria selected by the Bank to determine whether a significant increase in credit risk ("SICR") has arisen; - Accounting interpretations and modelling assumptions used to build the models that calculate the ECL; - Inputs and assumptions used to estimate the impact of non-linearity arising from the Bank's use of multiple economic scenarios including appropriate weightings for the various scenarios; - Completeness and valuation of Post Model Adjustments ("PMAs") and the adequacy of PMA disclosures in the financial statements; and - Measurement of individually assessed provisions. We also considered potential consequences of climate change as an emerging risk to the Bank loan portfolio and assessed the impact of this on the Bank's ECL provision. In line with the prior year the level of judgement and estimation remains elevated as a result of the impact of higher inflation and interest rates on the cost of living.	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 and the determination of arrears status. We assessed the reasonableness of the methodology for determining the SICR criteria and independently tested the staging allocation by reperforming this across the entirety of the secured and unsecured portfolios and a risk based sample of the corporate loan portfolio, with reference to the Bank's SICR thresholds and cure periods. We also performed sensitivity analysis including stage escalations for sectors or exposures with higher risk characteristics, this included those properties on flood plains or locations which are most likely to be economically impacted by changes in industry trends as a result of the increased focus on climate risk. With the support of EY credit risk modelling specialists, we performed a model inherent risk assessment of all models used to generate ECL. Based on this risk assessment we tailored our procedures and reviewed the underlying model methodology including model design review, model implementation and validation testing, sensitivity analysis, benchmarking and the recalculation of the Probability of Default, Loss Given Default, and Exposure at Default. We performed testing over the integrity of the key data elements used in developing and validating the Bank's ECL models and assumptions. We challenged the completeness of these data elements and then tested the data within the models back to source evidence. We also tested other information used by the Bank to calculate the provision, such as collateral valuations. With the support of EY economist specialists, we assessed the base case and the four alternative economic scenarios. We performed this assessment by 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. Having determined the appropriateness of the economic forecasts and associated probability weightings, we assessed the reasonableness of the extent of non-linearity arising from the Bank's model outputs. Alongside 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 evaluated the resulting impact on ECL.

Risk	Our response to the risk
	In conjunction with EY credit risk modelling specialists, we assessed whether the inventory of PMAs used by the Bank was complete. In performing this evaluation, we considered the impact of external factors, including the higher inflation and interest rates and the consequent impact on cost of living, climate change, geopolitical tensions and other emerging risks. In addition, we considered the findings from our model design and implementation reviews and the Bank's lack of historic loss data on the secured portfolio. We critically analysed new PMAs created in the year and reviewed the continued justification for existing PMAs where relevant. We tested the material PMAs 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. For the more significant PMAs we developed alternative assumptions to form an independent range of the quantum of each PMA, which we compared to the PMA recorded by the Bank. For a sample of higher risk individually assessed corporate provision cases, and also certain Stage 2 corporate cases where the Bank includes a PMA to reflect risks not captured by the underlying models, we obtained an understanding of the latest developments in the borrower's situation and the factors impacting the measurement of provisions. With the support of EY valuation specialists, we independently assessed the underlying collateral used in the Bank's cash flow calculations. In each case we tested key data inputs and considered alternative scenarios in challenging the Bank's estimate. We assessed the adequacy and appropriateness of disclosures made within the financial statements, including the disclosures provided in relation to PMAs. In line with the requirements of ISA 540 (Revised) – Auditing Accounting Estimates and Related Disclosures, 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 considering both staging percentages and provision coverage, assessed the impact of the cost of living crisis 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 the Bank's ECL provisions were reasonably estimated and materially in compliance with IFRS 9.

We highlighted to the Committee that there remains increased uncertainty in determining forecast losses due to the prevailing uncertain economic environment.

We highlighted to the Audit Committee that although we observed model deficiencies, the resulting ECL was reasonable after incorporating appropriate Post Model Adjustments, which in aggregate we considered to be reasonably estimated.

We considered the multiple economic scenarios, and associated weightings, incorporated in the IFRS 9 models to be materially appropriate.

Risk	Our response to the risk
Valuation of the deferred tax asset relating to the Bank's future profitability *Please refer to the Audit Committee Report (page 82); Accounting policies (page 289); and Note 28 of the Bank Consolidated Financial Statements (page 217).* As the Bank continues to be profitable, with forecasts suggesting that this will be maintained, it has continued to recognise a £197.5m (2022: £120.6m) deferred tax asset to reflect the extent that the Bank's historic losses could be utilised against future anticipated taxable profits and has also recognised £36.4m (2022: £46.8m) of deferred tax assets in respect of capital allowances on fixed assets on the same basis. Judgement therefore exists relating to the likelihood that the Bank will achieve its forecast results and generate sufficient taxable profits against which losses can be utilised, which is based on estimates of future profitability that are inherently uncertain as they are sensitive to future economic, market and other conditions which are difficult to predict. Key estimates which underpin these forecasts include: - Revenue and cost forecasts; - Macroeconomic and model assumptions; - Duration and reliability of forecasts used especially in the outer years. The recognition of deferred tax also considers the interpretation of changes to applicable tax rates and laws. Relative to the prior year the risk of material error remains elevated given the continuing higher inflation and interest rate environment and general uncertainty in respect of future economic forecasts.	We considered the length of the forecasts that it would be appropriate to use in calculating the deferred tax asset, with reference to the Bank's historic performance and levels of forecasting accuracy. We also benchmarked the period used by the Bank against that used by peer organisations. We critically assessed the forecast assumptions which underpin the deferred tax asset calculation and tested these for consistency with assumptions used throughout the Bank's financial reporting process. This included ensuring consistency with the economic forecasts used in the ECL assessment. We developed an alternative range of assumptions to apply to the Bank's profit forecasts. These assumptions were determined using external market information, considering the Bank's historical forecasting accuracy and assessing the achievability of future revenue growth and cost reduction plans. Applying these alternative assumptions to the Bank's forecasts enabled us to calculate an independent range against which we assessed the Bank's forecasts. With the support of EY taxation specialists, we assessed the valuation of the deferred tax asset against the applicable tax rates and laws. In conjunction with our EY modelling specialists, we assessed the clerical accuracy of calculations impacted by key model assumptions within the Bank's forecasting model. We also utilised the support of our tax audit team to develop an independent tax model to assess the model used by the Bank to calculate the deferred tax asset. In line with the requirements of ISA 540 (Revised) – Auditing Accounting Estimates and Related Disclosures, we performed a stand back analysis to assess the overall reasonableness of the deferred tax asset recognised by the Bank. In completing this analysis, we considered the Bank's performance in 2023, track record of profitability established in the past three years and the likelihood that sufficient future profits will be generated against which historic losses can be used, and assessed the impact of reasonable alternative assumptions on the Bank's profit forecasts. We assessed the appropriateness of the related disclosures in the 2023 Annual Report and Accounts, including the assumptions used and the associated sensitivities.

Key observations communicated to the Audit Committee

We reported the outcome of the EY independently determined ranges, including our assessment of outer year sustainable earnings, and concluded that the Bank's deferred tax asset was at the top end of our reasonable range. In addition, we considered the anticipated period of recovery for the deferred tax asset and found that to be reasonable.

We also concluded in conjunction with our EY taxation specialists that the deferred tax asset was materially calculated in line with applicable tax rates and laws.

Risk	Our response to the risk
Valuation of the provision raised to redress closed book Standard Variable Rate (SVR) customers *Please refer to the Audit Committee Report (page 82); Accounting policies (page 290); and Note 26 of the Bank Consolidated Financial Statements (page 216).* At 31 December 2023, the Bank reported provisions of £60.6m (2022: £33.2m). This includes £29.4m (2022: £1.1m) for conduct/legal matters. In November 2023, the Bank received two final decisions from the Financial Ombudsman Service that partially upheld complaints brought by customers regarding historical changes to the Standard Variable Rate (SVR) within a closed book of mortgages acquired by the Bank as part of its merger with the Britannia Building Society in 2009. Following these decisions, the Bank decided to pro-actively redress these complainants, and other closed book SVR customers, and raised a provision of £28.9m for the associated cost. Key areas of judgement in calculating the Bank's expected redress in relation to this matter are: - The period over which redress should be calculated; - The entities whose customers are in scope for redress, and the customer populations that should be included; - The extrapolation of the expected outcome from a sample of redress calculations over the entire population. As a result of the increased judgement and estimation uncertainty arising from the Bank's decision to pro-actively redress closed book SVR customers and the associated disclosure requirements we consider the risk to have increased and this to be a Key Audit Matter for 2023.	In conjunction with EY conduct risk specialists, we assessed the appropriateness of the Bank's judgement of the period over which the proactive redress to closed book SVR customers is calculated. This assessment was made with reference to the FCA's Dispute Resolution: Complaints Sourcebook (DISP) and correspondence between the Bank and its regulators. We challenged the Bank on the coverage of the proposed remediation, and the extent to which this included subsidiaries of the Bank Company with similar characteristics. We also challenged whether the redress should include only those customers who have complained, or all known customers who had a similar mortgage over the redress period. With the support of our conduct risk and forensic accounting specialists, we assessed the reasonableness of the provision estimate, and the Bank's extrapolation of the expected outcome from a sample of redress calculations to form an expectation of total redress. As part of this assessment, we calculated the redress that would be paid for a sample of impacted customers and compared this to the Bank's provision estimate. We also considered whether the matter was appropriately disclosed in the Annual Report and Accounts.

Key observations communicated to the Audit Committee
We highlighted that the redress period used by the Bank in the provision calculation was reasonable based on the redress terms outlined in the Financial Ombudsman Services' ruling and the Group's correspondence with the Financial Conduct Authority, and that the population of customers included in the provision estimate was appropriate. We concluded to the Audit Committee that the Bank's approach to estimating future redress costs resulted in a provision that was reasonably estimated and the matter was appropriately disclosed in the Financial Statements.

Risk	Our response to the risk
Valuation of the defined benefit pension scheme surplus in the Britannia pension scheme Please refer to the Audit Committee Report (page 82); Accounting policies (page 289); and Note 29 of the Bank Consolidated Financial Statements (page 218). At 31 December 2023, the Bank reported a net retirement benefit asset of £148.5m (2022: £159.7m), of which £130.3m (2022: £142.9m) relates to the Britannia pension scheme. The Britannia pension scheme consisted of assets of £556.3m (2022: £557.4m) and liabilities of £426.0m (2022: £414.5m). The valuation of the liabilities the pension scheme is subject to the following significant assumptions and is performed by an external firm of pension actuaries: - Discount rate; - Inflation; - Revaluation of deferred pensions; and - Mortality. The Britannia scheme also contains an element of Level 3 illiquid investment funds that are harder to value, which increases the risk of incorrect valuation. The overall audit risk of material misstatement has reduced compared to the prior year and now only focusses on the Britannia pension scheme as a result of the completion of the "buy-in" transaction for the Pace pension scheme, concluded in 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 the Bank and its external actuarial experts. 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. Alongside EY valuation specialists, we challenged the appropriateness of the Bank'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 and pricing policies. We assessed the recognition of the pension scheme surplus against the requirements of IFRIC 14. We assessed the adequacy of the pension 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 is reasonably estimated and recognised in accordance with both IAS 19 and IFRIC 14. We communicated that there is subjectivity in the valuation of the scheme liabilities due to the use of significant assumptions in calculating the balance. We were satisfied that on an overall basis, the assumptions made by the Bank were within a reasonable range. We also noted that the asset pools invested in by the scheme contained an element of 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 82) and Accounting policies (page 286) of the Bank Consolidated Financial Statements.* 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 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 that is inherently difficult to predict. 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, and the change in this as a result of the in-housing of mortgage operations from Capita. The key assumptions particularly in relation to modelled forecast cash flows may be measured incorrectly due to the use of inaccurate or incomplete data, erroneous formulae or inappropriate assumptions. We consider the level of audit risk associated with the risk of fraud in the recognition of income using the effective interest rate method to have remained consistent with the prior year.	We understood and evaluated the design effectiveness of key controls over the EIR process. We developed an independent reasonable range against which we evaluated the key assumptions used by the Bank in the EIR models, being 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 assessed customer behavioural assumptions in the context of the Bank's own historic and recent experience and also established 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 cost of living crisis and high interest rate environment on customer behaviour. We tested the completeness, appropriateness and compliance with the requirements of the accounting standards of fees deferred and amortised in the EIR models by independently assessing the Bank's income streams and fees charged to determine whether they form an integral part of the effective yield and therefore should be included or omitted from the Bank's model. As part of this we considered the changes in the business including the in-housing of Capita's operations. We tested the completeness of data within the Bank's EIR models by selecting a sample of loans from the Bank'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 clerical and methodical 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 that the approach to determining the EIR at 31 December 2023, was appropriate and reasonable in the context of current observable market behaviours and economic conditions. We concluded that although the resulting EIR asset was below the bottom of our independently determined reasonable range, we did not consider this difference to be material.

In the prior year, our auditor's report included a key audit matter in relation to going concern. In the current year, we did not consider this to be a key audit matter due to the Bank's continued profitability and the successful completion of two additional debt issuances in 2023 further increasing the Bank's headroom to binding regulatory capital requirements.

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 £12.0m (2022: £13.0m), which is 0.9% (2022: 1.0%) of the Bank's equity. The overall reduction in materiality was to reflect the net increase in risk from the sale activity associated with the Bank. We believe that the Bank's equity provides us with the most appropriate basis on which to set materiality, as we see this as a proxy for regulatory capital, which is a key focus for users of the financial statements given its importance to the Bank's solvency. We also considered that although the Bank has now been profitable for three consecutive years, it has not yet reached a normalised level of profit on which to base our materiality calculation.

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, history of error, and together with our assessment of the Bank's overall control environment, our judgement was that performance materiality was 75% (2022: 75%) of our planning materiality, namely £9.0m (2022: £9.8m).

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 (2022: £0.7m), 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 set out on pages 1 to 156, other than the financial statements and our auditor's report thereon. The Directors are responsible for the Other Information contained within the annual report.

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 this gives rise to 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 their 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 Statement of Directors' Responsibilities set out on page 100, 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's 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 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 Bank 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.
    - 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 and Audit Committee, reviewing relevant Board and management 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 and reports.
- We assessed the susceptibility of the Bank's financial statements to material misstatement, including how fraud might occur by holding discussions with senior management, those charged with governance, internal audit and the Audit Committee. We also utilised the support of EY forensics specialists in the performance of this risk assessment.
- 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, including relevant reports prepared by internal audit, and performing our own analysis as required. We reviewed the correspondence exchanged between the Bank and its Regulators, and gained an understanding of any regulatory investigations and enforcement actions being undertaken. We also met with the Bank's Regulators at least annually in the performance of the audit. We focused 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 the team had the appropriate competence and capabilities, and utilised the support of auditor's specialists as 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 as auditors 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 ten years, covering the years ending 31 December 2014 to 31 December 2023.
- 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
27 February 2024

Opinion

In our opinion:

- the financial statements of The Co-operative Bank Holdings Limited (the "Holding Company") and its subsidiaries (together the "Group") give a true and fair view of the state of the Group's and of the Holding Company's affairs as at 31 December 2023 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the Holding Company financial statements have been properly prepared in accordance with UK adopted international accounting standards 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.

We have audited the financial statements (as defined in the table below) of the Holding Company and the Group for the year ended 31 December 2023, which comprise:

Group	Holding Company
Consolidated balance sheet as at 31 December 2023	Balance sheet as at 31 December 2023
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	Statement of cashflows for the year then ended
Consolidated statement of changes in equity for the year then ended	Related notes 1 to 9 to the Holding Company financial statements, including material accounting policy information, including those disclosed within the explanatory information on pages 281 to 290
Consolidated statement of cash flows for the year then ended	
Related notes 1 to 36 to the financial statements, (except for the columns marked as "unaudited" in Note 30), including material accounting policy information, including those disclosed within the explanatory information on pages 281 to 290	
Tables within the Directors' Report on remuneration to the shareholder identified as "audited" on pages 107 to 110 and information in the risk management section of the Business Review, identified as "audited" on pages 126 to 156	

The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards and as regards to the Holding 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 Group and Holding 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 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 Group and the Holding Company is dependent on The Co-operative Bank p.l.c.'s (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 the following procedures:

- We confirmed our understanding of the Directors' going concern assessment process, including the Financial Statement Close Process, and the process by which the Financial Plan is created and approved. We engaged with Management early to ensure all key factors that we considered to be material were considered in the Group's going concern assessment.
- We obtained Management's Board approved Financial Plan covering the period of Management's going concern assessment to 30 June 2025. Management has modelled stress scenarios to the financial plans to incorporate unexpected changes to the forecasted profitability and liquidity.
- We evaluated the relevance and reliability of the underlying data used in the financial plan which supports the going concern assessment, and tested assumptions to third party evidence, where appropriate.
- Using our understanding of the business, we evaluated the approach adopted by the Directors in assessing going concern, including considering plausible alternative downside scenarios, and concluded that the approach adopted was reasonable.
- We used our internal valuation specialists to test the mathematical accuracy of the financial forecasting models used to develop the Financial Plan.
- We reconciled the Group's capital and liquidity position to its regulatory reporting returns and challenged the assumptions within the Group's capital and liquidity forecasts over the going concern period, considering the Group's current position and availability of additional capital and liquidity should it be required. We also evaluated the Bank's ability to replace maturing debt instruments over the going concern period to manage capital and buffer requirements. We challenged the Group's ability to refinance £996m of TFSME funding over the going concern period through customer deposit growth and liquidity wholesale actions and considered the Bank's ability to make TFSME repayments under stressed scenarios.
- We evaluated Management's plans for future actions within the control of the Group to maintain a surplus to binding regulatory requirements over the going concern period in order to determine if such actions are feasible in the current circumstances.
- 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.
- We considered Management's assessment of the impact on the going concern assessment of entering into exclusivity discussions with Coventry Building Society (as describe within accounting policies on page 193). We note that these discussions are currently at a preliminary stage and there is no guarantee that these discussions will result in any potential transaction.
- We considered whether the disclosures (as described within accounting policies on page 193 of the Group and Bank 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 2025.

The Group retains headroom to its binding liquidity and capital requirements over the going concern period and we therefore do not consider that these requirements give rise to a material uncertainty.

We have concluded that the Group's forecasts and expected outcome over the going concern period are reasonable.

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 the period to 30 June 2025.

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 or Holding Company'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 Group and the Holding Company
Key audit matters	• Credit impairment provisions • Valuation of the deferred tax asset relating to the Group's future profitability • Completeness and valuation of conduct risk provisions • Valuation of the defined benefit pension scheme surplus in the Britannia pension scheme • Risk of fraud in the recognition of income using the Effective Interest Rate ("EIR") Method
Materiality	• Overall materiality for the Group of £12.0m which represents 0.9 % of Bank equity (2022: £13.0m representing 1.0 % of Bank equity). • Overall materiality for the Holding Company of £6.5m, which represents 0.5 % of Holding Company assets (2022: £3.7m, representing 1.1 % of Holding Company assets).

An overview of the scope of the audit

Tailoring the scope

The 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 Group audit team.

Climate change

Stakeholders are increasingly interested in how climate change will impact the Group and the Holding Company. The Group and the Holding Company have determined that the most significant future impacts from climate change on their operations will be from physical and transition risks. These are explained on pages 43 to 54 in the required Task Force for Climate related Financial Disclosures. Within these disclosures the Group also explains that climate change has been established as a "thematic risk" holistically across the Risk Management Framework and integrated through the Group's principal risks, which are disclosed on pages 116 to 125. All of these disclosures form part of the "Other Information", rather than the audited financial statements. Our procedures on these unaudited disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated, in line with our responsibilities on "Other Information".

In planning and performing our audit we assessed the potential impacts of climate change on the Group's and the Holding Company's business to determine whether they had a material impact on the financial statements.

The Group and the Holding Company have explained in Note 1.2 within the Basis of Preparation how they have reflected the impact of climate change in their financial statements. Note 1.2 explains that where forward-looking information is relied on in preparing the financial statements, the Group and the Holding Company have given due consideration, where appropriate and quantifiable, to potential future impacts of climate-related risk. The Group recognises that governmental and societal responses to climate change risks are still developing and thus their ultimate impacts on the Group and the Holding Company are inherently uncertain and cannot be fully known. In Note 2.2.1.c to the financial statements supplementary narrative explanations of the impact of reasonably possible changes in key assumptions and estimates related to climate risk have been provided and significant judgements and estimates relating to climate change have been described.

Our audit effort in considering the impact of climate change on the financial statements was focused on evaluating management's assessment of the impact of climate risk, physical and transition, their climate commitments, the effects of material climate risks disclosed on pages 43 to 54 and the significant judgements and estimates disclosed in Note 2 and whether these have been appropriately reflected the financial statements, following the requirements of UK adopted international accounting standards. As part of this evaluation, we performed our own risk assessment, supported by our climate change internal specialists, to determine the risks of material misstatement in the financial statements from climate change which needed to be considered in our audit.

We also challenged the Directors' considerations of climate change risks in their assessment of going concern and associated disclosures. Where considerations of climate change were relevant to our assessment of going concern, these are described above.

Based on our work we have considered the impact of climate change on the financial statements to principally impact the Credit Impairment Provisions key audit matter. Details of our procedures and findings are included in our Credit Impairment Provisions key audit matter below.

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 82); Accounting policies (page 286); and Note 14 of the* Group *Consolidated Financial Statements (page 208).* At 31 December 2023, the Group reported total gross loans and advances to customers of £20,354.3m (2022: £20,962.2m) and credit impairment provisions of £37.4m (2022: £40.3m). The determination of expected credit losses ("ECL") continues to be highly subjective and judgemental. Key judgements and estimates in respect of the timing and measurement of ECL include: - The appropriateness of staging criteria selected by the Group to determine whether a significant increase in credit risk ("SICR") has arisen; - Accounting interpretations and modelling assumptions used to build the models that calculate the ECL; - Inputs and assumptions used to estimate the impact of non-linearity arising from the Group's use of multiple economic scenarios including appropriate weightings for the various scenarios; - Completeness and valuation of Post Model Adjustments ("PMAs") and the adequacy of PMA disclosures in the financial statements; and - Measurement of individually assessed provisions. We also considered potential consequences of climate change as an emerging risk to the Group's loan portfolio and assessed the impact of this on the Group's ECL provision. In line with the prior year the level of judgement and estimation remains elevated as a result of the impact of higher inflation and interest rates on the cost of living.	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 and the determination of arrears status. We assessed the reasonableness of the methodology for determining the SICR criteria and independently tested the staging allocation by reperforming this across the entirety of the secured and unsecured portfolios and a risk based sample of the corporate loan portfolio, with reference to the Group's SICR thresholds and cure periods. We also performed sensitivity analysis including stage escalations for sectors or exposures with higher risk characteristics, this included those properties on flood plains or locations which are most likely to be economically impacted by changes in industry trends as a result of the increased focus on climate risk. With the support of EY credit risk modelling specialists, we performed a model inherent risk assessment of all models used to generate ECL. Based on this risk assessment we tailored our procedures and reviewed the underlying model methodology including model design review, model implementation and validation testing, sensitivity analysis, benchmarking and the recalculation of the Probability of Default, Loss Given Default, and Exposure at Default. We performed testing over the integrity of the key data elements used in developing and validating the Group's ECL models and assumptions. We challenged the completeness of these data elements and then tested the data within the models back to source evidence. We also tested other information used by the Group to calculate the provision, such as collateral valuations. With the support of EY economist specialists, we assessed the base case and the four alternative economic scenarios. We performed this assessment by 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. Having determined the appropriateness of the economic forecasts and associated probability weightings, we assessed the reasonableness of the extent of non-linearity arising from the Group's model outputs. Alongside 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 evaluated the resulting impact on ECL.

Risk	Our response to the risk
	In conjunction with EY credit risk modelling specialists, we assessed whether the inventory of PMAs used by the Bank was complete. In performing this evaluation, we considered the impact of external factors, including the higher inflation and interest rates and the consequent impact on cost of living, climate change, geopolitical tensions and other emerging risks. In addition, we considered the findings from our model design and implementation reviews and the Group's lack of historic loss data on the secured portfolio. We critically analysed new PMAs created in the year and reviewed the continued justification for existing PMAs where relevant. We tested the material PMAs by assessing the appropriateness of the Group's methodologies, validating data inputs and independently recalculating the PMAs, which included an assessment of the underlying calculation methodology. For the more significant PMAs we developed alternative assumptions to form an independent range of the quantum of each PMA, which we compared to the PMA recorded by the Group. For a sample of higher risk individually assessed corporate provision cases, and also certain Stage 2 corporate cases where the Group includes a PMA to reflect risks not captured by the underlying models, we obtained an understanding of the latest developments in the borrower's situation and the factors impacting the measurement of provisions. With the support of EY valuation specialists, we independently assessed the underlying collateral used in the Group's cash flow calculations. In each case we tested key data inputs and considered alternative scenarios in challenging the Group's estimate. We assessed the adequacy and appropriateness of disclosures made within the financial statements, including the disclosures provided in relation to PMAs. In line with the requirements of ISA 540 (Revised) – Auditing Accounting Estimates and Related Disclosures, 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 considering both staging percentages and provision coverage, assessed the impact of the cost of living crisis 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 the Group's ECL provisions were reasonably estimated and materially in compliance with IFRS 9. We highlighted to the Committee that there remains increased uncertainty in determining forecast losses due to the prevailing uncertain economic environment. We highlighted to the Audit Committee that although we observed model deficiencies, the resulting ECL was reasonable after incorporating appropriate Post Model Adjustments, which in aggregate we considered to be reasonably estimated. We considered the multiple economic scenarios, and associated weightings, incorporated in the IFRS 9 models to be materially appropriate.

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<tr><th>Risk</th><th>Our response to the risk</th></tr>
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Valuation of the deferred tax asset relating to the Group's future profitability

Please refer to the Audit Committee Report (page 82); Accounting policies (page 289); and Note 28 of the Group *Consolidated Financial Statements (page 217).*

As the Group continues to be profitable, with forecasts suggesting that this will be maintained, it has continued to recognise a £197.5m (2022: £120.6m) deferred tax asset to reflect the extent that the Group's historic losses could be utilised against future anticipated taxable profits and has also recognised £36.4m (2022: £46.8m) of deferred tax assets in respect of capital allowances on fixed assets on the same basis.

Judgement therefore exists relating to the likelihood that the Group will achieve its forecast results and generate sufficient taxable profits against which losses can be utilised, which is based on estimates of future profitability that are inherently uncertain as they are sensitive to future economic, market and other conditions which are difficult to predict. Key estimates which underpin these forecasts include:

- Revenue and cost forecasts;
- Macroeconomic and model assumptions;
- Duration and reliability of forecasts used especially in the outer years.

The recognition of deferred tax also considers the interpretation of changes to applicable tax rates and laws.

Relative to the prior year the risk of material error remains elevated given the continuing higher inflation and interest rate environment and general uncertainty in respect of future economic forecasts.

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We considered the length of the forecasts that it would be appropriate to use in calculating the deferred tax asset, with reference to the Group's historic performance and levels of forecasting accuracy. We also benchmarked the period used by the Group against that used by peer organisations.

We critically assessed the forecast assumptions which underpin the deferred tax asset calculation and tested these for consistency with assumptions used throughout the Group's financial reporting process. This included ensuring consistency with the economic forecasts used in the ECL assessment.

We developed an alternative range of assumptions to apply to the Group's profit forecasts. These assumptions were determined using external market information, considering the Group's historical forecasting accuracy and assessing the achievability of future revenue growth and cost reduction plans. Applying these alternative assumptions to the Group's forecasts enabled us to calculate an independent range against which we assessed the Group's forecasts.

With the support of EY taxation specialists, we assessed the valuation of the deferred tax asset against the applicable tax rates and laws.

In conjunction with our EY modelling specialists, we assessed the clerical accuracy of calculations impacted by key model assumptions within the Bank's forecasting model. We also utilised the support of our tax audit team to develop an independent tax model to assess the model used by the Bank to calculate the deferred tax asset.

In line with the requirements of ISA 540 (Revised) – Auditing Accounting Estimates and Related Disclosures, we performed a stand back analysis to assess the overall reasonableness of the deferred tax asset recognised by the Bank. In completing this analysis, we considered the Group's performance in 2023, track record of profitability established in the past three years and the likelihood that sufficient future profits will be generated against which historic losses can be used, and assessed the impact of reasonable alternative assumptions on the Bank's profit forecasts.

We assessed the appropriateness of the related disclosures in the 2023 Annual Report and Accounts, including the assumptions used and the associated sensitivities.

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<tr><th colspan="2">Key observations communicated to the Audit Committee</th></tr>
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We reported the outcome of the EY independently determined ranges, including our assessment of outer year sustainable earnings, and concluded that the Group's deferred tax asset was at the top end of our reasonable range. In addition, we considered the anticipated period of recovery for the deferred tax asset and found that to be reasonable.

We also concluded in conjunction with our EY taxation specialists that the deferred tax asset was materially calculated in line with applicable tax rates and laws.

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Risk	Our response to the risk
Valuation of the provision raised to redress closed book Standard Variable Rate (SVR) customers *Please refer to the Audit Committee Report (page 82); Accounting policies (page 290); and Note 26 of the Group Consolidated Financial Statements (page 216).* At 31 December 2023, the Group reported provisions of £60.6m (2022: £33.2m). This includes £29.4m (2022: £1.1m) for conduct/legal matters. In November 2023, the Group received two final decisions from the Financial Ombudsman Service that partially upheld complaints brought by customers regarding historical changes to the Standard Variable Rate (SVR) within a closed book of mortgages acquired by the Group as part of its merger with the Britannia Building Society in 2009. Following these decisions, the Group decided to pro-actively redress these complainants, and other closed book SVR customers, and raised a provision of £28.9m for the associated cost. Key areas of judgement in calculating the Group's expected redress in relation to this matter are: - The period over which redress should be calculated; - The entities whose customers are in scope for redress, and the customer populations that should be included; - The extrapolation of the expected outcome from a sample of redress calculations over the entire population. As a result of the increased judgement and estimation uncertainty arising from the Bank's decision to pro-actively redress closed book SVR customers and the associated disclosure requirements we consider the risk to have increased and this to be a Key Audit Matter for 2023.	In conjunction with EY conduct risk specialists, we assessed the appropriateness of the Group's judgement of the period over which the proactive redress to closed book SVR customers is calculated. This assessment was made with reference to the FCA's Dispute Resolution: Complaints Sourcebook (DISP) and correspondence between the Bank and its regulators. We challenged the Group on the coverage of the proposed remediation, and the extent to which this included subsidiaries of the Holding Company with similar characteristics. We also challenged whether the redress should include only those customers who have complained, or all known customers who had a similar mortgage over the redress period. With the support of our conduct risk and forensic accounting specialists, we assessed the reasonableness of the provision estimate, and the Group's extrapolation of the expected outcome from a sample of redress calculations to form an expectation of total redress. As part of this assessment, we calculated the redress that would be paid for a sample of impacted customers and compared this to the Bank's provision estimate. We also considered whether the matter was appropriately disclosed in the Annual Report and Accounts.

Key observations communicated to the Audit Committee
We highlighted that the redress period used by the Group in the provision calculation was reasonable based on the redress terms outlined in the Financial Ombudsman Services' ruling and the Group's correspondence with the Financial Conduct Authority, and that the population of customers included in the provision estimate was appropriate. We concluded to the Audit Committee that the Group's approach to estimating future redress costs resulted in a provision that was reasonably estimated and the matter was appropriately disclosed in the Financial Statements.

Risk	Our response to the risk
Valuation of the defined benefit pension scheme surplus in the Britannia pension scheme *Please refer to the Audit Committee Report (page 82); Accounting policies (page 289); and Note 29 of the Group Consolidated Financial Statements (page 218).* At 31 December 2023, the Group reported a net retirement benefit asset of £148.5m (2022: £159.7m), of which £130.3m (2022: £142.9m) relates to the Britannia pension scheme. The Britannia pension scheme consisted of assets of £556.3m (2022: £557.4m) and liabilities of £426.0m (2022: £414.5m). The valuation of the liabilities of the pension scheme is subject to the following significant assumptions and is performed by an external firm of pension actuaries: - Discount rate; - Inflation; - Revaluation of deferred pensions; and - Mortality. The Britannia scheme also contains an element of Level 3 illiquid investment funds that are harder to value, which increases the risk of incorrect valuation. The overall audit risk of material misstatement has reduced compared to the prior year and now only focusses on the Britannia pension scheme as a result of the completion of the "buy-in" transaction for the Pace pension scheme, concluded in 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 the Group and its external actuarial experts. 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. Alongside EY valuation specialists, we challenged the appropriateness of the Group'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 and pricing policies. We assessed the recognition of the pension scheme surplus against the requirements of IFRIC 14. We assessed the adequacy of the pension 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 is reasonably estimated and recognised in accordance with both IAS 19 and IFRIC 14. We communicated that there is subjectivity in the valuation of the scheme liabilities due to the use of significant assumptions in calculating the balance. We were satisfied that on an overall basis, the assumptions made by the Group were within a reasonable range. We also noted that the asset pools invested in by the scheme contained an element of Level 3 illiquid funds. We are satisfied that the 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 82) and Accounting policies (page 286) of the Group Consolidated Financial Statements.* The 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 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 Group's EIR models are most sensitive to changes in the behavioural life assumptions and future interest rate expectations that is inherently difficult to predict. 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, and the change in this as a result of the in-housing of mortgage operations from Capita. The key assumptions particularly in relation to modelled forecast cash flows may be measured incorrectly due to the use of inaccurate or incomplete data, erroneous formulae or inappropriate assumptions. We consider the level of audit risk associated with the risk of fraud in the recognition of income using the effective interest rate method to have remained consistent with the prior year.	We understood and evaluated the design effectiveness of key controls over the EIR process. We developed an independent reasonable range against which we evaluated the key assumptions used by the Group in the EIR models, being 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 assessed customer behavioural assumptions in the context of the Group's own historic and recent experience and also established the consistency of forecast standard variable rates with market derived base rate forecasts and the Group's expectations of future interest margins. We considered the cost of living crisis and high interest rate environment on customer behaviour. We tested the completeness, appropriateness and compliance with the requirements of the accounting standards of fees deferred and amortised in the EIR models by independently assessing the Group's income streams and fees charged to determine whether they form an integral part of the effective yield and therefore should be included or omitted from the Group's model. As part of this we considered the changes in the business including the in-housing of Capita's operations. We tested the completeness of data within the Group's EIR models by selecting a sample of loans from the Group'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 Group's source systems and underlying customer documentation. We tested the clerical and methodical accuracy of the EIR calculations by recalculating the EIR balance for a sample of mortgages and agreeing this to the Group's modelled output.
Key observations communicated to the Audit Committee	
We communicated that the approach to determining the EIR at 31 December 2023, was appropriate and reasonable in the context of current observable market behaviours and economic conditions. We concluded that although the resulting EIR asset was below the bottom of our independently determined reasonable range, we did not consider this difference to be material.	

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 Group to be £12.0 million (2022: £13.0 million), which is 0.9% (2022: 1.0%) of the Bank's equity. The overall reduction in materiality was to reflect the net increase in risk from the sale activity associated with the Group. As the Group consolidates the activity of the Bank, and neither the consolidated results of the Group, or the focus of the users of these accounts, substantially differ from those of the Bank, we have therefore concluded that the basis of materiality should remain consistent. We see equity as a proxy for regulatory capital, which is a key focus for users of the Bank's financial statements given its importance to the Bank's solvency. We also considered that although the Group has now been profitable for three consecutive years, it has not yet reached a normalised level of profit on which to base our materiality calculation.

We determined materiality for the Holding Company to be £6.5 million (2022: £3.7 million), which is 0.5% (2022: 1.1%) of Total Assets. The reason for selecting assets as the basis for our audit materiality consideration is that the users of the Holding Company financial statements would primarily focus on the Holding Company's investment in the Finance Company, which reflects the Finance Company's investment in the Bank Company. During 2023, the Holding Company was substituted, in place of the Finance Company, as the issuer of the external MREL-qualifying Tier 2 and senior unsecured debt instruments under pre-existing substitution clauses in the relevant note agreements. Concurrently, the internal MREL debt instruments were novated to Holding Company, and the increase in materiality for 2023 reflects the associated increase the Holding Company's total assets to £1,304.8m at 31 December 2023 (2022: £333.2m). We have reduced the percentage applied to reflect that the Holding Company now holds the Group's listed debt instruments.

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, history of error, and together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2022: 75%) of our planning materiality, namely £9.0m (2022: £9.8m).

Consequently performance materiality was also set for the Holding Company at was also set at 75% (2022: 75%) of materiality, namely £4.9m (2022: £2.8m).

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 (2022: £0.7m), relating to the Group and £0.3m (2022: £0.2m) relating to the Holding 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 set out on pages 1 to 156, other than the financial statements and our auditor's report thereon. The Directors are responsible for the Other Information contained within the annual report.

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 this gives rise to 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 their 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 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 Statement of Directors' Responsibilities set out on page 100, 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 Holding 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 Group 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;
    - 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 and Audit Committee, reviewing relevant Board and management 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 and reports.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by holding discussions with senior management, those charged with governance, internal audit and the Audit Committee. We also utilised the support of EY forensics specialists in the performance of this risk assessment.

- 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, including relevant reports prepared by internal audit, and performing our own analysis as required. We reviewed the correspondence exchanged between the Group and its Regulators, and gained an understanding of any regulatory investigations and enforcement actions being undertaken. We also met with the Group's Regulators at least annually in the performance of the audit. We focused our testing on key areas of risk and estimation, as referred to in the key audit matters section above.
- The 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 the team had the appropriate competence and capabilities, and utilised the support of auditor's specialists as 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 as auditors by the 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 ten years, covering the years ending 31 December 2014 to 31 December 2023.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Holding Company and we remain independent of the Group and the Holding 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 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
27 February 2024

Opinion

We have audited the financial statements of The Co-operative Bank Finance p.l.c (the "Finance Company") and its subsidiaries (together the "Finance Group") for the year ended 31 December 2023 which comprise the Finance Group Income Statement, the Finance Group and Finance Company Balance Sheet, the Finance Group Statements of Cash Flows, the Finance Group Statement of Comprehensive Income, The Finance Group and Finance Company Statement of Changes in Equity, the related notes 1 to 28 to the financial statements (except for the columns marked as "unaudited" in Note 30 of the Group and Bank financial statements, which are referenced in Note 22 of the Finance Group financial statements), including a summary of material accounting policies, including those disclosed within the explanatory information on pages 281 to 290, tables within the Directors' Report on remuneration to the shareholder identified as "audited" on pages 107 to 110 and information in the risk management section of the Business Review, identified as "audited" on pages 126 to 156. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted International Accounting Standards and as regards the Finance 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 Finance Group's and of the Finance Company's affairs as at 31 December 2023 and of the group's profit for the year then ended;
- the Finance Group financial statements have been properly prepared in accordance with UK adopted International Accounting Standards;
- the Finance Company financial statements have been properly prepared in accordance with UK adopted International Accounting Standards 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 as applied to other entities of public interest, 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. 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 the period to 30 June 2025.

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 and Finance Company's ability to continue as a going concern.

Other Information

The Other Information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the Other Information contained within the annual report.

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 this gives rise to 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 their 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 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 Statement of Directors' Responsibilities set out on page 100, 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's and the 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 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 company 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;
    - 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 and Audit Committee, reviewing relevant Board and management 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 and reports.
- We assessed the susceptibility of the Finance Company's financial statements to material misstatement, including how fraud might occur by holding discussions with senior management, those charged with governance, internal audit and the Audit Committee. We also utilised the support of EY forensics specialists in the performance of this risk assessment.

- 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, including relevant reports prepared by internal audit, and performing our own analysis as required. We reviewed the correspondence exchanged between the Finance Group and its Regulators, and gained an understanding of any regulatory investigations and enforcement actions being undertaken. We also met with the Finance Group's Regulators at least annually in the performance of the audit. We focused our testing on key areas of risk and estimation, as referred to in the key audit matters section above.

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 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
27 February 2024

Consolidated Financial Statements of The Co-operative Bank Holdings Limited and The Co-operative Bank p.l.c. (Group and Bank)

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)

Operating company

The **co-operative** bank

Ethical then, now and **always**

CONSOLIDATED INCOME STATEMENT

For year ended 31 December 2023

£million

	Note	Group and Bank 2023	2022
Interest income calculated using the effective interest rate method		**883.8**	581.2
Other interest and similar income		**263.4**	88.7
Interest income and similar income	6	**1,147.2**	669.9
Interest expense and similar charges	6	**(670.2)**	(211.6)
Net interest income		**477.0**	458.3
Fee and commission income	7	**67.4**	64.4
Fee and commission expense	7	**(31.0)**	(32.6)
Net fee and commission income		**36.4**	31.8
Other operating income (net)	8	**4.1**	21.6
Operating income		**517.5**	511.7
Operating expenses	9	**(445.5)**	(372.7)
Operating profit before net credit impairment losses		**72.0**	139.0
Net credit impairment losses	14	**(0.6)**	(6.4)
Profit before tax		**71.4**	132.6
Income tax	11	**58.3**	(110.5)
Profit for the financial year		**129.7**	22.1

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 profit for the financial year is wholly attributable to equity shareholders.

The notes on pages 193 to 236 form part of these consolidated Group and Bank financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For year ended 31 December 2023

£million	Group and Bank	
	2023	**2022**
Profit for the year	**129.7**	22.1
Items that may be recycled to profit or loss:		
Changes in cash flow hedges:		
Transfers from equity to income or expense	**(7.2)**	(6.9)
Income tax	**2.0**	2.8
Changes in fair value through other comprehensive income:		
Net changes in fair value recognised directly in equity	**(30.2)**	121.6
Transfers from equity to income or expense	**27.5**	(131.3)
Income tax	**-**	1.5
Items that may not subsequently be recycled to profit or loss:		
Changes in net retirement benefit asset:		
Defined benefit plans losses for the year	**(16.4)**	(693.8)
Income tax	**4.6**	231.1
Other comprehensive expense for the year, net of income tax	**(19.7)**	(475.0)
Total comprehensive income/(expense) for the year	**110.0**	(452.9)

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 193 to 236 form part of these consolidated Group and Bank financial statements.

CONSOLIDATED BALANCE SHEET

At 31 December 2023

£million

		Group		Bank	
	Note	2023	2022	2023	2022
Assets					
Cash and balances at central banks	12	**2,708.3**	5,270.4	**2,708.3**	5,270.4
Loans and advances to banks	13	**212.6**	387.1	**212.6**	387.1
Loans and advances to customers	14	**20,149.4**	20,491.2	**20,149.4**	20,491.2
Investment securities	15	**2,088.3**	942.7	**2,088.3**	942.7
Derivative financial instruments	16	**309.1**	520.1	**309.1**	520.1
Other assets	17	**47.9**	46.6	**47.9**	46.6
Property, plant and equipment	18	**23.6**	22.8	**23.6**	22.8
Intangible assets	19	**114.0**	90.0	**114.0**	90.0
Right-of-use assets	20	**31.4**	33.0	**31.4**	33.0
Amounts owed by Finance Company	31	**-**	-	**46.4**	-
Current tax assets		**4.3**	1.8	**4.3**	1.8
Deferred tax assets	28	**233.9**	167.4	**233.9**	167.4
Net retirement benefit asset	29	**148.5**	159.7	**148.5**	159.7
Total assets		**26,071.3**	28,132.8	**26,117.7**	28,132.8
Liabilities					
Deposits by banks	21	**4,288.9**	5,683.4	**4,288.9**	5,683.4
Customer accounts	22	**19,215.1**	20,072.7	**19,215.2**	20,072.8
Debt securities in issue	23	**-**	181.9	**-**	181.9
Derivative financial instruments	16	**110.3**	103.5	**110.3**	103.5
Other liabilities	24	**37.4**	42.8	**37.4**	42.8
Accruals and deferred income	25	**22.8**	32.5	**22.8**	32.5
Provisions	26	**60.6**	33.2	**60.6**	33.2
Other borrowed funds	27	**891.2**	646.9	**891.2**	646.9
Amounts owed to Holding Company	31	**-**	-	**46.4**	-
Lease liabilities	20	**30.1**	31.0	**30.1**	31.0
Net retirement benefit liability	29	**5.9**	5.9	**5.9**	5.9
Total liabilities		**24,662.3**	26,833.8	**24,708.8**	26,833.9
Capital and reserves attributable to the Group's equity holders					
Ordinary share capital	32	**0.9**	0.9	**25.6**	25.6
Share premium account	32	**313.8**	313.8	**-**	-
Retained earnings		**2,097.8**	1,968.1	**1,375.4**	1,245.7
Other reserves	33	**(1,003.5)**	(983.8)	**7.9**	27.6
Total equity		**1,409.0**	1,299.0	**1,408.9**	1,298.9
Total liabilities and equity		**26,071.3**	28,132.8	**26,117.7**	28,132.8

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 193 to 236 form part of these consolidated Group and Bank financial statements.

Approved by the Board of The Co-operative Bank Holdings Limited on 27 February 2024:

Robert Dench Chair of the Board	Nick Slape Chief Executive Officer

Approved by the Board for The Co-operative Bank p.l.c. on 27 February 2024:

Robert Dench Chair of the Board	Nick Slape Chief Executive Officer

CONSOLIDATED STATEMENT OF CASHFLOWS

For year ended 31 December 2023

£million

		Group		Bank	
	Note	2023	2022	2023	2022
Cash flows from/(used in) operating activities:					
Profit before tax		**71.4**	132.6	**71.4**	132.6
Adjustments for non cash movements:					
Pension scheme adjustments		**(3.4)**	(12.7)	**(3.4)**	(12.7)
Net credit impairment losses		**0.6**	6.4	**0.6**	6.4
Depreciation, amortisation and impairment		**34.8**	35.3	**34.8**	35.3
Other non-cash movements		**90.3**	143.8	**90.2**	143.8
Changes in operating assets and liabilities:					
(Decrease)/increase in deposits by banks		**(1,394.5)**	155.8	**(1,394.5)**	155.8
Increase in prepayments		**(2.7)**	(1.1)	**(2.7)**	(1.1)
Decrease in accruals and deferred income		**(9.7)**	(4.5)	**(9.7)**	(4.5)
Decrease in customer accounts		**(874.0)**	(1,028.8)	**(874.0)**	(1,028.8)
Decrease in debt securities in issue		**(181.9)**	(21.4)	**(181.9)**	(21.4)
Decrease/(increase) in loans and advances to banks		**30.3**	(28.5)	**30.3**	(28.5)
Decrease in loans and advances to customers		**590.4**	32.5	**590.4**	32.5
Net movement of other assets and other liabilities		**(52.7)**	(28.6)	**(52.6)**	(28.6)
Income tax paid		**(2.7)**	(6.8)	**(2.7)**	(6.8)
Net cash flows used in operating activities		**(1,703.8)**	(626.0)	**(1,703.8)**	(626.0)
Cash flows from/(used in) investing activities:					
Purchase and construction of tangible and intangible assets		**(55.0)**	(48.0)	**(55.0)**	(48.0)
Purchase of investment securities		**(1,542.7)**	(465.7)	**(1,542.7)**	(465.7)
Proceeds from sale of property and equipment		**-**	0.4	**-**	0.4
Proceeds from sale of shares and other interests		**0.2**	20.4	**0.2**	20.4
Proceeds from sale and maturity of investment securities		**434.9**	679.0	**434.9**	679.0
Purchase of equity shares		**-**	(0.8)	**-**	(0.8)
Proceeds from sale of investment properties		**0.3**	-	**0.3**	-
Dividends received		**0.1**	0.2	**0.1**	0.2
Net cash flows (used in)/from investing activities		**(1,162.2)**	185.5	**(1,162.2)**	185.5
Cash flows from/(used in) financing activities:					
Proceeds from issuance of Tier 2 notes and senior unsecured debt		**397.9**	248.4	**397.9**	248.4
Redemption of Tier 2 notes		**(163.5)**	-	**(163.5)**	-
Interest paid on Tier 2 notes and senior unsecured debt		**(62.7)**	(44.5)	**(62.7)**	(44.5)
Lease liability principal payments		**(6.6)**	(14.6)	**(6.6)**	(14.6)
Net cash flows from financing activities		**165.1**	189.3	**165.1**	189.3
Effect of exchange rate changes on cash and cash equivalents		**(5.4)**	(8.2)	**(5.4)**	(8.2)
Net decrease in cash and cash equivalents		**(2,706.3)**	(259.4)	**(2,706.3)**	(259.4)
Cash and cash equivalents at the beginning of the year		**5,458.1**	5,717.5	**5,458.1**	5,717.5
Cash and cash equivalents at the end of the year		**2,751.8**	5,458.1	**2,751.8**	5,458.1
Comprising of:					
Cash and balances with central banks	12	**2,631.7**	5,183.8	**2,631.7**	5,183.8
Loans and advances to banks	13	**120.1**	274.3	**120.1**	274.3
		2,751.8	5,458.1	**2,751.8**	5,458.1

CONSOLIDATED STATEMENT OF CASHFLOWS – RECONCILIATION OF MOVEMENTS OF LIABILITIES TO CASHFLOWS ARISING FROM FINANCING ACTIVITIES

For year ended 31 December 2023

£million

	Group and Bank					
	2023			2022		
	Lease liabilities	Other borrowed funds	Total	Lease liabilities	Other borrowed funds	Total
Balance at the beginning of the year	31.0	646.9	**677.9**	44.1	402.1	446.2
Changes from financing cashflows						
Proceeds from issuance of Tier 2 notes and senior unsecured debt	-	397.9	**397.9**	-	248.4	248.4
Redemption of Tier 2 notes	-	(163.5)	**(163.5)**	-	-	-
Interest paid on Tier 2 notes and senior unsecured debt	-	(62.7)	**(62.7)**	-	(44.5)	(44.5)
Lease liability principal payments	(6.6)	-	**(6.6)**	(14.6)	-	(14.6)
Total changes from financing cash flows	**24.4**	**818.6**	**843.0**	29.5	606.0	635.5
Other changes						
Interest payable on lease liabilities and Tier 2 notes	1.0	63.2	**64.2**	1.2	48.1	49.3
Other non cash movement	-	9.4	**9.4**	-	(7.2)	(7.2)
Remeasurements of lease liabilities	4.7	-	**4.7**	0.3	-	0.3
Balance at the end of the year	**30.1**	**891.2**	**921.3**	31.0	646.9	677.9

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For year ended 31 December 2023

£million

	Attributable to equity holders of the Group							
2023	Share capital	Share premium	FVOCI reserve	Cash flow hedging reserve	Capital re-organisation reserve	Defined benefit pension reserve	Retained earnings	Total equity
At 1 January 2023	0.9	313.8	(5.3)	10.6	(1,011.4)	22.3	1,968.1	**1,299.0**
Total comprehensive (expense)/income for the year	-	-	(2.7)	(5.2)	-	(11.8)	129.7	**110.0**
At 31 December 2023	**0.9**	**313.8**	**(8.0)**	**5.4**	**(1,011.4)**	**10.5**	**2,097.8**	**1,409.0**

	Attributable to equity holders of the Bank					
2023	Share capital	FVOCI reserve	Cash flow hedging reserve	Defined benefit pension reserve	Retained earnings	Total equity
At 1 January 2023	25.6	(5.3)	10.6	22.3	1,245.7	**1,298.9**
Total comprehensive (expense)/income for the year	-	(2.7)	(5.2)	(11.8)	129.7	**110.0**
At 31 December 2023	**25.6**	**(8.0)**	**5.4**	**10.5**	**1,375.4**	**1,408.9**

	Attributable to equity holders of the Group							
2022	Share capital	Share premium	FVOCI reserve	Cash flow hedging reserve	Capital re-organisation reserve	Defined benefit pension reserve	Retained earnings	Total Equity
At 1 January 2022	0.9	313.8	2.9	14.7	(1,011.4)	485.0	1,946.0	1,751.9
Total comprehensive (expense)/income for the year	-	-	(8.2)	(4.1)	-	(462.7)	22.1	(452.9)
At 31 December 2022	0.9	313.8	(5.3)	10.6	(1,011.4)	22.3	1,968.1	1,299.0

	Attributable to equity holders of the Bank					
2022	Share capital	FVOCI reserve	Cash flow hedging reserve	Defined benefit pension reserve	Retained earnings	Total Equity
At 1 January 2022	25.6	2.9	14.7	485.0	1,223.6	1,751.8
Total comprehensive (expense)/income for the year	-	(8.2)	(4.1)	(462.7)	22.1	(452.9)
At 31 December 2022	25.6	(5.3)	10.6	22.3	1,245.7	1,298.9

The notes on pages 193 to 236 form part of these consolidated Group and Bank financial statements.

All amounts are stated in £m unless otherwise indicated.

1. BASIS OF PREPARATION AND MATERIAL 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 2023 Annual Report and Accounts comprise:

Pages 185 to 236. The consolidated financial statements and notes of Holding Company and its subsidiaries (the consolidated financial statements of the Group). These are presented together with the consolidated financial statements and notes 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 237 to 260. The individual financial statements and notes of Bank Company.

Pages 261 to 267. The individual financial statements and notes of Holding Company.

Pages 268 to 280. The consolidated and individual financial statements and notes of Finance Company and its subsidiaries (together, the "Finance Group").

It also comprises the sections of the Directors' Report on Remuneration and Risk Management sections of the Business Review marked as audited.

1.2 Basis of preparation

The financial statements of the Group and Bank have been prepared and approved by the Directors of the respective companies in accordance with UK adopted international accounting standards.

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).

In preparing these financial statements, the Group has given consideration to the recommendations laid out by the Task Force on Climate-related Financial Disclosures (TCFD), and where relevant has incorporated assessment of the climate-related risks outlined in the Climate-related Financial Disclosures Report on pages 43 to 54 into judgements associated with recognition, measurement, presentation and disclosure, where so permitted by UK adopted international reporting standards. At 31 December 2023, the Group considers its present financial exposure to climate-related risk to be low and accordingly has made limited reference to the impacts of climate-related risk in the notes to the financial statements, though consideration has been given in particular to the possible financial impacts of climate-related risks on its expected credit losses, as disclosed in Note 2.2.1.c. Where forward-looking information is relied on in preparing the financial statements the Group has given due consideration, where appropriate and quantifiable, to potential future impacts of climate-related risk, but recognises that governmental and societal responses to climate change risks are still developing and thus their ultimate impacts on the Group are inherently uncertain and cannot be fully known. This assessment has considered information in respect of the period ending 30 June 2025 (the "assessment period") to cover a period of 18 months from the year-ended 31 December 2023.

1. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES (continued)

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. 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 has therefore considered information in respect of the period ending 30 June 2025 (the 'assessment period').

When considering the going concern status of the Group, 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').

The Group is exploring potential strategic opportunities with Coventry Building Society, the assessment of which is currently at a preliminary stage. There is no guarantee that such discussions will result in any eventual transaction. Consequently, for the purposes of this going concern assessment the group is focusing on the Board approved strategy.

The assessment is performed on the basis the Group remains compliant with all minimum capital and liquidity requirements. This has been considered against the backdrop of the principal risks faced by the Group as outlined in the risk management section, and included a detailed review of the forecast profitability, liquidity, capital resources, capital adequacy ratios and the associated binding minimum regulatory requirements as set out in the most recent long-term forecast reviewed by the Directors, which takes into account the Group's plans in respect of business activity, such as loan book growth, replacement of maturing debt instruments and capital distributions.

The Directors have considered the Bank's annual ILAAP and ICAAP process, which model an extreme but plausible scenario based on the Bank of England's stress scenario, as well as a reverse stress test based on the December 2023 position and latest forecast. The Directors are satisfied that the Group has sufficient regulatory capital and liquidity, alongside an effective range of management actions if required, across the assessment period, for the accounts to be prepared on a going concern basis.

As such, the Directors do not consider there to be a material uncertainty with regard to the Group's ability to remain compliant with its minimum binding regulatory requirements.

After considering the matters above, the Directors have a reasonable expectation that the Group will continue as a going concern with no material uncertainties over the assessment period. Accordingly, the accounts for period ended 31 December 2023 have been prepared on a going concern basis.

1.4 Material accounting policies

The accounting policies applied by the Group are set out in the explanatory information on pages 281 to 290. The accounting policies which are most material 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).

1.4.1 New accounting policies

The following standards and amendments to IFRSs became effective for annual reporting periods beginning on or after 1 January 2023 following endorsement by the UK Endorsement Board:

- IFRS 17 Insurance Contracts;
- Disclosure of Accounting Policies (Amendments to IAS 1 Presentation of Financial Statements and to IFRS Practice Statement 2 Making Materiality Judgements);
- Definition of Accounting Estimates (Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors);
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12 Income Taxes).

None of these standards or amendments had any significant impact on the Group on adoption.

1. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES (continued)

- Pillar Two model rules: Amendments to IAS 12. These were issued in May 2023 and received endorsement for use in the UK in July 2023. Pillar Two legislation was enacted in the UK on 11 July 2023. The legislation will be effective for the Group's financial year beginning 1 January 2024. The amendments introduce a mandatory temporary exception to the accounting for deferred taxes arising from the implementation of the OECD Pillar Two model rules. The Group applied the temporary exception for the year ended 31 December 2023. The Group is in scope of the enacted legislation that affects UK groups and has performed an initial assessment of the Group's potential exposure to Pillar Two income taxes. This assessment is based on the most recent information available regarding the financial performance of the Group. Based on the initial assessment performed, the Pillar Two effective tax rate in the UK is above 15 % and the Group does not currently expect a potential exposure to Pillar Two top-up taxes.

For the Groups' consideration of other standards in issue but not yet effective refer to the explanatory information section 2 on page 290.

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.

2.1 Critical judgements

2.1.1 Recognition of IAS 19 pension valuation surplus

Subsidiaries of the Group are the principal employers of the Britannia Pension Scheme (BPS), a closed defined benefit (DB) scheme, and the Bank Section of The Co-operative Pension Scheme (Pace), a hybrid scheme, consisting of a closed DB element and a defined contribution (DC) element.

Both BPS and the DB element of Pace are accounted for as DB pension schemes and the surplus arising on both schemes is recognised as a net retirement benefit asset, which represents a significant accounting judgement. 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 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.

In December 2022, the Pace Trustee completed a full "buy-in" transaction with Rothesay Life Plc, a specialist UK insurer, to insure scheme benefits through purchase of a bulk annuity insurance policy, building on a similar, smaller transaction completed in 2020. The insurance policies, which now make up the vast majority of Pace's assets, are valued in such a way that they match the associated liability that has been insured. The transaction had the impact of reducing volatility of the net asset recognised on the Bank's balance sheet and reduces the Group's exposure to risk through the scheme. Further details are disclosed in note 29 of the Group and Bank consolidated financial statements.

2.1.2 Unconsolidated structured entities

The Group is the sponsor for two unconsolidated structured entities, Warwick Finance Residential Mortgages Number Three p.l.c. and Warwick Finance Residential Mortgages Number Four p.l.c. (the Warwick SPEs), and holds legal title to the mortgages in exchange for a fee for a further three unconsolidated structured entities, Avon Finance No. 3 p.l.c., Avon Finance No 4 p.l.c. and Stratton Mortgage Funding 2021-1 p.l.c. (the Avon and Stratton SPEs). The Warwick SPEs were created for the purposes of selling Optimum (The Group's legacy retail secured mortgage portfolio) in the most capital efficient manner. The Avon SPEs were re-securitisations of former Warwick mortgages following the unwinding of earlier Warwick transactions during 2020. Following the sale of Optimum mortgages to a third party at the end of 2020, the Stratton SPE was established by a third party buyer as an unconsolidated structured entity in 2021 to securitise the mortgages. The Group performs a re-assessment of the requirement to consolidate the Warwick, Avon and Stratton SPEs on at least an annual basis, or more frequently as relevant. The Warwick, Avon and Stratton SPEs are not included within the consolidated results of the Group as its ongoing interest represents a less than de minimis variability of return. Further details are disclosed in note 35 of the Group and Bank consolidated financial statements.

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

2.1.3 Recognition of deferred tax assets in respect of future taxable profits

The Group recognises deferred tax assets to the extent there are sufficient taxable temporary differences and estimated probable future taxable profits against which unutilised capital allowances and historical tax losses can be utilised. Following initial recognition in 2021 of additional deferred tax assets in respect of future taxable profits, the Group considers the likelihood of future taxable profits remains sufficiently probable to warrant continued recognition of these assets, based on a) the continued sustainable profit made by the Group during 2023, and b) the Board-approved Financial Plan anticipating that the Group will continue to be profitable over the five-year plan period.

The value of deferred tax assets recognised by the Group is disclosed in note 28 of the Group and Bank consolidated financial statements.

2.1.4 Identification of significant increases in credit risk and credit impairment financial instruments

The Group considers the criteria by which it identifies financial instruments that have experienced a significant increase in credit risk (stage 2) or have become credit impairment (stage 3) to be an area of significant judgement. These criteria are considered in further detail in in the explanatory information section 1.3.j.ii-iii.

2.2 Key sources of estimation uncertainty

2.2.1 Estimation of expected credit losses (ECLs)

The Group's estimation of credit risk within its lending business is inherently uncertain and subject to high degree of expert judgement. Further information on the Group's credit risk management practices and risk exposures are outlined in the risk management section 3.2, and the policies adopted in quantifying ECLs are outlined in the explanatory information section 1.3.j. The following section considers the key judgemental assumptions used within the estimation process and assessments of their variability.

a) Collective impairment provisions – economic scenario selection and weighting sensitivity

The Group's approach to scenario selection and weighting is outlined in the explanatory information section 1.3.j.v. The scenarios and weights used within the Group's ECL modelling process are shown below:

Scenario weights	2023	2022
Upside[1]	**20%**	20 %
Base	**45%**	40 %
Mild downside	**20%**	30 %
Downside[2]	**10%**	5 %
Stress Downside[3]	**5%**	5 %

1. 2022: Mild Upside
2. 2022: Downside (Low rate)
3. 2022: Downside (High rate)

The Group has recalibrated the methodology of producing scenarios by differentiating all variables between the most severe two scenarios, where previously GDP, HPI and unemployment had been aligned. The Group has also made an adjustment to the weightings to reflect that the base scenario captures some economic downturn. If the 2022 weightings were applied to the 2023 modelled ECL, it would decrease by £0.2m.

The table below demonstrates the varying size of the modelled ECL if 100 % weighting were applied to each of the scenarios.

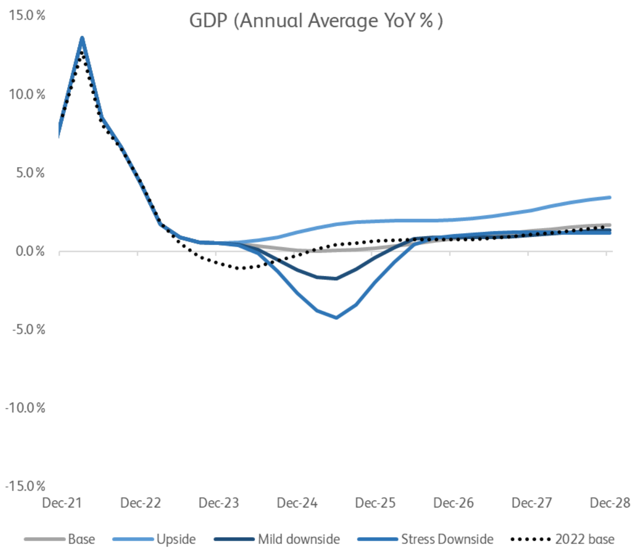
		Core				
2023	% applied in model	Retail secured	Retail unsecured	SME	Legacy & central items	Total
Upside	20 %	1.3	7.1	1.6	1.7	**11.7**
Base	45 %	2.5	7.3	1.8	1.7	**13.3**
Mild downside	20 %	4.3	7.6	2.0	1.9	**15.8**
Downside	10 %	6.1	7.9	2.2	2.0	**18.2**
Stress Downside	5 %	15.4	8.4	2.5	2.1	**28.4**
Weighted average	100 %	**3.6**	**7.5**	**1.9**	**1.8**	**14.8**

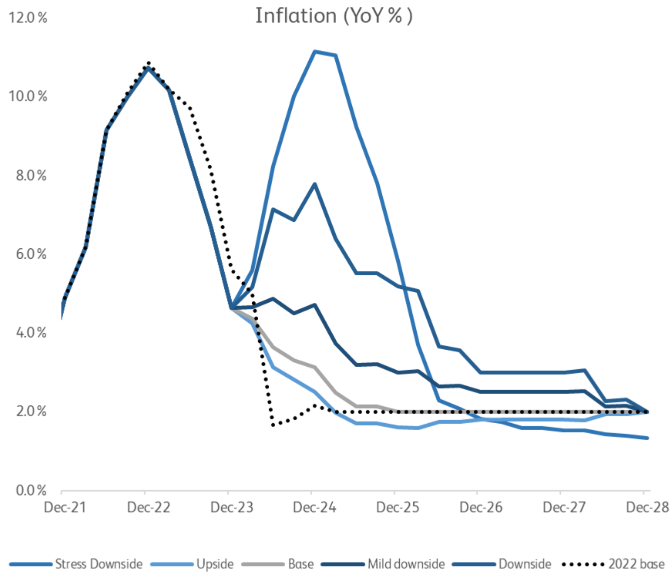
The staging of individual loans contributing to the ECLs within the above table reflects the base case position only and no allowances for stage transfers have been made in fully weighted alternative scenarios; these should therefore not be considered reliable forecasts of expected losses under such economic conditions.

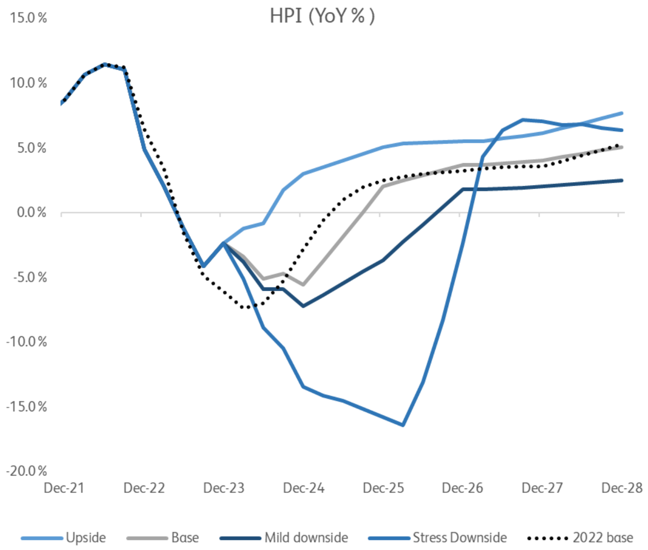
2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

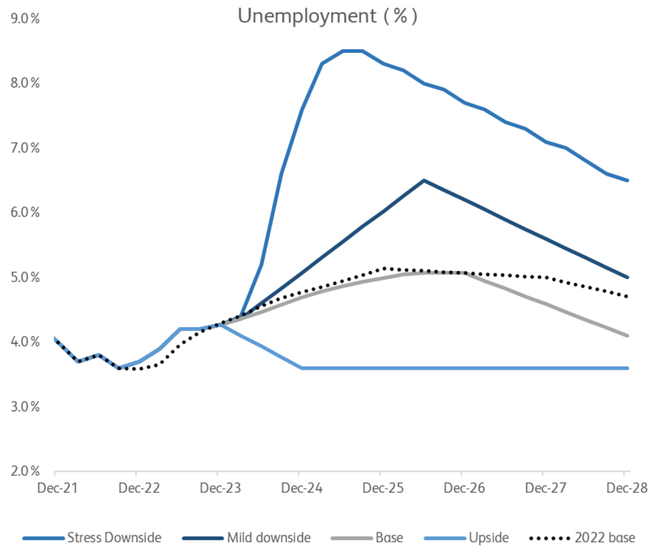
In practice, if any such scenario were experienced in isolation it would be reasonable to expect customers to transfer between stages, which would affect the total ECL. It should also be noted that the above considers only modelled ECLs and not the impact of any judgemental adjustments. In practice, certain judgemental adjustments implemented by the Group may offset the modelled movements above to reduce the sensitivity of the overall ECL.

b) Collective impairment provisions – macroeconomic variables and sensitivities
The key forecast variables used within the Group's range of economic scenarios are depicted in the graphs below, and also summarised in the subsequent table as the annual and average over the five-year forecast period used within all scenarios.









After the initial scenario deviation, GDP and HPI growth rates converge towards long run growth rates. Levels remain representative of upside/downside outcomes that result from initial differences in growth rates in the early years of the scenarios.

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

	2024	2025	2026	2027	2028	5 year average[5]	Dec-23 to peak	Dec-23 to trough
GDP[1]								
Upside	1.2 %	1.9 %	2.0 %	2.6 %	3.4 %	2.0 %	13.1 %	0.0 %
Base	0.1 %	0.2 %	0.8 %	1.3 %	1.7 %	0.7 %	4.8 %	(0.0 %)
Mild downside	(1.2 %)	(0.4 %)	0.9 %	1.0 %	1.4 %	0.3 %	2.2 %	(2.1 %)
Downside	(1.9 %)	(1.3 %)	1.0 %	1.3 %	1.6 %	0.0 %	1.1 %	(3.6 %)
Stress Downside	(2.7 %)	(2.0 %)	1.0 %	1.2 %	1.2 %	(0.3 %)	0.0 %	(5.0 %)
Inflation[2]								
Upside	2.5 %	1.6 %	1.8 %	1.8 %	2.0 %	2.1 %	10.1 %	0.0 %
Base	3.1 %	2.0 %	2.0 %	2.0 %	2.0 %	2.4 %	11.6 %	0.0 %
Mild downside	4.7 %	3.0 %	2.5 %	2.5 %	2.0 %	3.1 %	15.6 %	0.0 %
Downside	7.8 %	5.2 %	3.0 %	3.0 %	2.0 %	4.3 %	22.7 %	0.0 %
Stress Downside	11.2 %	5.8 %	1.8 %	1.5 %	1.3 %	4.5 %	23.6 %	0.0 %
HPI[2]								
Upside	3.0 %	5.1 %	5.5 %	6.1 %	7.7 %	4.7 %	30.7 %	0.0 %
Base	(5.6 %)	2.0 %	3.7 %	4.1 %	5.1 %	1.2 %	9.2 %	(5.6 %)
Mild downside	(7.2 %)	(3.7 %)	1.8 %	2.0 %	2.5 %	(1.3 %)	0.0 %	(10.6 %)
Downside	(9.6 %)	(9.7 %)	0.0 %	2.4 %	3.0 %	(3.3 %)	0.0 %	(18.3 %)
Stress Downside	(13.5 %)	(15.8 %)	(2.3 %)	7.1 %	6.4 %	(4.3 %)	0.0 %	(30.7 %)
Unemployment[3]								
Upside	3.6 %	3.6 %	3.6 %	3.6 %	3.6 %	3.7 %	0.0 %	(0.7 %)
Base	4.7 %	5.0 %	5.1 %	4.6 %	4.1 %	4.7 %	0.8 %	(0.2 %)
Mild downside	5.1 %	6.0 %	6.2 %	5.6 %	5.0 %	5.6 %	2.2 %	0.0 %
Downside	5.4 %	6.8 %	7.1 %	6.3 %	5.5 %	6.2 %	3.2 %	0.0 %
Stress Downside	7.6 %	8.3 %	7.7 %	7.1 %	6.5 %	7.3 %	4.2 %	0.0 %
Base rate[4]								
Upside	4.0 %	3.0 %	3.0 %	3.0 %	3.0 %	3.4 %	0.0 %	(2.3 %)
Base	4.5 %	3.5 %	3.5 %	3.5 %	3.5 %	3.9 %	0.0 %	(1.8 %)
Mild downside	5.0 %	4.0 %	4.0 %	4.0 %	4.0 %	4.4 %	0.5 %	(1.3 %)
Downside	3.3 %	2.0 %	2.0 %	2.0 %	2.0 %	2.5 %	0.0 %	(3.3 %)
Stress Downside	6.0 %	5.8 %	4.8 %	3.8 %	3.5 %	5.0 %	0.8 %	(1.8 %)

1. Annual average YoY %
2. Q4 YoY %
3. Q4 %
4. Year-end %
5. Average of quarterly positions

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

The key parameters of the above scenarios are outlined in the table below:

	GDP	Inflation	HPI	Unemployment	Base rate
Upside	Annual GDP growth increases by 1.2 % in 2024 and 1.9 % in 2025. Positive quarterly growth throughout the forecast.	Inflation declines quicker than the base, falling to 2.5 % by Q4 2024, and reaching the BoE's target in Q1 2025, 3 quarters earlier than the base. Inflation then falls below 2.0 %, returning to 2.0 % target in 2028.	House prices grow in each quarter of 2024, driving annual growth of 3.0 % in 2024 and 5.1 % in 2025. Prices exit 2028 31.0 % higher than December 2023.	Unemployment improves to 3.6 % by Q4 2024, with this level maintained across the remainder of the forecast period.	Base rate is cut to 4.75 % in February 2024. Further seven 25bps cuts each quarter to terminal rate of 3.0 % in November 2025.
Base	GDP broadly flat at 0.1 % annual growth in 2024 with growth improving from 2025, but remains weak at 0.2 %. Growth increases in the outer years as unemployment and inflation reduce.	Inflation is expected to remain above the 2.0 % target throughout 2024 and is expected to reach the 2.0 % target by the end of 2025, where it remains at this level throughout the remainder of the forecast.	House prices are expected to fall 5.6 % in 2024, driving 10 % peak to trough fall, with positive quarterly growth returning in 2025 as the economic environment stabilises.	Unemployment is forecast to rise to 4.7 % in 2024 peaking at 5.1 % in 2026, before improving to 4.1 % by 2028.	Base rate first cut in Q2 2024. Base rate is cut a total of 75bps in 2024 and 100bps in 2025, reaching 3.5 % by November 2025 where it remains for the rest of the forecast.
Mild downside	GDP annual growth declines 1.2 % in 2024 as the economy enters into a three quarter recession from Q1 2024, with peak to trough fall of 2.0 %. Positive quarterly growth returns in Q1 2025.	Inflation rises above the base, exiting 2024 at 4.7 % before falling to 3.0 % in 2025. Inflation remains above target throughout, falling to 2.0 % in Q4 2028.	House prices forecast to fall 7.2 % in 2024 and 3.7 % in 2025 with a peak to trough fall of 15 %. Quarterly growth returns in Q1 2026.	Unemployment deteriorates to 5.1 % in Q4 2024, and peaks at 6.5 % in Q2 2026, improving to 5.0 % by 2028.	Base rate rises to a peak of 5.75 % in Q1 2024. First cut in May 2024, with 175bps of cuts by November 2025 to terminal rate of 4.0 %.
Downside	GDP contracts by 1.9 % in 2024 as the economy enters into a four quarter recession with peak to trough fall of 4.0 %. Positive quarterly growth returns in Q1 2025.	Inflation rises above the base, increasing to 7.8 % in Q4 2024, falling to 5.2 % in 2025 but not reaching the 2.0 % target until the end of 2028.	House prices decline 9.6 % in 2024 and 9.7 % in 2025 with a peak to trough fall of 22 %. Prices remain flat in 2026 with quarterly growth returning in Q1 2027.	Unemployment rises to 5.4 % in Q4 2024, and peaks at 7.5 % in Q2 2026.	Base rate cut 50bps in each of the first seven quarters, with one final 25bps cut to a terminal rate of 2.0 % in August 2025.
Stress Downside	GDP contracts by 2.7 % in 2024 as the economy enters into a more severe four quarter recession with peak to trough fall of 5.0 %. Positive quarterly growth returns in Q1 2025.	Inflation accelerates above the base, peaking at 11.2 % in Q4 2024. Inflation falls below the 2.0 % target in Q4 2026 returning to the 2.0 % target in Q4 2028.	House prices decline 13.5 % in 2024 and 15.8 % in 2025 with a peak to trough fall of 34.0 %. Quarterly growth returns in Q3 2026.	Unemployment rises to 7.6 % in Q4 2024, and peaks at 8.5 % in Q2 2025.	Base rate rises to 6.0 % in May 2024 with the aim to reduce inflation. First base rate cut in November 2025, reaching 3.5 % by February 2028.

The key changes to the base forecasts over those in use at 31 December 2022 are:

- **GDP** – annual growth is improved across the forecast compared to previously due to reduced probability of a recession towards the start of the forecast.
- **Inflation** – higher in short term as a result of geopolitical events and 2.0 % target is reached in Q4 2025 compared to Q1 2025 previously.
- **HPI** – peak to trough fall in house prices is in line at 10.0 % where cost of living pressures continue to put stress on disposable income.
- **Unemployment** – higher levels in the short term due to increased number of individuals moving from inactive to unemployed with peak of 5.1 % in line.
- **Base rate** – base rate cuts assumed to be at a quicker rate based upon higher peak, with higher terminal rate of 3.5 % compared to a 3.0 % terminal rate previously based upon latest market expectations.

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Sensitivities

The table below illustrates the changes to the ECL that would result from reasonably possible variations in the macroeconomic variables to which the modelled ECL is most sensitive. This is applied on a single-factor basis as an absolute percentage increase to that variable within the base ECL, with all other non-illustrated variables remaining constant, and includes the impact of consequent transitions between stage 1 and 2.

	Core				
2023	**Retail secured**	**Retail unsecured**	**SME**	**Legacy & central**	**Total**
HPI +15 %	(0.3)	-	-	-	**(0.3)**
HPI -15 %	16.2	-	-	-	**16.2**
Unemployment rate +2 %	-	0.2	-	-	**0.2**
Unemployment rate -2 %	-	(0.2)	-	-	**(0.2)**
GDP growth +2 %	-	-	(0.4)	-	**(0.4)**
GDP growth -2 %	-	-	0.4	-	**0.4**

The sensitivities on the above parameters should be considered in isolation; aggregation of the results for different parameters would not produce meaningful information, and these sensitivities should not be extrapolated due to the non-linearities of their interactions with the ECL models.

c) Collective impairment provisions – judgemental adjustments

The Group applies judgemental adjustments to its modelled outputs to capture risk characteristics for assets subject to collective provisioning but for which a specific risk characteristic is not captured within the collective models. These are typically implemented by the Group in the form of Post Model Adjustments (PMAs). The Group reviews judgemental adjustments on a quarterly basis to determine whether adjustments should be stood up, remeasured or retired. An overview of material judgemental adjustments is disclosed below:

	Core				
2023	**Retail secured**	**Retail unsecured**	**SME**	**Legacy & unallocated**	**Total**
Model assumption related PMAs	10.4	0.6	-	0.1	**11.1**
Affordability PMAs	1.9	1.0	3.0	-	**5.9**
Other PMAs	1.1	-	1.5	0.1	**2.7**
Total judgemental adjustments[1]	**13.4**	**1.6**	**4.5**	**0.2**	**19.7**

1. Judgemental adjustments exclude operational model adjustments of £1.3m (2022: £1.6m) in respect of individually insignificant model corrections where management judgement does not have a substantial impact on the quantification of the adjustment.

	Core				
2022 (Re-presented[1])	**Retail secured**	**Retail unsecured**	**SME**	**Legacy & unallocated**	**Total**
Model assumption related PMAs	9.7	2.5	-	-	12.2
Affordability PMAs	2.5	1.5	3.2	0.1	7.3
Other PMAs	1.8	-	1.6	0.2	3.6
Total judgemental adjustments	14.0	4.0	4.8	0.3	23.1

1. Management has amended its categorisations of judgemental adjustments during 2023 and has re-presented the 2022 judgemental adjustments accordingly. All remaining COVID-19 PMAs are now classed by management as affordability PMAs.

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key features of the judgemental adjustments are summarised in the table below:

	Nature of judgement	Application within ECL calculation	Criteria for removal
Model assumption related PMAs	Primarily that secured model understates risk due to book's relative immaturity and limited default experience	Stress factors are applied to modelled PDs and LTVs and additional stage 2 triggers based on consumer indebtedness levels are applied to uplift certain stage 1 customers to stage 2	PMA to remain long term as removal is dependent on the Group observing sufficient default and loss data points, through a full economic cycle
Affordability PMAs	All models considered to understate cost of living impacts on customer credit risk	Customers identified as being at a higher vulnerability to cost of living impacts based on a combination of stressed affordability tests (secured), consumer indebtedness levels (unsecured) and sector (SME) are uplifted from stage 1 to stage 2	Evidence of real wage growth and reduced level of inflation with stable arrears position
Other PMAs	There are certain other areas where models do not adequately capture certain identified risk factors, such as the potential exposure to reductions in value in flat properties, and EPC remediation. No PMA is individually significant	Various, depending on the nature of the PMA	Various, depending on the nature of the PMA

The key changes in judgemental adjustments during the year were primarily small reductions in affordability PMAs due to SICR thresholds being met and impacted customers being moved to stage 2 in the Group's ECL models without the need for management adjustments, as well as the removal of a PD understatement PMA related to credit cards following improvements made to the Group's models.

Impact of climate change on ECL

The Group has identified credit losses as one of the main areas in which it could be exposed to the financial impacts of climate change risk, either where its lending practices could expose it to physical risks (e.g. secured collateral value impacted by flooding caused by extreme weather events) or transition risks (e.g. where SME customers are threatened by the need to transition to greener working practices).

The Group's IFRS 9 models do not explicitly consider the potential impacts of such risks, though the Group recognises a £0.2m climate-related judgemental adjustment in respect of the transition risk associated with the low-energy efficient housing stock, where low EPC rated properties are assumed to be exposed to value risk.

The Group has also continued to monitor its exposure to physical risks on its retail secured book, but has determined that reasonably possible credit losses associated with climate risk in this area (e.g. flooding damage to secured properties between now and 2050) remain unlikely to be material, particularly when considering discounting of any future dated impacts and stage 1 exposures (accounting for c. 88% of the Group's retailed secured book) only considering expected losses within the next 12 months. As such, no further PMAs have been recognised in respect of this risk. Further considerations around the Group's exposure to climate risk are outlined in the TCFD report on pages 43 to 54.

d) Individual impairment provisions

Individually assessed provisions are made for loans that are considered to be individually significant (typically corporate loans). At 31 December 2023, ECLs of £3.0m (2022: £3.7m) were recognised in respect of individually assessed exposures. Such provisions are not sensitive to changes in macroeconomic variables but would instead typically be most sensitive to changes in underlying collateral values; however, given the prevalence of fully provided unsecured loans and low LTV exposures within a small population of individually assessed exposures, the provision is not particularly sensitive to movements in collateral value. A 20% decrease in collateral values associated with individually assessed exposures would give rise to a £0.2m increase in ECLs (2022: £nil).

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

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 scheme liabilities is prepared biannually for the Group's reporting purposes, by a qualified actuary. Results before tax and net assets may be 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 29 of the Group and Bank consolidated financial statements.

2.2.3 Effective interest rate (EIR)

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.

At 31 December 2023, the Group recognised an EIR adjustment of £63.3m (2022: £72.1m) in respect of its fixed rate mortgage portfolio. Of this adjustment, £37.3m (2022: £52.9m) is attributable to fees charged and received in the mortgage origination process, and £26.0m (2022: £19.2m) is attributable to expectations of increased future income from those customers who revert to the Group's standard variable rate. The element of the adjustment attributable to fees is neither significantly judgemental nor sensitive. However, the element of the adjustment attributable to future SVR income is subject to significant estimation uncertainty, with the two most sensitive variables being as follows:

a) 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 50bp increase or decrease to the forecast SVR (currently 8.12% (2022: 5.87%) with rises tracking the base rate assumptions used within the Group's central base rate forecast) following the expiry of the fixed rate period would result in a £2.4m (2022: £2.0m) increase or decrease respectively in the EIR asset within the loans and advances to customers balance as at 31 December 2023.

b) 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.

The Group typically expects all fixed rate mortgages to spend a weighted average of 0.48 months (2022: 0.45 months) on SVR. This is driven by an expectation of a weighted average of 8% (2022: 9%) of fixed rate mortgages to become chargeable for at least one month of SVR, and then remain on the SVR for a weighted average of 6 months (2022: 5 months). As a measure of the sensitivity of this variable, if the average time spent on SVR for those customers who spend at least 1 month on SVR increases or decreases by 1 month, the EIR asset would increase or decrease by £4.4m (2022: £3.8m) respectively.

2.2.4 Measurement of deferred tax assets in respect of future taxable profits

As described in section 2.1.3, the Group continues to recognise a deferred tax asset in respect of future taxable profits. The Group has limited the recognition of deferred taxes to £197.5m (2022: £120.6m) in respect of historical tax losses that it expects to utilise to reduce future tax charges.

The Group has considered a number of plausible future profitability scenarios based on the most recent Board approved plan, including both upside and downside scenarios, and estimated the utilisation of historical tax losses to determine a range of deferred tax asset values. A range approach is considered to be appropriate in estimating the deferred tax asset due to the inherent uncertainty in forecasting future profits. The deferred tax asset valuation will be reviewed on a regular basis for appropriateness in the context of that range. As a measure of sensitivity, the Group estimates that under this approach, projected profitability could decline by 18% over the forecast period without resulting in a reduction to the recognised deferred tax asset, and a further absolute 4% reduction in projected profitability would be required to result in a material (£12.0m) write-down of the deferred tax asset. The Group anticipates that the current recognised deferred tax asset will be fully utilised within 6 years.

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

The Group has also recognised £36.4m (2022: £46.8m) of deferred tax assets in respect of capital allowances on fixed assets that it expects to utilise to reduce future tax charges. The Bank's profitability is inherently sensitive to a range of factors, including macroeconomic conditions (such as changes to interest rates, future tax rates, the ongoing impacts of the cost of living and geopolitical crises and potential climate-related risks) and more idiosyncratic elements (such as the Group's ability to meet cost targets and successfully execute its strategy).

The Group has a further £413.4m (2022: £492.7m) of unrecognised deferred tax assets associated with historical trading losses. Whilst there is no expiry date for the utilisation of tax losses, the utilisation of losses is restricted to 50 % or 25 % of taxable profits depending upon when those tax losses were incurred.

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. ExCo reviews information from internal reporting based on these segments in order to assess performance and allocate resources. The segments are differentiated by whether the customers are individuals or business entities. The operating costs of all business functions are allocated to the income-generating businesses. Treasury balances have not been allocated to segments to maintain clarity on underlying customer product balances.

	Group and Bank				
	Core				
2023	Retail	SME	Total	Legacy & unallocated	Total
Net interest income	377.3	97.7	**475.0**	2.0	**477.0**
Other operating income	21.8	15.8	**37.6**	0.6	**38.2**
Operating income	**399.1**	**113.5**	**512.6**	**2.6**	**515.2**
Operating expenses	(320.3)	(67.7)	**(388.0)**	(57.5)	**(445.5)**
Net credit impairment (losses)/gains	(0.7)	(1.3)	**(2.0)**	1.4	**(0.6)**
Non-operating income	-	-	-	2.3	**2.3**
Profit before tax	**78.1**	**44.5**	**122.6**	**(51.2)**	**71.4**

	Group and Bank				
	Core				
2022	Retail	SME	Total	Legacy & unallocated	Total
Net interest income	397.0	69.3	466.3	(8.0)	458.3
Other operating income	22.7	18.7	41.4	(0.3)	41.1
Operating income/(expense)	419.7	88.0	507.7	(8.3)	499.4
Operating expenses	(288.6)	(63.6)	(352.2)	(20.5)	(372.7)
Net credit impairment (losses)/gains	(5.2)	(1.6)	(6.8)	0.4	(6.4)
Non-operating income	-	-	-	12.3	12.3
Profit before tax	125.9	22.8	148.7	(16.1)	132.6

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.

3. SEGMENTAL INFORMATION (continued)

	Group and Bank				
		Removal of:			
2023	IFRS statutory	Volatile items[1]	Strategic projects	Non recurring[2]	Underlying basis
Net interest income	477.0	-	-	-	**477.0**
Other operating income	40.5	(2.3)	-	-	**38.2**
Operating income	**517.5**	**(2.3)**	**-**	**-**	**515.2**
Operating expenses	(445.5)	-	12.2	39.6	**(393.7)**
Net credit impairment losses	(0.6)	-	-	-	**(0.6)**
Profit before tax	**71.4**	**(2.3)**	**12.2**	**39.6**	**120.9**
Cost:income ratio[3]	**86%**				**76%**

1. In the period ended 31 December 2023, this mainly comprises gain on shares revaluation.
2. In the period ended 31 December 2023, this comprises customer redress costs and other exceptional costs.
3. Cost:income ratio is calculated as (operating expenses plus net customer redress release)/(operating income).

	Group and Bank				
		Removal of:			
2022	IFRS statutory	Volatile items[1]	Strategic projects	Non recurring[2]	Underlying basis
Net interest income	458.3	-	-	-	458.3
Other operating income	53.4	(8.2)	-	(4.1)	41.1
Operating income	511.7	(8.2)	-	(4.1)	499.4
Operating expenses	(372.7)	-	12.4	3.3	(357.0)
Net credit impairment losses	(6.4)	-	-	-	(6.4)
Profit before tax	132.6	(8.2)	12.4	(0.8)	136.0
Cost:income ratio[3]	73 %				71 %

1. In the period ended 31 December 2022, this comprises gain on shares revaluation.
2. In the period ended 31 December 2022, this comprises gains on the sale of a small legacy loan book, release of PPI provision and other exceptional costs.
3. Cost:income ratio is calculated as (operating expenses plus net customer redress release)/(operating income).

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

	Group and Bank				
	Core				
2023	Retail	SME	Total	Legacy & unallocated	Total
Segment assets	19,302.9	378.4	19,681.3	6,390.0	26,071.3
Segment liabilities	15,690.4	3,320.7	19,011.1	5,651.2	24,662.3

	Group and Bank				
	Core				
2022	Retail	SME	Total	Legacy & unallocated	Total
Segment assets	19,841.3	388.2	20,229.5	7,903.3	28,132.8
Segment liabilities	16,607.8	3,396.8	20,004.6	6,829.2	26,833.8

4. AUDITOR'S REMUNERATION

	Group and Bank	
	2023 £'000	2022 £'000
Fees payable to the Bank's auditor for the audit of the annual accounts	**2,645**	2,309
Audit expenses	**50**	50
Fees payable to the Bank's auditor for other services:		
Audit of the accounts of group undertakings	**98**	86
Audit-related assurance services	**237**	191
Other assurance services	**192**	150
Total audit fees and expenses for the financial year	**3,222**	2,786
All other services provided by the auditor	**-**	-
Total auditor's remuneration	**3,222**	2,786

5. DIRECTORS' EMOLUMENTS

	Group and Bank	
	2023	2022
Total remuneration receivable by Directors	**4.8**	5.2

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 £2.4m (2022: £2.8m).

For more details, please refer to the Directors' Report on remuneration.

6. NET INTEREST INCOME

Interest income and similar income

	Group and Bank							
	2023				2022			
	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	**638.6**	**-**	**-**	**638.6**	482.5	-	-	482.5
Loans and advances to banks	**178.3**	**-**	**-**	**178.3**	81.2	-	-	81.2
Investment securities	**3.1**	**63.8**	**-**	**66.9**	1.6	15.9	-	17.5
Net interest income on net defined benefit pension asset	**-**	**-**	**7.9**	**7.9**	-	-	16.8	16.8
	820.0	**63.8**	**7.9**	**891.7**	565.3	15.9	16.8	598.0
On financial assets at fair value through profit or loss:								
Loans and advances to customers	**-**	**-**	**4.9**	**4.9**	-	-	4.9	4.9
Net interest income on financial instruments hedging assets	**-**	**-**	**208.3**	**208.3**	-	-	51.1	51.1
Net interest income on financial instruments not in a hedging relationship	**-**	**-**	**42.3**	**42.3**	-	-	15.9	15.9
Total net interest income	**820.0**	**63.8**	**263.4**	**1,147.2**	565.3	15.9	88.7	669.9

6. NET INTEREST INCOME (continued)

Interest expense and similar charges

	Group and Bank					
	2023			2022		
	Amortised cost	Other	Total	Amortised cost	Other	Total
On financial liabilities not at fair value through profit or loss:						
Customer accounts	**(299.0)**	**-**	**(299.0)**	(60.8)	-	(60.8)
Subordinated liabilities, debt securities in issue and other deposits	**(317.3)**	**-**	**(317.3)**	(136.2)	-	(136.2)
Interest on lease liabilities	**-**	**(1.0)**	**(1.0)**	-	(1.2)	(1.2)
Net interest expense on unfunded pension obligations	**-**	**(0.3)**	**(0.3)**	-	(0.2)	(0.2)
	(616.3)	**(1.3)**	**(617.6)**	(197.0)	(1.4)	(198.4)
On financial liabilities at fair value through profit or loss:						
Net interest expense on financial instruments hedging liabilities	**-**	**(19.3)**	**(19.3)**	-	(3.5)	(3.5)
Net interest expense on financial instruments not in a hedging relationship	**-**	**(33.3)**	**(33.3)**	-	(9.7)	(9.7)
Total interest expense and similar charges	**(616.3)**	**(53.9)**	**(670.2)**	(197.0)	(14.6)	(211.6)

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 policies are provided in the explanatory information on pages 281 to 290.

8. OTHER OPERATING INCOME/(EXPENSE) (NET)

	Group and Bank	
	2023	2022
Gain on sale of investment securities	**0.3**	0.2
Gain on sale of loans and advances to customers	**0.4**	4.5
Fair value movement on loans and advances to customers designated at fair value	**2.5**	(18.0)
(Expense)/income from derivatives and hedge accounting	**(3.5)**	18.8
Income from assets and liabilities held at fair value through profit or loss[1]	**2.0**	8.3
Foreign currency transactions	**5.4**	8.2
Redemption of other borrowed funds	**(3.2)**	-
Other operating income/(expense)	**0.2**	(0.4)
	4.1	21.6

1. Income from assets and liabilities held at fair value through profit and loss of £2.0m (2022: £8.3m) includes a £1.7m gain on equity shares (2022: £7.9m gain).

Included in the table above, in 2023 hedge ineffectiveness generated a loss of £2.4m (2022: £1.6m) in relation to fair value hedging programmes.

9. OPERATING EXPENSES

	Group and Bank	
	2023	2022
Staff costs	**153.7**	126.4
Depreciation, amortisation and impairment of fixed assets[1]	**34.8**	35.3
Technology costs	**48.9**	44.5
Outsourced operations	**51.8**	58.8
Professional services and IT consultancy costs	**44.7**	33.0
Property costs	**11.9**	8.9
Credit checking and screening	**8.4**	7.3
Regulatory levies	**3.6**	3.6
Customer redress charges/(releases)	**28.9**	(1.0)
Other expenses	**58.8**	55.9
Total operating expenses	**445.5**	372.7

1. Mainly comprises amortisation of intangible assets of £22.7m (2022: £22.8m).

10. STAFF COSTS

	Group and Bank	
	2023	2022
Wages and salaries	**105.3**	88.0
Social security costs	**13.9**	11.7
Pension costs - Defined contribution plans	**9.0**	7.0
Other staff costs[1]	**25.5**	19.7
Total staff costs	**153.7**	126.4

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	
	2023	2022
Full time	**2,656**	2,134
Part time	**649**	543
	3,305	2,677

11. INCOME TAX

	Group and Bank	
	2023	2022
Current tax		
Current year	**1.4**	5.7
Adjustments in respect of prior year	**0.2**	-
Total current tax charge	**1.6**	5.7
Deferred tax		
Current year	**(58.3)**	2.7
Adjustments in respect of prior year	**0.6**	0.4
Impact of rate changes	**(2.2)**	43.3
Write-down of previously recognised deferred tax asset	**-**	58.4
Total deferred tax (credit)/charge	**(59.9)**	104.8
Total tax (credit)/charge	**(58.3)**	110.5

In addition to the above, included within other comprehensive income is a deferred tax credit of £6.6m (2022: £235.4m credit).

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

	Group and Bank	
	2023	2022
Profit before tax	**71.4**	132.6
Tax charge calculated at a rate of 23.5% (2022: 19%)	**16.8**	25.2
Effects of:		
Movement in unrecognised deferred tax	**(68.4)**	(16.9)
Impact of banking surcharge on deferred tax	**(6.8)**	(1.9)
Impact of tax rate changes on deferred tax	**(2.2)**	43.3
Expenses not deductible for tax purposes	**1.7**	1.8
Adjustments in respect of prior year	**0.8**	0.4
Non-taxable income	**(0.3)**	(0.3)
Depreciation of expenditure not qualifying for capital allowances	**0.1**	0.2
Write-down of previously recognised deferred tax asset	**-**	58.4
Banking surcharge	**-**	0.3
Total tax (credit)/charge	**(58.3)**	110.5

The movement in unrecognised deferred tax represents the recognition of additional historical tax losses that have been brought onto the balance sheet reflecting their expected utilisation against future probable taxable profits.

11. INCOME TAX (continued)

The tax charge of £110.5m in the prior year was caused by the pension "buy-in" resulting in a write-down of a previously recognised deferred tax asset, the impact of the decrease of the banking surcharge rate on deferred tax assets, and the tax charge on the profits in the period.

The UK corporation tax rate increased from 19 % to 25 % effective from 1 April 2023. The banking surcharge also applies to Bank Company. A reduction of the banking surcharge from 8 % to 3 % and an increase of the surcharge allowance from £25.0m to £100.0m (effective 1 April 2023) were substantively enacted on 2 February 2022. From 1 April 2023, the combined rate of tax on banking profits in excess of £100.0m is 28 %. Deferred tax has been calculated by reference to the appropriate rate based on the forecast reversals of the related temporary differences. The Group's effective tax rate remains difficult to predict due to the movement in recognised deferred tax assets and the effect of the changes in tax rates. Further detail on deferred tax is provided in note 2 and in note 28 of the Group and Bank consolidated financial statements.

12. CASH AND BALANCES AT CENTRAL BANKS

	Group and Bank	
	2023	2022
Cash in hand/(items in transit)	**0.6**	(4.8)
Balances with the Bank of England other than mandatory reserve deposits	**2,631.1**	5,188.6
Included in cash and cash equivalents	**2,631.7**	5,183.8
Mandatory reserve deposits with the Bank of England	**76.6**	86.6
Total cash and balances at central banks	**2,708.3**	5,270.4

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. An expected credit loss of £nil was recorded as at 31 December 2023 (2022: £nil) in relation to cash and balances at central banks.

13. LOANS AND ADVANCES TO BANKS

	Group and Bank	
	2023	2022
Placements with other banks[1] (included in cash and cash equivalents)	**120.1**	274.3
Other loans and advances to banks	**92.5**	112.8
Total loans and advances to banks	**212.6**	387.1

1. The Bank currently holds no repo and reverse repo transactions that are subject to obligatory netting arrangements.

An expected credit loss of £nil was recorded as at 31 December 2023 (2022: £nil) in relation to loans and advances to banks. For further details on pledged and transferred assets, refer to note 30 of the Group and Bank consolidated financial statements. This reflects that the Bank is lending to highly rated banks from a credit perspective.

14. LOANS AND ADVANCES TO CUSTOMERS

a) Analysis of the balance sheet

	Group and Bank	
	2023	2022
Gross loans and advances	**20,354.3**	20,962.2
Less: allowance for losses	**(37.4)**	(40.3)
Fair value adjustment for hedged risk	**(167.5)**	(430.7)
Total loans and advances to customers net of allowance for losses	**20,149.4**	20,491.2

Loans and advances to customers include £93.1m (2022: £93.3m) of financial assets designated at fair value through profit or loss to eliminate or significantly reduce a measurement or recognition inconsistency; of these, £50.1m (2022: £53.4m) are secured by real estate collateral.

For further details on pledged and transferred assets, refer to note 30 of the Group and Bank consolidated financial statements. For stage allocation and analysis, refer to credit risk section of the risk management report.

The significant reduction in the Fair value adjustment for hedged risk (FVAHR) to £(167.5)m (2022: £(430.7)m) is due to a decrease in swap rates at 31 December 2023 compared to prior year. This relates to mortgage assets, so is reported on the asset side of the balance sheet, whether it is a debit or a credit. Further information on the Bank's hedging programmes is included in section 4.3 of the risk management report.

14. LOANS AND ADVANCES TO CUSTOMERS (continued)

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

	Group and Bank			
	Retail	SME	Legacy & unallocated	Total
At 1 January 2023	28.1	7.9	4.3	**40.3**
Changes arising from stage transfers:				
To lifetime ECL (stage 1 to 2 or 3)	6.0	0.5	0.4	**6.9**
To credit impaired (stage 1 or 2 to 3)	2.1	1.4	-	**3.5**
To 12 month ECL (stage 2 or 3 to 1)	(4.5)	(0.1)	-	**(4.6)**
From credit impaired (stage 3 to 2)	(0.2)	0.1	-	**(0.1)**
Net changes arising from stage transfers	**3.4**	**1.9**	**0.4**	**5.7**
Other charges/(releases):				
New assets originated or purchased	1.8	0.8	-	**2.6**
Other changes to risk parameters	(0.9)	(0.1)	(1.6)	**(2.6)**
Redemptions and repayments	(2.7)	(1.0)	(0.2)	**(3.9)**
Net other charges/(releases)	**1.6**	**1.6**	**(1.4)**	**1.8**
Assets written off	(3.6)	(1.0)	(0.1)	**(4.7)**
At 31 December 2023	**26.1**	**8.5**	**2.8**	**37.4**

	Group and Bank			
	Retail	SME	Legacy & unallocated	Total
At 1 January 2022	25.5	6.7	5.2	37.4
Changes arising from stage transfers:				
To lifetime ECL (stage 1 to 2 or 3)	9.2	1.1	-	10.3
To credit impaired (stage 1 or 2 to 3)	2.1	0.2	(1.5)	0.8
To 12 month ECL (stage 2 or 3 to 1)	(0.5)	(0.1)	(0.1)	(0.7)
From credit impaired (stage 3 to 2)	(0.3)	-	-	(0.3)
Net changes arising from stage transfers	10.5	1.2	(1.6)	10.1
Other charges/(releases):				
New assets originated or purchased	4.6	0.4	-	5.0
Other changes to risk parameters[1]	(5.5)	1.1	3.4	(1.0)
Redemptions and repayments	(3.7)	(0.8)	(0.4)	(4.9)
Net other charges	5.9	1.9	1.4	9.2
Assets written off	(3.3)	(0.7)	(0.7)	(4.7)
Portfolio sale	-	-	(1.6)	(1.6)
At 31 December 2022	28.1	7.9	4.3	40.3

1. Includes the impact of any asset sales.

d) Analysis of income statement

	Group and Bank	
	2023	2022
Net other charges	**(1.8)**	(9.2)
Amounts recovered against amounts previously written off	**0.2**	0.4
Adjustment to recognise interest on stage 3 assets based on their net carrying value	**1.0**	0.8
Portfolio sale/financial guarantees impairment releases	**-**	1.6
Net credit impairment losses for the year as shown in the income statement	**(0.6)**	(6.4)

14. LOANS AND ADVANCES TO CUSTOMERS (continued)

e) Finance lease receivables

	Group and Bank	
	2023	2022
Gross investment in finance leases may be analysed as follows:		
No later than one year	**1.3**	1.4
Later than one year and no later than five years	**3.1**	4.1
Later than five years	**-**	0.3
Gross investment in finance leases	**4.4**	5.8
Unearned future finance income on finance leases	**(0.4)**	(0.6)
Net investment in finance leases	**4.0**	5.2
The net future finance leases may be analysed as follows:		
No later than one year	**1.2**	1.2
Later than one year and no later than five years	**2.8**	3.7
Later than five years	**-**	0.3
	4.0	5.2

The unguaranteed residual value of the finance leases is £nil (2022: £nil). Finance lease arrangements are with customers in the utilities sector.

15. INVESTMENT SECURITIES

Analysis of investment securities

	Group and Bank							
	2023				2022			
	Amortised cost	FVOCI	FVTPL	Total	Amortised cost	FVOCI	FVTPL	Total
Investment securities (listed)	**47.2**	**2,037.8**	**3.3**	**2,088.3**	56.4	883.3	3.0	942.7

An expected credit loss of £nil was recorded as at 31 December 2023 (2022: £nil) in relation to investment securities.

Movement in investment securities

	Group and Bank							
	2023				2022			
	Amortised cost	FVOCI	FVTPL	Total	Amortised cost	FVOCI	FVTPL	Total
At the beginning of the year	**56.4**	**883.3**	**3.0**	**942.7**	67.3	1,131.6	2.5	1,201.4
Acquisitions	**-**	**1,542.7**	**-**	**1,542.7**	-	465.7	-	465.7
Disposals and maturities	**(9.2)**	**(425.4)**	**-**	**(434.6)**	(11.0)	(667.8)	-	(678.8)
Fair value through other comprehensive income	**-**	**(2.7)**	**-**	**(2.7)**	-	(9.7)	-	(9.7)
Fair value through profit or loss	**-**	**27.5**	**0.3**	**27.8**	-	(36.9)	0.5	(36.4)
Amortisation of discount and premium	**-**	**4.3**	**-**	**4.3**	-	(1.4)	-	(1.4)
Movement in interest accrual	**-**	**8.1**	**-**	**8.1**	0.1	1.8	-	1.9
At the end of the year	**47.2**	**2,037.8**	**3.3**	**2,088.3**	56.4	883.3	3.0	942.7

The movement in investment securities classified as FVOCI attributed to the FVTPL line represents the fair value movements on instruments within a designated hedge relationship that have been effectively hedged and thus recycled from the FVOCI reserve to profit or loss. The Group's hedge accounting activities are disclosed in further detail within section 4.3 of the risk management disclosures.

Certain investment securities have been pledged by the Group, see note 30 of the Group and Bank consolidated financial statements for further details on encumbered and pledged assets.

The ECL in relation to investment securities measured at Amortised cost and Fair value through other comprehensive income is £nil (2022: £nil). This reflects the high credit quality of these investment securities and the Bank's current list of Treasury counterparties. The Group applies the 'low credit risk exemption' to investment securities as detailed further in explanatory information 1.3.j.ii.

15. INVESTMENT SECURITIES (continued)

Analysis of investment securities by issuer

	Group and Bank	
	2023	2022
Investment securities issued by public bodies:		
Government securities	**527.5**	121.7
Other public sector securities	**319.4**	133.6
Total investment securities issued by public bodies	**846.9**	255.3
Other debt securities:		
Other floating rate notes	**1,124.9**	595.3
Mortgage backed securities	**116.5**	92.1
Total other debt securities	**1,241.4**	687.4
Total investment securities	**2,088.3**	942.7

Other floating rate notes (FRNs) are sterling denominated, with contractual maturities ranging from one to three months, to over 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 4.3 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			
	2023		2022	
	Assets	Liabilities	Assets	Liabilities
Derivatives held for non-trading purposes				
Derivatives designated as fair value hedges:				
Interest rate swaps	**279.5**	**(83.3)**	468.4	(58.7)
Derivatives held for non-trading purposes for which hedge accounting has not been applied:				
Interest rate swaps	**29.2**	**(27.0)**	51.3	(44.6)
Forward currency transactions	**0.4**	**-**	0.4	(0.1)
OTC interest rate options	**-**	**-**	-	(0.1)
Total derivative assets/(liabilities) held for non-trading purposes	**309.1**	**(110.3)**	520.1	(103.5)
Total recognised derivative assets/(liabilities)	**309.1**	**(110.3)**	520.1	(103.5)

Detailed hedge accounting disclosures are covered within section 4.3 of the risk management disclosures.

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 2023 was immaterial (2022: immaterial). CVAs and DVAs are not applied to derivatives that are fully cash collateralised.

17. OTHER ASSETS

	Group and Bank	
	2023	2022
Equity shares		
Listed[1]	**-**	0.2
Unlisted[2]	**12.6**	10.9
	12.6	11.1
Other assets[3] (amounts recoverable within one year)	**11.2**	14.1
Prepayments		
Amounts amortised within one year	**23.0**	20.7
Amounts amortised after more than one year	**1.1**	0.7
	24.1	21.4
Total	**47.9**	46.6

1. During the year, the Group sold its investment in Celtic shares.
2. Unlisted equity share investments include holdings of shares in Bankifi Technology Limited, Zellar Limited, SWIFT, and Visa Inc. Series B Preferred Stock.
3. There are no other assets balances due to be received after one year.

18. PROPERTY, PLANT AND EQUIPMENT

	Group and Bank						
2023	Land and buildings	Leasehold improvements	Computers and other equipment	Assets in the course of construction	Investment properties	Assets classified as held for sale	Total
Cost							
At 1 January 2023	5.0	9.4	49.6	2.4	2.1	-	**68.5**
Additions	-	-	0.7	5.2	-	-	**5.9**
Disposals	-	-	(19.8)	-	(0.3)	-	**(20.1)**
Impairment	-	-	-	(0.2)	-	-	**(0.2)**
Remeasurements	-	-	-	-	(0.1)	-	**(0.1)**
Transfer between categories	-	-	3.3	(3.3)	-	-	**-**
At 31 December 2023	**5.0**	**9.4**	**33.8**	**4.1**	**1.7**	**-**	**54.0**
Accumulated depreciation							
At 1 January 2023	1.0	3.7	41.0	-	-	-	**45.7**
Charge for the year	0.1	0.6	3.6	-	-	-	**4.3**
Disposals	-	-	(19.8)	-	-	-	**(19.8)**
Impairment	-	-	0.2	-	-	-	**0.2**
At 31 December 2023	1.1	**4.3**	**25.0**	**-**	**-**	**-**	**30.4**
Net book value							
At 31 December 2023	3.9	**5.1**	**8.8**	**4.1**	**1.7**	**-**	**23.6**
At 1 January 2023	4.0	5.7	8.6	2.4	2.1	-	22.8

18. PROPERTY, PLANT AND EQUIPMENT (continued)

2022	Group and Bank						
	Land and buildings	Leasehold improve-ments	Computers and other equipment	Assets in the course of construction	Investment properties	Assets classified as held for sale	Total
Cost							
At 1 January 2022	4.7	9.4	50.1	0.5	1.9	0.2	66.8
Additions	0.3	-	0.5	3.7	-	-	4.5
Disposals	-	-	(2.7)	-	-	(0.2)	(2.9)
Impairment	-	-	-	(0.1)	-	-	(0.1)
Remeasurements	-	-	-	-	0.2	-	0.2
Transfer between categories	-	-	1.7	(1.7)	-	-	-
At 31 December 2022	5.0	9.4	49.6	2.4	2.1	-	68.5
Accumulated depreciation							
At 1 January 2022	0.6	3.0	38.9	-	-	-	42.5
Charge for the year	0.4	0.7	4.2	-	-	-	5.3
Disposals	-	-	(2.1)	-	-	-	(2.1)
Impairment	-	-	-	-	-	-	-
At 31 December 2022	1.0	3.7	41.0	-	-	-	45.7
Net book value							
At 31 December 2022	4.0	5.7	8.6	2.4	2.1	-	22.8
At 1 January 2022	4.1	6.4	11.2	0.5	1.9	0.2	24.3

The net book value of land and buildings comprises freehold properties of £3.8m (2022: £3.9m).

19. INTANGIBLE ASSETS

	Group and Bank							
	2023				2022			
	Internally generated assets	Other intangible assets	Assets in the course of construction	Total	Internally generated assets	Other intangible assets	Assets in the course of construction	Total
Cost								
At 1 January	**232.5**	**30.3**	**48.9**	**311.7**	216.0	30.3	21.1	267.4
Additions	**-**	**-**	**49.1**	**49.1**	-	-	45.0	45.0
Disposals	**(46.5)**	**(15.6)**	**-**	**(62.1)**	-	-	(0.6)	(0.6)
Impairment	**-**	**-**	**-**	**-**	-	-	(0.1)	(0.1)
Conversion to prepayment	**-**	**(2.4)**	**-**	**(2.4)**	-	-	-	-
Transfer between categories	**15.2**	**-**	**(15.2)**	**-**	16.5	-	(16.5)	-
At 31 December	**201.2**	**12.3**	**82.8**	**296.3**	232.5	30.3	48.9	311.7
Accumulated amortisation								
At 1 January	**200.3**	**21.4**	**-**	**221.7**	180.6	18.3	-	198.9
Charge for the year	**19.9**	**2.8**	**-**	**22.7**	19.7	3.1	-	22.8
Disposals	**(46.5)**	**(15.6)**	**-**	**(62.1)**	-	-	-	-
At 31 December	**173.7**	**8.6**	**-**	**182.3**	200.3	21.4	-	221.7
Net book value								
At 31 December	**27.5**	**3.7**	**82.8**	**114.0**	32.2	8.9	48.9	90.0
At 1 January	**32.2**	**8.9**	**48.9**	**90.0**	35.4	12.0	21.1	68.5

Assets in the course of construction include £76.4m (2022: £45.5m) of IT and technology project-related spend, mainly with respect to the Simplification programme.

Other intangible assets are predominantly comprised of purchased software licenses.

20. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

Right-of-use assets

	Group and Bank	
	2023	**2022**
Cost		
At 1 January	**56.7**	68.8
Additions	**6.4**	6.9
Disposals	**(5.8)**	(19.0)
At 31 December	**57.3**	56.7
Accumulated depreciation		
At 1 January	**23.7**	21.9
Charge for the year	**7.4**	6.8
Disposals	**(5.2)**	(5.5)
Impairment	**-**	0.5
At 31 December	**25.9**	23.7
Net book value		
At 31 December	**31.4**	33.0
At 1 January	**33.0**	46.9

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	
	2023	**2022**
Amounts falling due:		
Within one year	**5.6**	5.7
One to two years	**4.7**	5.1
Two to five years	**10.7**	11.0
Over five years	**18.5**	18.0
	39.5	39.8

The discounted lease liability as at 31 December 2023 was £30.1m (2022: £31.0m) and the interest expense on lease liabilities for the year was £1.0m (2022: £1.2m). The weighted average incremental borrowing rate applied to lease liabilities during the year was 3.2% (2022: 2.9%). There are no committed leases which have not yet commenced.

Cash outflow

The total cash outflow in respect of leases for the year was £6.6m (2022: £14.6m).

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 £nil (2022: £nil) and £nil (2022: £0.1m), respectively. The expense for the year relating to variable lease payments not included in the lease liability was £nil (2022: £nil).

Subleases

During 2023, £0.4m (2022: £0.6m) 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 2023 is £0.4m (2022: £0.6m).

21. DEPOSITS BY BANKS

	Group and Bank	
	2023	2022
Deposits from other banks[1]	**4,288.9**	5,683.4

1. Obligatory netting arrangements are in place for repo and reverse repo transactions. The amount reduced by netting is £nil (2022: £nil).

Included within deposits by banks are liabilities to third parties where the Group has transferred certain assets but has not divested itself of the risks and rewards of ownership and has therefore retained those assets on its balance sheet. Further details on these arrangements, including carrying amounts are disclosed in note 30 of the Group and Bank consolidated financial statements.

Included within deposits by banks are drawings of £4.0bn (2022: £5.2bn) from the Bank of England TFSME scheme (interest charged at Base Rate to maturity, longest deposit has an original maturity of between two to five years), of which £0.6bn matures in less than one year.

22. CUSTOMER ACCOUNTS

	Group		Bank	
	2023	2022	2023	2022
Customer accounts	**19,233.8**	20,107.3	**19,233.9**	20,107.4
Fair value adjustment for hedged risk	**(18.7)**	(34.6)	**(18.7)**	(34.6)
	19,215.1	20,072.7	**19,215.2**	20,072.8

23. DEBT SECURITIES IN ISSUE

The Group's outstanding debt securities in issue were redeemed during 2023.

24. OTHER LIABILITIES

	Group and Bank	
	2023	2022
Amounts falling due within one year		
Amounts due to beneficiary banks	**22.5**	22.7
Other creditors	**14.9**	20.1
	37.4	42.8

There are no liabilities falling due after one year.

25. ACCRUALS AND DEFERRED INCOME

	Group and Bank	
	2023	2022
Amounts falling due within one year		
Accruals	**21.2**	29.8
Deferred income	**0.1**	1.1
	21.3	30.9
Amounts falling due after one year		
Accruals	**1.0**	0.9
Deferred income	**0.5**	0.7
	1.5	1.6
	22.8	32.5

26. PROVISIONS

	Group and Bank				
2023	Property	Employee pay	Conduct/legal	Other	Total
At 1 January 2023	8.5	22.9	1.1	0.7	**33.2**
(Released)/provided in the year:					
Net interest income	-	-	(0.5)	-	**(0.5)**
Right-of-use asset	1.0	-	-	-	**1.0**
Operating expenses	(0.2)	13.1	28.8	2.9	**44.6**
Utilised during the year	(1.9)	(15.3)	-	(0.5)	**(17.7)**
At 31 December 2023	**7.4**	**20.7**	**29.4**	**3.1**	**60.6**
Amounts falling due within one year	4.3	15.2	29.4	3.1	**52.0**
Amounts falling due after one year	3.1	5.5	-	-	**8.6**
Total provisions	**7.4**	**20.7**	**29.4**	**3.1**	**60.6**

	Group and Bank				
2022 (Re-presented[1])	Property	Employee pay	Conduct /legal	Other	Total
At 1 January 2022	15.2	16.8	1.1	0.8	33.9
Provided/(released) in the year:					
Net interest income	-	-	1.0	-	1.0
Right-of-use asset	2.8	-	-	-	2.8
Operating expenses	2.3	18.2	(1.0)	1.1	20.6
Utilised during the year	(11.8)	(12.1)	-	(1.2)	(25.1)
At 31 December 2022	8.5	22.9	1.1	0.7	33.2
Amounts falling due within one year	3.6	18.9	1.1	0.7	24.3
Amounts falling due after one year	4.9	4.0	-	-	8.9
Total provisions	8.5	22.9	1.1	0.7	33.2

1. At 31 December 2022, provisions related to employee pay were included within ‘other’ provisions. These are now disclosed separately and comparatives have been re-presented. In addition, the PPI provision that was fully released in 2022 has been re-presented within conduct/legal provisions and operating expenses.

Property

The Group has a number of leasehold properties for which dilapidation provisions are recorded to the extent that the Group has incurred an obligation to restore a property to a defined state of repair and/or any dilapidation clauses within the contract have been invoked.

Employee pay

Provisions are recognised in respect of employee remuneration, including staff bonuses and various other incentive plans. Of these liabilities, £9.5m (2022: £6.7m) are classed as share based payments under IFRS 2. The main such arrangements are:

- Long Term Incentive Plans (LTIP) – cash-settled share-based payment arrangement for certain Material Risk Takers which vests over three years from grant date. Payment is deferred for up to 7 years from the grant date.
- Deferred Bonus Plan – cash-settled share-based payment arrangement for certain Material Risk Takers which is fully vested on grant date. Payment is deferred for up to 9 years from the grant date.
- Management Incentive Plan (MIP) – cash-settled share-based payment arrangement for certain Material Risk Takers which would only pay out on the completion of a qualifying ‘exit event’ (e.g. a public offering of the Group’s shares). A small provision is recognised in respect of good leavers, but this exposure would increase in the event of a qualifying exit event occurring.

The fair value of the LTIP and Deferred Bonus Plan are linked to the Group’s share price, which is based on estimates provided by a range of third-party valuers. No share options are granted under these schemes. The income statement impact of share-based payment arrangements during the year was £2.2m (2022: £1.8m).

Further details on these schemes are disclosed in the Directors’ Report on remuneration.

26. PROVISIONS (continued)

Conduct/legal provisions

In November 2023, the Group received two final decisions from the Financial Ombudsman Service (FOS) that partly upheld complaints brought by customers regarding historical changes to the Standard Variable Rate (SVR) within a closed book of mortgages acquired by the Group as part of its merger with the Britannia Building Society in 2009. In light of these decisions, the Board approved proposals from management to take proactive steps concerning other closed-book SVR customers, regardless of whether or not they had complained. It was concluded that eligible closed-book SVR customers impacted by the decisions will be partially refunded historically charged interest, in line with the Bank's obligations under the FCA's complaint handling rules.

Accordingly, the Group has recognised a provision of £28.9m (2022: £nil) in respect of its best estimates of interest rate refunds, compensatory interest, and the cost to deliver a proactive redress scheme that the Group has set out in discussions with key stakeholders. The Group anticipates settling the vast majority of this liability during 2024. Within the parameters of the agreed redress scheme, the Group considers there to be a relatively low degree of estimation uncertainty. This notwithstanding, there remain a number of uncertain contingent events that could lead to increases in the provision recognised. The Group does not currently consider additional outflows probable.

27. OTHER BORROWED FUNDS

	Group and Bank				
	Issue date	Call date	Maturity date	2023	2022
Tier 2 qualifying liabilities					
9.5 % fixed rate reset callable subordinated notes	Apr 2019	Apr 2024	Apr 2029	36.5	200.0
11.75 % fixed rate reset callable subordinated notes	Nov 2023	May 2029	May 2034	200.0	-
MREL qualifying liabilities					
9.0 % fixed rate reset callable senior unsecured notes	Nov 2020	Nov 2024	Nov 2025	200.0	200.0
6.0 % fixed rate reset callable notes	Apr 2022	Apr 2026	Apr 2027	250.0	250.0
9.5 % fixed rate reset callable senior unsecured notes	May 2023	May 2027	May 2028	200.0	-
Fixed rate subordinated notes				**886.5**	650.0
Issue costs, discounts and accrued interest				5.2	5.5
Fair value hedge accounting adjustment				(0.5)	(8.6)
				891.2	646.9

Other borrowed funds comprise various subordinated liabilities issued to meet the Group's Minimum Requirements for own funds and Eligible Liabilities and Tier 2 capital requirements. The Tier 2 qualifying liabilities rank junior to the MREL-qualifying liabilities, which rank pari passu amongst themselves. All instruments are listed on the London Stock Exchange.

New MREL-qualifying instruments and Tier 2 qualifying instruments of £200.0m each were issued during the year.

28. DEFERRED TAX

Deferred taxes are calculated using the appropriate tax rate in respect of each temporary difference. The UK corporation tax rate increased from 19 % to 25 % effective from 1 April 2023. The banking surcharge also applies to Bank Company. A reduction of the banking surcharge from 8 % to 3 % and an increase of the surcharge allowance from £25.0m to £100.0m (effective 1 April 2023) were substantively enacted on 2 February 2022. From 1 April 2023, the combined rate of tax on banking profits in excess of £100.0m is 28 %. The deferred tax assets and liabilities at 31 December 2023 have been calculated based on these rates, reflecting the expected timing of reversal of the related temporary differences.

	Group and Bank						
2023	Losses	Capital allowances on fixed assets	Retirement benefits	Cash flow hedges	Unrealised appreciation on investments	FVOCI	Total
At 1 January 2023	120.6	99.0	(44.7)	(4.5)	(3.0)	-	**167.4**
Credited/(charged) to income statement	76.9	(15.2)	(1.4)	0.2	(0.6)	-	**59.9**
Credited to other comprehensive income	-	-	4.6	2.0	-	-	**6.6**
At 31 December 2023	**197.5**	**83.8**	**(41.5)**	**(2.3)**	**(3.6)**	**-**	**233.9**

28. DEFERRED TAX (continued)

	Group and Bank						
2022	Losses	Capital allowances on fixed assets	Retirement benefits	Cash flow hedges	Unrealised appreciation on investments	FVOCI	Total
At 1 January 2022	192.4	138.4	(277.6)	(7.5)	(7.3)	(1.6)	36.8
(Charged)/credited to income statement	(71.8)	(39.4)	1.8	0.3	4.3	-	(104.8)
Credited to other comprehensive income	-	-	231.1	2.7	-	1.6	235.4
At 31 December 2022	120.6	99.0	(44.7)	(4.5)	(3.0)	-	167.4

The deferred tax asset above includes an offset for those deferred tax liabilities where permissible. The deferred tax credit to the income statement of £76.9m represents (i) the recognition of additional historical tax losses that have been brought onto the balance sheet reflecting their expected utilisation against future probable taxable profits and (ii) the utilisation of historical tax losses to shelter current year profits.

Deferred tax assets totalling £424.5m (2022: £502.5m) have not been recognised where doubt exists over the availability of sufficient future taxable profits. Deferred tax assets of £413.4m (2022: £492.7m) and £11.1m (2022: £9.8m) have not been recognised in respect of trading losses of £1,653.4m (2022: £1,943.1m) and other temporary differences of £39.7m (2022: £35.0m) respectively.

The movement in unrecognised deferred tax represents the recognition of additional historical tax losses that have been brought onto the balance sheet reflecting their expected utilisation against future probable taxable profits. Whilst there is no expiry date for the utilisation of tax losses, the utilisation of losses is restricted to 50% or 25% of taxable profits depending upon when those tax losses were incurred.

Further detail on deferred tax is provided in note 2 of the Group and Bank consolidated financial statements.

29. 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 wholly-owned 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	2023	2022
Interest expense on defined benefit obligation		**(64.8)**	(43.1)
Interest income on plan assets		**72.7**	59.9
Total net interest income on net defined benefit pension asset	6	**7.9**	16.8
Net interest expense on unfunded schemes	6	**(0.3)**	(0.2)
Administrative expenses included in operating expenses		**(4.2)**	(3.9)
Net credit to the income statement – DB		**3.4**	12.7
Net charge to the income statement – DC	10	**(9.0)**	(7.0)
Total pension (charge)/credit included in the income statement		**(5.6)**	5.7

The amounts recognised in other comprehensive income are as follows:

	Group and Bank	
	2023	2022
Return on scheme assets[1]	**4.4**	(1,525.0)
(Loss)/gain arising from changes in financial assumptions	**(23.3)**	957.3
Gain/(loss) arising from changes in demographic assumptions	**24.1**	(1.3)
Experience (loss)/gain	**(21.4)**	(126.7)
Actuarial gain on unfunded schemes	**(0.2)**	1.9
Charge recorded in other comprehensive income	**(16.4)**	(693.8)

1. 2022 includes c.£395.0m estimated accounting loss on completion of full "buy-in" transaction. Refer to "characteristics of the defined benefit plans and risks associated with them" below.

29. RETIREMENT BENEFITS (continued)

The amounts recognised in the balance sheet are as follows:

	Group and Bank	
	2023	2022
Retirement benefit net surplus	**148.5**	159.7
Retirement benefit liabilities	**(5.9)**	(5.9)
Total amounts recognised in the balance sheet	**142.6**	153.8
Represented by:		
Funded DB schemes (Pace DB and BPS)	**148.5**	159.7
Unfunded DB schemes	**(5.9)**	(5.9)
Total amounts recognised in the balance sheet	**142.6**	153.8

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 the schemes are closed to both new entrants and future accrual, the certainty over pension liabilities is increased and this increased certainty is reflected in the low risk investment strategies (noted below).

Pension liabilities 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 compared 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 trustees, in consultation with the Group, prepared by the appointed Scheme 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 2022 (concluded in 2023) and for BPS as at April 2020. The current triennial valuation of BPS, as at 5 April 2023, is due to be concluded before 5 July 2024.

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. Therefore the accounting surplus will generally be higher than that reported in the more prudent funding valuation, as is noted in BPS.

In December 2022, the Pace Trustee completed a full "buy-in" transaction with Rothesay Life Plc, a specialist UK insurer, to insure scheme benefits through purchase of a bulk annuity insurance policy from scheme assets. Through this "buy-in" transaction, and in conjunction with a pre-existing partial "buy-in" with Pension Insurance Corporation plc (PIC) completed in April 2020, materially all Pace DB liabilities in respect of pension benefits are matched by an insurance asset of equivalent value. As a result, the principal investment and longevity risks associated with the scheme have been substantially mitigated, and there is the potential to complete a full "buy-out" of the scheme and issue individual annuity policies to members in the future.

The Group has recognised a net pension asset of £130.3m in respect of BPS for the year ended 31 December 2023 (2022: £142.9m), and £18.2m in respect of Pace DB (2022: £16.8m).

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 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 date of the inaugural, post-sectionalisation 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. Pace would have a right to these monies in the event of Bank insolvency or a failure by the Bank to make contributions in the future under the terms of the Payment Agreement. This Payment Agreement enabled the Trustee to request a contribution if required, from March 2023 onwards, to repair a deficit against the low risk target basis (a secondary funding measure for Pace) or to enable Pace to meet the premium payable above scheme assets in order to fully insure scheme liabilities with a third party insurance company.

29. RETIREMENT BENEFITS (continued)

The full "buy-in" transaction with Rothesay Life Plc in December 2022, as noted above, fully insures scheme benefits through a residual risk, bulk annuity insurance policy. In conjunction with this transaction, the Group and the Pace Trustee agreed that no further contributions into this escrow arrangement would be required. At 31 December 2023, £37.5m in cash (excluding interest accrued pending withdrawal) was pledged in this escrow arrangement, over which the Pace Trustee retains a security interest under the terms of the Payment Agreement noted above.

In August 2023, in light of the risk mitigation delivered by the full "buy-in" transaction, the Group and the Pace Trustee agreed that the scheme's secured interest in £244.9m AAA-rated RMBS notes via the separate, pre-existing contingent asset arrangement, would fall to zero. As a result, the related RMBS assets on the Bank's balance sheet are no longer encumbered.

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 £1.4m p.a. would be maintained, and that the provision of security to the scheme was to be maintained. This security is in the form of £175.6m AAA-rated RMBS notes, subject to a 22% haircut at 31 December 2023. This security becomes enforceable in the event that deficit recovery payments are not met, as agreed with the Trustee, Bank 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.

BPS employs a Liability-Driven Investments (LDI) strategy, which includes the use of derivatives, to hedge the majority of inflation risk and interest rate risk the scheme is exposed to. If the value of liabilities were to increase as a result of changes in interest rates or inflation, the value of the assets in this LDI portfolio 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.

Pace, and by extension the Group as Principal Employer, is fully insured against the primary investment and longevity risks the scheme would otherwise be exposed to, through the bulk annuity insurance policies with Rothesay Life plc and PIC, as described above.

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 it to that of a relevant comparable benchmark. For LDI assets, the performance benchmark comparison is against 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 documented in the Statement of Investment Principles, maintained by each scheme. The weighted average duration of the defined benefit obligation of both BPS and Pace DB is 15 years.

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					
	2023			2022		
Schemes	Asset	Liability	Net	Asset	Liability	Net
Pace DB	**939.9**	**(921.7)**	**18.2**	930.2	(913.4)	16.8
Britannia Pension Scheme	**556.3**	**(426.0)**	**130.3**	557.4	(414.5)	142.9
Total schemes	**1,496.2**	**(1,347.7)**	**148.5**	1,487.6	(1,327.9)	159.7

29. RETIREMENT BENEFITS (continued)

Changes in the present value of the defined benefit obligation are as follows:

	Group and Bank	
	2023	2022
Defined benefit obligation at the beginning of the year	**1,327.9**	2,193.4
Interest expense	**64.8**	43.1
Benefits paid	**(65.6)**	(79.3)
Remeasurements:		
Effect of changes in demographic assumptions	**(24.1)**	1.3
Effect of changes in financial assumptions	**23.3**	(957.3)
Effect of other experience items	**21.4**	126.7
Defined benefit obligation at the end of the year	**1,347.7**	1,327.9

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	
	2023	2022
Discount rate	**4.70%**	5.00 %
Revaluation in deferment (CPI) - BPS	**2.50%**	2.70 %
Revaluation in deferment (CPI) - Pace DB	**2.40%**	2.60 %
Future pension increases where capped at 5.0 % per annum (CPI)	**2.50%**	2.70 %
Future pension increases where capped at 5.0 % per annum, minimum 3.0 % (CPI)	**3.00%**	3.40 %
Future pension increases where capped at 6.0 % per annum (RPI)	**2.90%**	3.20 %
Future pension increases where capped at 5.0 % per annum (RPI)	**2.10%**	3.10 %
Future pension increases where capped at 2.5 % per annum (RPI)	**4.70%**	2.20 %

The average life expectancy (in years) for mortality tables used to determine defined benefit schemes liabilities at the 2023 year end is:

	Group and Bank	
	Male	Female
Life expectancy (BPS)		
Member retiring today (member age 60)	84.8	87.6
Member retiring in 20 years (member age 40 today)	86.0	88.8
Life expectancy (Pace)		
Member retiring today (member age 60)	85.2	87.7
Member retiring in 20 years (member age 40 today)	85.9	88.8

The measurement of the Group's defined benefit liabilities are 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 of inflation being higher than expected, it might be reasonable to expect that nominal yields on corporate bonds would increase as well, whilst the annuity policies held by Pace are designed to fully offset changes in liabilities. However, it enables the reader to isolate one effect from another.

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 assumption of 0.5 % would result in a £94.9m decrease in the present value of the defined benefit obligation. A decrease in the discount assumption of 0.5 % would result in a £106.1m increase 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 assumption of 0.5 % would result in a £69.7m decrease in the present value of the defined benefit obligation. An increase in the inflation assumption of 0.5 % would result in a £76.5m increase in the present value of the defined benefit obligation.
Mortality rates	The mortality assumptions adopted are based on those recommended by the actuary that advises 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 £41.7m.

29. RETIREMENT BENEFITS (continued)

Changes in the fair value of the defined benefit plan assets are as follows:

	Group and Bank	
	2023	2022
Fair value of plan assets at the beginning of the year	**1,487.6**	3,034.5
Interest income	**72.7**	59.9
Employer contributions	**1.3**	1.4
Benefit payments from plan assets	**(65.6)**	(79.3)
Administrative expenses paid from plan assets	**(4.2)**	(3.9)
Return on plan assets (excluding interest income)[1]	**4.4**	(1,525.0)
Fair value of plan assets at the end of the year	**1,496.2**	1,487.6

1. 2022 includes c.£395.0m estimated accounting loss on completion of full "buy-in" transaction. Refer to "characteristics of the defined benefit plans and risks associated with them" above.

c) Investment strategy for the DB schemes

The investment strategy is controlled by the trustee of each scheme in consultation with the Group. 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:

- For Pace DB - to use insurance policies to match member benefits and substantially mitigate the primary funding risks faced by the scheme;
- For BPS - to implement an investment strategy that initially targets an expected return of around 1.3% p.a. (net of fees) above the return on a portfolio of gilts for BPS. The primary objective is that the scheme has sufficient and appropriate assets to meet the costs incurred by the scheme in paying its benefits as they fall due on a technical provisions basis (technical provisions being the funding valuation basis reflecting a prudent valuation). If funding improves as a result of better than expected investment return or other reason, the expectation is to use the opportunity to reduce investment and longevity risk where appropriate.

The investment strategy of BPS reflects the strong funding position and closed nature of the scheme. 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.

The fair value of the DB schemes' assets is analysed as follows:

	Group and Bank			
	2023	% of total	2022	% of total
Government bonds	**355.5**	**24%**	331.2	22%
Derivatives	**(1.6)**	**0%**	-	-
Cash and similar	**50.9**	**3%**	17.1	1%
Other[1]	**(213.7)**	**(14%)**	(156.9)	(10%)
Total liability-driven investment (LDI) portfolios	**191.1**	**13%**	191.4	13%
Debt instruments	**295.1**	**20%**	292.4	20%
Asset backed securities	**32.1**	**2%**	-	-
Annuities[2]	**917.2**	**61%**	907.6	61%
Property funds (UK)	**29.9**	**2%**	61.4	4%
Cash and other	**30.8**	**2%**	34.8	2%
Total assets	**1,496.2**	**100%**	1,487.6	100%

1. Other comprises liabilities under repo contracts.
2. Annuities comprise the bulk annuity insurance policies with Rothesay Life and PIC.

29. RETIREMENT BENEFITS (continued)

The table below shows the value of the assets in each category which have a quoted market price:

	Group and Bank	
	2023	2022
Liability-driven investments	**191.0**	174.3
Debt instruments	**194.3**	174.4
Other	**32.0**	-
Total	**417.3**	348.7
Total %	**28%**	23 %

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.

30. CONTINGENT LIABILITIES, CONTRACTUAL COMMITMENTS AND GUARANTEES

a) Contingent liabilities and other commitments arising from customer transactions

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			
	2023		2022	
	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	**2.4**	**0.7**	3.3	1.2
Other commitments arising from customer transactions				
Undrawn formal standby facilities, credit lines and other commitments to lend (includes revocable and irrevocable commitments)[1]	**1,559.8**	**176.1**	1,974.8	309.7
	1,562.2	**176.8**	1,978.1	310.9

1. Undrawn loan commitments include revocable commitments which represent unused credit card limits of £810.3m (2022: £849.4m).

b) Contingent liabilities associated with exit events

The Group has commenced discussions to evaluate the merits of a business combination. Should such an event occur, there are certain contingent liabilities including management incentives and contingent fees that could crystallise, depending on the final terms of any such business combination.

c) 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. Beyond those matters for which provisions have been recognised, as disclosed in note 26, the outcome of any ongoing disputes and legal, regulatory or other investigations or proceedings is currently uncertain. The Group is currently investigating a small number of matters that may give rise to a requirement to remediate affected customers, but either considers the possibility of future economic outflow to be remote, not yet able to be reliably estimated, or immaterial.

30. CONTINGENT LIABILITIES, CONTRACTUAL COMMITMENTS AND GUARANTEES (continued)

d) 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.

e) Mortgage securitisation representations and warranties
In connection with the mortgage securitisations (the Warwick, Avon and Stratton SPEs - refer to note 35 for further information), 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 Group considers this risk to be remote.

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.

f) Unconsolidated structured entities
Details of the interests in unconsolidated structured entities are disclosed in note 35. There has been no significant change in the nature of the transactions in these entities during the year.

g) Encumbered and pledged assets
The Group pledges certain assets as collateral to third parties as part of its day to day activities. The carrying value of amounts pledged to each counterparty types, as well as a high level summary of the terms of the arrangements are provided below.

2023	Cash and balances at central banks	Loans and advances to banks	Loans and advances to customers	Investment securities	Total
TFSME	-	-	5,170.2	-	**5,170.2**
Pension scheme contingent security	-	47.2	212.3	-	**259.5**
Payment scheme collateral	280.0	49.5	-	-	**329.5**
Interest rate swap collateral	-	27.8	-	167.1	**194.9**
Securitisations	-	-	-	-	**-**
Other	-	22.2	-	137.2	**159.4**
Total assets pledged	**280.0**	**146.7**	**5,382.5**	**304.3**	**6,113.5**

2022	Cash and balances at central banks	Loans and advances to banks	Loans and advances to customers	Investment securities	Total
TFSME	-	-	6,982.2	-	**6,982.2**
Pension scheme contingent security	-	70.1	493.5	-	**563.6**
Payment scheme collateral	280.0	53.2	41.1	41.6	**415.9**
Interest rate swap collateral	-	171.2	-	80.3	**251.5**
Securitisations	-	13.9	211.8	-	**225.7**
Other	-	20.1	-	147.0	**167.1**
Total assets pledged	**280.0**	**328.5**	**7,728.6**	**268.9**	**8,606.0**

30. CONTINGENT LIABILITIES, CONTRACTUAL COMMITMENTS AND GUARANTEES (continued)

- **TFSME** – residential mortgages pledged as collateral against the Group's drawings from the Bank of England's Term Funding Scheme.
- **Pension scheme contingent security** – contingent security provided by the Group to its defined benefit pension schemes. Security has been pledged primarily in the form of retained securitisation notes (which do not appear on the Group's consolidated balance sheet), cash generated from the amortisation of the notes, which can be substituted for further high quality investment securities, and £38.0m cash held in the Pace escrow account including accrued interest, which the Bank has the right to withdraw. These 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 scheme trustee, insolvency or the failure to adhere to the terms of the security deeds. Refer to note 29 of the Group and Bank consolidated financial statements.
- **Payment scheme collateral** – collateral posted as part of the Group's involvement in transactional payment schemes, including Visa and BACS.
- **Interest rate swap collateral** – collateral posted by the Group against derivative contract exposures as part of its interest rate risk hedging activities.
- **Securitisations** – residential mortgages pledged as collateral against investment securities issued by Group securitisation subsidiaries. Noteholders would have recourse to the underlying assets in the event of the Group's default. The Group may issue investment securities from the securitisations externally to investors for liquidity purposes, or may retain these internally to be used as collateral in other arrangements. Where such securities are retained internally, they are eliminated on consolidation and do not appear on the Group's balance sheet.
- **Other** – primarily relates to investment securities pledged to cover essential operational continuity costs that would be incurred if the Group was put into resolution.

h) Transferred assets not derecognised

In certain circumstances the Group sells assets to third parties in arrangements where the risk and reward has not been fully transferred. In these instances, the Group retains the asset on its balance sheet, but reflects a liability to the third party for the amount due under the arrangement. These primarily relate to repurchase agreements (repos) and are quantified below:

	2023		2022	
	Assets not derecognised	Associated liabilities	Assets not derecognised	Associated liabilities
Repurchase agreements				
Investment securities	**54.9**	**-**	31.8	-
Deposits by banks	**-**	**53.4**	-	31.8
Total	**54.9**	**53.4**	31.8	31.8

The financial instruments disclosed in the above table are measured at amortised cost.

31. RELATED PARTY TRANSACTIONS

Parent, subsidiary and ultimate controlling party

As at 31 December 2023, the Group had one significant shareholder, SP Coop Investments Ltd, holding over 20% of the B shares of the Holding Company, and therefore a related party.

In 2023 and the comparative year, SP Coop Investments Ltd did not have any holdings in the Tier 2 and senior unsecured debt issued by The Co-operative Bank Holding Ltd/The Co-operative Bank Finance p.l.c. and hence did not receive any interest payments in this respect.

A loan is recognised by Holding 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 Holding Company at 31 December 2023 in this regard was £891.2m (2022: £646.9m to Finance Company) including accrued interest. The interest paid by Bank Company to Holding Company/Finance Company on the internal MREL instrument was £62.7m (2022: £44.5m). Other intercompany funding arrangements with Bank Company comprise £46.4m (2022: £nil) owed by Finance Company and £46.4m (2022: £nil) owed to Holding Company.

31. RELATED PARTY TRANSACTIONS (continued)

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	
	2023	2022
Deposits and investments at the beginning of the year	**2.5**	1.6
Net movement	**(2.0)**	0.9
Deposits and investments at the end of the year	**0.5**	2.5

In addition, there were £0.4m (2022: £0.4m) relating to loans to key management personnel, arising in the normal course of business.

Key management personnel

	Group and Bank	
	2023	2022
Total remuneration receivable by key management personnel	**8.7**	9.3

In 2023, the total number of key management personnel was 20 (2022: 19). Further information about the remuneration of senior management personnel and Material Risk Takers is included in the Directors' Report on remuneration.

32. SHARE CAPITAL

	Group			
	2023		2022	
	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 (2022: 9,029,130,200) with a nominal value of £0.0001 per share and 83 B shares (2022: 83) with a nominal value of £0.01 per share. 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 shares entitle shareholders to one vote for every share held and also to 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.

The Directors have recommended a final dividend in respect of the year ended 31 December 2023 of £12.0m, equating to 0.13p per ordinary A share in The Co-operative Bank Holdings Limited, to be paid in 2024. The payment of the final dividend is subject to approval of the shareholders at the 2024 AGM. These financial statements do not reflect the recommended dividend. No dividends were paid during the year ended 31 December 2023.

	Bank			
	2023		2022	
	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

The number of ordinary shares in issue in the Bank Company at 31 December 2023 was 511,456,510 (2022: 511,456,510) with a nominal value of £0.05 per share. The ordinary shareholders have one vote for every share held.

The Bank Company and Finance Company do not have any share premium accounts.

33. OTHER RESERVES

	Group		Bank	
	2023	2022	2023	2022
Fair value through other comprehensive income reserve	**(8.0)**	(5.3)	**(8.0)**	(5.3)
Cash flow hedging reserve	**5.4**	10.6	**5.4**	10.6
Capital re-organisation reserve	**(1,011.4)**	(1,011.4)	**-**	-
Defined benefit pension reserve	**10.5**	22.3	**10.5**	22.3
	(1,003.5)	(983.8)	**7.9**	27.6

Descriptions of the nature and purpose of each reserve are summarised below:

- **Fair value through other comprehensive income reserve** - represents the unrealised gains and losses arising from changes in the fair value of financial assets classified as FVOCI.
- **Cash flow hedging reserve** - originally represented the effective portion of gains and losses on designated cash flow hedging instruments that would have been recycled to the income statement when the hedged items affect profit or loss. The Group’s cash flow hedge was retired during 2021 as disclosed in the risk management section 4.3 and the reserve is gradually being unwound.
- **Capital re-organisation reserve** - a reserve created as a consolidation consequence of restructuring activity in 2017, primarily reflecting the difference between the Holding Company’s investment in subsidiary and the Bank’s share capital and share premium at the time of the restructure.
- **Defined benefit pension reserve** - a distributable reserve representing the cumulative OCI movements associated with retirement benefit assets since those assets were initially recognised on the balance sheet. The reserve is for presentational purposes only and is used to separate the impacts of pension-related OCI movements from the Group’s wider retained earnings.

34. 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				
2023	Amortised cost	FVOCI	FVTPL – designated	FVTPL – mandatorily measured	Derivatives in a hedging relationship	Total
Financial assets						
Cash and balances at central banks	**2,708.3**	-	-	-	-	**2,708.3**
Loans and advances to banks	**212.6**	-	-	-	-	**212.6**
Loans and advances to customers (net of FVAHR)	**20,059.7**	-	**89.0**	**0.7**	-	**20,149.4**
Investment securities	**47.2**	**2,037.8**	-	**3.3**	-	**2,088.3**
Derivative financial instruments	-	-	-	**29.6**	**279.5**	**309.1**
Equity shares[1]	-	-	-	**12.6**	-	**12.6**
Other assets	**9.8**	-	-	-	-	**9.8**
Total financial assets	**23,037.6**	**2,037.8**	**89.0**	**46.2**	**279.5**	**25,490.1**
Financial liabilities						
Deposits by banks	**4,288.9**	-	-	-	-	**4,288.9**
Customer accounts (net of FVAHR)	**19,215.1**	-	-	-	-	**19,215.1**
Debt securities in issue	-	-	-	-	-	-
Derivative financial instruments	-	-	-	**26.9**	**83.4**	**110.3**
Other borrowed funds	**891.2**	-	-	-	-	**891.2**
Other liabilities	**33.6**	-	-	-	-	**33.6**
Total financial liabilities	**24,428.8**	-	-	**26.9**	**83.4**	**24,539.1**

1. Equity shares are included in other assets in the consolidated balance sheet.

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				
2022 (Re-presented[1])	Amortised cost	FVOCI	FVTPL – designated	FVTPL – mandatorily measured	Derivatives in a hedging relationship	Total
Financial assets						
Cash and balances at central banks	5,270.4	-	-	-	-	5,270.4
Loans and advances to banks	387.1	-	-	-	-	387.1
Loans and advances to customers (net of FVAHR)	20,397.2	-	93.3	0.7	-	20,491.2
Investment securities	56.3	883.4	-	3.0	-	942.7
Derivative financial instruments	-	-	-	51.7	468.4	520.1
Equity shares	-	-	-	11.1	-	11.1
Other assets	12.4	-	-	-	-	12.4
Total financial assets	26,123.4	883.4	93.3	66.5	468.4	27,635.0
Financial liabilities						
Deposits by banks	5,683.4	-	-	-	-	5,683.4
Customer accounts (net of FVAHR)	20,072.7	-	-	-	-	20,072.7
Debt securities in issue	181.9	-	-	-	-	181.9
Derivative financial instruments	-	-	-	44.8	58.7	103.5
Other borrowed funds	646.9	-	-	-	-	646.9
Other liabilities	39.9	-	-	-	-	39.9
Total financial liabilities	26,624.8	-	-	44.8	58.7	26,728.3

1. In 2022 loans and advances to customers and customer accounts were presented on a gross basis. The note has been re-presented to show loans and advances to customers and customer accounts net of the fair value adjustment for hedged risk for consistency with balance sheet presentation.

34. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

2023	Bank					
		Measured at fair value				
	Amortised cost	FVOCI	FVTPL – designated	FVTPL – mandatorily measured	Derivatives in a hedging relationship	Total
Financial assets						
Cash and balances at central banks	**2,708.3**	**-**	**-**	**-**	**-**	**2,708.3**
Loans and advances to banks	**212.6**	**-**	**-**	**-**	**-**	**212.6**
Loans and advances to customers (net of FVAHR)	**20,059.7**	**-**	**89.0**	**0.7**	**-**	**20,149.4**
Investment securities	**47.2**	**2,037.8**	**-**	**3.3**	**-**	**2,088.3**
Derivative financial instruments	**-**	**-**	**-**	**29.6**	**279.5**	**309.1**
Equity shares[1]	**-**	**-**	**-**	**12.6**	**-**	**12.6**
Amounts owed by parent undertakings	**46.4**	**-**	**-**	**-**	**-**	**46.4**
Other assets	**9.8**	**-**	**-**	**-**	**-**	**9.8**
Total financial assets	**23,084.0**	**2,037.8**	**89.0**	**46.2**	**279.5**	**25,536.5**
Financial liabilities						
Deposits by banks	**4,288.9**	**-**	**-**	**-**	**-**	**4,288.9**
Customer accounts (net of FVAHR)	**19,215.2**	**-**	**-**	**-**	**-**	**19,215.2**
Debt securities in issue	**-**	**-**	**-**	**-**	**-**	**-**
Derivative financial instruments	**-**	**-**	**-**	**26.9**	**83.4**	**110.3**
Amounts owed to parent undertakings	**937.6**	**-**	**-**	**-**	**-**	**937.6**
Other liabilities	**33.6**	**-**	**-**	**-**	**-**	**33.6**
Total financial liabilities	**24,475.3**	**-**	**-**	**26.9**	**83.4**	**24,585.6**

1. Equity shares are included in other assets in the consolidated balance sheet.

2022 (Re-presented[1])	Bank					
		Measured at fair value				
	Amortised cost	FVOCI	FVTPL – designated	FVTPL – mandatorily measured	Derivatives in a hedging relationship	Total
Financial assets						
Cash and balances at central banks	5,270.4	-	-	-	-	5,270.4
Loans and advances to banks	387.1	-	-	-	-	387.1
Loans and advances to customers (net of FVAHR)	20,397.2	-	93.3	0.7	-	20,491.2
Investment securities	56.3	883.4	-	3.0	-	942.7
Derivative financial instruments	-	-	-	51.7	468.4	520.1
Equity shares	-	-	-	11.1	-	11.1
Amounts owed by parent undertakings	-	-	-	-	-	-
Other assets	12.4	-	-	-	-	12.4
Total financial assets	26,123.4	883.4	93.3	66.5	468.4	27,635.0
Financial liabilities						
Deposits by banks	5,683.4	-	-	-	-	5,683.4
Customer accounts (net of FVAHR)	20,072.8	-	-	-	-	20,072.8
Debt securities in issue	181.9	-	-	-	-	181.9
Derivative financial instruments	-	-	-	44.8	58.7	103.5
Amounts owed to parent undertakings	646.9	-	-	-	-	646.9
Other liabilities	39.9	-	-	-	-	39.9
Total financial liabilities	26,624.9	-	-	44.8	58.7	26,728.4

1. In 2022 loans and advances to customers and customer accounts were presented on a gross basis. The note has been re-presented to show loans and advances to customers and customer accounts net of the fair value adjustment for hedged risk for consistency with balance sheet presentation.

34. 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).

- **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**
  Other borrowed funds comprise MREL-qualifying Tier 2 and senior unsecured debt. Amounts owed to parent undertakings comprise the related internal MREL debt, achieving structural subordination of the external debt. The features of the instruments are explained in note 27. 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; and
- Level 3 – Valuation techniques using unobservable inputs.

34. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

		Group and Bank			
		Fair value at end of the reporting period using:			
2023	Category	Level 1	Level 2	Level 3	Total
Non-derivative financial assets					
Loans and advances to customers	FVTPL – designated	-	87.9	1.1	**89.0**
Loans and advances to customers	FVTPL – mandatorily measured	-	-	0.7	**0.7**
Investment securities	FVOCI	2,019.7	-	18.1	**2,037.8**
Investment securities	FVTPL – mandatorily measured	-	-	3.3	**3.3**
Equity shares	FVTPL – mandatorily measured	-	-	12.6	**12.6**
Derivative financial assets		-	309.1	-	**309.1**
Non-financial assets:					
Investment properties		-	-	1.7	**1.7**
Total assets carried at fair value		**2,019.7**	**397.0**	**37.5**	**2,454.2**
Derivative financial liabilities		**-**	**110.3**	**-**	**110.3**
Total liabilities carried at fair value		**-**	**110.3**	**-**	**110.3**

		Group and Bank			
		Fair value at end of the reporting period using:			
2022	Category	Level 1	Level 2	Level 3	Total
Non-derivative financial assets					
Loans and advances to customers	FVTPL – designated	-	92.1	1.2	93.3
Loans and advances to customers	FVTPL – mandatorily measured	-	-	0.7	0.7
Investment securities	FVOCI	858.5	-	24.9	883.4
Investment securities	FVTPL – mandatorily measured	-	-	3.0	3.0
Equity shares	FVTPL – mandatorily measured	0.2	-	10.9	11.1
Derivative financial assets		-	520.1	-	520.1
Non-financial assets:					
Investment properties		-	-	2.1	2.1
Total assets carried at fair value		858.7	612.2	42.8	1,513.7
Derivative financial liabilities		-	103.5	-	103.5
Total liabilities carried at fair value		-	103.5	-	103.5

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 £85.0m as at 31 December 2023 (2022: £89.8m) 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.

34. 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 £18.1m (FVOCI) and £3.3m (FVTPL – mandatorily measured) as at 31 December 2023 (2022: FVOCI £24.9m and FVTPL £3.0m). 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.

- **Equity shares**
  Equity shares primarily comprise of US Dollar-denominated convertible preference shares in Visa Inc., with any movements in fair value being recognised through profit or loss. The fair value of the Visa Inc. 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 £1.5m as at 31 December 2023.

- **Other assets**
  At 31 December 2023 the Group recognised no financial assets, classified as other assets, at fair value.

- **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				
2023	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	**1.9**	**-**	**(0.1)**	**-**	**-**	**1.8**
Investment securities	**27.9**	**-**	**(7.0)**	**0.2**	**0.3**	**21.4**
Equity shares	**10.9**	**-**	**(0.2)**	**-**	**1.9**	**12.6**
Investment properties	**2.1**	**-**	**(0.3)**	**-**	**(0.1)**	**1.7**
	42.8	**-**	**(7.6)**	**0.2**	**2.1**	**37.5**

		Group and Bank				
2022	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	2.1	-	(0.1)	-	(0.1)	1.9
Investment securities	30.1	-	(2.4)	(0.3)	0.5	27.9
Equity shares	22.5	0.8	(20.5)	-	8.1	10.9
Investment properties	1.9	-	-	-	0.2	2.1
	56.6	0.8	(23.0)	(0.3)	8.7	42.8

34. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

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 was a transfer from Level 2 to Level 1 of £618.7m at the beginning of the reporting period in respect of other borrowed funds, reflecting the active market which now exists for the Group's external MREL-qualifying Tier 2 and unsecured debt instruments.

	Group					
		Fair value				
2023	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	**2,708.3**	**-**	**-**	**-**	**2,708.3**	**2,708.3**
Loans and advances to banks	**212.6**	**-**	**36.2**	**-**	**176.4**	**212.6**
Loans and advances to customers (net of FVAHR)	**20,059.7**	**-**	**0.1**	**18,699.9**	**728.5**	**19,428.5**
Investment securities	**47.2**	**-**	**-**	**47.8**	**-**	**47.8**
Other assets	**9.8**	**-**	**-**	**-**	**9.8**	**9.8**
Financial liabilities						
Deposits by banks	**4,288.9**	**-**	**4,104.4**	**-**	**184.5**	**4,288.9**
Customer accounts (net of FVAHR)	**19,215.1**	**-**	**-**	**1,749.1**	**17,467.7**	**19,216.8**
Debt securities in issue	**-**	**-**	**-**	**-**	**-**	**-**
Other borrowed funds	**891.2**	**925.2**	**-**	**-**	**-**	**925.2**
Other liabilities	**33.6**	**-**	**-**	**-**	**33.6**	**33.6**

	Group					
		Fair value				
2022 (Re-presented[1])	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	5,270.4	-	-	-	5,270.4	5,270.4
Loans and advances to banks	387.1	-	7.5	-	379.6	387.1
Loans and advances to customers (net of FVAHR)	20,397.2	-	-	18,961.1	676.3	19,637.4
Investment securities	56.3	-	-	55.7	-	55.7
Other assets	12.4	-	-	-	12.4	12.4
Financial liabilities						
Deposits by banks	5,683.4	-	5,289.4	-	388.4	5,677.8
Customer accounts (net of FVAHR)	20,072.7	-	-	1,522.5	18,554.0	20,076.5
Debt securities in issue	181.9	-	-	182.1	-	182.1
Other borrowed funds	646.9	-	618.7	-	-	618.7
Other liabilities	39.9	-	-	-	39.9	39.9

1. In 2022 loans and advances to customers and customer accounts were presented on a gross basis. The note has been re-presented to show loans and advances to customers and customer accounts net of the fair value adjustment for hedged risk for consistency with balance sheet presentation.

34. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

	Bank					
		Fair value				
2023	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	**2,708.3**	-	-	-	2,708.3	**2,708.3**
Loans and advances to banks	**212.6**	-	36.2	-	176.4	**212.6**
Loans and advances to customers (net of FVAHR)	**20,059.7**	-	0.1	18,699.9	728.5	**19,428.5**
Investment securities	**47.2**	-	-	47.8	-	**47.8**
Amounts owed by parent undertakings	**46.4**	-	-	-	46.4	**46.4**
Other assets	**9.8**	-	-	-	9.8	**9.8**
Financial liabilities						
Deposits by banks	**4,288.9**	-	4,104.4	-	184.5	**4,288.9**
Customer accounts (net of FVAHR)	**19,215.2**	-	-	1,749.1	17,467.9	**19,217.0**
Debt securities in issue	**-**	-	-	-	-	**-**
Amounts owed to parent undertakings	**937.6**	-	925.2	-	46.4	**971.6**
Other liabilities	**33.6**	-	-	-	33.6	**33.6**

	Bank					
		Fair value				
2022 (Re-presented[1])	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	5,270.4	-	-	-	5,270.4	5,270.4
Loans and advances to banks	387.1	-	7.5	-	379.6	387.1
Loans and advances to customers (net of FVAHR)	20,397.2	-	-	18,961.1	676.3	19,637.4
Investment securities	56.3	-	-	55.7	-	55.7
Amounts owed by parent undertakings	-	-	-	-	-	-
Other assets	12.4	-	-	-	12.4	12.4
Financial liabilities						
Deposits by banks	5,683.4	-	5,289.4	-	388.4	5,677.8
Customer accounts (net of FVAHR)	20,072.8	-	-	1,522.5	18,554.2	20,076.7
Debt securities in issue	181.9	-	-	182.1	-	182.1
Amounts owed to parent undertakings	646.9	-	618.7	-	-	618.7
Other liabilities	39.9	-	-	-	39.9	39.9

1. In 2022 loans and advances to customers and customer accounts were presented on a gross basis. The note has been re-presented to show loans and advances to customers and customer accounts net of the fair value adjustment for hedged risk for consistency with balance sheet presentation.

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:

34. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

- **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.

- **Other Borrowed funds and amounts owed to parent undertakings**
  The Group issued Tier 2 and senior unsecured notes which are recognised in other borrowed funds as detailed in note 27 of the consolidated financial statements. The internal MREL is recognised by Bank Company as amounts owed to parent undertakings (and amounts owed to the Finance Company in 2022). 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 96.9% of the carrying value as at 31 December 2023 (2022 re-presented: 96.3%).

  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 rising 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. The assumptions around the timing of the cash flows make these unobservable inputs which give rise to the level 3 classification.

  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 £47.2m as at 31 December 2023 (2022: £56.3m), being a 5% regulatory holding of the rated notes of the Warwick SPEs 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.

- **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
For more information on the nature of transferred assets and associated liabilities, including the nature of risk and rewards to which the Group is exposed, refer to note 30 of the Group and Bank consolidated financial statements.

The fair value of transferred assets and their associated liabilities is equivalent to their carrying value.

35. INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES

The Group is the sponsor for two unconsolidated structured entities (the Warwick SPEs), and holds legal title to the mortgages in exchange for a fee for a further three unconsolidated structured entities (the Avon and Stratton SPEs). The Warwick SPEs were created for the purposes of selling Optimum (the Group's legacy retail secured mortgage portfolio) in the most capital efficient manner. The Avon SPEs were re-securitisations of former Warwick mortgages following the unwinding of earlier Warwick transactions during 2020. Following the sale of Optimum mortgages to a third party at the end of 2020, the Stratton SPE was established by a third party buyer as an unconsolidated structured entity in 2021 to securitise the mortgages.

The tables below represent the continuing involvement in these securitisations in which Group assets have been transferred to the SPEs. The Group holds both notes issued by and a residual interest in the Warwick SPEs, and receives a fee for its holding of legal title for assets in Avon and Stratton SPEs. The notes and residual interests are reported as investment securities and the fee is accounted for as fee income. Rated notes in Warwick SPEs have been classified as amortised cost and the residual interest in Warwick SPEs have been classified as fair value through profit or loss. The maximum exposure to loss is the carrying value of these instruments.

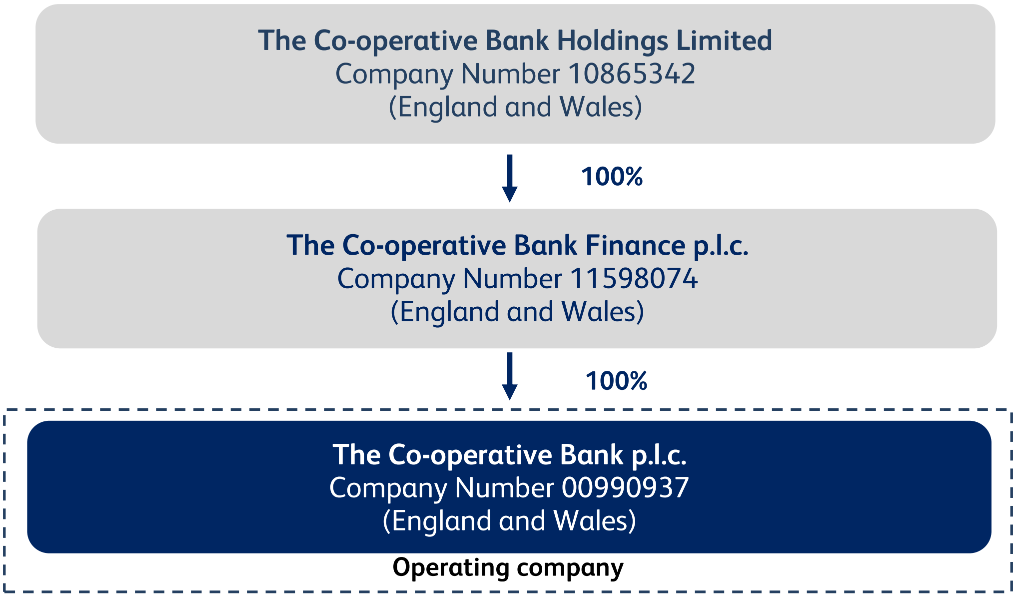
	Group and Bank				
	Carrying amount of continuing involvement in statement of financial position		Fair value of continuing involvement		Maximum exposure to loss
	Assets	Liabilities	Assets	Liabilities	
2023	**50.4**	**-**	**51.1**	**-**	**50.4**
2022	59.3	-	58.7	-	59.3

	Group and Bank			
	Gain or loss recognised at transfer date	Gain recognised on sale	Income recognised in the year	Fair value movement recognised in OCI
2023	**-**	**-**	**5.0**	**-**
2022	-	-	3.4	-

36. EVENTS AFTER THE BALANCE SHEET DATE

There are no post balance sheet events to report.

Financial Statements of The Co-operative Bank p.l.c. (Bank Company)



The co-operative bank

Ethical then, now and always

BALANCE SHEET

At 31 December 2023

£million

	Note	2023	2022
Assets			
Cash and balances at central banks	3	**2,708.3**	5,270.4
Loans and advances to banks	4	**193.7**	312.5
Loans and advances to customers	5	**20,147.5**	20,488.4
Investment securities	6	**2,509.4**	1,826.0
Derivative financial instruments	7	**301.0**	488.4
Investments in subsidiaries/group undertakings	21	**14.9**	15.0
Other assets	8	**47.9**	46.6
Property, plant and equipment	9	**23.6**	22.8
Intangible assets	10	**114.0**	90.0
Right-of-use assets	11	**31.4**	33.0
Amounts owed by group undertakings	23	**70.6**	65.1
Current tax assets		**4.3**	1.8
Deferred tax assets	17	**233.9**	167.5
Net retirement benefit asset	18	**148.5**	159.7
Total assets		**26,549.0**	28,987.2

	Note	2023	2022
Liabilities			
Deposits by banks	12	**4,288.9**	5,683.4
Customer accounts	13	**19,215.8**	20,073.3
Derivative financial instruments	7	**110.3**	103.5
Amounts owed to Co-operative Bank undertakings	23	**430.2**	1,041.1
Other liabilities	14	**44.1**	42.3
Accruals and deferred income	15	**22.7**	32.4
Provisions	16	**31.7**	33.1
Amounts due to parent undertakings	23	**937.6**	646.9
Lease liabilities	11	**30.1**	31.0
Net retirement benefit liability	18	**5.9**	5.9
Total liabilities		**25,117.3**	27,692.9

	Note	2023	2022
Capital and reserves attributable to the Bank Company's equity holders			
Ordinary share capital	19	**25.6**	25.6
Retained earnings		**1,398.2**	1,241.1
Other reserves	20	**7.9**	27.6
Total equity		**1,431.7**	1,294.3
Total liabilities and equity		**26,549.0**	28,987.2

Net profit attributable to equity shareholders was £157.1m (2022: profit £22.3m).

The notes on pages 243 to 260 form part of the Bank Company financial statements.

Approved by the Board of The Co-operative Bank p.l.c. on 27 February 2024:

Robert Dench	Nick Slape
Chair of the Board	Chief Executive Officer

STATEMENT OF CASHFLOWS

For year ended 31 December 2023

£million

	Note	2023	2022
Cash flows from/(used in) operating activities:			
Profit before tax		**105.6**	132.9
Adjustments for non cash movements:			
Pension scheme adjustments		**(3.4)**	(12.7)
Net credit impairment losses		**0.6**	6.4
Depreciation, amortisation and impairment		**34.8**	35.3
Impairment charge/(reversal) of investment in subsidiaries		**0.1**	(0.3)
Other non-cash movements		**54.9**	142.6
Changes in operating assets and liabilities:			
(Decrease)/increase in deposits by banks		**(1,394.5)**	155.8
Increase in prepayments		**(2.7)**	(1.1)
Decrease in accruals and deferred income		**(9.7)**	(4.4)
Decrease increase in customer accounts		**(873.9)**	(1,028.7)
Increase in loans and advances to banks		**(18.7)**	(19.9)
Decrease in loans and advances to customers		**578.5**	31.5
Increase in amounts owed by Co-operative Bank undertakings		**(5.5)**	(31.9)
Decrease in amounts owed to Co-operative Bank undertakings		**(564.5)**	(86.0)
Net movement of other assets and other liabilities		**(64.5)**	(3.8)
Income tax paid		**(2.7)**	(6.8)
Net cash flows used in operating activities		**(2,165.6)**	(691.1)

Cash flows from/(used in) investing activities:			
Purchase and construction of tangible and intangible assets		**(55.0)**	(48.0)
Purchase of investment securities		**(1,544.9)**	(471.6)
Proceeds from sale of property and equipment		**-**	0.4
Proceeds from sale of shares and other interests		**0.2**	20.4
Proceeds from sale and maturity of investment securities		**899.0**	750.8
Purchase of equity shares		**-**	(0.8)
Proceeds from sale of investment properties		**0.3**	-
Dividends received		**6.8**	0.2
Net cash flows (used in)/from investing activities		**(693.6)**	251.4

Cash flows from/(used in) financing activities:			
Proceeds from issuance of Tier 2 notes and senior unsecured debt		**397.9**	248.4
Redemption of Tier 2 notes		**(163.5)**	-
Interest paid on Tier 2 notes and senior unsecured debt		**(62.7)**	(44.5)
Lease liability principal payments		**(6.6)**	(14.6)
Net cash flows from financing activities		**165.1**	189.3

Effect of exchange rate changes on cash and cash equivalents		**(5.5)**	(8.2)
Net decrease in cash and cash equivalents		**(2,699.6)**	(258.6)
Cash and cash equivalents at the beginning of the year		**5,450.9**	5,709.5
Cash and cash equivalents at the end of the year		**2,751.3**	5,450.9

Comprising of:			
Cash and balances with central banks	3	**2,631.7**	5,183.8
Loans and advances to banks	4	**119.6**	267.1
		2,751.3	5,450.9

THE CO-OPERATIVE BANK P.L.C. FINANCIAL STATEMENTS (BANK COMPANY-ONLY) STATEMENT OF CASHFLOWS – RECONCILIATION OF MOVEMENTS OF LIABILITIES TO CASHFLOWS ARISING FROM FINANCING ACTIVITIES

For year ended 31 December 2023

£million

	2023			2022		
	Lease liabilities	Amounts due to parent undertakings	Total	Lease liabilities	Amounts due to parent undertakings	Total
Balance at the beginning of the year	**31.0**	**646.9**	**677.9**	44.1	402.1	446.2
Changes from financing cashflows						
Proceeds from issuance of Tier 2 notes and senior unsecured debt	-	397.9	**397.9**	-	248.4	248.4
Redemption of Tier 2 notes	-	(163.5)	**(163.5)**	-	-	-
Interest paid on Tier 2 notes and senior unsecured debt	-	(62.7)	**(62.7)**	-	(44.5)	(44.5)
Lease liability principal payments	(6.6)	-	**(6.6)**	(14.6)	-	(14.6)
Total changes from financing cash flows	**24.4**	**818.6**	**843.0**	29.5	606.0	635.5
Other changes						
Interest payable on lease liabilities and Tier 2 notes	1.0	63.2	**64.2**	1.2	48.1	49.3
Other non cash movement	-	9.4	**9.4**	-	(7.2)	(7.2)
Remeasurements of lease liabilities	4.7	-	**4.7**	0.3	-	0.3
Balance at the end of the year	**30.1**	**891.2**	**921.3**	31.0	646.9	677.9

STATEMENT OF CHANGES IN EQUITY

For year ended 31 December 2023

£million

2023	Attributable to equity holders of the Bank Company					
	Share capital	FVOCI reserve	Cash flow hedging reserve	Defined benefit pension reserve	Retained earnings	Total equity
At 1 January 2023	25.6	(5.3)	10.6	22.3	1,241.1	**1,294.3**
Total comprehensive (expense)/income for the year	-	(2.7)	(5.2)	(11.8)	157.1	**137.4**
At 31 December 2023	**25.6**	**(8.0)**	**5.4**	**10.5**	**1,398.2**	**1,431.7**

2022	Attributable to equity holders of the Bank Company					
	Share capital	FVOCI reserve	Cash flow hedging reserve	Defined benefit pension reserve	Retained earnings	Total equity
At 1 January 2022	25.6	2.9	14.7	485.0	1,218.8	1,747.0
Total comprehensive (expense)/income for the year	-	(8.2)	(4.1)	(462.7)	22.3	(452.7)
At 31 December 2022	25.6	(5.3)	10.6	22.3	1,241.1	1,294.3

The notes on pages 243 to 260 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), registration number 00990937, was incorporated in the UK and is a limited company registered in England and Wales. The registered office address of the Bank Company is PO BOX 101, 1 Balloon Street, Manchester, M60 4EP.

The Bank Company financial statements have been prepared under the historic cost convention and approved by the Directors in accordance with UK adopted international accounting standards and the provisions of the Companies Act 2006.

Accounting policies outlined in note 1 of the Group and Bank consolidated financial statements and the explanatory information on pages 281 to 290 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 PROFIT 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.

	2023	2022
Net profit attributable to equity shareholders of the Bank Company	**157.1**	22.3

3. CASH AND BALANCES AT CENTRAL BANKS

	2023	2022
Cash in hand/(items in transit)	**0.6**	(4.8)
Balances with the Bank of England other than mandatory reserve deposits	**2,631.1**	5,188.6
Included in cash and cash equivalents	**2,631.7**	5,183.8
Mandatory reserve deposits with the Bank of England	**76.6**	86.6
Total cash and balances at central banks	**2,708.3**	5,270.4

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. An expected credit loss of £nil was recorded as at 31 December 2023 (2022: £nil) in relation to cash and balances at central banks.

4. LOANS AND ADVANCES TO BANKS

	2023	2022
Placements with other banks[1]	**119.6**	267.1
Other loans and advances to banks	**74.1**	45.4
Total loans and advances to bank	**193.7**	312.5

1. The Bank currently holds no repo and reverse repo transactions that are subject to obligatory netting arrangements.

An expected credit loss of £nil was recorded as at 31 December 2023 (2022: £nil) in relation to loans and advances to banks. For further details on pledged and transferred assets, refer to note 30 of the Group and Bank consolidated financial statements. This reflects that the Bank is lending to highly rated banks from a credit perspective.

5. LOANS AND ADVANCES TO CUSTOMERS

a) Analysis of the balance sheet

	2023	2022
Gross loans and advances	**20,352.4**	20,959.5
Less: allowance for losses	**(37.4)**	(40.4)
Fair value adjustments for hedged risk	**(167.5)**	(430.7)
Total loans and advances to customers net of allowance for losses	**20,147.5**	20,488.4

Loans and advances to customers include £93.1m (2022: £93.3m) of financial assets at fair value through profit or loss to eliminate or significantly reduce a measurement or recognition inconsistency. Of these, £50.1m (2022: £53.4m) are secured by real estate collateral.

For further details on transferred assets, refer to note 22 of the Bank Company financial statements. Further details are set out in note 25, 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 2023	28.1	7.9	4.4	**40.4**
Changes arising from stage transfers:				
To lifetime ECL (stage 1 to 2 or 3)	6.0	0.5	0.4	**6.9**
To credit impaired (stage 1 or 2 to 3)	2.1	1.4	-	**3.5**
To 12 month ECL (stage 2 or 3 to 1)	(4.5)	(0.1)	-	**(4.6)**
From credit impaired (stage 3 to 2)	(0.2)	0.1	-	**(0.1)**
Net changes arising from stage transfers	**3.4**	**1.9**	**0.4**	**5.7**
Other charges/(releases):				
New assets originated or purchased	1.8	0.8	-	**2.6**
Other changes to risk parameters	(0.9)	(0.1)	(1.6)	**(2.6)**
Redemptions and repayments	(2.7)	(1.0)	(0.2)	**(3.9)**
Net other charges/(releases)	**1.6**	**1.6**	**(1.4)**	**1.8**
Assets written off	(3.6)	(1.0)	(0.2)	**(4.8)**
At 31 December 2023	**26.1**	**8.5**	**2.8**	**37.4**

	Retail	SME	Legacy & unallocated	Total
At 1 January 2022	25.5	6.7	5.2	37.4
Changes arising from stage transfers:				
To lifetime ECL (stage 1 to 2 or 3)	9.2	1.1	-	10.3
To credit impaired (stage 1 or 2 to 3)	2.1	0.2	(1.5)	0.8
To 12 month ECL (stage 2 or 3 to 1)	(0.5)	(0.1)	(0.1)	(0.7)
From credit impaired (stage 3 to 2)	(0.3)	-	-	(0.3)
Net changes arising from stage transfers	10.5	1.2	(1.6)	10.1
Other charges/(releases):				
New assets originated or purchased	4.6	0.4	-	5.0
Other changes to risk parameters[1]	(5.5)	1.1	3.5	(0.9)
Redemptions and repayments	(3.7)	(0.8)	(0.4)	(4.9)
Net other charges	5.9	1.9	1.5	9.3
Assets written off	(3.3)	(0.7)	(0.7)	(4.7)
Portfolio sale	-	-	(1.6)	(1.6)
At 31 December 2022	28.1	7.9	4.4	40.4

1. Includes the impact of any asset sales.

5. LOANS AND ADVANCES TO CUSTOMERS (continued)

d) Analysis of income statement

	2023	2022
Net other charges	**(1.8)**	(9.3)
Amounts recovered against amounts previously written off	**0.2**	0.4
Adjustment to recognise interest on stage 3 assets based on their net carrying value	**1.0**	0.8
Portfolio sale/financial guarantees impairment releases	**-**	1.6
Net credit impairment losses for the year as shown in the income statement	**(0.6)**	(6.5)

Provisions are analysed by segment in the risk management disclosures.

e) Finance lease receivables

	2023	2022
Gross investment in finance leases may be analysed as follows:		
No later than one year	**1.3**	1.3
Later than one year and no later than five years	**3.1**	4.1
Later than five years	**-**	0.3
Gross investment in finance leases	**4.4**	5.7
Unearned future finance income on finance leases	**(0.4)**	(0.6)
Net investment in finance leases	**4.0**	5.1
The net future finance leases may be analysed as follows:		
No later than one year	**1.2**	1.1
Later than one year and no later than five years	**2.8**	3.7
Later than five years	**-**	0.3
	4.0	5.1

The unguaranteed residual value of the finance leases is £nil (2022: £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

	2023				2022			
	Amortised cost	FVOCI	FVTPL	Total	Amortised cost	FVOCI	FVTPL	Total
Listed	**385.4**	**2,037.8**	**3.3**	**2,426.5**	763.7	883.3	3.0	1,650.0
Unlisted	**82.9**	**-**	**-**	**82.9**	176.0	-	-	176.0
Gross and net investment securities	**468.3**	**2,037.8**	**3.3**	**2,509.4**	939.7	883.3	3.0	1,826.0

Movement in investment securities

	2023				2022			
	Amortised cost	FVOCI	FVTPL	Total	Amortised cost	FVOCI	FVTPL	Total
At the beginning of the year	**939.7**	**883.3**	**3.0**	**1,826.0**	1,015.7	1,131.6	2.5	2,149.8
Acquisitions	**2.2**	**1,542.7**	**-**	**1,544.9**	5.9	465.7	-	471.6
Disposals and maturities	**(473.3)**	**(425.4)**	**-**	**(898.7)**	(82.8)	(667.8)	-	(750.6)
Fair value through other comprehensive income	**-**	**(2.7)**	**-**	**(2.7)**	-	(9.7)	-	(9.7)
Fair value through profit or loss	**-**	**27.5**	**0.3**	**27.8**	-	(36.9)	0.5	(36.4)
Amortisation of discount and premium	**-**	**4.3**	**-**	**4.3**	-	(1.4)	-	(1.4)
Movement in interest accrual	**(0.3)**	**8.1**	**-**	**7.8**	0.9	1.8	-	2.7
At the end of the year	**468.3**	**2,037.8**	**3.3**	**2,509.4**	939.7	883.3	3.0	1,826.0

The movement in investment securities classified as FVOCI attributed to the FVTPL line represents the fair value movements on instruments within a designated hedge relationship that have been effectively hedged and thus recycled from the FVOCI reserve to profit or loss. The Group's hedge accounting activities are disclosed in further detail within section 4.3 of the risk management disclosures.

6. INVESTMENT SECURITIES (continued)

Certain investment securities have been pledged by the Bank Company, see note 22 of the Bank Company financial statements for further details on encumbered and pledged assets.

The ECL in relation to investment securities measured at Amortised cost and Fair value through other comprehensive income is £nil (2022: £nil). This reflects the high credit quality of these investment securities and the Bank's current list of Treasury counterparties. The Group applies the 'low credit risk exemption' to investment securities as detailed further in explanatory information 1.3.j.ii.

Analysis of investment securities by issuer

	2023	2022
Investment securities issued by public bodies:		
Government securities	**527.5**	121.7
Other public sector securities	**319.4**	133.6
Total investment securities issued by public bodies	**846.9**	255.3
Other debt securities:		
Other floating rate notes	**1,124.9**	595.3
Mortgage backed securities	**537.6**	975.4
Total other debt securities	**1,662.5**	1,570.7
Total investment securities	**2,509.4**	1,826.0

Other floating rate notes (FRNs) are sterling denominated, with contractual maturities ranging from one to three months, to over 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			
	2023		2022	
	Assets	Liabilities	Assets	Liabilities
Derivatives held for non-trading purposes				
Derivatives designated as fair value hedges:				
Interest rate swaps	**279.5**	**(83.3)**	468.4	(58.7)
Derivatives held for non-trading purposes for which hedge accounting has not been applied:				
Interest rate swaps	**21.1**	**(27.0)**	19.6	(44.6)
Forward currency transactions	**0.4**	**-**	0.4	(0.1)
OTC interest rate options	**-**	**-**	-	(0.1)
Total derivative assets/(liabilities) held for non-trading purposes	**301.0**	**(110.3)**	488.4	(103.5)
Total recognised derivative assets/(liabilities)	**301.0**	**(110.3)**	488.4	(103.5)

Detailed hedge accounting disclosures are covered within section 4.3 of the risk management disclosures. 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 2023 was immaterial (2022: immaterial). CVAs and DVAs are not applied to derivatives that are fully cash collateralised.

8. OTHER 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 17 of the Group and Bank consolidated financial statements.

9. 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 18 of the Group and Bank consolidated financial statements.

10. 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 19 of the Group and Bank consolidated financial statements.

11. 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 20 of the Group and Bank consolidated financial statements.

12. 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 21 of the Group and Bank consolidated financial statements.

13. CUSTOMER ACCOUNTS

	2023	2022
Customer accounts	**19,234.5**	20,107.9
Fair value adjustment for hedged risk	**(18.7)**	(34.6)
	19,215.8	20,073.3

14. OTHER LIABILITIES

	2023	2022
Amounts falling due within one year		
Amounts due to beneficiary banks	**22.5**	22.7
Other creditors	**21.6**	19.6
	44.1	42.3

There are no liabilities falling due after one year.

15. ACCRUALS AND DEFERRED INCOME

	2023	2022
Amounts falling due within one year		
Accruals	**21.1**	29.7
Deferred income	**0.1**	1.1
	21.2	30.8
Amounts falling due after one year		
Accruals	**1.0**	0.9
Deferred income	**0.5**	0.7
	1.5	1.6
	22.7	32.4

16. PROVISIONS

2023	Property	Employee pay	Conduct/legal	Other	Total
At 1 January 2023	8.5	22.9	1.1	0.6	**33.1**
(Released)/provided in the year:					
Net interest income	-	-	(0.5)	-	**(0.5)**
Right-of-use asset	1.0	-	-	-	**1.0**
Operating expenses	(0.2)	13.1	(0.1)	3.0	**15.8**
Utilised during the year	(1.9)	(15.3)	-	(0.5)	**(17.7)**
At 31 December 2023	**7.4**	**20.7**	**0.5**	**3.1**	**31.7**
Amounts falling due within one year	4.3	15.2	0.5	3.1	**23.1**
Amounts falling due after one year	3.1	5.5	-	-	**8.6**
Total provisions	**7.4**	**20.7**	**0.5**	**3.1**	**31.7**

2022 (Re-presented[1])	Property	Employee pay	Conduct/legal	Other	Total
At 1 January 2022	15.3	16.8	1.1	0.6	33.8
Provided/(released) in the year:					
Net interest income	-	-	1.0	-	1.0
Right-of-use asset	2.8	-	-	-	2.8
Operating expenses	2.3	18.2	(1.0)	0.8	20.3
Utilised during the year	(11.9)	(12.1)	-	(0.8)	(24.8)
At 31 December 2022	8.5	22.9	1.1	0.6	33.1
Amounts falling due within one year	3.6	18.9	1.1	0.6	24.2
Amounts falling due after one year	4.9	4.0	-	-	8.9
Total provisions	8.5	22.9	1.1	0.6	33.1

1. At 31 December 2022, provisions related to employee pay were included within 'other' provisions. These are now disclosed separately and comparatives have been re-presented. In addition, the PPI provision that was fully released in 2022 has been re-presented within conduct/legal provisions and operating expenses.

In respect of conduct/legal provisions, the provisions recognised in the Bank Company are lower than those recognised in note 26 of the Group and Bank consolidated statements, on account of £28.9m of provisions recognised by subsidiaries of the Bank Company. It is anticipated that the Bank Company will take steps to provide further capital resources to these subsidiaries in order that they are able to meet their liabilities as they fall due and to meet regulatory capital minimums, which will ultimately result in losses to the Bank Company in the form of impaired subsidiary investments.

With the exception of the above, 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 apart from the specific item referenced above, we refer to the disclosures in note 26 of the Group and Bank consolidated financial statements.

17. DEFERRED TAX

Deferred taxes are calculated using the appropriate tax rate in respect of each temporary difference.

The UK corporation tax rate increased from 19% to 25% effective from 1 April 2023. A reduction of the banking surcharge from 8% to 3% and an increase of the surcharge allowance from £25.0m to £100.0m (effective 1 April 2023) were substantively enacted on 2 February 2022. From 1 April 2023, the combined rate of tax on banking profits in excess of £100.0m is 28%. The deferred tax assets and liabilities at 31 December 2023 have been calculated based on these rates, reflecting the expected timing of reversal of the related temporary differences.

2023	Losses	Capital allowances on fixed assets	Retirement benefits	Cash flow hedges	Unrealised appreciation on investments	FVOCI	Total
At 1 January 2023	**120.6**	**99.1**	**(44.7)**	**(4.5)**	**(3.0)**	**-**	**167.5**
Credited\(charged)to income statement	**76.9**	**(15.3)**	**(1.4)**	**0.2**	**(0.6)**	**-**	**59.8**
Credited to other comprehensive income	**-**	**-**	**4.6**	**2.0**	**-**	**-**	**6.6**
At 31 December 2023	**197.5**	**83.8**	**(41.5)**	**(2.3)**	**(3.6)**	**-**	**233.9**

2022	Losses	Capital allowances on fixed assets	Retirement benefits	Cash flow hedges	Unrealised appreciation on investments	FVOCI	Total
At 1 January 2022	192.4	138.4	(277.6)	(7.5)	(7.3)	(1.6)	36.8
(Charged)/credited to income statement	(71.8)	(39.3)	1.8	0.3	4.3	-	(104.7)
Credited to other comprehensive income	-	-	231.1	2.7	-	1.6	235.4
At 31 December 2022	120.6	99.1	(44.7)	(4.5)	(3.0)	-	167.5

The deferred tax asset above includes an offset for those deferred tax liabilities where permissible.

The deferred tax credit to the income statement of £76.9m represents (i) the recognition of additional historical tax losses that have been brought onto the balance sheet reflecting their expected utilisation against future probable taxable profits and (ii) the utilisation of historical tax losses to shelter current year profits.

Deferred tax assets totalling £420.5m (2022: £498.4m) have not been recognised where doubt exists over the availability of sufficient future taxable profits. Deferred tax assets of £409.4m (2022: £488.6m) and £11.1m (2022: £9.8m) have not been recognised in respect of trading losses of £1,637.6m (2022: £1,926.6m) and other temporary differences of £39.7m (2022: £35.0m) respectively.

The movement in unrecognised deferred tax represents the recognition of additional historical tax losses that have been brought onto the balance sheet reflecting their expected utilisation against future probable taxable profits. Whilst there is no expiry date for the utilisation of tax losses, the utilisation of losses is restricted to 50% or 25% of taxable profits depending upon when those tax losses were incurred.

Further detail on deferred tax is provided in note 2 of the Group and Bank consolidated financial statements.

18. 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 29 of the Group and Bank consolidated financial statements.

19. 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 32 of the Group and Bank consolidated financial statements.

20. OTHER RESERVES

	2023	2022
Fair value through other comprehensive income reserve	**(8.0)**	(5.3)
Cash flow hedging reserve	**5.4**	10.6
Defined benefit pension reserve	**10.5**	22.3
	7.9	27.6

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.

21. INVESTMENTS IN SUBSIDIARIES/GROUP UNDERTAKINGS

	2023	2022
At the beginning of the year	**15.0**	14.7
Impairment reversal/(charge)	**(0.1)**	0.3
At the end of the year	**14.9**	15.0

Subsidiary undertakings

Subsidiary undertakings which are registered in England and operating in the UK:

	Address		Shareholding	
Subsidiary's name	reference	Type of activity	2023	2022
Second Roodhill Leasing Limited	1	Leasing	**100%**	100 %
Third Roodhill Leasing Limited	1	Leasing	**100%**	100 %
Fourth Roodhill Leasing Limited	1	Leasing	**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	Mortgage and former syndicated lending	**100%**	100 %
Mortgage Agency Services Number Two Limited	1	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	Mortgage lending	**100%**	100 %
Platform Funding Limited	1	Mortgage lending	**100%**	100 %

Registered in the Isle of Man and operating overseas:

	Address		Shareholding	
Subsidiary's name	reference	Type of activity	2023	2022
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. A member's voluntary resolution to wind up Britannia International Limited was passed on 5 October 2023.

21. 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 2023 (2022: no shares).

Subsidiary's name	Address reference	Type of activity	% consolidated 2023	% consolidated 2022
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 %

Securitisation vehicles are registered in England and operate in the UK.

All of the above companies are related parties to the Bank Company, refer to note 23 of the Bank Company financial statements for the related party disclosures.

During 2023, the notes of Silk Road Finance Number Six p.l.c. have been redeemed.

Joint ventures

The Bank Company has investments in the following joint ventures:

Subsidiary's name	Ownership 2023	Ownership 2022
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:

Subsidiary's name	Address reference	Type of activity	Shareholding 2023	Shareholding 2022
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

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; and
- Co-operative Bank Financial Advisers Limited.

22. 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 Bank Company in relation to the following contingent liabilities referred to in note 30 of the Group and Bank consolidated financial statements:

- Contingent liabilities associated with exit events;
- Contingent liabilities and other commitments arising from customer transactions;
- Conduct risk matters;
- Legal proceedings; and
- Mortgage securitisation representations and warranties.

a) 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 21 of the Bank Company financial statements.

b) Encumbered and pledged assets
The Bank Company pledges certain assets as collateral to third parties as part of its day to day activities. The carrying value of amounts pledged to each counterparty types are provided below. The terms of the arrangements are the same as those disclosed in note 30 of the Group and Bank consolidated financial statements.

2023	Cash and balances at central banks	Loans and advances to banks	Loans and advances to customers	Investment securities	Total
TFSME	-	-	5,170.2	-	**5,170.2**
Pension scheme contingent security	-	37.8	-	172.1	**209.9**
Payment scheme collateral	280.0	49.5	-	-	**329.5**
Interest rate swap collateral	-	27.8	-	167.1	**194.9**
Other	-	22.2	-	137.2	**159.4**
Total assets pledged	**280.0**	**137.3**	**5,170.2**	**476.4**	**6,063.9**

2022	Cash and balances at central banks	Loans and advances to banks	Loans and advances to customers	Investment securities	Total
TFSME	-	-	6,982.2	-	6,982.2
Pension scheme contingent security	-	37.7	-	423.3	461.0
Payment scheme collateral	280.0	53.2	-	77.8	411.0
Interest rate swap collateral	-	171.2	-	80.3	251.5
Other	-	20.1	-	147.0	167.1
Total assets pledged	280.0	282.2	6,982.2	728.4	8,272.8

c) Transferred assets not derecognised
In certain circumstances the Bank Company sells assets to third parties in arrangements where the risk and reward has not been fully transferred. In these instances, the Bank Company retains the asset on its balance sheet, but reflects a liability to the third party for the amount due under the arrangement. These primarily relate to assets sold under repurchase agreements (repos) and mortgages originated by the Bank Company which have been sold to Group securitisation vehicles, as disclosed in the table below.

	2023		2022	
	Assets not derecognised	Associated liabilities	Assets not derecognised	Associated liabilities
Repurchase agreements				
Investment securities	**54.9**		31.8	
Deposits by banks		**53.4**		31.8
Securitisations				
Loans and advances to customers	**416.4**		1,028.5	
Amounts owed to Co-operative Bank undertakings		**416.4**		1,028.5
Total	**471.3**	**469.8**	1,060.3	1,060.3

The financial instruments disclosed in the above table are measured at amortised cost.

23. RELATED PARTY TRANSACTIONS

The ultimate parent undertaking of the Bank Company as at 31 December 2023 was The Co-operative Bank Holdings Limited.

At 31 December 2023, the Group had one significant shareholder, SP Coop Investments Ltd, holding over 20 % of the B shares of the Holding Company. See note 31 of the Group and Bank consolidated financial statements for details of related party transactions with this significant shareholder.

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.

The following tables show the balances with The Co-operative Bank p.l.c. undertakings, Finance Company and Holding Company at the end of the year:

Amounts owed by Co-operative Bank undertakings	2023	2022
Amounts owed by Co-operative Bank subsidiaries (excluding special purpose entities)	**2.3**	2.6
Amounts owed by Co-operative Bank subsidiaries - special purpose entities	**21.9**	62.5
Amounts owed by Finance Company (parent company)	**46.4**	-
	70.6	65.1
Investment securities held by Co-operative Bank in subsidiaries - special purpose entities	**421.2**	883.3
	491.8	948.4

Amounts owed to Holding Company, Finance Company and Co-operative Bank undertakings	2023	2022
Amounts owed to Co-operative Bank subsidiaries (excluding special purpose entities)	**13.8**	12.6
Amounts owed to Co-operative Bank subsidiaries - special purpose entities	**416.4**	1,028.5
Amount owed to Finance Company (parent company)	**-**	646.9
Amount owed to Holding Company	**937.6**	-
	1,367.8	1,688.0
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
	1,368.5	1,688.7

Details of the amount owed to Holding Company are given in note 6 of the Holding Company financial statements. Amounts owed by related party undertakings are deemed to have no ECL on the grounds that whilst the Group remains a going concern, funds could be moved within the group to meet any financial obligations, and therefore the Loss Given Default associated with the exposure would be nil.

The following tables show the value of transactions with The Co-operative Bank p.l.c. undertakings and Finance Company/Holding Company during the year:

2023	Interest and fees income for Bank Company	Interest and fees expense for Bank Company
Transactions with Co-operative Bank subsidiaries (excluding special purpose entities)	**-**	**0.5**
Transactions with Co-operative Bank subsidiaries - special purpose entities	**43.0**	**15.5**
Transactions with Finance Company (parent company)	**-**	**52.9**
Transactions with Holding Company	**-**	**11.4**
	43.0	**80.3**

2022	Interest and fees income for Bank Company	Interest and fees expense for Bank Company
Transactions with Co-operative Bank subsidiaries (excluding special purpose entities)	-	0.1
Transactions with Co-operative Bank subsidiaries - special purpose entities	53.6	50.0
Transactions with Finance Company (parent company)	-	48.1
	53.6	98.2

23. RELATED PARTY TRANSACTIONS (continued)

The terms and conditions of the loan agreements concluded between the Bank Company and its subsidiaries stipulate that the loans are not secured and are repayable on demand. Details of the Bank Company's transactions with Directors, key management personnel and close family are as set out in note 31 of the Group and Bank consolidated financial statements.

24. 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				
2023	**Amortised cost**	**FVOCI**	**FVTPL – designated**	**FVTPL – mandatorily measured**	**Derivatives in a hedging relationship**	**Total**
Financial assets						
Cash and balances at central banks	**2,708.3**	**-**	**-**	**-**	**-**	**2,708.3**
Loans and advances to banks	**193.7**	**-**	**-**	**-**	**-**	**193.7**
Loans and advances to customers (net of FVAHR)	**20,057.8**	**-**	**89.0**	**0.7**	**-**	**20,147.5**
Investment securities	**468.3**	**2,037.8**	**-**	**3.3**	**-**	**2,509.4**
Derivative financial instruments	**-**	**-**	**-**	**21.5**	**279.5**	**301.0**
Equity shares[1]	**-**	**-**	**-**	**12.6**	**-**	**12.6**
Amounts owed by Co-operative Bank undertakings	**24.2**	**-**	**-**	**-**	**-**	**24.2**
Amounts owed by parent undertakings	**46.4**	**-**	**-**	**-**	**-**	**46.4**
Other assets	**9.8**	**-**	**-**	**-**	**-**	**9.8**
Total financial assets	**23,508.5**	**2,037.8**	**89.0**	**38.1**	**279.5**	**25,952.9**
Financial liabilities						
Deposits by banks	**4,288.9**	**-**	**-**	**-**	**-**	**4,288.9**
Customer accounts (net of FVAHR)	**19,215.8**	**-**	**-**	**-**	**-**	**19,215.8**
Derivative financial instruments	**-**	**-**	**-**	**26.9**	**83.4**	**110.3**
Amounts owed to Co-operative Bank undertakings	**430.2**	**-**	**-**	**-**	**-**	**430.2**
Other liabilities	**40.4**	**-**	**-**	**-**	**-**	**40.4**
Amounts due to parent undertakings	**937.6**	**-**	**-**	**-**	**-**	**937.6**
Total financial liabilities	**24,912.9**	**-**	**-**	**26.9**	**83.4**	**25,023.2**

1. Equity shares are included within other assets in the balance sheet

		Measured at fair value				
2022 (Re-presented)	**Amortised cost**	**FVOCI**	**FVTPL – designated**	**FVTPL – mandatorily measured**	**Derivatives in a hedging relationship**	**Total**
Financial assets						
Cash and balances at central banks	5,270.4	-	-	-	-	5,270.4
Loans and advances to banks	312.5	-	-	-	-	312.5
Loans and advances to customers (net of FVAHR)	20,394.4	-	93.3	0.7	-	20,488.4
Investment securities	939.6	883.4	-	3.0	-	1,826.0
Derivative financial instruments	-	-	-	20.0	468.4	488.4
Equity shares	-	-	-	11.1	-	11.1
Amounts owed by Co-operative Bank undertakings	65.1	-	-	-	-	65.1
Amounts owed by parent undertakings	-	-	-	-	-	-
Other assets	12.4	-	-	-	-	12.4
Total financial assets	26,994.4	883.4	93.3	34.8	468.4	28,474.3
Financial liabilities						
Deposits by banks	5,683.4	-	-	-	-	5,683.4
Customer accounts (net of FVAHR)	20,073.3	-	-	-	-	20,073.3
Derivative financial instruments	-	-	-	44.8	58.7	103.5
Amounts owed to Co-operative Bank undertakings	1,041.1	-	-	-	-	1,041.1
Other liabilities	39.4	-	-	-	-	39.4
Amounts due to parent undertakings	646.9	-	-	-	-	646.9
Total financial liabilities	27,484.1	-	-	44.8	58.7	27,587.6

24. 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 34 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; and
- 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:			
2023	Category	Level 1	Level 2	Level 3	Total
Non-derivative financial assets					
Loans and advances to customers	FVTPL – designated	-	87.9	1.1	**89.0**
Loans and advances to customers	FVTPL – mandatorily measured	-	-	0.7	**0.7**
Investment securities	FVOCI	2,019.7	-	18.1	**2,037.8**
Investment securities	FVTPL – mandatorily measured	-	-	3.3	**3.3**
Equity shares	FVTPL – mandatorily measured	-	-	12.6	**12.6**
Derivative financial assets		-	301.0	-	**301.0**
Non-financial assets					
Investment properties		-	-	1.7	**1.7**
Total assets carried at fair value		**2,019.7**	**388.9**	**37.5**	**2,446.1**
Derivative financial liabilities		**-**	**110.3**	**-**	**110.3**
Total liabilities carried at fair value		**-**	**110.3**	**-**	**110.3**

		Fair value at end of the reporting period using:			
2022	Category	Level 1	Level 2	Level 3	Total
Non-derivative financial assets					
Loans and advances to customers	FVTPL – designated	-	92.1	1.2	93.3
Loans and advances to customers	FVTPL – mandatorily measured	-	-	0.7	0.7
Investment securities	FVOCI	858.5	-	24.9	883.4
Investment securities	FVTPL – mandatorily measured	-	-	3.0	3.0
Equity shares	FVTPL – mandatorily measured	0.2	-	10.9	11.1
Derivative financial assets		-	488.4	-	488.4
Non-financial assets					
Investment properties		-	-	2.1	2.1
Total assets carried at fair value		858.7	580.5	42.8	1,482.0
Derivative financial liabilities		-	103.5	-	103.5
Total liabilities carried at fair value		-	103.5	-	103.5

Refer to note 34 of the Group and Bank consolidated financial statements for details of the use of key considerations in the calculation of fair values for financial assets and liabilities measured at fair value.

24. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

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

2023	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	**1.9**	**-**	**(0.1)**	**-**	**-**	**1.8**
Investment securities	**27.9**	**-**	**(7.0)**	**0.2**	**0.3**	**21.4**
Equity shares	**10.9**	**-**	**(0.2)**	**-**	**1.9**	**12.6**
Investment properties	**2.1**	**-**	**(0.3)**	**-**	**(0.1)**	**1.7**
	42.8	**-**	**(7.6)**	**0.2**	**2.1**	**37.5**

2022	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	2.1	-	(0.1)	-	(0.1)	1.9
Investment securities	30.1	-	(2.4)	(0.3)	0.5	27.9
Equity shares	22.5	0.8	(20.5)	-	8.1	10.9
Investment properties	1.9	-	-	-	0.2	2.1
	56.6	0.8	(23.0)	(0.3)	8.7	42.8

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				
2023	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	**2,708.3**	-	-	-	2,708.3	**2,708.3**
Loans and advances to banks	**193.7**	-	36.2	-	157.5	**193.7**
Loans and advances to customers (net of FVAHR)	**20,057.8**	-	-	18,700.0	728.9	**19,428.9**
Investment securities	**468.3**	-	-	468.6	-	**468.6**
Amounts owed by Co-operative Bank undertakings	**24.2**	-	-	-	24.2	**24.2**
Amounts owed by parent undertakings	**46.4**	-	-	-	46.4	**46.4**
Other assets	**9.8**	-	-	-	9.8	**9.8**
Financial liabilities						
Deposits by banks	**4,288.9**	-	4,104.4	-	184.5	**4,288.9**
Customer accounts (net of FVAHR)	**19,215.8**	-	-	1,749.1	17,468.3	**19,217.4**
Amounts owed to Co-operative Bank undertakings	**430.2**	-	-	397.6	13.8	**411.4**
Other liabilities	**40.4**	-	-	-	40.4	**40.4**
Amounts due to parent undertakings	**937.6**	-	925.2	-	46.4	**971.6**

24. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

		Fair value				
2022	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	5,270.4	-	-	-	5,270.4	5,270.4
Loans and advances to banks	312.5	-	7.5	-	305.0	312.5
Loans and advances to customers (net of FVAHR)	20,394.4	-	-	18,961.5	676.1	19,637.6
Investment securities	939.6	-	-	934.9	-	934.9
Amounts owed by Co-operative Bank undertakings	65.1	-	-	-	-	-
Amounts owed by parent undertakings	-	-	-	-	-	-
Other assets	12.4	-	-	-	12.4	12.4
Financial liabilities						
Deposits by banks	5,683.4	-	5,289.4	-	388.4	5,677.8
Customer accounts (net of FVAHR)	20,073.3	-	-	1,522.5	18,554.6	20,077.1
Amounts owed to Co-operative Bank undertakings	1,041.1	-	-	992.2	12.6	1,004.8
Other liabilities	39.4	-	-	-	39.4	39.4
Amounts due to parent undertakings	646.9	-	618.6	-	-	618.6

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 parent undertakings**
  Amounts owed to parent undertakings 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 was 96.9 % of the carrying value as at 31 December 2023 (2022 re-presented: 96.3 %).

24. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

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 rising 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.

- **Investment securities**
  Investment securities comprise:
  - RMBS measured at amortised cost of £47.2m as at 31 December 2023 (2022: £56.3m), being a 5% regulatory holding of the rated notes of the Warwick SPEs 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.
  - RMBS measured at amortised cost of £421.2m as at 31 December 2023 (2022: £883.3m), being retained notes of the Silk Road Five securitisation (and in 2022, the Silk Road 6 securitisation which was redeemed in September 2023). 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

For more information on the nature of transferred assets and associated liabilities, including the nature of risk and rewards to which the Bank Company is exposed, refer to note 22 of the Bank Company financial statements.

The fair value of transferred assets and associated liabilities is shown in the table below.

	Fair value			
	2023		2022	
	Assets not derecognised	Associated liabilities	Assets not derecognised	Associated liabilities
Repurchase agreements				
Investment securities	**54.9**		31.8	
Deposits by banks		**53.4**		31.8
Securitisations				
Loans and advances to customers	**396.7**		992.1	
Amounts owed to Co-operative Bank undertakings		**396.7**		992.1
Total	**451.6**	**450.1**	1,023.9	1,023.9

The difference between the fair value of transferred assets and associated liabilities was £1.5m (2022: £nil)

25. ANALYSIS OF CREDIT RISK EXPOSURE

(audited) 31 December 2023	Loans and advances to banks	Loans and advances to customers	Investment securities	Derivative financial instruments	Other assets	Total
Note in Bank Company financial statements	4	5[2]	6	7	8[3]	
Analysis of credit risk exposure						
Gross accounting balances	193.7	20,352.4	2,509.4	301.0	11.2	**23,367.7**
Less: accounting adjustments	-	(68.8)	-	-	-	**(68.8)**
Gross customer balances	**193.7**	**20,283.6**	**2,509.4**	**301.0**	**11.2**	**23,298.9**
Credit commitments	-	1,578.6	-	-	-	**1,578.6**
Gross customer exposure	**193.7**	**21,862.2**	**2,509.4**	**301.0**	**11.2**	**24,877.5**
Less: customer balances measured at FVTPL[1]	-	(88.1)	(3.3)	(301.0)	-	**(392.4)**
Net customer exposure subject to ECL calculation	**193.7**	**21,774.1**	**2,506.1**	**-**	**11.2**	**24,485.1**
Allowance for losses (total ECL)	-	37.4	-	-	-	**37.4**

1. Some FVTPL balances are contained within the accounting adjustments.
2. Excludes fair value adjustment for hedged risk of £(167.5)m.
3. Excludes equity shares (£12.6m) and prepayments (£24.1m).

(audited) 31 December 2022	Loans and advances to banks	Loans and advances to customers	Investment securities	Derivative financial instruments	Other assets	Total
Note in Bank Company financial statements	4	5[2]	6	7	8[3]	
Analysis of credit risk exposure						
Gross accounting balances	312.5	20,959.5	1,826.0	488.4	14.3	**23,600.7**
Less: accounting adjustments	-	(83.2)	-	-	-	**(83.2)**
Gross customer balances	**312.5**	**20,876.3**	**1,826.0**	**488.4**	**14.3**	**23,517.5**
Credit commitments	-	1,989.1	-	-	-	**1,989.1**
Gross customer exposure	**312.5**	**22,865.4**	**1,826.0**	**488.4**	**14.3**	**25,506.6**
Less: customer balances measured at FVTPL[1]	-	(95.0)	(3.0)	(488.4)	-	**(586.4)**
Net customer exposure subject to ECL calculation	**312.5**	**22,770.4**	**1,823.0**	**-**	**14.3**	**24,920.2**
Allowance for losses (total ECL)[2]	**-**	**40.4**	**-**	**-**	**0.2**	**40.6**

1. Some FVTPL balances are contained within the accounting adjustments.
2. Excludes fair value adjustment for hedged risk of £(430.7)m.
3. Excludes equity shares (£11.1m) and prepayments (£21.4m).

All balances except L&A to customers are stage 1 (2022: 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 2023	18,933.0	3,692.0	80.3	65.1	**22,770.4**
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	(880.8)	880.8	-	-	**-**
To credit impaired (stage 1 or 2 or 3)	(27.9)	(29.4)	57.3	-	**-**
To 12 month ECL (stage 2 or 3 to 1)	1,676.9	(1,676.9)	-	-	**-**
From credit impaired (stage 3 to 2)	4.7	6.2	(10.9)	-	**-**
Net changes arising from stage transfers	**772.9**	**(819.3)**	**46.4**	**-**	**-**
Other charges/(releases):					
New assets originated or purchased	2,928.6	-	-	0.8	**2,929.4**
Other changes to risk parameters	(566.3)	-	-	-	**(566.3)**
Redemptions and repayments	(2,868.1)	(449.8)	(23.9)	(10.2)	**(3,352.0)**
Net other charges/(releases)	**267.1**	**(1,269.1)**	**22.5**	**(9.4)**	**(988.9)**
Assets written off	(0.9)	(1.8)	(4.5)	(0.2)	**(7.4)**
At 31 December 2023	**19,199.2**	**2,421.1**	**98.3**	**55.5**	**21,774.1**

25. ANALYSIS OF CREDIT RISK EXPOSURE (continued)

Gross customer exposure	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2022	21,826.2	922.9	67.4	77.3	22,893.8
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	(3,225.1)	3,225.1	-	-	-
To credit impaired (stage 1 or 2 or 3)	(19.6)	(22.1)	41.7	-	-
To 12 month ECL (stage 2 or 3 to 1)	252.6	(252.6)	-	-	-
From credit impaired (stage 3 to 2)	4.0	4.0	(8.0)	-	-
Net changes arising from stage transfers	(2,988.1)	2,954.4	33.7	-	-
Other charges/(releases):					
New assets originated or purchased	3,577.9	-	-	-	3,577.9
Other changes to risk parameters	31.1	(0.7)	(0.3)	(0.1)	30.0
Redemptions and repayments	(3,512.6)	(183.1)	(17.3)	(11.9)	(3,724.9)
Net other (releases)/charges	(2,891.7)	2,770.6	16.1	(12.0)	(117.0)
Assets written off	(1.5)	(1.5)	(3.2)	(0.2)	(6.4)
At 31 December 2022	18,933.0	3,692.0	80.3	65.1	22,770.4

Allowance for losses	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2023	11.3	20.9	7.9	0.3	**40.4**
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	(0.8)	7.7	-	-	**6.9**
To credit impaired (stage 1 or 2 or 3)	-	(0.6)	4.1	-	**3.5**
To 12 month ECL (stage 2 or 3 to 1)	0.8	(5.4)	-	-	**(4.6)**
From credit impaired (stage 3 to 2)	-	0.1	(0.2)	-	**(0.1)**
Net changes arising from stage transfers	**-**	**1.8**	**3.9**	**-**	**5.7**
Other charges/(releases):					
New assets originated or purchased	2.6	-	-	-	**2.6**
Other changes to risk parameters	(3.0)	1.6	(1.3)	0.1	**(2.6)**
Redemptions and repayments	(1.3)	(2.1)	(0.6)	-	**(4.0)**
Net other (releases)/charges	**(1.7)**	**1.3**	**2.0**	**0.1**	**1.7**
Assets written off	(0.8)	(1.5)	(2.4)	-	**(4.7)**
At 31 December 2023	**8.8**	**20.7**	**7.5**	**0.4**	**37.4**

Allowance for losses	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2022	21.2	6.8	6.9	0.6	35.5
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	(4.8)	15.1	-	-	10.3
To credit impaired (stage 1 or 2 or 3)	-	(0.3)	2.5	-	2.2
To 12 month ECL (stage 2 or 3 to 1)	0.7	(1.4)	-	-	(0.7)
From credit impaired (stage 3 to 2)	-	0.1	(0.4)	-	(0.3)
Net changes arising from stage transfers	(4.1)	13.5	2.1	-	11.5
Other charges/(releases):					
New assets originated or purchased	5.0	-	-	-	5.0
Other changes to risk parameters	(6.6)	2.9	1.4	(0.3)	(2.6)
Redemptions and repayments	(3.0)	(1.1)	(0.7)	-	(4.8)
Net other (releases)/charges	(8.7)	15.3	2.8	(0.3)	9.1
Assets written off	(1.2)	(1.2)	(1.8)	-	(4.2)
At 31 December 2022	11.3	20.9	7.9	0.3	40.4

The credit risk section within risk management applies to the Bank Company where relevant and therefore no additional disclosures are included in this note.

26. EVENTS AFTER THE BALANCE SHEET DATE

There are no post balance sheet events to report.

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
Ethical then, now and always

THE CO-OPERATIVE BANK HOLDINGS LIMITED FINANCIAL STATEMENTS (HOLDING COMPANY-ONLY)
BALANCE SHEET
At 31 December 2023

£million

	Note	2023	2022
Assets			
Loans and advances to banks	2	**0.2**	0.2
Investments in subsidiaries/group undertakings	3	**333.0**	333.0
Amounts owed by Bank Company	6	**971.6**	-
Total assets		**1,304.8**	333.2
Other borrowed funds	4,7	**870.5**	-
Total liabilities		**870.5**	-
Capital and reserves attributable to the Holding Company's equity holders			
Ordinary share capital	5	**0.9**	0.9
Share premium account	5	**313.8**	313.8
Retained earnings		**101.1**	-
Merger relief reserve		**18.5**	18.5
Total equity		**434.3**	333.2
Total liabilities and equity		**1,304.8**	333.2

Net profit attributable to equity holders of the Holding Company for the year is £101.1m (2022: £nil), driven primarily by the recognition of a dividend declared by the Finance Company of £46.0m (2022: £nil), and fair value movements in the intercompany loan due from the Bank Company of £56.6m (2022: £nil).

The notes on pages 265 to 267 form part of the Holding Company financial statements.

Approved by the Board on 27 February 2024:

Robert Dench
Chair of the Board

Nick Slape
Chief Executive Officer

STATEMENT OF CASHFLOWS

For year ended 31 December 2023

£million	2023	2022
Cash flows used in operating activities:		
Profit before tax	**-**	-
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	**0.2**	0.2
Cash and cash equivalents at the end of the year	**0.2**	0.2

The notes on pages 265 to 267 form part of the Holding Company financial statements.

STATEMENT OF CHANGES IN EQUITY

For year ended 31 December 2023

£million

	Attributable to equity holders of the Holding Company				
2023	**Share capital**	**Share premium**	**Merger relief reserve**	**Retained earnings**	**Total Equity**
At 1 January 2023	0.9	313.8	18.5	-	**333.2**
Total comprehensive income for the year	-	-	-	101.1	**101.1**
At 31 December 2023	**0.9**	**313.8**	**18.5**	**101.1**	**434.3**

	Attributable to equity holders of the Holding Company				
2022	**Share capital**	**Share premium**	**Merger relief reserve**	**Retained earnings**	**Total Equity**
At 1 January 2022	0.9	313.8	18.5	-	333.2
Total comprehensive income for the year	-	-	-	-	-
At 31 December 2022	0.9	313.8	18.5	-	333.2

The notes on pages 265 to 267 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), registration number 10865342, was incorporated in the UK and is a limited company registered in England and Wales. The registered office address of the Holding Company is PO BOX 101, 1 Balloon Street, Manchester, M60 4EP.

The Holding Company financial statements have been prepared under the historic cost convention and approved by the Directors in accordance with UK adopted international accounting standards and the provisions 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 281 to 290 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 judgement applicable to the Holding Company is set out below.

Impairment of investment in subsidiaries and intercompany assets
Management have performed an assessment of indicators of impairment including a review of the 2023 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.

During the year, Holding Company was substituted, in place of Finance Company, as the issuer of the external MREL-qualifying Tier 2 and senior unsecured debt instruments under pre-existing substitution clauses in the relevant note agreements. Concurrently, the internal MREL debt instruments were novated to Holding Company. As a requirement of this transfer, it is anticipated that the Holding Company will re-register as a Public Limited Company during the first half of 2024.

Amounts due from Bank Company in respect of the internal MREL debt instruments are held at FVTPL and as such are not considered for ECL.

Other amounts owed by Bank Company are deemed to have no ECL on the grounds that whilst the Group remains a going concern, funds could be moved within the group to meet any financial obligations, and therefore the Loss Given Default associated with the exposure would be nil.

2. LOANS AND ADVANCES TO BANKS

	2023	2022
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

	2023	2022
Investments in subsidiaries/group undertakings	**333.0**	333.0

At 31 December 2023, 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.

4. OTHER BORROWED FUNDS

	2023	2022
Fixed rate subordinated notes	**886.5**	-
Accrued interest	**10.5**	-
Fair value adjustment	**(26.5)**	-
	870.5	-

During the year, Holding Company was substituted, in place of Finance Company, as the issuer of the external MREL-qualifying Tier 2 and senior unsecured debt instruments under pre-existing substitution clauses in the relevant note agreements.

For details of the fixed rate subordinated notes, please refer to the disclosures in note 27 of the Group and Bank consolidated financial statements.

5. SHARE CAPITAL

2023	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**

2022	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

Share premium account

	2023	2022
At the beginning and at the end of the year	**313.8**	313.8

The Directors have recommended a final dividend in respect of the year ended 31 December 2023 of £12.0m, equating to 0.13p per ordinary A share in The Co-operative Bank Holdings Limited, to be paid in 2024. The payment of the final dividend is subject to approval of the shareholders at the 2024 AGM. These financial statements do not reflect the recommended dividend. No dividends were paid during the year ended 31 December 2023.

6. 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 2023, the Holding Company had one significant shareholder, SP Coop Investments Ltd, 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:

	2023	2022
Amounts due from Bank Company – Fair value of the internal loan	**925.2**	-
Amounts due from Bank Company – dividends	**46.4**	-
Cash deposited with Bank Company	**0.2**	0.2

The terms of amounts due from Bank Company in respect of the internal MREL debt related to the external MREL-qualifying Tier 2 and senior unsecured debt instruments are equivalent to those of the external MREL-qualifying Tier 2 and senior unsecured debt instruments. Refer to note 27 of the consolidated Group and Bank financial statements for further details. During the year, Holding Company was substituted, in place of Finance Company, as the issuer of the external MREL-qualifying Tier 2 and senior unsecured debt instruments under pre-existing substitution clauses in the relevant note agreements. Concurrently, the internal MREL debt instruments were novated to Holding Company.

6. RELATED PARTY TRANSACTIONS (continued)

The subsidiaries of The Co-operative Bank p.l.c. as detailed in note 21 of the Bank Company financial statements and 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 31 of the consolidated Group and Bank financial statements).

7. ANALYSIS OF CREDIT RISK EXPOSURE

The fair value of internal MREL-qualifying instruments is disclosed in note 8 below.

Other amounts owed by Bank Company are deemed to have no ECL on the grounds that whilst the Group remains a going concern, funds could be moved within the group to meet any financial obligations, and therefore the Loss Given Default associated with the exposure would be nil.

8. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The amount due from Bank Company in respect of internal debt instruments was carried at fair value through profit and loss with a value of £925.2m as at 31 December 2023. The valuation technique employed for this financial asset is as described in note 34 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 34 of the Group and Bank consolidated financial statements.

The fair value of other amounts owed by Bank Company, comprising cash deposits, are deemed to be equal to their carrying value.

9. 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%

Holding company and former issuer of subordinated 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
Ethical then, now and always

CONSOLIDATED INCOME STATEMENT

For year ended 31 December 2023

£million

	Note[1]	Finance Group 2023	Finance Group 2022
Interest income calculated using the effective interest rate method		**883.8**	581.2
Other interest and similar income		**263.4**	88.7
Interest income and similar income	6	**1,147.2**	669.9
Interest expense and similar charges	6	**(670.2)**	(211.6)
Net interest income		**477.0**	458.3
Fee and commission income	7	**67.4**	64.4
Fee and commission expense	7	**(31.0)**	(32.6)
Net fee and commission income		**36.4**	31.8
Other operating income (net)	8	**4.1**	21.6
Operating income		**517.5**	511.7
Operating expenses	9	**(445.5)**	(372.7)
Operating profit before net credit impairment losses		**72.0**	139.0
Net credit impairment losses	14	**(0.6)**	(6.4)
Profit before tax		**71.4**	132.6
Income tax	11	**58.3**	(110.5)
Profit for the financial year		**129.7**	22.1

1. These notes references relate to Group and Bank consolidated financial statements.

The results above wholly relate to continuing activities.

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

The notes on pages 276 to 280 form part of these consolidated Finance Group financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For year ended 31 December 2023

£million

	Finance Group	
	2023	2022
Profit for the year	**129.7**	22.1
Items that may be recycled to profit or loss:		
Changes in cash flow hedges:		
Transfers from equity to income or expense	**(7.2)**	(6.9)
Income tax	**2.0**	2.8
Changes in fair value through other comprehensive income:		
Net changes in fair value recognised directly in equity	**(30.2)**	121.6
Transfers from equity to income or expense	**27.5**	(131.3)
Income tax	**-**	1.5
Items that may not subsequently be recycled to profit or loss:		
Changes in net retirement benefit asset:		
Defined benefit plans losses for the year	**(16.4)**	(693.8)
Income tax	**4.6**	231.1
Other comprehensive expense for the year, net of income tax	**(19.7)**	(475.0)
Total comprehensive income/(expense) for the year	**110.0**	(452.9)

The notes on pages 276 to 280 form part of these consolidated Finance Group financial statements.

BALANCE SHEET

At 31 December 2023

£million

		Finance Group		Finance Company	
	Note	2023	2022	2023	2022
Assets					
Cash and balances at central banks	3	**2,708.3**	5,270.4	**-**	-
Loans and advances to banks	4	**212.6**	387.1	**-**	-
Loans and advances to customers	5	**20,149.4**	20,491.2	**-**	-
Investment securities	6	**2,088.3**	942.7	**-**	-
Derivative financial instruments	7	**309.1**	520.1	**-**	-
Investments in subsidiaries/group undertakings	8	**-**	-	**333.0**	333.0
Other assets	9	**47.9**	46.6	**-**	-
Property, plant and equipment	10	**23.6**	22.8	**-**	-
Intangible assets	11	**114.0**	90.0	**-**	-
Right-of-use assets	12	**31.4**	33.0	**-**	-
Amounts owed by Bank Company	25	**-**	-	**-**	618.6
Current tax assets		**4.3**	1.8	**-**	-
Deferred tax assets	20	**233.9**	167.4	**-**	-
Net retirement benefit asset	21	**148.5**	159.7	**-**	-
Total assets		**26,071.3**	28,132.8	**333.0**	951.6
Liabilities					
Deposits by banks	13	**4,288.9**	5,683.4	**-**	-
Customer accounts	14	**19,215.2**	20,072.8	**-**	-
Debt securities in issue	15	**-**	181.9	**-**	-
Derivative financial instruments	7	**110.3**	103.5	**-**	-
Other liabilities	16	**37.4**	42.8	**-**	-
Accruals and deferred income	17	**22.8**	32.5	**-**	-
Provisions	18	**60.6**	33.2	**-**	-
Other borrowed funds	19	**-**	646.9	**-**	658.8
Amounts owed to group undertakings	25	**937.6**	-	**46.4**	-
Lease liabilities	12	**30.1**	31.0	**-**	-
Net retirement benefit liability	21	**5.9**	5.9	**-**	-
Total liabilities		**24,708.8**	26,833.9	**46.4**	658.8
Capital and reserves attributable to the Finance Group/Finance Company's equity holders					
Ordinary share capital	23	**0.9**	0.9	**0.9**	0.9
Retained earnings		**1,630.5**	1,577.8	**255.1**	291.9
Other reserves	24	**(268.9)**	(279.8)	**30.6**	-
Total equity		**1,362.5**	1,298.9	**286.6**	292.8
Total liabilities and equity		**26,071.3**	28,132.8	**333.0**	951.6

Net profit attributable to equity shareholders of Finance Company was £9.6m (2022: loss of £83.6m). Both current year and prior year income statement impacts were driven solely by fair value movements on the intercompany loan due from the Bank Company. This loan was transferred to the Holding Company during the year.

The notes on pages 276 to 280 form part of these consolidated Finance Group and Finance Company individual financial statements.

Approved by the Board on 27 February 2024:

Robert Dench Chair of the Board	Nick Slape Chief Executive Officer

CONSOLIDATED STATEMENT OF CASHFLOWS

For year ended 31 December 2023

£million

	Note	Finance Group 2023	Finance Group 2022
Cash flows from/(used in) operating activities:			
Profit before tax		**71.4**	132.6
Adjustments for non cash movements:			
Pension scheme adjustments		**(3.4)**	(12.7)
Net credit impairment losses		**0.6**	6.4
Depreciation, amortisation and impairment		**34.8**	35.3
Other non-cash movements		**90.2**	143.8
Changes in operating assets and liabilities:			
(Decrease)/increase in deposits by banks		**(1,394.5)**	155.8
Increase in prepayments		**(2.7)**	(1.1)
Decrease in accruals and deferred income		**(9.7)**	(4.5)
Decrease in customer accounts		**(874.0)**	(1,028.8)
Decrease in debt securities in issue		**(181.9)**	(21.4)
Decrease/(increase) in loans and advances to banks		**30.3**	(28.5)
Decrease in loans and advances to customers		**590.4**	32.5
Net movement of other assets and other liabilities		**(52.6)**	(28.6)
Income tax paid		**(2.7)**	(6.8)
Net cash flows used in operating activities		**(1,703.8)**	(626.0)
Cash flows from/(used in) investing activities:			
Purchase and construction of tangible and intangible assets		**(55.0)**	(48.0)
Purchase of investment securities		**(1,542.7)**	(465.7)
Proceeds from sale of property and equipment		**-**	0.4
Proceeds from sale of shares and other interests		**0.2**	20.4
Proceeds from sale and maturity of investment securities		**434.9**	679.0
Purchase of equity shares		**-**	(0.8)
Proceeds from sale of investment properties		**0.3**	-
Dividends received		**0.1**	0.2
Net cash flows (used in)/from investing activities		**(1,162.2)**	185.5
Cash flows from/(used in) financing activities:			
Proceeds from issuance of Tier 2 notes and senior unsecured debt		**397.9**	248.4
Redemption of Tier 2 notes		**(163.5)**	-
Interest paid on Tier 2 notes and senior unsecured debt		**(62.7)**	(44.5)
Lease liability principal payments		**(6.6)**	(14.6)
Net cash flows from financing activities		**165.1**	189.3
Effect of exchange rate changes on cash and cash equivalents		**(5.4)**	(8.2)
Net decrease in cash and cash equivalents		**(2,706.3)**	(259.4)
Cash and cash equivalents at the beginning of the year		5,458.1	5,717.5
Cash and cash equivalents at the end of the year		**2,751.8**	5,458.1
Comprising of:			
Cash and balances with central banks	3	**2,631.7**	5,183.8
Loans and advances to banks	4	**120.1**	274.3
		2,751.8	5,458.1

The Finance Company's cash and cash equivalents as at 31 December 2023 was £nil (2022: £nil). There were no changes in cash and cash equivalents for the Finance Company for the year ended 31 December 2023.

CONSOLIDATED STATEMENT OF CASHFLOWS - RECONCILIATION OF MOVEMENTS OF LIABILITIES TO CASHFLOWS ARISING FROM FINANCING ACTIVITIES

For year ended 31 December 2023

£million

	Finance Group					
	2023			2022		
	Lease liabilities	Amounts owed to group undertakings	Total	Lease liabilities	Other borrowed funds	Total
Balance at the beginning of the year	**31.0**	**646.9**	**677.9**	44.1	402.1	446.2
Changes from financing cashflows						
Proceeds from issuance of Tier 2 notes and senior unsecured debt	-	397.9	**397.9**	-	248.4	248.4
Redemption of Tier 2	-	(163.5)	**(163.5)**	-	-	-
Interest paid on Tier 2 notes and senior unsecured debt	-	(62.7)	**(62.7)**	-	(44.5)	(44.5)
Lease liability principal payments	(6.6)	-	**(6.6)**	(14.6)	-	(14.6)
Total changes from financing cash flows	**24.4**	**818.6**	**843.0**	29.5	606.0	635.5
Other changes						
Interest payable on lease liabilities and Tier 2 notes	1.0	63.2	**64.2**	1.2	48.1	49.3
Other non cash movement	-	9.4	**9.4**	-	(7.2)	(7.2)
Remeasurements of lease liabilities	4.7	-	**4.7**	0.3	-	0.3
Balance at the end of the year	**30.1**	**891.2**	**921.3**	31.0	646.9	677.9

STATEMENT OF CHANGES IN EQUITY

For year ended 31 December 2023

£million

2023	Share capital	FVOCI reserve	Cash flow hedging reserve	Capital re-organisation reserve	Capital contribution reserve	Defined benefit pension reserve	Retained earnings	Total equity
	Attributable to equity holders of the Finance Group							
At 1 January 2023	0.9	(5.3)	10.6	(307.4)	-	22.3	1,577.8	**1,298.9**
Total comprehensive (expense)/income for the year	-	(2.7)	(5.2)	-	-	(11.8)	129.7	**110.0**
Impact of transfer of debt to Holding Company	-	-	-	-	30.6	-	(30.6)	**-**
Dividends distribution	-	-	-	-	-	-	(46.4)	**(46.4)**
At 31 December 2023	**0.9**	**(8.0)**	**5.4**	**(307.4)**	**30.6**	**10.5**	**1,630.5**	**1,362.5**

2023	Share capital	FVOCI reserve	Cash flow hedging reserve	Capital re-organisation reserve	Capital contribution reserve	Defined benefit pension reserve	Retained earnings	Total equity
	Attributable to equity holders of the Finance Company							
At 1 January 2023	0.9	-	-	-	-	-	291.9	**292.8**
Total comprehensive income for the year	-	-	-	-	-	-	9.6	**9.6**
Impact of transfer of debt to Holding Company	-	-	-	-	30.6	-	-	**30.6**
Dividends distribution	-	-	-	-	-	-	(46.4)	**(46.4)**
At 31 December 2023	**0.9**	**-**	**-**	**-**	**30.6**	**-**	**255.1**	**286.6**

2022	Share capital	FVOCI reserve	Cash flow hedging reserve	Capital re-organisation reserve	Defined benefit pension reserve	Retained earnings	Total equity
	Attributable to equity holders of the Finance Group						
At 1 January 2022	0.9	2.9	14.7	(307.4)	485.0	1,555.7	1,751.8
Total comprehensive (expense)/income for the year	-	(8.2)	(4.1)	-	(462.7)	22.1	(452.9)
At 31 December 2022	0.9	(5.3)	10.6	(307.4)	22.3	1,577.8	1,298.9

2022	Share capital	FVOCI reserve	Cash flow hedging reserve	Capital re-organisation reserve	Defined benefit pension reserve	Retained earnings	Total equity
	Attributable to equity holders of the Finance Company						
At 1 January 2022	0.9	-	-	-	-	375.5	376.4
Total comprehensive expensive for the year	-	-	-	-	-	(83.6)	(83.6)
At 31 December 2022	0.9	-	-	-	-	291.9	292.8

The notes on pages 276 to 280 form part of these consolidated Finance Group financial statements.

All amounts are stated in £m unless otherwise indicated.

1. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES

The Co-operative Bank Finance p.l.c. (the “Finance Company”), registered number 11598074, was incorporated in the UK and is a limited company registered in England and Wales. The registered office address of the Finance Company is PO BOX 101, 1 Balloon Street, Manchester, M60 4EP.

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 UK adopted international accounting standards and, as regards the Finance Company financial statements, in accordance with the provisions of the Companies Act 2006.

Accounting policies outlined in note 1 of the Group and Bank consolidated financial statements and the explanatory information on pages 281 to 290 also apply to the Finance Group and Finance Company.

Going Concern
The Board has considered the going concern status of the Finance Company and has no stated intention to liquidate the Company at this time, or over the going concern assessment period to 30 June 2025. As a result, the Board concluded there is an expectation of the Finance Company continuing to operate as the Bank’s intermediate parent company for the foreseeable future and that it has sufficient resources to do so, with no material uncertainties over the assessment period. Accordingly, the accounts of the Finance Company and the Finance Group for the period ended 31 December 2023 have been prepared on a going concern basis.

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 are the same as those set out in note 2 of the Group and Bank consolidated financial statements. The critical judgements set out below 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 2023 was £333.0m (2022: £333.0m).

Management have performed an assessment of indicators of impairment including a review of the 2023 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
Amounts due from Bank Company comprise the internal MREL debt relating to the external MREL-qualifying Tier 2 and senior unsecured debt, which are held at FVTPL and as such are not considered for ECL.

2. NET PROFIT 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. INVESTMENTS IN SUBSIDIARIES/GROUP UNDERTAKINGS

	Finance Company	
	2023	2022
At the beginning and at the end of the year	**333.0**	333.0

At 31 December 2023, 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 21 of the Bank Company financial statements.

9. 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 17 of the Group and Bank consolidated financial statements.

10. 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 18 of the Group and Bank consolidated financial statements.

11. 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 19 of the Group and Bank consolidated financial statements.

12. RIGHT-OF-USE ASSETS AND 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 20 of the Group and Bank consolidated financial statements.

13. 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 21 of the Group and Bank consolidated financial statements.

14. CUSTOMER ACCOUNTS

	Finance Group		Finance Company	
	2023	2022	2023	2022
Customer accounts	**19,233.9**	20,107.4	**-**	-
Fair value adjustment for hedged risk	**(18.7)**	(34.6)	**-**	-
	19,215.2	20,072.8	**-**	-

15. 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 23 of the Group and Bank consolidated financial statements.

16. 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 24 of the Group and Bank consolidated financial statements.

17. 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 25 of the Group and Bank consolidated financial statements.

18. 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 26 of the Group and Bank consolidated financial statements.

19. OTHER BORROWED FUNDS

	Finance Group		Finance Company	
	2023	2022	2023	2022
Fixed rate subordinated notes	**-**	650.0	**-**	650.0
Issue costs	**-**	(3.3)	**-**	-
Accrued interest	**-**	8.8	**-**	8.8
Fair value hedge accounting adjustment	**-**	(8.6)	**-**	-
	-	646.9	**-**	658.8

19. OTHER BORROWED FUNDS (continued)

During the year, Holding Company was substituted, in place of Finance Company, as the issuer of the external MREL-qualifying Tier 2 and senior unsecured debt instruments under pre-existing substitution clauses in the relevant note agreements.

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. Therefore for details of the fixed rate subordinated notes, we refer to the disclosures in note 27 of the Group and Bank consolidated financial statements.

20. 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 28 of the Group and Bank consolidated financial statements.

21. 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 29 of the Group and Bank consolidated financial statements.

22. 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 30 of the Group and Bank consolidated financial statements.

23. SHARE CAPITAL

	Finance Group and Finance Company			
	2023		2022	
	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

24. OTHER RESERVES

	Finance Group	
	2023	2022
Fair value through other comprehensive income reserve	**(8.0)**	(5.3)
Cash flow hedging reserve	**5.4**	10.6
Capital re-organisation reserve	**(307.4)**	(307.4)
Capital contribution reserve	**30.6**	-
Defined benefit pension reserve	**10.5**	22.3
	(268.9)	(279.8)

During the year, Holding Company was substituted, in place of Finance Company, as the issuer of the external MREL-qualifying Tier 2 and senior unsecured debt instruments under pre-existing substitution clauses in the relevant note agreements. As the internal asset was carried at FV where the external liabilities were carried at amortised cost, the net effect of the transaction constituted a capital contribution to the Finance Company.

25. 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 21 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 31 to the consolidated Group and Bank financial statements and note 23 of the Bank Company financial statements).

Amounts owed by Bank Company
Amounts owed by Bank Company related to the internal MREL debt related to the external MREL-qualifying Tier 2 and senior unsecured debt, comprise the following:

	Finance Company	
	2023	2022
Fixed rate subordinated notes at par value	-	650.0
Accrued interest	-	8.8
Fair value of the internal loan	-	(40.2)
	-	618.6

During the year, Holding Company was substituted, in place of Finance Company, as the issuer of the external MREL-qualifying Tier 2 and senior unsecured debt instruments under pre-existing substitution clauses in the relevant note agreements. Concurrently, the internal MREL debt instruments were novated to Holding Company.

Amounts owed to group undertakings

	Finance Group	
	2023	2022
Amounts owed to Holding Company (related to MREL and Tier 2 qualifying instruments)	**891.2**	-
Amounts owed to Holding Company (related to dividends)	**46.4**	-
	937.6	-

26. ANALYSIS OF CREDIT RISK EXPOSURE

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 25 of the Bank Company financial statements.

Amounts due from Bank Company in 2022 comprised of the internal MREL debt relating to the external MREL-qualifying Tier 2 and senior unsecured debt, which were held at FVTPL and as such not considered for ECL.

27. 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 34 of the Group and Bank consolidated financial statements.

Finance Company
The amount due from Bank Company was carried at fair value through profit and loss with a value of £618.6m as at 31 December 2022. This asset was transferred to the Holding Company during 2023 under the substitution terms of the related instruments.

28. EVENTS AFTER THE BALANCE SHEET DATE

There are no post balance sheet events to report.

Explanatory Information

The co-operative bank

Ethical then, now and always

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. 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. The accounting policies which are most material to the financial statements are also disclosed in note 1.4 to the Group accounts.

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.

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, which includes 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 hedge accounting under the UK-endorsed version of IAS 39.

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 describes the Group's general accounting policies around the assessment of credit losses. Considerations around estimation uncertainty is 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).

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 calculated on balances net of any associated ECLs.

The expected life of a financial instrument 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. Judgemental adjustments 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. The origination, measurement and release of material judgemental adjustments are initially reviewed and approved by the Chief Risk Officer on a quarterly basis, and subject to further analysis and challenge through the Group's accounting judgement review process before ultimate being presented to the by the Group's Joint Audit Committee.

ii. Significant increase in credit risk (SICR)

A financial instrument is considered to have experienced a SICR 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, which the Group classifies as those that are rates as investment grade. 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

The Group considers all defaulted instruments to be credit impaired and vice versa. Qualitative criteria applied in the definition of default include:

- 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 for all portfolios in evaluating whether or not an instrument has defaulted, both for the purposes of ECL calculation and internal credit risk management.

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 to be 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

ECLs are probability-weighted amounts, which are determined by evaluating a range of possible economic scenarios of varying probabilities in order to capture non-linearities and asymmetries within the ECL calculation:

- A base scenario, which is consistent with the economic forecasts used by the Group in its financial planning process, is determined by reference to a combination of the Bank of England (BoE)'s Monetary Policy Reports, HM Treasury consensus and expert judgement.
- Alternative scenarios, reflecting outlooks of differing severity or optimism, are modelled by the application of multipliers to base scenario forecasts and by reference to stress scenarios published by the BoE.
- The relative weighting of each scenario is determined by reference to probability-weighted distribution of economic forecasts published by the BoE in its Monetary Policy Reports.
- All scenarios and weightings are regularly benchmarked against available industry data.

Once the scenarios and weightings have been determined, ECLs are calculated by applying each scenario to the Group's ECL models and multiplying the result by the respective scenario weighting. 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 consequently whether a weighted 12 month or a lifetime expected credit loss should be recognised. The Group may from time-to-time override model-derived staging with judgemental adjustments where it considers the model output to understate (or overstate) the credit risk of a particular instrument (or portfolio of instruments).

The Group does not typically apply macroeconomic forecasts to individually-assessed ECL calculations due to the limited and very specific nature of these cases.

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 impairment 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 re-recognised is included in the income statement as a gain or loss on derecognition.

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
a) 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, an estimate of dismantling/restoration of the underlying asset, any incremental costs directly attributable to the lease inception and any premiums or other advance payments made to the lessor. 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 at that time.

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.

b) 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 Board-approved Financial Plan. Further information is included in note 2, sections 2.1.3 critical judgements and 2.2.4 key sources of estimation uncertainty.

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.

Deferred tax assets and deferred tax liabilities are offset if and only if the entity has a legally enforceable right to set off current tax assets and liabilities, and the deferred tax assets and liabilities relate to taxes levied by the same taxation authority on the same company

1.9 Retirement benefits

a) 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.

b) 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. The fair value of annuity policies held by a DB scheme that exactly matches the amount and timing of benefits payable under the plan is deemed to be equivalent to the present value of the related obligations. 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 receive economic value through reduced contributions in the future or refunds from the schemes, in accordance with IFRIC 14 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.

1.10 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.

1.11 Investments in subsidiaries and group undertakings
Investments in subsidiaries are initially measured at cost and subsequently measured at cost less impairment.

1.12 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.

1.13 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.

1.14 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

The IASB has issued a number of other minor amendments to IFRSs, which have been endorsed by the UK Endorsement Board, and are due to take effect for periods commencing 1 Jan 2024. The Group does not anticipate any of these amendments will have a significant impact on the Group.

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.