The co-operative bank
for people with purpose

Interim Financial Report

30 June 2020

Contents

In the following pages the term 'Group' refers to The Co-operative Bank Holdings Limited and its subsidiaries.

WINNER Moneyfacts Awards 2020

Best Current Account Provider

WINNER Business Moneyfacts Awards 2016 - 2020 5 YEARS

Best Charity Banking Provider

WINNER THREE TIMES Moneyfacts Consumer Awards 2018-2020

Branch Network of the Year

The co-operative bank
for people with purpose

Find us here:

@CooperativeBank

@TheCooperativeBank

@thecooperativebank

The Co-operative Bank plc

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

www.co-operativebank.co.uk/investorrelations

A glossary of key terms used in this Interim Financial Report is available on our website.

Forward-looking statements

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

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

The Co-operative Bank at a glance

We trace our roots back to our origins as the Loans and Deposits department of Co-operative Wholesale Society in 1872 and we have worked hard ever since to provide our customers with a real alternative to our larger competitors. We 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 setting out the way we do business, a policy shaped by over 320,000 customer responses since 1992.

Our purpose

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

Our vision

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

Our strategy

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

Our values

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

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

Core customer segments

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

Retail

Personal banking - high street, telephony and online services, including current accounts, savings, mortgages, personal loans and credit cards

Read more on page 12

85% of core income

74% of core assets

76% of core liabilities

SME

Banking services for small and medium-sized businesses, charities and social enterprises including current accounts, savings, loans and overdrafts

Read more on page 15

19% of core income

1% of core assets

12% of core liabilities

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

Read more on page 17

Business highlights

Resilient financial performance, with challenges ahead

The last few months have been dominated by responding to COVID-19, but results for the six months ended 30 June 2020 remain ahead of where we expected to be when we started the year. Our priority remains to return the Bank to a position of sustainable profitability in the future, against an even more challenging external environment than we anticipated.

Statistical loss before tax [1]

£(44.6)m

30 June 2019: £(38.5)m

Underlying loss[1]

£(33.9)m

30 June 2019 (restated): £(2.3)m

Customer net interest margin

1.41%

30 June 2019 (restated): 1.89%

Underlying cost:income ratio

115.3%

30 June 2019 (restated): 101.2%

Asset quality ratio

12bps

31 December 2019: net release of 1bp

1. The underlying loss stated above is a non-statutory measure that management uses to assess business performance. It is adjusted for certain expenses and is reconciled to the relevant statutory measures on page 9. During 2019, the Group revised its definition of underlying as explained on page 8. Comparatives have therefore been restated. The basis is consistent with that presented within our full Annual Report and Accounts for 2019.

Strong CET1 ratio and liquidity in unprecedented times

We are well capitalised with a strong balance sheet and a low-risk credit profile. We are committed to building our capital resources.

Common Equity Tier 1 (CET1)

18.2%

31 December 2019: 19.6%

Regulatory minimum: 10.7%
31 December 2019: 10.9%

Total Capital Resources

22.4%

31 December 2019: 23.8%

Liquidity coverage ratio

181.7%

31 December 2019: 173.7%

Regulatory minimum: 100%

Risk weighted assets

£5.0bn

31 December 2019: £4.8bn

Supporting our customers through COVID-19

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

Continuing to provide lending to those who need it…

Net residential lending

£360m

Net lending for SME

£136m

Total core customer assets have grown by 2.5 % since 31 December 2019

…providing financial support to those facing difficulties

Mortgage payment deferrals

>16,000

Loans and credit cards payment deferrals

>2,700

Number of payment deferrals approved by 30 June 2020

We have introduced a range of support measures to help customers

- First bank to issue £500 authorised overdraft automatically interest-free, now provided to over 348,000 customers
- £21.5m of Coronavirus Business Interruption Loans (CBILS) approved and £10.5m drawn down by 30 June 2020
- £165.9m of Bounce-Back loans approved and £140.5m drawn down by 30 June 2020
- All branches and call centres have remained open, adapting to serve customers safely throughout the pandemic
- All non-customer-facing colleagues working from home, enabled by technology improvements delivered as part of 2019 transformation commitments

Continuing to deliver award-winning service through our people with purpose

Staying connected and working safely together through the pandemic.

Current account customer satisfaction (NPS)	Percentage of senior roles held by women	Colleague engagement score
+25 (retained 3rd place in the market)	**41.9%**	**82%**
31 December 2019: +29	31 December 2019: 42.3%	

We have supplemented our engagement survey with a more recent 'pulse check survey' to refresh the results, particularly in light of changes to the working environment. The results indicated continued high engagement levels, and specifically:

- **83% of colleagues prefer working from home**
- **83% of colleagues are positive about their well-being**

Making a difference in our communities

We continue to tackle youth homelessness through our partnership with the Centrepoint charity which commenced in May 2017, and make a difference to our customers' local communities through volunteering and fundraising for the charities and causes which are important to them.

Donations to charities in the six months ended 30 June 2020 (including Everyday Rewards)

£498k

A selection of the many ways we have continued to serve our communities in the last six months

- Supporting our many NHS worker customers, donating headsets to local GPs and care packages to local hospitals
- Working with our charity partner Refuge to support those impacted by domestic and financial abuse during lockdown
- Confirmed signatory of UNEP FI Principles of Responsible Banking from February 2020
- Proud winner of the 'Changing Lives in the Community' award at the UK Card & Payments Awards earlier in the year
- We are facilitating a one-off pledge to donate £650,000 to charitable causes. Further details are provided on page 19.

Committed to tackling climate change for over 25 years

- Beyond carbon neutral since 2007
- Targeting zero waste to landfill by the end of 2020
- We don't provide banking services to businesses involved in fossil fuels extraction and refinement, environmentally harmful chemicals, or unsustainable harvest of natural resources

"Supporting our customers through unprecedented times"

Chief Executive's review

The unprecedented circumstances we have experienced during 2020 as a result of the coronavirus pandemic have resulted in a challenging economic environment and an uncertain financial situation for many people and businesses across the UK. Our foremost priority has been to reassure our customers and offer the financial support they need to navigate through this period.

I am proud of the commitment our Co-operative Bank colleagues have shown in assisting our customers, demonstrating the co-operative values that are central to our thinking, that we know are important to our customers and that set us apart from other banks. Our dedication is reflected by the fact that all branches and contact centres remained open enabling us to serve customers safely throughout the pandemic. During 2019 we invested heavily in our IT and digital infrastructure, which has been crucial in enabling colleagues to work remotely and allowing customers to transact via online channels at a time when we have seen digital uptake of double that of the market.

In recent weeks, the immediate impact of the pandemic and lockdown period on the UK economy has moved into focus as we look to support the recovery. The progress delivered in recent years in transforming the Bank ensures we are entering this period of economic uncertainty with a resilient franchise, a low-risk credit book, strong CET1 ratio, decreasing operating costs, stronger IT infrastructure and improving digital propositions for our customers. The 'fixing the basics' phase of our transformation plan has successfully concluded, and our focus is firmly on enabling the future.

The unprecedented economic backdrop creates significant challenges. Due to adverse wholesale market conditions for the Bank, and the fact that we have a strong CET1 ratio, we delayed our plans to issue MREL-qualifying debt in the first half of 2020. MREL is an industry-wide regulatory requirement to build additional capital for the future. While our plans take account of the post-COVID economic outlook, the potential for a further deterioration in the economic environment creates risk and material uncertainty over our plans to issue MREL to meet future regulatory requirements (as explained in note 1.2). Importantly, however, our CET1 ratio is substantially above regulatory requirements, our shareholders remain supportive of our business and we are committed to achieving our future MREL obligations by January 2022.

Our franchise is resilient, with a low-risk credit book, strong CET1 ratio and decreasing operating costs. However, we are currently loss-making, and must continue to build our additional MREL resources to meet future MREL regulatory capital requirements.

The Bank is actively monitoring the landscape for an execution window, and is fully prepared and committed to completing a transaction at the earliest available opportunity.

Given the environment, we took decisive action to reduce costs, pausing discretionary spend, rationalising third-party costs and deferring non-essential investment programmes, resulting in delaying the planned rationalisation of our mortgages and savings IT platform.

While we have reported an underlying loss, our franchise has shown its resilience, with positive growth in balances and customer numbers across our key business segments. Our ethical brand and values-based approach resonates with customers at a time when community and co-operation have had renewed importance for many people.

Banks have had an important role to play in keeping the economy moving through the uncertainties of the pandemic. I am pleased that The Co-operative Bank has played its part in responding to the emerging needs of customers with a range of measures to help them manage their money. This includes granting over 18,000 requests for payment deferrals for mortgage and credit card customers, free authorised overdrafts of up to £500 for over 348,000 current account customers, and providing Coronavirus Business Interruption Loans and Bounce-Back loans to our small business customers.

The first half of 2020 highlighted the importance of our online channels, as we saw the highest number of digitally active customers to date at 62%, a 24% increase in digital-only users and an 8% uplift in transactions since 2019. Online sales also doubled; it is clear that customers are increasingly choosing online and mobile banking options. We believe the rapid digital uptake seen in the first half is here to stay and reinforces the importance of our digital transformation. We increased the number of digital releases during the first half and improving online banking remains a key commitment.

Despite significant disruption to the property market, our retail lending business has proved resilient and in the first six months of 2020 we have helped 3,500 customers buy a new home, and 8,100 move to a better mortgage deal. Mortgage balances have grown by £360m and new business completion margins have increased by 27bps since the first half of 2019. This is a result of our continued strong broker relationships and sustained focus on agile pricing, as well as further improvements in customer retention supported by availability of digital options. While circumstances curtailed market activity during April and May, we saw renewed demand for mortgages through June in some key segments, and anticipate this will continue over the summer months. Across the market, there has been a reduction in consumer spending on credit cards, but we may see a change in this trend in the second half of 2020 as lockdown measures are gradually relaxed.

In June, we were delighted to be awarded 'Best Current Account Provider' by Moneyfacts

In retail deposits we have seen a net increase in current account customers and an increase in balances, despite lower interest rates as a result of the base rate reduction. Our current account net promoter score (NPS) of +25 continues to place us third amongst our market peers.

We continue to focus on the opportunity for growth presented by our small business banking segment. We are building positive momentum in this area of the Bank, which until 2018 had been largely deprioritised. We have had 5,300 new customers in the first half of 2020 and have attracted a share of 16 per cent of the incentivised switching market, ahead of the planned number of 6%. We are pleased to have been able to support 6,012 business customers with £10.5m of CBILS and £140.5m of Bounce-Back loans.

Our plans to transform and re-energise that area of the business with much needed investment in digital functionality are on track. We are maximising the potential of our investment from the Banking and Competition Remedies Limited (BCR), alongside investment of our own, and we have a range of new services in plan for our SME customers in the autumn, including a business mobile banking app, new online service and business banking credit card among other things. We are committed to improving our digital propositions for our business banking customers.

Colleagues made donations to support with care packages to NHS customers

The values and ethics of the co-operative movement are central to everything we do at the Bank and supporting our communities has been a focal point for us during this period. We've made donations to 55 small community organisations through our Customer Donation Fund and have been pleased to help our long-standing charity partners withstand the challenges of the pandemic.

RISE UP

"I would like to offer my heartfelt thanks to The Co-operative Bank for standing alongside us and supporting us for more than two decades. Our partnership has helped to equip, train and support young human rights defenders across the UK and all over the world, and I could not be more proud of what our organisations have achieved."

Kate Allen
Director, Amnesty International UK

AMNESTY INTERNATIONAL

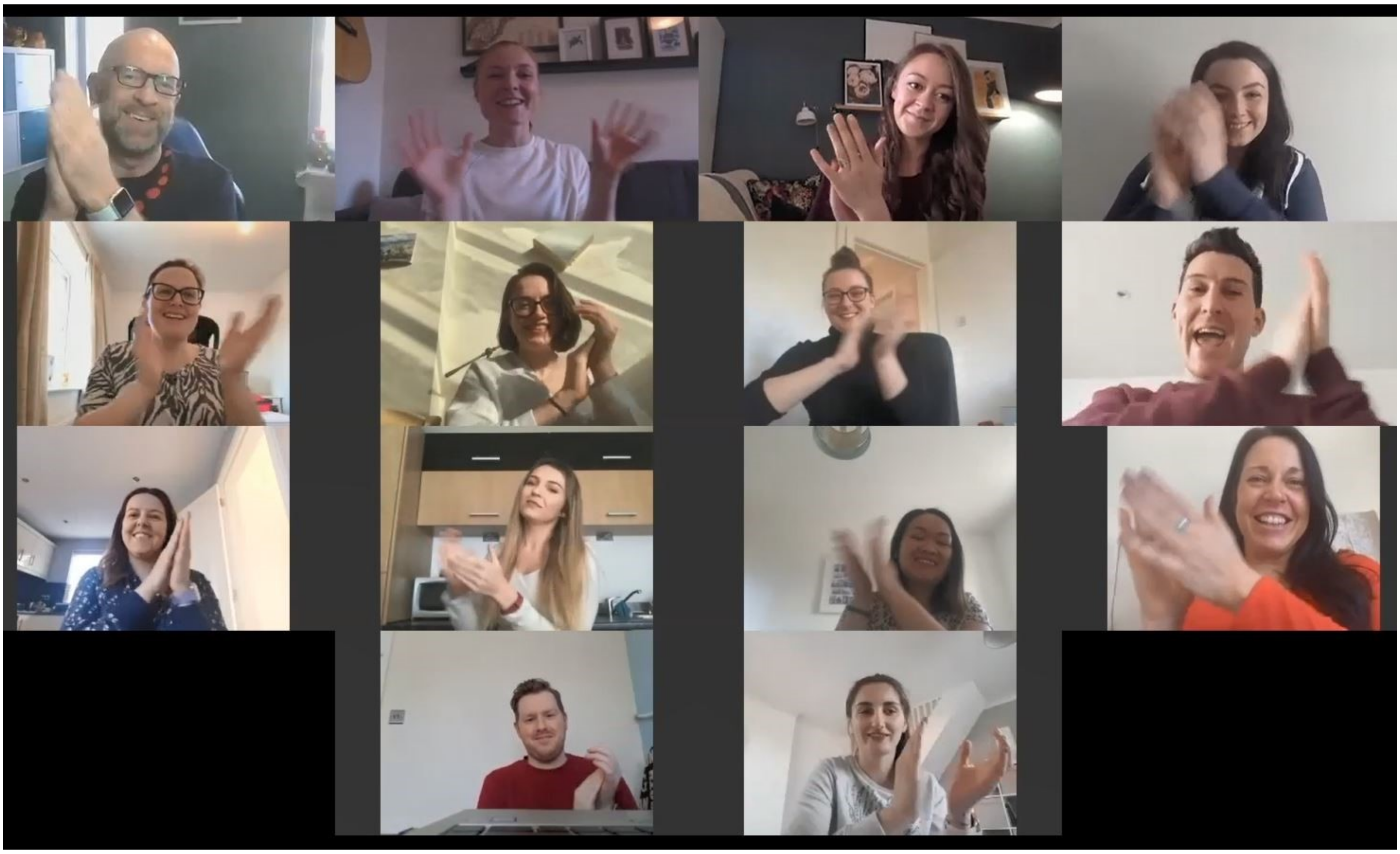
In particular we have helped our charity partner Refuge respond to increased demand for its services during lockdown; as well as donating directly, we shared information and awareness on domestic abuse issues through our social media channels. As equality issues have been prominent in the news agenda, we are proud of our long-standing commitment to protect human rights, and our youth development programme in partnership with Amnesty International, Rise Up, is supporting the young campaigners of the future.

Our business support partnership with Co-operatives UK, The Hive, has supported many co-operatives in coping with the impact of the pandemic. Colleagues have also made a difference by offering skills-based volunteering from home, and by making donations to support with care packages to NHS customers. Over 10,000 of our customers are NHS workers, and we wrote to thank them for their contribution to combatting the pandemic, and responded to their requests for care packages and headsets.

Our colleagues have remained strongly engaged and we have put in place a range of measures to help people maintain work-life balance throughout the period. Our colleagues have demonstrated an ongoing commitment to co-operative values and they have enabled us to continue to serve our customers through this time.

Over the next few pages, I set out more detail on:

- **Our financial performance over the first six months of 2020 (pages 8 to 11)**
- **A trading update for each of our segments: retail, SME and treasury (pages 12 to 17)**



Resilient financial performance, with challenges ahead

The environment in which we end the first half of the year is unprecedented, with COVID-19 having far-reaching global economic impacts, leading to a range of government and Bank of England responses, including two UK base rate reductions in March 2020. The full extent of the economic impact of COVID-19 remains uncertain, but nevertheless we have been resilient in the first six months of this financial year and performance was better than the expectations we set at the start of the year. Our CET1 and Total Capital Ratios remain comfortably above regulatory minimum levels. Given uncertainty is likely to remain a feature of our environment for a longer period yet, our five-year financial plan and therefore our expectations for the short-to-medium-term, which was set in December 2019, no longer appear relevant to the current environment. We have consequently spent a significant amount of time revising our financial expectations as I have described on page 5. I share the outlook for the Group on page 18, but first the Group's financial results are presented on an underlying and statutory basis for the six months ended 30 June 2020.

Alternative performance measures

The Group uses a number of alternative performance measures, including underlying profit or loss, to monitor its financial performance and financial position. The statutory result, a loss before tax of £44.6m, which is defined by accounting rules, is also monitored for the Group overall.

As disclosed in the 2019 Annual Report and Accounts, management benchmarked the items which are reclassified to determine underlying profit or loss and, as a result, made some changes in 2019. Therefore, the comparative results for the six months ended 30 June 2019 are restated. A reconciliation is shown on the following page. The restated approach is consistent with that adopted and disclosed in the 2019 Annual Report and Accounts.

Underlying performance

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

Six months ended 30 June 2020 £m	Retail	SME	Core customer total	Treasury	Total	Legacy & unallocated	Group
Net interest income	117.0	20.5	137.5	(8.4)	129.1	(1.7)	**127.4**
Other operating income	10.7	7.6	18.3	2.9	21.2	(0.2)	**21.0**
Operating income	**127.7**	**28.1**	**155.8**	**(5.5)**	**150.3**	**(1.9)**	**148.4**
Credit impairment losses	(5.2)	(2.3)	(7.5)	-	(7.5)	(3.7)	**(11.2)**
Operating costs – staff							**(56.9)**
Operating costs – non-staff							**(111.2)**
Continuous improvement projects							**(3.0)**
Operating expenses							**(171.1)**
Underlying loss							**(33.9)**

Six months ended 30 June 2019 £m (restated)	Retail	SME	Core customer total	Treasury	Total	Legacy & unallocated	Group
Net interest income	132.8	19.6	152.4	15.2	167.6	0.3	**167.9**
Other operating income	7.4	8.1	15.5	6.4	21.9	1.2	**23.1**
Operating income	**140.2**	**27.7**	**167.9**	**21.6**	**189.5**	**1.5**	**191.0**
Credit impairment (losses)/gains	(1.0)	0.7	(0.3)	-	(0.3)	0.2	**(0.1)**
Operating costs – staff							**(62.5)**
Operating costs – non-staff							**(122.5)**
Continuous improvement projects							**(8.2)**
Operating expenses							**(193.2)**
Underlying loss							**(2.3)**

In the current period, the Group has made an underlying loss of £33.9m (six months ended 30 June 2019: £2.3m). Income generated by core segments (retail, SME and treasury) of £150.3m is 21% lower than in the six months ended 30 June 2019, reflecting the impact of the current challenging conditions, including a £4.8m one-off reduction in interest income receivable under the effective interest method when base rates were reduced in March 2020. Net interest income is also reduced when compared to the equivalent period in 2019, as a result of the full six month impact of the cost of Tier 2 debt issued in April 2019. We continue to focus on balancing the need to raise MREL-qualifying funds to meet future MREL capital requirements with the challenge this presents to improving our net interest income to return to profitability. Further information about the performance of our segments is included on pages 12 to 17.

Credit impairment losses of £11.2m arise largely from the effect of COVID-19 on credit risk, the impact of which is estimated to be £8.5m in the first six months of the year. The asset quality ratio (which is calculated as annualised impairment losses as a proportion of average customer assets) is 12bps (31 December 2019: an overall net release of 1bp). More information on credit risk is set out on pages 28 to 33 in the risk management section of this report. In addition to the impact of the pandemic, we suffered a £2.1m loss on a single corporate customer in March 2020 which was unrelated to COVID-19. Our focus in 2020 so far has been to provide our customers who are facing financial difficulty with access to a range of support measures as set out by the government and regulatory authorities. Many of our customers who have accessed this support were not in arrears previously and we remain confident that, with the support on offer, the adverse impacts will be temporary. The performance of our loan book, excluding COVID-19 and the single corporate connection described above, remains broadly stable.

Our operating costs have reduced by 11% due to sustained cost reduction activity and as a result of the decision taken not to offer variable pay this year. This decision remains under review and may be revisited later in 2020 if conditions allow. We will continue to focus on ways to simplify and to substantially reduce our cost:income ratio over the short-to-medium-term, reflecting the new environment in which we are now operating, and any future variable pay is dependent on our delivery of a range of measures, including delivery of cost reductions.

Income statement – reconciliation to IFRS basis

Six months ended 30 June	2020	2019
Underlying loss	**(33.9)**	(2.3)
Strategic project costs	**(15.0)**	(52.7)
Legacy net customer redress charge	**-**	(2.5)
Surrendered Loss Debtor revaluation	**-**	7.8
Revaluations on shares	**4.4**	8.1
Non-recurring	**(0.1)**	3.1
Statutory loss before tax	**(44.6)**	(38.5)

The statutory loss before tax for the six months ended 30 June 2020 has increased by £6.1m compared to the same period for 2019. The reduced expenditure on strategic project costs is principally the result of the completion of the 'fix the basics' stage of our strategic plan at the end of 2019, which included some significant investment expenditure focussed on digital development, separation from the Co-op Group and in desktop transformation. Given the more uncertain environment, we have reviewed the cost and related benefits of our planned strategic projects and, as a result, have decided to pause some of our projects, including the planned investment in a new mortgage and savings IT platform. We now anticipate spending approximately £45m on strategic projects in 2020 in cash terms (i.e. costs incurred in the P&L plus capital expenditure), reduced from the expected £80m allocated within the financial plan.

In the second half of 2019, we incurred significant levels of customer redress charges like many other UK banks, in relation to Payment Protection Insurance (PPI) following the August 2019 time-bar. The estimates made supporting the additional charges in 2019 remain appropriate and no further charges have been incurred in 2020.

Other items removed from the statutory loss before tax to report underlying results relate to the revaluation of the Surrendered Loss Debtor, which is a receivable relating to the Group's entitlement to receive payments from the Co-op Group for tax losses surrendered historically under a legacy arrangement. The fair value of this receivable has remained stable in 2020, therefore generating neither a gain nor a loss. In addition, the Group holds preference shares in Visa Inc., the value of which has increased by over £4m during the period. Such items, along with non-recurring gains and losses, can be volatile in nature and are therefore excluded from the underlying result. Non-recurring items relate to asset sales.

As described on the previous page, items reversed from the IFRS statutory loss before tax to derive underlying profit or loss were revised during 2019 and accordingly the underlying profit for the six months ended 30 June 2019 was restated. The table below shows the reconciliation between the previously reported result and the result disclosed in the table above.

£m	2019 as reported	Pension income	Visa revaluation gains	2019 as restated
Underlying loss	(2.8)	8.6	(8.1)	(2.3)

Pension income was re-categorised on the basis that the funding of the Group's defined benefit pension obligations is managed over the long-term. The Bank's share of associated administration costs was already reflected in the underlying result. The revaluation of Visa Inc. preference shares can be volatile and is not impacted by management; accordingly the gains have been removed from the underlying result.

Balance sheet

As at 30 June 2020 £m	Retail	SME	Core customer total	Treasury	Total	Legacy & unallocated	Group
Assets	**16,875.2**	**320.2**	**17,195.4**	**5,621.8**	**22,817.2**	**2,107.6**	**24,924.8**
Liabilities	**(17,322.5)**	**(2,647.8)**	**(19,970.3)**	**(2,958.5)**	**(22,928.8)**	**(364.8)**	**(23,293.6)**

As at 31 December 2019 £m	Retail	SME	Core customer total	Treasury	Total	Legacy & unallocated	Group
Assets	16,588.4	184.4	16,772.8	4,524.2	21,297.0	2,138.5	23,435.5
Liabilities	(16,745.7)	(2,118.7)	18,864.4	(2,501.0)	(21,365.4)	(458.2)	(21,823.6)

In the first six months of the year, core liabilities have increased by £1,563.4m mainly driven by retail and SME deposits. This in turn has led to higher overall cash balances and therefore an increase in treasury assets. Retail and SME lending has also increased, but at a lower level than the growth in deposits. On page 12, we explain how the treasury segment has passed the benefit of this trend back to the retail and SME segments.

Legacy & unallocated assets have declined by £30.9m in the first six months of the year. Legacy assets have decreased by £64.8m as they continue to run-off and we explore options for how we can re-deploy the capital consumed in these businesses. Other unallocated assets have grown by £33.9m, largely reflecting the increase in net pension surplus.

Legacy & unallocated liabilities have declined in the first six months of the year primarily due to fluctuations in accrued expenditure and the utilisation of PPI provisions.

Capital

£m unless stated	30 June 2020	31 December 2019
CET1 and total Tier 1 capital	**909.2**	939.6
Tier 2 capital	**210.5**	205.3
Total capital resources	**1,119.7**	1,144.9

Total capital resources

CET1 resources decreased by £30.4m since 31 December 2019 primarily due to the loss incurred in the first half of 2020. Tier 2 capital reflects the £200m capital transaction completed in April 2019 to strengthen capital and MREL resources. The uncapped fair value of Tier 2 capital at 30 June 2020 is £210.5m, reflecting the net impact of changes in fair value in the Tier 2 capital (£9.3m), driven by interest rates, accrued interest and transaction costs, and also reflecting regulatory adjustments of £1.2m.

£m unless stated	30 June 2020	31 December 2019
Capital ratios and other capital metrics		
CET1 ratio	**18.2%**	19.6 %
Total capital ratio	**22.4%**	23.8 %
Total Capital Requirement (TCR)	**714.0**	698.5
Overall Capital Requirement (OCR)	**838.9**	866.6
Risk weighted assets		
Credit risk	**4,503.7**	4,346.0
Operational risk	**493.8**	457.7
Total risk weighted assets	**4,997.5**	4,803.7

The reported CET1 ratio of 18.2 % at 30 June 2020 (31 December 2019: 19.6 %) remains well above the regulatory minimum. As at 30 June 2020, the Group had Pillar 1 requirements equivalent to 8.0 % of total risk weighted assets (RWAs) and an Individual Capital Requirement (ICR) equivalent to 6.3 % of total RWAs, resulting in a Total Capital Requirement (TCR) of 14.3 % (31 December 2019: 14.5 %). The reduction in ICR and TCR arises from regulatory changes in light of COVID-19 to set the ICR at a fixed amount as at 31 December 2019. The Group meets its TCR of 14.3 % which is required to be comprised of a minimum of 10.7 % of CET1 capital resources, and a maximum of 3.6 % from Tier 2 capital resources. In addition to its TCR, the Group has an Overall Capital Requirement (OCR) of 2.5 % of RWAs (or £124.9m) above the TCR. This has reduced from 3.5 % since year end due to the setting of the Countercyclical Buffer to nil. The Group currently has a surplus to OCR and is targeting compliance with the PRA buffer within the planning period and this surplus to OCR contributes towards meeting this target.

Current MREL requirements are aligned to TCR plus £200m. MREL requirements are expected to increase in future and accordingly we would anticipate issuing further MREL-qualifying funds over the period until 31 December 2021. Further information is included on pages 24 to 26.

Risk Weighted Assets (RWAs)

Total RWAs comprise credit and operational RWAs and have increased through the year. Credit risk RWAs have increased by £157.7m, including a £62.7m increase in retail RWAs and £130.2m increase in treasury and other assets from market volatility, partially offset by reductions in legacy and unallocated (£17.9m) and SME (£17.3m). The increase in retail RWAs is driven by the increase in the mortgage portfolio as the Platform book continues to grow, partially offset by unsecured lending with a £58.2m reduction. Legacy RWAs decrease as exposures continue to reduce, reflecting contractual and early repayments. Operational RWAs have increased by £36.1m, reflecting an increase in the Bank's three-year average operating income which is risk weighted to calculate the Group's operational risk RWAs.

Leverage ratio

The leverage ratio (i.e. CET1 resources divided by leverage exposures) of 3.7 % (31 December 2019: 3.9 %) has reduced, as a result of the reduction in CET1 resources and growth in the balance sheet. The Bank is not bound by a minimum leverage ratio currently, since retail deposits are less than £50bn.

Liquidity

Liquidity remains strong with primary liquidity remaining in line with the year end alongside the loan to deposit ratio, asset encumbrance ratio and liquidity coverage ratio (LCR) at 181.7 % (31 December 2019: 173.7 %). Our participation in the government's TFSME scheme will support additional liquidity in order to continue to fund net positive lending. More details are included below.

What is TFSME and why is it important?

This Bank of England initiative helps us to continue to provide customers with access to lending at low-cost rates.

- The Term Funding Scheme with additional incentives for SMEs (TFSME) is a lending scheme set up by the Bank of England (BoE) which will offer four-year funding of at least 10 % of participants' customer lending balances at interest rates at, or very close to, UK base rate
- Higher ratios of funding via TFSME can be obtained by increased lending to SME businesses
- The Bank was approved as a participant of the scheme in May 2020
- The lending from the BoE will be at base rate of 0.1 % if customer net lending is positive by December 2020 (compared to December 2019) i.e. the scheme promotes lending in the current environment to keep the economy flowing
- If the Bank does not achieve positive net lending in 2020, then the cost to the Bank will be higher
- Providing such low-cost funding to banks, but with conditions of lending attached, means there will be continued or increased competition in markets, which inevitably leads to customers obtaining optimal rates despite challenging economic conditions, therefore supporting the real economy

Segment update: retail

Our retail segment encompasses the services we provide to our personal banking customers and includes retail lending - mortgages and credit cards which together reflect our retail customer assets - and retail deposits comprising current accounts and savings products, which together comprise our retail customer liabilities.

Segmental income - retail

£m	Six months ended 30 June 2020	2019	Change
Net interest income	**117.0**	132.8	(11.9 %)
Other operating income	**10.7**	7.4	45.0 %
Operating income	**127.7**	140.2	(8.9 %)
Credit impairment losses	**(5.2)**	(1.0)	>(100 %).
Income net of impairment	**122.5**	139.2	(12.0 %)

Segmental assets and liabilities - retail

£m	30 June 2020	31 December 2019	Change
Secured	**16,627.5**	16,267.0	2.2 %
Unsecured	**247.7**	321.4	(22.9 %)
Customer assets - lending	**16,875.2**	16,588.4	1.7 %
Customer liabilities - deposits	**17,322.5**	16,745.7	3.4 %
Risk weighted assets (credit)	**2,616.2**	2,553.5	2.5 %

Lending

Market conditions remain extremely challenging, caused by the macroeconomic environment and the continued competitive pressure in the UK mortgage market. Mortgage profitability continues to decline, following a trend seen over the last few years for customers opting for fixed rate products, and now the historic low base rates.

A central element of our purpose remains making a difference to the lives of our customers, and for many this includes helping our customers to buy or re-mortgage their home. In the first six months of the year, we have continued to grow the volume of our lending—net residential lending in the six months ended 30 June 2020 was £360m, helping 11,600 customers to buy or re-mortgage their home in that period. The reduction in margin, however, drives the reduction in net interest income in the year to date; £4.8m of the reduction relates to the impact of the revaluation of the effective interest rate asset following the reduction in the base rate to 0.1 % in March 2020.

A significant priority has been to provide support for our customers in these unprecedented times, particularly those who are, or may be, facing financial difficulties. In the six months ended 30 June 2020, we have approved:

- Over 16,000 mortgage payment deferrals (c.11.0 % of retail and c.22.6 % of Optimum customers)
- Over 2,700 payment deferrals for loans and credit cards received by 30 June 2020 (c.6.8 % of the loans book and c.0.5 % of the credit card book)

£m	2020
Secured lending	
Gross lending at the start of the period	16,267
Maturities	(1,478)
Retention	924
New mortgage completions	1,628
Other movements	(714)
Net residential lending	**360**
Gross lending at the end of the period	**16,627**

Our loan book remains low-risk, and is expected to remain resilient despite challenges arising from the pandemic. Average loan-to-value (LTV) is 57.1 % (31 December 2019: 57.2 %), which provides significant protection from the impact of potential house price reductions. Of the total portfolio, 37.3 % (31 December 2019: 39.2 %) is secured on properties based in London and the South East, which has the lowest LTV of all the regions (54.2 % average LTV at 30 June 2020). When the pandemic first emerged, payment deferrals were offered to those customers who requested such a payment deferral, providing relief from mortgage payments until 30 June 2020. Currently (i.e. in July) those customers who have requested a second payment deferral account for only 1.8 % of our mortgage book, which is c.15 % of the initial payment deferral population. Furthermore, for those customers due to make a payment at the end of their arranged payment deferral 98 % have made that payment.

Deposits

£m unless otherwise stated	30 June 2020	31 December 2019
Deposits		
Current accounts	4,861	4,305
Savings	9,344	8,845
Total franchise	**14,205**	**13,150**
Term deposits	3,118	3,595
Total	**17,323**	**16,745**
Growth in franchise (%)	8.0 %	5.7 %
Prime customers (% of total)	46.9 %	48.3 %

Total deposits of £17.3bn have grown, represented by growth in current account balances and variable savings balances (which together are described as franchise deposits), partly offset by planned reductions in term deposits. In the second quarter of the year, we experienced more conservative customer behaviour which is driving higher balances.

Our resilient franchise performance reflects:

- 11 % reduction in the number of ‘high usage customers’ (which includes prime current account and high balance savings customers) leaving the Bank
- 10 % increase in the monthly average number of ‘new to bank’ customers compared to 2019, which also saw a significant increase compared to 2018

During the first half of the year, we took steps to reduce the savings rates on our variable rate products and whilst we do not take these decisions lightly, it has been necessary to take this action in light of the unprecedented reduction in base rates. We continue to review our products to manage our cost of deposits, which has reduced, with action already taken to bring this down further.

In the six months ended 30 June 2020 we have opened 24,021 new accounts, a number that compares positively with the total of 30,107 for the full year ended 31 December 2019.

We are continuing to serve our customers whilst adhering to social distancing guidelines.

Customer service

We are very proud of the continued progress made in relation to our customer satisfaction measures—our net promoter scores. It now stands at +25 and we have retained third place amongst market peers. We continue to make it easier and simpler to bank with us and we were delighted to be awarded winner of the 'Best Current Account Provider' at the 2020 Moneyfacts awards earlier this year. At the start of 2020, we entered into a new long-term partnership with Visa seeking to deliver enhanced digital payment capabilities and this, alongside our continuing to enhance our customer communications and digital experience, will enable us to continue to exceed the expectations of our loyal customer base.

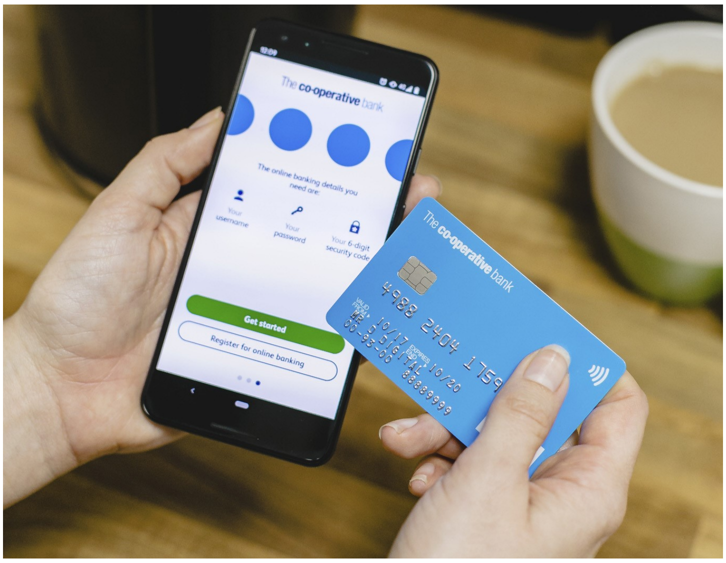
Our customers have donated over £170k in the first half of 2020 to our charity partners via the Everyday Rewards account

In the current environment we have accelerated and updated some of our plans, successfully implementing a new online overdraft application form which provides customers with a simpler and more efficient journey. This change supports our objective of enabling more customers, who may be facing issues due to high call volumes, to access digital channels and alleviates the pressure on our customer-facing colleagues during this time.

Supporting our customers through COVID-19

- We have sent over 2.5 million communications to reassure customers in the first half of the year
- We were the first bank to automatically offer the first £500 of approved overdrafts as interest-free
- We have created an 'emergency fund' to support the most vulnerable
- Engaged with over 10k of our current account customers who work for the NHS

Our net promoter score is +25, continuing to place us third amongst our market peers



- Branch network of the year (third year running)
- Our highest-ever number of digitally active customers
- COVID hub developed, offering support to new online customers
- We have trebled the level of new IT releases to increase straight-through processing for our customers
- Third place in the market for our telephony service

We have implemented social distancing measures within our branches and have kept 100% open for business to serve our customers when they need us most.

Segment update: SME

We provide straightforward, value for money products to our small business banking customers, including transactional banking, overdrafts and loans. We are building momentum in our SME banking business and we are on track with our BCR investment plans.

Segmental income - SME

£m	Six months ended 30 June 2020	2019	Change
Net interest income	**20.5**	19.6	4.6 %
Other operating income	**7.6**	8.1	(6.2 %)
Operating income	**28.1**	27.7	1.4 %
Credit impairment (losses)/gains	**(2.3)**	0.7	>(100 %)
Income net of impairment	**25.8**	28.4	(9.2 %)

Segmental assets and liabilities - SME

£m	30 June 2020	31 December 2019	Change
Customer assets - lending	**320.2**	184.4	73.6 %
Customer liabilities - deposits	**2,647.8**	2,118.7	25.0 %
Risk weighted assets (credit)	**169.5**	186.8	(9.3 %)

Growth rates in SME customer deposits are closely monitored, since they represent a cost-effective source of funding for the Bank, and have increased by 25 % in the first half of the year in a competitive market. We have seen growth during the COVID-19 lockdown period arising from customers accessing CBILS and Bounce-Back loans funding, in addition to average balances increasing. This is supported by strong performance from the Incentivised Switching Scheme where we attracted 16 % of switching against a plan of 6 % . We have continued to transform this part of our business and to make enhancements to the customer experience and products on offer. Our own investment has been supported by a £15m grant won from the BCR in 2019. In the second half of 2020 we plan to launch a new mobile app and a business credit card amongst other new developments for our SME customers.

Trading update - SME deposits

£m unless otherwise stated	30 June 2020	31 December 2019
SME deposits		
Current accounts	2,175	1,757
Savings	473	362
Total franchise	**2,648**	**2,119**

We opened 5,703 new current accounts and 2,034 new savings accounts in the first half of 2020 (in the full 12 months ended 31 December 2019, we opened 7,473 and 2,493 respectively).

We are on track with our plans to re-establish our brand as the leading ethical digital bank in the SME market and we continue to show strong progress with our multi-year transformation of our SME proposition which commenced in 2019. Whilst we have reviewed our strategic portfolio in light of the current economic environment, we remain committed to our plans to invest in the small business banking proposition and to improving online banking and service levels.

Since December 2019, we have:

- Reduced the time to open an account by 2.8 days to 8.4 days
- Improved our net promoter scores for account opening by 3 points
- Reduced our customer attrition by 24 %
- Recruited 11 new relationship managers in 2020

Supporting our customers through COVID-19

Our strength in SME business banking has shown significant resilience during COVID-19, moving at pace to launch both CBILS and Bounce-Back loan schemes whilst maintaining strong customer satisfaction scores.

	CBILS	Bounce-Back loans
Loans approved	£21.5m	£165.9m
Customer agreements (number)	108	5,904
Value drawn down	£10.5m	£140.5m
Average value per application	£203k	£28k
Average time to decision (days since application)	5.4 days	6.4 days

What are CBILS and Bounce-Back loans?

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

The Coronavirus Business Interruption Scheme (CBILS)

- Available for lending of £50,001 to £5m
- In the form of variable rate or overdraft facility
- No fees or interest to pay for 12 months
- The government guarantees 80% of the lending

Bounce-Back Loans Scheme

- Available for lending of £2,000 to £50,000
- A fixed rate loan available for up to 6 years
- No early repayment penalties
- No repayment due in the first 12 months
- The government guarantees 100% of the lending

More information is available on our website.

A customer case study

Caddon View Rooms and Café

Caddon View is an award-winning guest house situated in Innerleithen, in the Scottish Borders. In May 2019 the business expanded to open the Café Sitooterie, which offers a range of breakfasts and lunches inspired by fresh, local and seasonal produce. Throughout 2019 Caddon View continued to grow, with room sales at an all-time high and the Café Sitooterie showing strong growth in its opening year, developing a good following amongst locals and visitors alike.

"As we headed towards lockdown it became apparent that not only were bookings drying up, but we were taking many cancellations, and the café would also be needing to close. At that time of year we depend on deposits to fund the business cash flow as we come out of the quiet season, so reserves are minimal.

We spoke to The Co-operative Bank amid all the panic, and it was immediately clear that they understood the challenge, and had put the resources and arrangements for the facilities in place to keep us above water. An overdraft was quickly arranged to tide us over, and subsequently a bounce-back loan to enable us to consolidate the debts we had accumulated and prepare the business for the new normal. The arrangements were all put in place quickly and efficiently, with streamlined processes appropriate to the urgency of the situation.

We reopened the café in the first week of July, and have been overwhelmed by the support as customers return, and happily we are already taking staff off furlough as our confidence grows and the café customers and residential bookings return. Without The Co-operative Bank we wouldn't be here."

Lisa and Steve Davies
Owners, Caddon View and Café Sitooterie

Segment update: treasury

Our treasury segment reflects the activity to manage the Bank's liquidity position, market risk and wholesale funding with £5.6bn of non-customer assets and £3.0bn of non-customer liabilities at 30 June 2020. We have maintained liquidity and market risk within appetite during volatile COVID-19 market conditions.

Segmental income/(expense) - treasury

£m	Six months ended 30 June 2020	2019	Change
Net interest (expense)/income	**(8.4)**	15.2	>(100%)
Other operating income	**2.9**	6.4	(54.7%)
Operating (expense)/income	**(5.5)**	21.6	>(100%)

Segmental assets and liabilities - treasury

£m	30 June 2020	31 December 2019	Change
Assets	**5,621.8**	4,524.2	24.3%
Liabilities	**2,958.5**	2,501.0	18.3%
Risk weighted assets	**260.4**	220.0	18.4%

In the first half of 2020, net interest income on treasury assets and liabilities decreased by £23.6m to report an overall expense of £8.4m. This is due to a combination of asset mix and lower yields on assets in the investment portfolio (£10.6m), higher interest charges arising from the Tier 2 debt issuance in April 2019 (£5.6m) and £6.0m relating to internal recognition of higher reward for greater deposit balances (net impact to Group results £nil).

Other operating income largely reflects balances which may be volatile or non-recurring and has reduced by £3.5m in the six months ended 30 June 2020. The driver is mainly a reduction in gains on sales of gilts and mortgage-backed securities of £3.7m compared to the equivalent period in 2019.

As described on page 10, treasury assets have increased since December 2019, mainly due to higher levels of cash as customer current and deposit balances increased due to lower spending, together with delays to home purchasing and business investment through COVID-19. Liabilities have also increased, but to a lesser extent, mainly from short-term opportunities to re -balance repo funding.

Almost £1bn of our treasury liabilities relate to the BoE's Term Funding Scheme (TFS), in which the Group participated in 2018, and which are due for repayment by February 2022. TFS was part of a comprehensive package of easing measures announced by the Monetary Policy Committee in August 2016. The aim of the package was to provide additional support to growth and achieve a sustainable return of inflation to the 2% target set by the BoE.

As a result of COVID-19, the BoE has issued new wholesale funding support measures including TFSME—which we explain further on page 11. We may draw up to £2.8bn under this scheme and, in doing so, may repay all of the TFS funding early. We have not yet drawn down any TFSME funding.

What is MREL? (Minimum Requirement for own funds and Eligible Liabilities)

MREL is an additional amount of capital that the Bank of England requires all large and medium-size UK banks to hold, over and above their regulatory capital requirements, in order to be able to absorb losses and recapitalise a failing bank. The Bank of England expects firms to meet end-state MREL requirements by January 2022. The Co-operative Bank continues to be well capitalised and to meet its regulatory capital requirements with a CET1 ratio of 18.2% as at end June 2020, and despite the uncertainty presented by the impact of COVID-19 on the Bank's access to capital markets, our plan remains to meet our MREL requirements by the compliance date for all banks in January 2022.

Outlook

The economic outlook is very uncertain and we expect challenging trading conditions for the foreseeable future. Accordingly, our focus will be to respond to and manage the impact of the economic challenges ahead, successfully issuing MREL resources, and to continue to provide our customers with excellent service whilst making a difference to our community.

In light of the significant changes in our operating environment, we now expect:

- Customer net interest margin to be c.1.40-1.45% in 2020, with the full year impact of the lower base rate environment in 2021 reducing margins further to c.1.35-1.40% before recovering, targeting c.1.70-1.80% at the end of the plan
- Underlying cost:income ratio of c.110-115% in 2020. In subsequent years, as a result of our ongoing simplification activities, we are targeting a ratio of c.100-105% in 2021 and, as income recovers post-COVID-19, c.65-75% by the end of the plan
- We aim to return to sustainable profitability in 2022 and, in the meantime, our CET1 ratio reduces reflecting ongoing losses to c.16-17% in 2020, and c.13.5-14.5% in 2021 which is above regulatory minimum levels. As profitability is returned in 2022, CET1 levels thereafter are targeted to grow to c.19-20% at the end of the plan.

We are committed to being compliant with our end-state MREL requirements. We are targeting the issuance of approximately £550m of MREL-qualifying debt (if base economic conditions prevail) before the end of 2021, with the first issuance planned to take place before the end of 2020.

The outlook will remain under review until there is more certainty around longer-term COVID-19 impacts. Our strategy drives a return to organic capital generation in 2022; the outlook may be adapted if required over the course of the planning period to preserve this aim.

Any previous guidance or forward-looking information provided has been withdrawn.

And in summary...

The first few months of 2020 have presented extraordinary circumstances and the economic impacts appear likely to persist for many months to come. While the new economic outlook presents a difficult environment for the Bank, our retail and small business banking franchise has proved resilient and we have revised our financial plan to ensure we can navigate the challenges ahead.

The pandemic has impacted people and businesses across the UK and we recognise that many of our customers have been affected by the financial impacts. I am proud of how our colleagues have supported them and I would like to take this opportunity to thank colleagues for stepping up. In particular, I would like to express my thanks to our teams in branches and contact centres who, as key workers, demonstrated our co-operative values in action and ensured that our banking services remained available for our personal and small business customers throughout the lockdown period.

Finally, I would like to thank our customers for their continued support throughout these unprecedented times. Many customers have chosen to use online banking services rather than contact us by telephone or visit a branch, which has enabled us to prioritise our most vulnerable customers and those who need support most—thank you.

My personal thanks to all of our customers for your continued loyalty. Together, we are people with purpose.

Andrew Bester
Chief Executive Officer

Values and ethics in action

Driving social change through our charity partnerships

We have been working with the domestic abuse charity Refuge since 2015, raising awareness of economic abuse within relationships and campaigning for change to support victims and survivors. As a result of the COVID-19 lockdown, there has been a significant rise in cases of domestic abuse and demand to Refuge's national domestic abuse helpline increased by around 77 % during June compared to pre-lockdown. We were therefore extremely proud to work with our trustee partners of historic special purpose vehicles to commit £200,000 to Refuge's COVID-19 appeal, helping to keep their helpline open and able to work remotely and safely during lockdown. We strive to tackle the issues which are important to us and our customers and know that our partnership with Refuge remains popular with our customers, as many donate funds to the charity through our Everyday Rewards product. We continue to raise awareness of the issue in partnership with Refuge, alongside the Home Office's "You are not alone" campaign.

"Refuge is incredibly grateful to The Co-operative Bank for its ongoing support. Now, more than ever, women across the country need the specialist, confidential support Refuge can provide. This generous donation will help us ensure women who need support are able to access it safely and swiftly."

Sandra Horley CBE
Chief Executive, Refuge

As a result of the pandemic, many charities have seen a fall in donations at a time when many have also seen the demand for their services increase. In addition to the donation to Refuge, we have worked with our trustee partners to make over £450,000 of funds available to support the fundraising appeals of some of our other key partners including: Amnesty International UK, Centrepoint, Oxfam and Hospice UK.

Within this fund we were also able to support the selfless efforts of NHS workers, committing £100,000 to the national charity NHS Charities Together, which will go directly to support healthcare workers, volunteers and patients across the country who have been impacted by COVID-19. Recognising the fantastic work of our NHS heroes, our colleagues quickly set up a fundraising appeal to provide care packages to teams at local hospitals in the Manchester area, and have responded to requests from NHS workers who are customers around the country. We also supported GPs at the start of the COVID-19 lockdown by donating headsets to help them communicate with patients using video calls and telephone consultations rather than face-to-face appointments.

"Thank you, The Co-operative Bank, for your incredibly generous donation. These funds will help us continue to support NHS staff, volunteers and patients impacted by COVID-19. We hugely appreciate your support."

Ellie Orton
CEO, NHS Charities Together

Colleagues in Wythenshawe's Cardiothoracic Critical Care Unit sent this picture to say thank you for their care package

Supporting our communities through COVID-19

We offer free banking to all co-operatives, charities and social enterprises, and provide community funding for special projects through our Customer Donation Fund. To maximise the impact of this fund during the pandemic, we supported all of the organisations who had applied for a grant in the first half of 2020, providing 55 organisations with up to £1,000 of funds for their community projects. We have featured a number of these organisations in our latest advertising campaign, highlighting the impact these community organisations have on their local communities.

Feeding Gainsborough, a food bank serving local families in need, was just one of 55 community organisations across the UK to benefit from a share of the donations we made via our Customer Donation Fund in June 2020.

Among those who have benefited from the fund are Cheshire-based The Digital Life Skills Company, a social enterprise on a mission to help children and young people thrive in a digital world by giving them—and their parents and teachers — the skills to make sense of online information and avoid being misled.

Shelley Metcalfe, Co-founder and Director at The Digital Life Skills Company CIC said:

"Our face-to-face workshops for children and for parents are paused during the lockdown, so we're using the opportunity and funding from The Co-operative Bank Customer Donation Fund to explore ways to deliver Digital Life Skills online, so we can reach more children and young people more quickly."

We continue to work to end youth homelessness in partnership with specialist charity Centrepoint and we donate £5 for every mortgage sold, which helps to fund their national helpline, supporting young people across the country. The helpline has reported a 50 % increase in calls for help since the start of the pandemic, with a total of 4,773 calls being answered in the first half of 2020.

Did you know?

£1.5m raised for Centrepoint since 2017

Colleagues have adapted their fundraising ideas to continue to raise funds for Centrepoint and our other charity partners through online events and individual challenges. They have also taken part in remote volunteering, through our adapted volunteering scheme in partnership with Benefacto. Colleagues from all areas of the Bank have been taking part in the scheme, including running errands for neighbours, sending cards and gifts to isolated people, making donations or giving blood.

Did you know?

£1m total funds raised for charity through Everyday Rewards since launch

Our Everyday Rewards scheme gives eligible current account customers the option to donate their monthly earned rewards to one of five charity partners. These customer donations raised over £172,000 in the first half of 2020 and almost £1m has now been donated to these charities since Everyday Rewards was launched in 2016.

Our Ethical Policy in action

Our customer-led Ethical Policy includes commitments not to provide banking services to businesses that conflict with our customers' values and ethics, including concerns regarding human rights, climate change through the extraction or production of fossil fuels and animal welfare.

14 applications declined in H1 2020 due to conflicts with the Ethical Policy

198 cases were referred to our specialist team for enhanced ethical screening in the first half of 2020 and 14 applications have been declined due to a conflict with the Ethical Policy. Ten have been declined due to business activities in the oil and gas sector and the remaining four were declined due to concerns around human rights relating to incitement to hatred, animal exploitation and conflicts with our commitments regarding payday lenders.

Our commitment to managing our impact on the environment has been part of our Ethical Policy for over 25 years. Whilst we continue to manage the impact of COVID-19 we remain focussed on driving forward our environmental commitments and considering how we can support the economy to bounce back greener.

In 2019 we saw a reduction in our carbon emissions by 21 % and we are targeting a further 10 % reduction in 2020.

Areas of Board focus in 2020

The Board continues to align its areas of focus to the strategic vision and purpose of the Group and areas of governance and regulatory matters. During the first six months of 2020, the Board and its Committees have focussed on a number of key themes and principal risks:

- Discussed regular updates from the Chief Executive on business progress and the challenges faced by management. Between March and April 2020, an additional five ad-hoc Board meetings were arranged to oversee the implementation of enhanced monitoring of the COVID-19 environment
- Further additional meetings were held to assess the development of the Group's reforecast plan in light of COVID-19 and the actions to address the key risks arising, receiving regular updates from the Chief Financial Officer. The Board has debated at some length various economic scenarios which may arise out of the pandemic so as to understand capital requirements for the life of its strategic plan
- The Board has spent considerable time ensuring that plans produced by management to support customers during COVID-19 and to continue to function smoothly throughout the pandemic were appropriate, with particular regard to colleague safety and existing risk limits. This included commissioning a review by the internal audit function
- Received regular reports from the Chief Risk Officer and Chair of the Risk Committee to oversee the risk profile and emerging themes
- Debated and considered the plans for the issuance of MREL-qualifying funds and the impact on capital risk for the Group
- Debated and considered the changes to the investment portfolio; the impact on customers and our financial projections
- Oversight of operational resilience levels, including cyber-security defences; our response to the increased level of external threats; processes to identify financial crime; and the management of technology risk
- Oversight of the final technical separation from the Co-op Group in January 2020
- Reviewed and approved the 2019 Annual Report and Accounts, the Q1 2020 trading update, and also the half-year Interim Financial report and associated financial information, receiving updates from the Chair of the Audit Committee
- Reviewed and discussed the people strategy, including:
  - Earlier payment of variable pay to colleagues (excluding executives and senior leaders) to provide additional financial security in the early days of the pandemic
  - The decision to delay payment of the variable pay owed to executives and senior leaders
- Discussed progress in the development of our values and ethics agenda, receiving updates from the committee chair covering:
  - Plans to provide ongoing support for The Hive, due for approval in the second half of the year
  - Plans to support customers who are NHS workers alongside wider support for key workers
- Discussed plans to facilitate the distribution of £650,000 additional charitable donation from liquidated SPV retained profits

Directors' responsibility statement

We confirm that to the best of our knowledge:

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

Signed on behalf of the Board of Directors:

Robert Dench
Chair of the Board
29 July 2020

The **co-operative** bank
for people with **purpose**

1. OBJECTIVES & POLICIES – PRINCIPAL RISKS AND UNCERTAINTIES

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

Governance
The Group's governance structure was set out in detail in the risk management section (1.7) of the 2019 Annual Report and Accounts. The key updates to the 2019 year end position is:
- The Executive Risk Oversight Committee previously reported into the Executive Committee, and now reports directly to the Risk Committee.

Principal risks and uncertainties
As disclosed within the 2019 Annual Report and Accounts risk management section (1.9 and 1.10), the Group has classified its risks into two key categories as follows:

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

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

The principal risks categories faced by the Group and which may include significant or emerging risks are set out below:
- Capital;
- Credit;
- Model;
- Market;
- Pension;
- Operational;
- Liquidity and funding;
- Reputational.

Where relevant, the Group as a whole applies the same principal risk categories and risk management processes to its subsidiary companies.

Material changes to principal risks since the year-end
We have reviewed the principal risks in light of the COVID-19 pandemic and concluded that there were no changes to the nature of risks faced by the Group and therefore the list of principal risk categories remains unchanged. However, the COVID-19 pandemic creates additional challenges and increases the likelihood of the principal risks manifesting given the external environment created by the COVID-19 pandemic. Whilst neither the extent and duration of the COVID-19 pandemic nor its consequences for the global economy can be predicted, it is clear that the pandemic has had a significant impact on the Group and may continue to present further risks and challenges in both the short and medium-term. We set out our strategy to identify and manage these potential impacts below and also provide an update to the impact on principal and significant risks as a result of COVID-19.

COVID-19 strategy
The strategy to deal with the pandemic, which is underpinned by the objective of keeping our customers and colleagues safe, includes intensive incident management, to plan and respond to changes required to our procedures and operational activities. Incident management teams closely monitor whether these procedural actions are effective, by the regular monitoring of early warning indicators and key metrics. The Group's response to date to the risks posed by COVID-19 includes:
- Implementing measures to support customers, including payment deferrals, overdraft buffers, removal of late fees on certain products, participation in the Coronavirus Business Interruption Loan Scheme (CBILS) and Bounce-Back Loan Scheme;
- Re-deploying skilled colleagues to customer-facing roles to ensure that our customers can speak to us or visit us in branch when they need to;
- Operational changes to implement social distancing in our buildings, or to support colleagues working from home where possible to ensure the safety of our colleagues and customers;
- Implementation of additional monitoring activities (to complement – not replace – existing governance) in order to respond to the speed of change resulting from the COVID-19 pandemic. This ensures that key decisions are made in a controlled way, quickly and based on relevant information targeted to the current environment to allow the Group to continue to support its customers as the unprecedented conditions evolve;

- Updating our financial plan to reflect the significant changes to the market conditions in the UK banking industry and the wider UK economy, including changes to our capital and liquidity forecasts; income and cost projections and the level of investment spend in light of potential deterioration in economic benefit in the short-to-medium term. Further information is provided on page 18;
- Evaluating the potential impacts on financial reporting risks, establishing the potential impact of changes to the recognition or valuation of assets and liabilities in light of COVID-19 under accounting standards and applicable UK laws and regulations, including potential impacts on provisions; income recognition and the associated valuation of assets and their risk weights for capital purposes;
- Evaluating the basis of the Group's participation in the Term Funding Scheme with additional incentives for SMEs (TFSME) government scheme, which is described further on page 11.

These activities involve subject matter experts across the Group and this ensures that responses can be enabled quickly, aligned to our existing governance frameworks.

COVID-19 impact

We have assessed the impact of COVID-19 by principal risk type along with the significant risks within each principal risk category. We have not identified any material adverse changes to risks, other than to capital risk, credit risk or operational risk. Whilst we do not identify any significant risks in relation to liquidity or funding, participating in TFSME provides additional benefits to the Group which are outlined on page 11. The expected impact on these principal risks is set out below and we have included further information in section 2 of this interim risk management report, on the impact of COVID-19 on credit risk.

Capital risk

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

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

Significant risks associated with this principal risk:

- The macroeconomic environment;
- Net interest margin;
- Minimum Requirement for Own Funds and Eligible Liabilities (MREL);
- Return to profitability;
- Regulatory change (non-financial risk).

Within the 2019 Annual Report and Accounts, our disclosures highlighted that the ability to maintain sufficient capital resources now and in the future, was dependent on the return to profitability and issuances of MREL-qualifying debt within external capital markets. We highlighted that the return to profitability and organic capital generation depended on the successful development and implementation of the Bank's strategy and requires difficult, subjective and complex judgements to be made, involving a range of factors which are not within the Bank's control, for example forecasts of economic conditions. Furthermore, we highlighted that the successful implementation of the Bank's strategy and its return to profitability is contingent upon a range of factors which are beyond the Bank's control, including market conditions, the general business environment, regulation (including currently unexpected regulatory change), the activities of its competitors and consumers and the legal and political environment.

Update:
The UK economy is facing significant uncertainty and stress as a result of the COVID-19 pandemic. Along with the public health response from the UK government, a range of economic support packages have also been set out, many of which are unprecedented. Whilst these aim to limit the adverse effects from the economic impact of 'closing the country' via the lockdown and the mandatory social distancing measures, there inevitably remains a significant adverse impact on the macroeconomic environment.

Many of the government-backed or Bank of England support measures require action from the banking industry or impact the income and cost base of financial institutions. These include:

- The reduction of the base rate to an historic low of 0.1 % on 19 March 2020;
- The government pledge for banks to offer three-month repayment deferrals on mortgages to those that need it and other fee waivers for late payments and interest-free overdrafts up to £500;
- The availability of central bank funds to maintain lending via the TFSME scheme;
- Provision of the Coronavirus Business Interruption Loans and Bounce-Back loans to corporate customers.

All the measures above help to support the recovery of the wider economy as quickly as possible and also provide essential support to our customers. However, the low base rate environment adds further downward pressure to the Bank's income levels, in turn creating an increased risk to the Bank's ability to return to profitability and to generate organic capital.

The current economic environment also leads to a deterioration of capital market conditions, affecting our ability to issue capital externally. Any external issuance of MREL-qualifying debt in these conditions is likely to present further challenges - the Bank may be required to pay an increased interest rate, adding further downward pressure to profitability or may not be able to issue MREL at all in the short-term. The Bank is still targeting, within the base case financial plan, to return to profitability during the financial planning period and targets maintenance of its compliance to capital, MREL and leverage requirement frameworks. Prior to COVID-19 emerging, the Bank was expecting to issue capital imminently. We remain focused on the preparation for a capital transaction and have continued to refresh this activity, such that we are prepared and ready when the market conditions are favourable for an issuance. As described above and in note 1.2 to the financial statements, until we have completed our MREL issuance programme, this represents a material uncertainty for the Bank. Our shareholders continue to be supportive of our business, and we are committed to achieving our future MREL obligations by January 2022. We have a reasonable expectation that the appetite will be available to the Bank to complete MREL issuances when required, assuming market and economic conditions support.

The Bank's response and impact on our financial plan:

We have updated our five-year financial plan (2020–2024) to reflect the current expectation of the macroeconomic environment over that time horizon – the revised, post-COVID-19 'base case'. Although the full effects of the pandemic are yet to manifest in official data, there are a number of forward-looking views such as Purchasing Managers Index (PMI), Consumer Confidence and House Price Index (HPI) surveys that, alongside the stylised economic scenario included within the BoE's May Monetary Policy Committee Report issued in May 2020, illustrate the potential impact to the UK economic activity that may arise as a result of COVID-19 and these have been used to inform our planning assumptions.

We have also identified potential upside and downside scenarios to the base case, to plan for the effect of alternative outcomes. Within our base case, like many other institutions, we expect a 'V-shaped' recession – i.e. a sharp shock followed by a quick recovery. Our downside, for example, reflects a slower, longer recovery.

In light of the potential impact on capital markets and our ability to transact MREL-qualifying debt, we have also identified a range of reasonably possible scenarios in relation to capital issuance profiles, these being a) continuing to issue MREL-qualifying debt as soon as possible; b) seeking alternative capital (other than debt issuances) where debt is prohibitively expensive; and finally c) we have outlined the financial planning outcomes that would arise if we were unable to issue capital at all in these conditions. In our base case forecast, we anticipate issuing £550m of MREL-qualifying funds over the period until December 2021.

The financial plan reflects how we expect interest rates to recover and how we expect customer need and behaviour to be affected by the current circumstances and those that will prevail over the five year horizon. The financial plan also reflects the support afforded by the government and BoE support measures to the banking industry, in particular the availability of TFSME funding. The re-forecasting of the financial plan has been subjected to significant oversight and monitoring, including by the Board.

Key economic assumptions for this financial year and for 2021 on which our financial plan is based are as follows:

COVID-19 specific scenario inputs	2020	2021
GDP (decline)/growth[1]	c.(14 %)	c.15 %
Unemployment rate[2]	c.9 %	c.6 %
HPI (decline)/growth[3]	c.(8 %)	c.2 %

1. Annual Average year on year growth.
2. Q4 rate.
3. Q4 year on year growth.

Risk weighted assets

As disclosed on page 10 our risk weighted assets (RWAs) at 30 June 2020 total £5.0bn. RWAs reflect our risk adjusted assets factoring in probability of default, loss given default and exposure at default. This calculation is used to derive the capital requirement of the Bank. Increases in RWAs are driven either by increases in the underlying assets or increases in the risk weighting (or density) assigned to these assets. In line with many of our peers, our RWAs have increased within our reforecast reflecting the increased risk profile in light of COVID-19 and the HPI decline and increase in unemployment rates projected are significant drivers of this increase in RWAs. We anticipate RWAs increasing to over £5bn by the end of 2020 if our base economic assumptions prevail and peaking in 2021 to c.£6bn before reducing.

Management actions have focused on ways to mitigate the adverse impact on profitability, including:

- Approaches designed to **limit the interest expense associated with a capital raise**. Such approaches include issuing the debt later than originally planned, and strategies to reduce the level of debt issued. As noted above, we now expect to issue c.£550m MREL over the period to December 2021;
- **Cost reduction strategies** to offset the reduction in income by reducing underlying operating costs in 2020 by approximately 10% and reducing the level of project expenditure in light of reduced benefit associated with certain projects which is described further on page 9;
- **Limiting the interest rates** on term deposits or other savings, given the reduction in the base rate at this time.

In relation to the non-financial regulatory change risk the response to the COVID-19 pandemic has resulted in a number of immediate changes to the regulatory landscape, including reducing the Countercyclical Capital Buffer and amending the Bank's Individual Capital Requirement (ICR) to a nominal amount. One of the most significant changes to the regulatory environment is the Basel III reform which has been delayed by 12 months as a result of the COVID-19 pandemic.

Operational risk

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

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

Significant risks associated with this principal risk:

- Transformation delivery;
- Technology risks.

Within the 2019 Annual Report and Accounts, our disclosures highlighted that operations are highly dependent on the proper functioning of IT and communication systems which comprise a complex array of legacy systems and some newer in-house and third-party IT systems. Any significant failure to remedy the existing IT estate and operate legacy and new IT systems to meet the requirements of the strategy may adversely affect the future operational and financial performance of the business. We also highlighted that during 2019 the risk had materially reduced owing to the work completed in our 'fix the basics' phase of the strategy and the separation of IT systems from the Co-op Group, but given the integral importance of IT to our second phase, enable the future, ongoing investment would still be required. Although a large proportion of the critical services are now supported by technology that was migrated to new hardware in an IBM environment in 2017, which evidenced the return to FCA Threshold Conditions, a proportion of the current systems and technology remain on extended support arrangements or are nearing end-of-life (meaning that there is limited or no support provided by the vendor or specialist third-party supplier).

Update:
In the context of the financial and economic challenges faced by the Group and our customers described above, the cost/benefit of all planned strategic investment was reviewed. This review was conducted with a dual perspective; firstly – through a Customer First perspective - what customer benefit was originally planned to be delivered through the project portfolio and whether these benefits were still achievable or would still be of value to our customers in light of the change in the environment. Our second perspective was in relation to the different and more challenging business environment for all UK banks, and whether individual project spend should remain prioritised compared to conserving the capital that would be consumed by the project. As a result of reviewing both the cost and the benefit in the current environment, we took the decision to pause some of our 2020 strategic and tactical projects, reducing the planned cash spend from c.£80m to c.£45m in 2020. Most notably, we have delayed the rationalisation and development of our

mortgage and savings platforms, since benefits are less likely to be realised by the Group or by customers in the current environment. We continue to prioritise the delivery of projects which deliver the most benefit for our customers, along with those projects which are essential for regulatory reasons and keeping customers safe. We continue to fund those projects where there are external contractual commitments. In light of this, whilst the level of transformation to be delivered has reduced, the level of resource available to deliver such programmes has also reduced. Performance of IT services from an availability and security perspective have been, and continue to be, monitored and reported through this period.

Credit risk

Definition:
The risk to earnings and capital arising from a customer's failure to meet their legal and contractual obligations.

Key themes reported previously:
The exposure to credit risk has significantly reduced over recent years as higher-risk lending has, and continues to be, deleveraged; however, as with all other banks, an exposure to macroeconomic and market-wide risks such as issues with the housing market and interest rate changes remained under continued review.

Update:
The introduction of a number of measures to support customers through the COVID-19 pandemic has had the potential of masking the credit risk impact on typical early warning indicators. Measures in place have included secured and unsecured payment deferrals, up to £500 interest-free overdrafts and the participation in the government's CBILS and Bounce-Back loan schemes. As these support measures are removed, and the impact of the pandemic on macro-economic factors such as increased unemployment is realised, an increase in the Group's exposure to credit risk is expected. This will manifest itself through increases in arrears which subsequently move through to default.

In terms of new lending, the Group has reviewed, and continues to review, its position with regards to higher LTV mortgage lending, taking into consideration its market position, the credit risk profile of customers and exposure to house price falls. During the pandemic this was also impacted by the ability to undertake physical valuations during lockdown.

More information on credit risk is given in section 2 of this risk management report.

Material changes to emerging risks due to COVID-19

Key emerging risks remain broadly unchanged to those set out in the Risk Management section 1.10 the 2019 Annual Report and Accounts.

Emerging Risk	Update
Regulatory landscape change following Brexit	No significant change in this emerging risk
Additional Capital Requirements Regulation	No significant change in this emerging risk

Risk Management Framework
Full details can be found in the risk management sections (1.1-1.7) of the 2019 Annual Report and Accounts.

Principal risks and uncertainties
Those faced by the Group have been detailed in the risk management section (1.8-1.9) of the 2019 Annual Report and Accounts.

2. CREDIT RISK

All amounts are stated in £m unless otherwise indicated

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

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

COVID-19 expected credit loss (ECL) assessment approach

Whilst the Group's portfolio of assets on which credit risk is managed remains low-risk and well-positioned to withstand the current environment, inevitably COVID-19 has had an adverse impact and expected credit losses have increased from levels at the start of the year. Impairment provisions reflect the net impact of the economic deterioration and government and BoE support measures described in section 1 under capital risk. Overall in the first half of 2020, £8.5m of the impairment charge is attributable to COVID-19. These credit impairment charges related to COVID-19 have been driven predominantly by the impact of the changes to the economic outlook and the Group's estimate of customers moving into arrears and defaults from those taking repayment deferrals. We may experience further charges in the second half of the year as specific default events occur or crystallise in the corporate or unsecured retail lending portfolio as levels of government support available to minimise the immediate impact of COVID-19 are reduced over time.

Similarly impairment levels could increase further in 2021, driven by default events occurring or emerging in 2021 leading to unsecured run rate losses and additional specific corporate provisions. Thereafter, we would expect impairment charges to reduce to the level reflective of a pre-COVID-19 environment.

The increase in ECL that we have reflected in the first half of the year arises from both modelled impacts and also post-model adjustments (i.e. expert management judgement overlays).

The increase in ECL arising from modelled impacts of COVID-19 totals £5.8m (after the application of post-model adjustments) in the six months to 30 June 2020 and reflects:
1. emerging changes in credit risk (driven by changes in model inputs for example those related to HPI, or stage 2 triggers being met);
2. the impact of updating economic scenarios for the impact of COVID-19 and their weightings.

More information is included in note 2 to the condensed consolidated financial statements in relation to assumptions around COVID-19 driven stage transfers and also in relation to the economic scenarios.

The increase in ECL arising from post-model adjustments related to COVID-19 in the six months to 30 June 2020 totals £2.7m. Expert management judgement overlays have been applied to reflect:
1. the proportion of customers receiving COVID-19-related concessions moving into arrears;
2. the outlook for certain business sectors which are more exposed to the economic impact of COVID-19; and
3. potential risk factors associated with specific segments of the portfolio.

A number of concessions have been, and will continue to be, granted to customers in response to the short-term financial consequences of COVID-19. In line with regulatory guidance, these interim measures are not considered to be forbearance, as determined by the Group's forbearance policy.

Allowance for losses and credit impairment charge analysis by segment

The following tables analyse the allowance for losses as at 30 June 2020 and the credit impairment charge for the period by segment. Comparative information is shown within the analysis of credit risk section alongside note 3 segmental information and note 8 loans and advances to customers.

	Core				
30 June 2020	**Retail**	**SME**	**Legacy & unallocated**	**Total**	**Of which: FVTPL[1]**
Allowance for losses (ECL provision)					
COVID-19	4.4	2.4	1.7	**8.5**	-
Other	17.0	5.3	5.0	**27.3**	2.1
Total	21.4	7.7	6.7	**35.8**	2.1

30 June 2020	Core Retail	Core SME	Legacy & unallocated	Total	Of which: FVTPL[1]
Credit impairment (ECL charge)					
COVID-19	4.4	2.4	1.7	**8.5**	-
Other	0.8	(0.1)	2.0	**2.7**	2.1
Total	5.2	2.3	3.7	**11.2**	2.1

1. Relates to credit risk adjustment to fair value. Shown within Legacy & unallocated.

The credit impairment charge and the ECL provision for the period was due to the following:

- Retail – the COVID-19 impact is split across the secured (£1.5m), credit card (£2.3m) and overdraft (£0.6m) books and is mainly driven from the economic scenarios. The ECL provision has increased by £4.1m to £21.4m, with an ECL charge of £5.2m less utilisation of opening charge. The movement of mainly retail secured customers in stage 1 to stage 2 as part of the COVID-19 review should be noted as a key driver. Additionally, stage 3 has seen an increase from the cessation of debt sales on the unsecured portfolios.
- SME – the increase of ECL provision from £5.3m to £7.7m is mainly COVID-19-driven. The application of the economic scenarios had a £1.5m impact. There was a specific exercise to identify corporate sectors more exposed to COVID-19 such as commercial real estate, leisure, and retail and this increased provisions by £0.9m. This can be seen in the movement of customers into the stage 2 bucket below.
- Legacy & unallocated – the ECL provision has moved from £4.1m to £6.7m (including fair valued assets). The COVID-19 impact is spread across the economic scenarios (£1.0m) with a specific uplift for customers rolling off loan payment deferrals (£0.5m). Unrelated to COVID-19 there was a £2.1m charge in Q1 for a specific fair valued customer.

Analysis of credit risk

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

30 June 2020	Core Retail	Core SME	Legacy & unallocated	Total	Of which: FVTPL
Analysis of credit risk exposure					
Gross customer balance	16,875.2	320.2	1,009.0	18,204.4	114.3
Credit commitments	1,394.1	81.3	170.0	1,645.4	-
Gross customer exposure	18,269.3	401.5	1,179.0	19,849.8	114.3
Less: allowance for losses	(21.4)	(7.7)	(6.7)	(35.8)	(2.1)
Net customer exposure (Risk analysis)	18,247.9	393.8	1,172.3	19,814.0	112.2
Gross exposure for ECL calculation					
Gross customer exposure	18,269.3	401.5	1,179.0	19,849.8	
Less: Fair Value Through Profit and Loss (FVTPL)	(2.4)	(4.8)	(107.1)	(114.3)	
Gross customer exposure for ECL calculation	18,266.9	396.7	1,071.9	19,735.5	
Reconciliation of customer to accounting balances					
Net customer exposure	18,247.9	393.8	1,172.3	19,814.0	112.2
Less credit commitments	(1,394.1)	(81.3)	(170.0)	(1,645.4)	-
Plus accounting adjustments	64.3	1.3	33.3	98.9	30.0
Net loans and advances – note 8	**16,918.1**	**313.8**	**1,035.6**	**18,267.5**	**142.2**

31 December 2019	Core Retail	Core SME	Legacy & unallocated	Total	Of which: FVTPL
Analysis of credit risk exposure					
Gross customer balance	16,588.4	184.4	1,073.8	17,846.6	117.0
Credit commitments	1,891.3	65.9	147.8	2,105.0	-
Gross customer exposure	18,479.7	250.3	1,221.6	19,951.6	117.0
Less: allowance for losses	(17.3)	(5.3)	(4.1)	(26.7)	-
Net customer exposure (Risk analysis)	18,462.4	245.0	1,217.5	19,924.9	117.0
Gross exposure for ECL calculation					
Gross customer exposure	18,479.7	250.3	1,221.6	19,951.6	
Less: FVTPL	(1.8)	(5.2)	(110.0)	(117.0)	
Gross customer exposure for ECL calculation	18,477.9	245.1	1,111.6	19,834.6	
Reconciliation of customer to accounting balances					
Net customer exposure	18,462.4	245.0	1,217.5	19.924.9	117.0
Less: credit commitments	(1,891.3)	(65.9)	(147.8)	(2,105.0)	-
Plus accounting adjustments	67.5	1.6	29.4	98.5	26.2
Net loans and advances – note 8	16,638.6	180.7	1,099.1	17,918.4	143.2

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

Gross customer exposure for ECL – Retail	Stage 1	Stage 2	Stage 3	Purchased or Originated Credit Impaired (POCI)	Total
Balance as at 31 December 2019	17,587.1	729.4	61.5	99.9	**18,477.9**
Changes in assets which transitioned during the period:					
To lifetime ECL	(1,630.1)	1,630.1	-	-	**-**
To credit impaired	(13.7)	(10.0)	23.7	-	**-**
To 12 month ECL	152.2	(152.2)	-	-	**-**
From credit impaired	3.2	3.1	(6.3)	-	**-**
Net changes in assets which transitioned during the period	(1,488.4)	1,471.0	17.4	-	**-**
Other charges/(releases):					
New assets originated or purchased	1,719.3	-	-	-	**1,719.3**
Other changes to risk parameters[1]	(1,850.3)	(55.4)	(14.3)	(7.6)	**(1,927.6)**
Net other charges/(releases)	(1,619.4)	1,415.6	3.1	(7.6)	**(208.3)**
Assets written off	(0.1)	(0.3)	(2.3)	-	**(2.7)**
Balance as at 30 June 2020	15,967.6	2,144.7	62.3	92.3	**18,266.9**

Gross customer exposure for ECL – SME	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at 31 December 2019	215.9	21.0	8.2	-	**245.1**
Changes in assets which transitioned during the period:					
To lifetime ECL	(286.4)	286.4	-	-	**-**
From credit impaired	-	2.3	(2.3)	-	**-**
Net changes in assets which transitioned during the period	(286.4)	288.7	(2.3)	-	**-**
Other charges/(releases):					
New assets originated or purchased	179.2	-	-	-	**179.2**
Other changes to risk parameters[1]	(24.5)	(2.6)	(0.4)	-	**(27.5)**
Net other charges/(releases)	(131.7)	286.1	(2.7)	-	**151.7**
Assets written off	(0.1)	-	-	-	**(0.1)**
Balance as at 30 June 2020	84.1	307.1	5.5	-	**396.7**

Gross customer exposure for ECL – Legacy	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at 31 December 2019	984.1	40.5	10.7	76.3	**1,111.6**
Changes in assets which transitioned during the period:					
To lifetime ECL	(23.0)	23.0	-	-	**-**
To credit impaired	(2.0)	(3.2)	5.2	-	**-**
To 12 month ECL	3.0	(3.0)	-	-	**-**
From credit impaired	0.1	0.1	(0.2)	-	**-**
Net changes in assets which transitioned during the period	(21.9)	16.9	5.0	-	-
Other charges/(releases):					
Other changes to risk parameters[1]	(29.6)	(2.8)	(2.2)	(3.1)	**(37.7)**
Net other charges/(releases)	(51.5)	14.1	2.8	(3.1)	**(37.7)**
Assets written off	(0.3)	-	(1.3)	(0.4)	**(2.0)**
Balance as at 30 June 2020	932.3	54.6	12.2	72.8	**1,071.9**

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

Allowance for losses – Retail	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at 31 December 2019	8.7	3.3	5.2	0.1	**17.3**
Changes in assets which transitioned during the period:					
To lifetime ECL	(0.9)	5.4	-	-	**4.5**
To credit impaired	-	(0.2)	3.1	-	**2.9**
To 12 month ECL	0.2	(1.0)	-	-	**(0.8)**
From credit impaired	-	-	(0.2)	-	**(0.2)**
Net changes in assets which transitioned during the period	(0.7)	4.2	2.9	-	**6.4**
Other charges/(releases):					
New assets originated or purchased	0.7	-	-	-	**0.7**
Other changes to risk parameters[1]	(1.5)	1.2	(0.8)	0.1	**(1.0)**
Net other charges/(releases)	(1.5)	5.4	2.1	0.1	**6.1**
Assets written off	(0.1)	(0.3)	(1.6)	-	**(2.0)**
Balance as at 30 June 2020	7.1	8.4	5.7	0.2	**21.4**

Allowance for losses – SME	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at 31 December 2019	0.4	0.1	4.8	-	**5.3**
Changes in assets which transitioned during the period:					
To lifetime ECL	(0.6)	1.8	-	-	**1.2**
Net changes in assets which transitioned during the period	(0.6)	1.8	-	-	**1.2**
Other charges/(releases):					
New assets originated or purchased	0.3	-	-	-	**0.3**
Other changes to risk parameters[1]	1.0	0.3	(0.3)	-	**1.0**
Net other charges/(releases)	0.7	2.1	(0.3)	-	**2.5**
Assets written off	(0.1)	-	-	-	**(0.1)**
Balance as at 30 June 2020	1.0	2.2	4.5	-	**7.7**

Allowance for losses – Legacy	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at 31 December 2019	1.4	0.9	1.4	0.4	**4.1**
Changes in assets which transitioned during the period:					
To lifetime ECL	-	0.2	-	-	**0.2**
To credit impaired	-	-	0.3	-	**0.3**
Net changes in assets which transitioned during the period	-	0.2	0.3	-	**0.5**
Other charges/(releases):					
Other changes to risk parameters[1]	0.9	0.1	0.2	-	**1.2**
Net other charges/(releases)	0.9	0.3	0.5	-	**1.7**
Assets written off	-	-	(1.1)	(0.1)	**(1.2)**
Balance as at 30 June 2020[2]	2.3	1.2	0.8	0.3	**4.6**

1. Includes repayments and changes due to other model inputs.
2. Excludes £2.1m of allowance for losses on fair valued corporate asset (stage 3) posted in 2020.

Secured residential portfolio analysis

The following tables show the secured residential balances (excluding Legacy) analysed by a number of key risk measurements. The portfolio has grown by a net £0.4bn. The book has 85.5 % of its balances with a probability of default (PD) of 1 % or less (31 December 2019: 83.4 %). The book is also subject to a range of forbearance measures which are detailed in the 2019 Annual Report and Accounts.

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

The table shows gross customer balances analysed by indexed LTV bandings (with interest only including mortgages on a part repayment/part interest basis). Total interest only balances have reduced by £0.1bn. At the same time, total capital repayment balances have increased by £0.5bn. The proportion of total balances with current LTV less than 50 % has remained constant in the period to 33.1 % (31 December 2019: 33.4 %).

	30 June 2020			31 December 2019		
LTV %	Capital repayment	Interest only	Total	Capital repayment	Interest only	Total
Less than 50 %	4,447.0	1,061.7	**5,508.7**	4,323.1	1,105.8	5,428.9
50 % to 60 %	2,184.6	535.7	**2,720.3**	2,090.9	528.7	2,619.6
60 % to 70 %	2,816.7	398.3	**3,215.0**	2,632.1	403.3	3,035.4
70 % to 80 %	3,038.3	117.8	**3,156.1**	2,950.6	127.2	3,077.8
80 % to 90 %	1,737.4	14.8	**1,752.2**	1,769.8	20.1	1,789.9
90 % to 100 %	267.3	3.4	**270.7**	305.2	5.4	310.6
Greater than or equal to 100 %	0.6	3.9	**4.5**	0.6	4.2	4.8
	14,491.9	**2,135.6**	**16,627.5**	14,072.3	2,194.7	16,267.0

b) Mortgage type

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

	30 June 2020			31 December 2019		
	Gross customer balance	Average LTV %	Interest only %	Gross customer balance	Average LTV %	Interest only %
Prime residential	15,274.9	57.4	6.5	14,966.2	57.4	7.2
Buy-to-let	1,305.8	54.4	85.3	1,250.0	54.9	86.6
Self-certified	32.5	36.4	91.3	33.8	37.1	90.7
Almost prime	13.7	35.6	32.7	14.6	36.5	35.3
Non-conforming	0.6	45.7	40.1	2.4	58.8	21.3
	16,627.5	**57.1**	**12.8**	16,267.0	57.2	13.5

c) UK regional distribution

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

	30 June 2020		31 December 2019	
	Gross customer balance	LTV - %	Gross customer balance	LTV - %
London & South East	6,198.3	54.2	6,370.3	54.4
Northern England	3,854.4	60.6	3,625.1	60.8
Midlands & East Anglia	3,594.3	57.5	3,446.6	57.9
Wales & South West	1,976.2	57.1	1,897.9	56.9
Other	1,004.3	59.5	927.1	60.2
	16,627.5	**57.1**	16,267.0	57.2

Unsecured retail portfolio analysis

The table below shows the analysis of unsecured retail gross customer exposure by product. The decline reflects the run-off in the unsecured loan portfolio which is now closed and the lower usage of cards and overdrafts due to COVID-19. The drawn balance has declined from a combined £396.5m to £305.5m.

	30 June 2020		31 December 2019	
	Gross customer exposure	ECL	Gross customer exposure	ECL
Unsecured loans	57.8	1.6	75.1	2.1
Credit cards	1,264.9	7.9	1,304.7	5.7
Overdrafts	209.3	3.9	214.4	3.7
	1,532.0	**13.4**	1,594.2	11.5

SME portfolio analysis

The table below shows the analysis of SME gross customer exposure by product. The increase is driven through the CBILS and Bounce-Back loan lending (as described in the financial review section). Excluding these loans the book is broadly evenly split across secured and unsecured lending.

	30 June 2020		31 December 2019	
	Gross customer exposure	ECL	Gross customer exposure	ECL
Secured loans	137.8	0.6	140.3	0.1
Unsecured loans	200.1	1.9	52.6	0.6
Credit cards	8.2	0.1	7.8	-
Overdrafts	55.4	5.1	49.6	4.6
	401.5	**7.7**	250.3	5.3

Corporate and unallocated portfolio analysis

The table below shows the analysis of corporate and unallocated gross customer exposure by product. As shown below the majority of the book is either in the low-risk PFI or housing association sectors.

	30 June 2020		31 December 2019	
	Gross customer exposure	ECL	Gross customer exposure	ECL
Secured loans	499.2	0.5	511.9	0.1
Unsecured loans	457.3	4.1	461.8	1.4
Credit cards	0.1	-	0.1	-
	956.6	**4.6**	973.8	1.5

Sector analysis

The table below analyses the gross customer exposure for the SME and corporate and unallocated segments by sector. The exposure to higher-risk COVID-19 sectors is limited.

	30 June 2020		31 December 2019	
	SME	Corporate and unallocated	SME	Corporate and unallocated
Private Finance Initiative (PFI)	-	585.7	-	573.4
Housing Association (HA)	2.3	317.1	2.4	334.3
Business Banking	170.7	-	36.6	-
Commercial Real Estate (CRE)	84.5	13.6	87.6	15.8
Education	7.8	17.3	8.6	26.6
Renewable Energy	23.1	-	24.8	-
Food and Hotel	23.1	-	23.4	0.3
Retail and Wholesale	14.1	4.1	10.8	4.1
Charities	17.3	0.4	14.6	0.5
Finance and Legal	12.0	-	11.2	-
Care	4.1	-	4.1	-
Other	42.5	18.4	26.2	18.8
	401.5	**956.6**	250.3	973.8

Financial Statements

The co-operative bank
for people with purpose

Introduction

We have been engaged by the Group to review the condensed set of financial statements in the Interim Financial Report for the six months ended 30 June 2020 which comprises the Condensed Consolidated Income Statement, Condensed Consolidated Statement of Comprehensive Income, Condensed Consolidated Balance Sheet, Condensed Consolidated Statement of Cashflows, Consolidated Statement of Changes in Equity and related notes 1 to 17. We have read the other information contained in the Interim Financial Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors' Responsibilities

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

As disclosed in note 1.1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this Interim Financial Report has been prepared in accordance with International Accounting Standard 34, “Interim Financial Reporting,” as adopted by the European Union.

Our Responsibility

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

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the Interim Financial Report for the six months ended 30 June 2020 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union.

Emphasis of matter - going concern

In forming our conclusion on the Interim Financial Report, which is unmodified, we have considered the adequacy of the disclosures made in note 1.2 of the Interim Financial Report concerning the Group’s ability to continue as a going concern and the uncertainty surrounding the Group’s ability to complete its MREL issuance programme in a reasonable timeframe, should the current unpredictable economic environment continue. Completion of the planned MREL issuance programme is required to maintain compliance with binding regulatory requirements. In light of COVID-19, the Group has updated the 2020 – 2024 multi-year plan (“the Plan”) and is forecast to remain compliant with all binding regulatory and liquidity capital requirements during the going concern assessment period, but to temporarily use certain capital buffers, as permitted by the PRA.

The Directors have considered the key risks associated with the successful delivery of the Plan, and their consequential effects, in particular the effect on the Group's ability to maintain compliance with capital requirements as set out in the principal risks and uncertainties disclosures on pages 23 to 27. The Directors consider that the completion of the Group's MREL issuance programme in a reasonable timeframe, should the current unpredictable environment continue, represents a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern.

After making enquiries and considering the current forecasts, in particular those up to 31 July 2021, the Directors have a reasonable expectation that the Group will complete its MREL issuance programme and continue to have adequate resources to continue in business over the going concern period. For these reasons, they continue to adopt the going concern basis of accounting in preparing the Interim Financial Report.

Ernst & Young LLP
London
29 July 2020

CONDENSED CONSOLIDATED INCOME STATEMENT

£million

		Six months ended 30 June	
	Note	2020	2019
Interest income calculated using the effective interest rate method		**207.2**	237.6
Other interest and similar income		**6.7**	12.6
Interest income and similar income	4	**213.9**	250.2
Interest expense and similar charges	4	**(86.5)**	(82.3)
Net interest income		**127.4**	167.9
Fee and commission income		**27.7**	30.6
Fee and commission expense		**(14.4)**	(19.5)
Net fee and commission income		**13.3**	11.1
Other operating income (net)	5	**12.0**	31.0
Operating income		**152.7**	210.0
Operating expenses	6	**(186.1)**	(245.9)
Net customer redress charge	11	**-**	(2.5)
Total operating expenses		**(186.1)**	(248.4)
Operating loss before net credit impairment losses		**(33.4)**	(38.4)
Net credit impairment losses	8	**(11.2)**	(0.1)
Loss before taxation		**(44.6)**	(38.5)
Income tax	7	**20.1**	2.5
Loss for the period		**(24.5)**	(36.0)

The results above wholly relate to continuing activities.

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

The notes on pages 42 to 58 form part of these interim condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

£million

	Six months ended 30 June	
	2020	2019
Loss for the period	**(24.5)**	(36.0)
Items that may be recycled to profit or loss:		
Changes in cash flow hedges:		
Net changes in fair value recognised directly in equity	**14.4**	3.7
Transfers from equity to income or expense	**1.0**	1.4
Income tax	**(4.6)**	(1.2)
Changes in fair value through other comprehensive income:		
Net changes in fair value recognised directly in equity	**(25.0)**	(33.8)
Transfers from equity to income or expense	**24.3**	30.0
Income tax	**(0.1)**	0.7
Items that may not subsequently be recycled to profit or loss:		
Changes in net retirement benefit asset:		
Defined benefit plans gains for the period	**62.7**	33.8
Income tax	**(28.9)**	(8.7)
Other comprehensive income for the period, net of income tax	**43.8**	25.9
Total comprehensive income/(expense) for the period	**19.3**	(10.1)

The notes on pages 42 to 58 form part of these interim condensed consolidated financial statements.

CONDENSED CONSOLIDATED BALANCE SHEET

£million

	Note	30 June 2020	31 December 2019
Assets			
Cash and balances at central banks		**2,980.3**	2,153.5
Loans and advances to banks		**587.0**	474.3
Loans and advances to customers	8	**18,267.5**	17,918.4
Fair value adjustments for hedged risk		**157.1**	72.6
Investment securities	9	**1,555.1**	1,605.6
Derivative financial instruments		**321.6**	213.3
Property, plant and equipment classified as held-for-sale		**0.3**	0.8
Equity shares		**48.6**	44.5
Investment properties		**1.8**	1.8
Other assets		**46.3**	52.6
Prepayments and accrued income		**24.8**	21.7
Property, plant and equipment		**38.8**	38.6
Intangible assets		**68.0**	75.3
Right-of-use assets		**69.1**	72.3
Deferred tax assets		**0.2**	-
Net retirement benefit asset	12	**758.3**	690.2
Total assets		**24,924.8**	23,435.5
Liabilities			
Deposits by banks		**1,421.9**	1,143.7
Customer accounts		**20,076.3**	18,996.8
Debt securities in issue		**877.6**	867.5
Derivative financial instruments		**454.4**	288.0
Other liabilities		**47.1**	53.5
Accruals and deferred income		**41.4**	59.0
Provisions	11	**30.8**	87.4
Other borrowed funds	10	**209.3**	204.2
Lease liabilities		**68.4**	71.2
Deferred tax liabilities		**57.6**	43.7
Net retirement benefit liability	12	**8.8**	8.6
Total liabilities		**23,293.6**	21,823.6
Capital and reserves attributable to the Group's equity holders			
Ordinary share capital	15	**0.9**	0.9
Share premium account	15	**313.8**	313.8
Retained earnings		**(1,339.0)**	(1,314.5)
Other reserves		**2,655.5**	2,611.7
Total equity		**1,631.2**	1,611.9
Total liabilities and equity		**24,924.8**	23,435.5

The notes on pages 42 to 58 form part of these interim condensed consolidated financial statements.

Approved by the Board of The Co-operative Bank Holdings Limited on 29 July 2020:

Robert Dench
Chair of the Board

Andrew Bester
Chief Executive Officer

CONDENSED CONSOLIDATED STATEMENT OF CASHFLOWS

£million

	Six months ended 30 June	
	2020	**2019**
Cash flows from/(used in) operating activities:		
Loss before taxation	**(44.6)**	(38.5)
Adjustments for non-cash movements:		
Non-cash movements on pension	**(4.4)**	(7.1)
Net credit impairment losses	**11.2**	0.1
Depreciation, amortisation and impairment of property, equipment, right-of-use assets and intangibles	**20.3**	20.7
Other non-cash movements including exchange rate movements	**21.6**	(7.9)
Changes in operating assets and liabilities:		
Increase/(decrease) in deposits by banks	**278.2**	(150.2)
Increase in prepayments and accrued income	**(3.1)**	(3.8)
Decrease in accruals and deferred income	**(17.6)**	(5.0)
Increase in customer accounts	**1,078.9**	156.7
Increase in debt securities in issue	**10.1**	17.5
Increase in loans and advances to banks	**(24.4)**	(4.4)
Increase in loans and advances to customers	**(371.1)**	(161.2)
Net movement of other assets and other liabilities	**(65.5)**	(106.3)
Income tax received	**0.7**	-
Net cash flows from/(used in) operating activities	**890.3**	(289.4)
Cash flows from investing activities:		
Purchase of tangible and intangible assets	**(8.5)**	(20.5)
Purchase of investment securities	**(686.3)**	(380.8)
Proceeds from sale of property and equipment	**1.9**	-
Proceeds from sale of shares and other interests	**-**	8.2
Proceeds from sale and maturity of investment securities	**732.4**	486.8
Proceeds from sale of investment properties	**-**	0.5
Dividends received	**0.2**	0.6
Net cash flows from investing activities	**39.7**	94.8
Cash flows (used in)/from financing activities:		
Proceeds from issuance of Tier 2 notes	**-**	197.9
Interest paid on Tier 2 notes	**(9.5)**	-
Lease liability principal payments	**(5.4)**	(5.4)
Net cash flows (used in)/from financing activities	**(14.9)**	192.5
Net increase/(decrease) in cash and cash equivalents	**915.1**	(2.1)
Cash and cash equivalents at the beginning of the period	**2,436.6**	2,193.9
Cash and cash equivalents at the end of the period	**3,351.7**	2,191.8
Comprising of:		
Cash and balances at central banks	**2,913.8**	1,794.8
Loans and advances to banks	**437.9**	397.0

RECONCILIATION OF MOVEMENTS OF LIABILITIES TO CASHFLOWS ARISING FROM FINANCING ACTIVITIES

£million

	Six months ended 30 June 2020			Six months ended 30 June 2019		
	Lease liabilities	Other borrowed funds	Total	Lease liabilities	Other borrowed funds	Total
Balance at the beginning of the period	71.2	204.2	275.4	-	-	-
Changes from financing cash flows:						
Proceeds from issuance of Tier 2 notes	-	-	-	-	197.9	197.9
Interest paid on Tier 2 notes	-	(9.5)	(9.5)	-	-	-
Lease liability principal payments	(5.4)	-	(5.4)	(5.4)	-	(5.4)
	65.8	**194.7**	**260.5**	**(5.4)**	**197.9**	**192.5**
Other changes:						
Interest payable on lease liabilities and Tier 2 notes	1.1	9.5	10.6	1.2	3.5	4.7
Other non-cash movement	-	5.1	5.1	-	3.1	3.1
Recognition of lease liabilities	1.5	-	1.5	78.2	-	78.2
Balance at the end of the period	**68.4**	**209.3**	**277.7**	**74.0**	**204.5**	**278.5**

Lease liabilities arise from the adoption of IFRS 16 which came into force in 2019. In 2019, the Group issued Tier 2 debt classified as other borrowed funds on the balance sheet.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

£million

Six months ended 30 June 2020	Share capital	Share premium	FVOCI reserve	Cash flow hedging reserve	Capital redemption reserve	Capital re-organisation reserve	Defined benefit pension reserve	Retained earnings	Total Equity
At 1 January 2020	0.9	313.8	4.1	16.7	410.0	1,737.5	443.4	(1,314.5)	**1,611.9**
Total comprehensive (expense)/income for the period	-	-	(0.8)	10.8	-	-	33.8	(24.5)	**19.3**
At 30 June 2020	**0.9**	**313.8**	**3.3**	**27.5**	**410.0**	**1,737.5**	**477.2**	**(1,339.0)**	**1,631.2**

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

Year-end 31 December 2019	Share capital	Share premium	FVOCI reserve	Cash flow hedging reserve	Capital redemption reserve	Capital re-organisation reserve	Defined benefit pension reserve	Retained earnings	Total Equity
At 1 January 2019	0.9	313.8	13.9	20.0	410.0	1,737.5	415.5	(1,161.5)	1,750.1
Total comprehensive (expense)/income for the year	-	-	(9.8)	(3.3)	-	-	27.9	(153.0)	(138.2)
At 31 December 2019	0.9	313.8	4.1	16.7	410.0	1,737.5	443.4	(1,314.5)	1,611.9

The notes on pages 42 to 58 form part of these interim condensed consolidated financial statements.

All amounts are stated in £m unless otherwise indicated

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

1.1 Basis of preparation

The Interim Financial Statements for the Group are for the six month period ended 30 June 2020 and are unaudited. The Group Interim Financial Statements have been prepared in accordance with International Accounting Standard (IAS) 34 'Interim Financial Reporting'.

The Group Interim Financial Statements comprise the consolidated results and position of The Co-operative Bank Holdings Limited (Holding Company) together with its subsidiaries (together, the Group).

1.2 Going concern

These Interim Financial Statements are prepared on a going concern basis. The Directors have a reasonable expectation that the Group will have adequate resources to continue in business for the foreseeable future, taking into account the matters referred to below.

IAS 1 (Presentation of Financial Statements) requires Directors to make an assessment of a company's ability to adopt the going concern basis of accounting in the future. 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. 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. 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).

Whilst the UK government introduced measures partially mitigating the impact of COVID-19, the pandemic has resulted in a significant UK recession in the first half of 2020 and unprecedented economic uncertainty in the short-to-medium-term. In light of COVID-19, the Group has updated its 2020-2024 multi-year plan (the 'Plan').

The Group is forecast to remain compliant with all binding regulatory liquidity and capital requirements during the going concern assessment period but to temporarily use certain capital buffers, as permitted by the PRA.

The Board of Directors have used the updated Plan as the basis of its assessment in evaluating whether adopting the going concern basis of accounting is appropriate, and noting further, more pessimistic scenarios that could reasonably possibly occur. This assessment included a detailed review of the ability to secure a further commitment of MREL-qualifying resources, projected profitability, forecast financial, liquidity positions and capital adequacy ratios, other regulatory capital considerations, and operational risks associated with the COVID-19 pandemic.

The key risks associated with successful delivery of the Plan include:

- Macroeconomic environment – Heightened uncertainty as to expected credit losses due to the COVID-19 stress and uncertainty related to the UK's withdrawal from the European Union;
- Net interest margin (NIM) – The amount and timing of future changes to the Bank of England base rate following the COVID-19 base rate cuts;
- Return to profitability – The ability to deliver to the multi-year forecast is heavily influenced by external factors; and
- Regulatory requirements – Future increases in regulatory capital requirements, which require additional capital resources in the form of MREL-qualifying resources to remain compliant and avoid regulatory forbearance.

The Directors have considered the risks set out above and their consequential effects, in particular the effect on the Group's ability to maintain compliance with capital requirements within the principal risks and uncertainties disclosed on pages 23 to 27. The Directors consider that the completion of the Group's MREL issuance programme in a reasonable timeframe, should the current unpredictable environment continue, represents a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Nevertheless, after making careful enquiries and considering the current forecasts, in particular those up to 31 July 2021, the Directors have a reasonable expectation that the Group will complete its MREL issuance programme and continue to have adequate resources to continue in business over this period. For these reasons, they continue to adopt the going concern basis in preparing these Interim Financial Statements. This set of Interim Financial Statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

1.3 Significant accounting policies

The accounting policies, presentation and methods of computation are consistent with those applied by the Group in its audited 2019 Annual Financial Statements, which were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

1.4 Standards and interpretations issued

Information on pronouncements that will be relevant in future periods is provided in the 2019 Annual Report and Accounts.

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial information requires management to make judgements and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Assumptions and estimates are reviewed on an ongoing basis. The critical judgements and estimates of the Group are as set out within the 2019 Annual Report and Accounts. Except as noted below, the accounting policies, presentation and methods of computation of critical accounting judgements and key sources of estimation uncertainty are consistent with those applied by the Group in the 2019 Annual Report and Accounts.

2.1 Loan impairment provisions

The COVID-19 pandemic has introduced unprecedented economic uncertainty which requires the application of a significant degree of expert economic and credit risk judgement. The key COVID-19 related assumptions and judgements that were applied in the determination of ECL at 30 June 2020 are listed below.

Model assumptions:

- Economic scenarios – At 31 December 2019, five economic scenarios were reflected within the impairment models. Following the comprehensive review of economic outlook as a result of COVID-19, it was concluded that four scenarios adequately reflect a range of possible outcomes at 30 June 2020. Each scenario reflects a COVID-19-specific outlook of differing severity, with the base scenario reflecting the most likely economic forecast and aligned with the central scenario used for financial planning purposes described in the update to capital risk on pages 24-26. The scenario weightings were also updated at 30 June 2020 to reflect the nature of each scenario.

COVID-19 specific scenario inputs	Mild upside	Base	Mild downside	Downside
Five-year average (annualized percentage):				
GDP	0.5 %	1.3 %	(1.0) %	(2.6) %
Consumption	0.4 %	1.1 %	(1.5) %	(3.4) %
Unemployment	4.9 %	5.4 %	7.3 %	8.4 %
HPI	1.7 %	1.1 %	(0.5) %	(5.1) %

Five-year average GDP and consumption are higher in the base than in the upside, where both scenarios assume a strong V-shaped recovery from differing initial shocks. Our upside scenario sees GDP decline 13 % peak to trough in 2020, compared to a 27 % decline in the base. Both these scenarios then assume a V-shaped recovery from this initial decline and as such five-year average growth is higher in the base than the upside because the recovery required to sustain the V is larger.

COVID-19 scenario	30 June 2020 Weighting	31 December 2019 Scenario	Weighting
Five-year average:			
Upside	0 %	Upside	5 %
Mild upside	30 %	Mild upside	10 %
Base	40 %	Base	40 %
Mild downside	25 %	Mild downside	30 %
Downside	5 %	Downside	15 %

The table below shows how ECL would change if the weighting applied to the 30 June 2020 scenarios had been mild upside 0 % , base 50 % , mild downside 35 % and downside 15 % .

	Retail secured	SME	Corporate and unallocated
Increase in ECL	1 %	10 %	55 %

The above sensitivities reflect the impacts on both the modelled ECL and the dynamic PMAs in place at 30 June 2020. Corporate/SME sensitivities exclude Stage 3 individually assessed impairment provisions.

- Retail – Customers receiving COVID-19-related concessions are not automatically classified as having evidenced a significant increase in credit risk (SICR). Such customers are moved to stage 2 if they meet other SICR criteria (see note 2 to the 2019 Group Annual Report and Accounts for SICR criteria). Further, COVID-19-related payment deferrals do not count towards the backstop days past due stage 2 and 3 transfer criteria.

- SME and corporate – Existing credit exposures with SME and corporate customers who have requested Coronavirus Business Interruption Loans (CBILS) and Bounce-Back loans have been considered on a case-by-case basis. If the evidence shows that the request is solely COVID-19-driven, such cases are not classified as having evidenced a significant increase in credit risk (SICR). Where there is evidence which shows that the request is not solely COVID-19-driven, it is classified as SICR, and the existing exposure is transferred to stage 2. CBILS and Bounce-Back loans are not classified as POCIs on origination.

Post-model assumptions reflect:

1. the proportion of customers receiving COVID-19-related concessions moving into arrears;
2. the outlook for certain business sectors which are more exposed to the economic impact of COVID-19; and
3. potential risk factors associated with specific segments of the portfolio. Post-model adjustments have been reflected for a proportion of customers receiving COVID-19-related concessions moving into arrears, and certain SME and corporate higher risk sectors and segments.

Certain PMAs applied to the SME/corporate portfolio modify down the modelled impacts on certain segments of the book where the Group has exposures to low-risk public sector lending or industry segments where the beneficial impacts of government intervention are not fully captured in the modelled outputs.

2.2 Conduct and legal provision

The Group has finished processing the vast majority of all Payment Protection Insurance (PPI) enquiries and complaints received prior to the time-bar in August 2019. The main outstanding element relates to the cohort of complaints submitted by the Official Receiver which remains under discussion, and the Group continues to hold provision against redress offers made, most of which are expected to be settled within the second half of 2020.

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 corporate entities. The Group has identified three segments: Retail Banking, SME Business Banking and Treasury as part of its core business. During the second half of 2019, the definition of underlying was updated and accordingly the 2019 presentation below has been updated. More information is included on page 8 of the Chief Executive's review. The presentation is consistent with that set out within the 2019 Annual Report and Accounts.

	Core					
Six months ended 30 June 2020	**Retail**	**SME**	**Treasury**	**Total**	**Legacy & unallocated**	**Group**
Net interest income	117.0	20.5	(8.4)	**129.1**	(1.7)	**127.4**
Other operating income/(expense)	10.7	7.6	2.9	**21.2**	(0.2)	**21.0**
Operating income/(expense)	**127.7**	**28.1**	**(5.5)**	**150.3**	**(1.9)**	**148.4**
Net credit impairment losses	(5.2)	(2.3)	-	**(7.5)**	(3.7)	**(11.2)**
Operating expenses						**(171.1)**
Underlying loss						**(33.9)**
Strategic project costs						**(15.0)**
Legacy net customer redress charge						**-**
Surrendered Loss Debtor revaluation						**-**
Gain on shares revaluation						**4.4**
Gain on share sales						**-**
Loss on asset sales						**(0.1)**
Statutory loss before tax						**(44.6)**

Restated	Core					
Six months ended 30 June 2019	**Retail**	**SME**	**Treasury**	**Total**	**Legacy & unallocated**	**Group**
Net interest income	132.8	19.6	15.2	167.6	0.3	167.9
Other operating income	7.4	8.1	6.4	21.9	1.2	23.1
Operating income	140.2	27.7	21.6	189.5	1.5	191.0
Net credit impairment (losses)/gains	(1.0)	0.7	-	(0.3)	0.2	(0.1)
Operating expenses						(193.2)
Underlying loss						(2.3)
Strategic project costs						(52.7)
Legacy net customer redress charge						(2.5)
Surrendered Loss Debtor revaluation						7.8
Gain on shares revaluation						8.1
Gain on share sales						3.1
Statutory loss before tax						(38.5)

The re-allocation of costs and income reported in underlying loss is shown below:

Six months ended 30 June 2019	Retail	SME	Treasury	Total	Legacy & unallocated	Group
Underlying as previously reported	136.9	31.3	21.0	189.2	(192.0)	(2.8)
Re-allocation	2.3	(2.9)	0.6	-	0.5	0.5
Underlying as re-stated	139.2	28.4	21.6	189.2	(191.5)	(2.3)

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)

Six months ended 30 June 2020	IFRS statutory	Removal of: Volatile items[1]	Strategic projects	Legacy customer redress charges	Non recurring[2]	Underlying basis
Net interest income	127.4	-	-	-	-	**127.4**
Other operating income/(expense)	25.3	(4.4)	-	-	0.1	**21.0**
Operating income	**152.7**	**(4.4)**	**-**	**-**	**0.1**	**148.4**
Operating expenses	(186.1)	-	15.0	-	-	**(171.1)**
Net credit impairment losses	(11.2)	-	-	-	-	**(11.2)**
Loss before taxation	**(44.6)**	**(4.4)**	**15.0**	**-**	**0.1**	**(33.9)**

1. In the period ended 30 June 2020, this comprises the revaluation gain on equity shares.
2. In the period ended 30 June 2020, this comprises loss on asset sales.

Restated Six months ended 30 June 2019	IFRS statutory	Removal of: Volatile items[1]	Strategic projects	Legacy customer redress charges	Non recurring[2]	Underlying basis
Net interest income	167.9	-	-	-	-	167.9
Other operating income/(expense)	42.1	(15.9)	-	-	(3.1)	23.1
Operating income	210.0	(15.9)	-	-	(3.1)	191.0
Operating expenses	(245.9)	-	52.7	-	-	(193.2)
Net customer redress charge	(2.5)	-	-	2.5	-	-
Net credit impairment losses	(0.1)	-	-	-	-	(0.1)
Loss before taxation	(38.5)	(15.9)	52.7	2.5	(3.1)	(2.3)

1. In the period ended 30 June 2019, this comprises the impact of the revaluation of the Surrendered Loss Debtor (£7.8m) and the revaluation gain on equity shares (£8.1m).
2. In the period ended 30 June 2019, this comprises the gain on sale of shares.

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

30 June 2020	Core: Retail	SME	Treasury	Total	Legacy & unallocated	Underlying basis
Segment assets	16,875.2	320.2	5,621.8	22,817.2	2,107.6	**24,924.8**
Segment liabilities	17,322.5	2,647.8	2,958.5	22,928.8	364.8	**23,293.6**

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

4. NET INTEREST INCOME

Interest income and similar income

	Six months ended 30 June 2020				Six months ended 30 June 2019			
	Amortised cost	FVOCI	Other	Total	Amortised cost	FVOCI	Other	Total
On financial assets not at fair value through profit or loss:								
Loans and advances to customers	**195.3**	**-**	**-**	**195.3**	214.2	-	-	214.2
Loans and advances to banks	**3.8**	**-**	**-**	**3.8**	6.2	-	-	6.2
Investment securities	**0.8**	**7.3**	**-**	**8.1**	1.3	15.9	-	17.2
Net interest income on net defined benefit pension asset	**-**	**-**	**6.9**	**6.9**	-	-	8.7	8.7
	199.9	**7.3**	**6.9**	**214.1**	221.7	15.9	8.7	246.3
On financial assets at fair value through profit or loss:								
Loans and advances to customers	**-**	**-**	**5.8**	**5.8**	-	-	6.5	6.5
Net interest expense on financial instruments hedging assets	**-**	**-**	**(12.6)**	**(12.6)**	-	-	(7.0)	(7.0)
Net interest income on financial instruments not in a hedging relationship	**-**	**-**	**6.6**	**6.6**	-	-	4.4	4.4
	199.9	**7.3**	**6.7**	**213.9**	221.7	15.9	12.6	250.2

Interest expense and similar charges

	Six months ended 30 June 2020			Six months ended 30 June 2019		
	Amortised cost	Other	Total	Amortised cost	Other	Total
On financial liabilities not at fair value through profit or loss:						
Customer accounts	**(53.4)**	**-**	**(53.4)**	(55.3)	-	(55.3)
Subordinated liabilities, debt securities in issue and other deposits	**(28.9)**	**-**	**(28.9)**	(23.6)	(0.2)	(23.8)
Interest on lease liabilities	**-**	**(1.2)**	**(1.2)**	-	(1.2)	(1.2)
Net interest expense on unfunded schemes	**-**	**(0.1)**	**(0.1)**	-	(0.1)	(0.1)
	(82.3)	**(1.3)**	**(83.6)**	(78.9)	(1.5)	(80.4)
On financial liabilities at fair value through profit or loss:						
Net interest income on financial instruments hedging liabilities	**-**	**5.4**	**5.4**	-	3.8	3.8
Net interest expense on financial instruments not in a hedging relationship	**-**	**(8.3)**	**(8.3)**	-	(5.7)	(5.7)
	(82.3)	**(4.2)**	**(86.5)**	(78.9)	(3.4)	(82.3)

5. OTHER OPERATING INCOME (NET)

	Six months ended 30 June	
	2020	2019
Profit on sale of investment securities	**-**	0.7
Gain on sale of shares	**-**	3.2
Loss on sale of loans and advances to customers	**(0.1)**	-
Fair value movement on loans and advances to customers designated at fair value	**4.9**	2.6
(Expense)/income from derivatives and hedge accounting	**(1.3)**	2.5
Income from assets and liabilities held at fair value through profit or loss[1]	**3.6**	16.4
Foreign exchange gains	**4.2**	4.1
Other operating income	**0.7**	1.5
	12.0	31.0

1. Income from assets and liabilities held at fair value through profit or loss of £3.6m (30 June 2019: £16.4m) includes £nil gain on the Surrendered Loss Debtor (30 June 2019: £7.8m) and £4.2m gain on equity shares (30 June 2019: £8.1m).

6. OPERATING EXPENSES

	Note	Six months ended 30 June 2020	2019
Staff costs		**67.9**	81.5
Depreciation, amortisation and impairment of fixed and intangible assets[1]		**20.3**	20.7
Provisions for liabilities provided in the period	11	**0.6**	6.5
IT costs		**34.3**	65.5
Mortgage platform outsourcing services		**39.5**	47.7
Facility costs		**7.2**	7.9
Other expenses		**16.3**	16.1
		186.1	245.9

1. Mainly comprises amortisation of intangible assets.

7. INCOME TAX

	Six months ended 30 June 2020	2019
Current tax credit	**(0.2)**	(0.4)
Deferred tax credit	**(19.9)**	(2.1)
Total tax credit	**(20.1)**	(2.5)

In addition to the above, included within other comprehensive income is a deferred tax charge of £33.6m (2019: £9.2m).

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

	Six months ended 30 June 2020	2019
Loss before taxation	**(44.6)**	(38.5)
Tax credit calculated at a rate of 19% (2019: 19%)	**(8.5)**	(7.3)
Effects of:		
Impact of corporation tax rate change	**(8.9)**	0.2
Impact of surcharge on deferred tax	**(3.3)**	(0.7)
Movement in unrecognised deferred tax	**0.7**	7.6
Expenses not deductible for tax purposes	**0.2**	0.4
Adjustment in respect of prior period	**(0.2)**	(0.4)
Non-taxable income	**(0.1)**	(2.3)
Total tax credit	**(20.1)**	(2.5)

Deferred tax assets totalling £453.0m (2019: £374.8m) have not been recognised where doubt exists over the availability of sufficient future taxable profits.

8. LOANS AND ADVANCES TO CUSTOMERS

Analysis of the balance sheet

	30 June 2020	31 December 2019
Gross loans and advances	**18,303.3**	17,945.1
Less: allowance for losses	**(35.8)**	(26.7)
	18,267.5	17,918.4

Loans and advances to customers include £142.2m (31 December 2019: £143.2m) of financial assets designated at fair value through profit or loss to eliminate or significantly reduce a measurement or recognition inconsistency; of these, £59.5m (31 December 2019: £60.7m) are secured by real estate collateral. Exposure is predominantly within the UK.

For stage allocation and analysis, including the impact which the COVID-19 pandemic has had on the impairment losses for the period, please refer to the credit risk section of the risk management report.

Analysis of allowance for impairment losses

	Retail	SME	Legacy & unallocated	Total
At 1 January 2020	17.3	5.3	4.1	**26.7**
Changes in assets which transitioned during the period:				
To lifetime ECL (stage 1 to 2 or 3)	4.5	1.2	0.2	**5.9**
To credit impaired (stage 1 or 2 to 3)	2.9	-	2.4	**5.3**
To 12 month ECL (stage 2 or 3 to 1)	(0.8)	-	-	**(0.8)**
From credit impaired (stage 3 to 2)	(0.2)	-	-	**(0.2)**
Net changes in assets which transitioned during the period	**6.4**	**1.2**	**2.6**	**10.2**
Other charges/(releases):				
New assets originated or purchased	0.7	0.3	-	**1.0**
Other changes to risk parameters[1]	(1.0)	1.0	1.2	**1.2**
Net other charges	**6.1**	**2.5**	**3.8**	**12.4**
Assets written off	(2.0)	(0.1)	(1.2)	**(3.3)**
At 30 June 2020	**21.4**	**7.7**	**6.7**	**35.8**

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

Analysis of income statement

	Six months ended 30 June 2020	2019
Net other charges	**(12.4)**	(1.8)
Amounts recovered against amounts previously written off	**0.7**	1.0
Adjustment to recognise interest on stage 3 assets based on their net carrying value	**0.5**	0.7
Net impairment loss for the period as shown in the income statement	**(11.2)**	(0.1)

9. INVESTMENT SECURITIES

Analysis of investment securities

	30 June 2020				31 December 2019			
	Amortised cost	FVOCI	FVTPL	Total	Amortised cost	FVOCI	FVTPL	Total
Investment securities[1] (listed)	**89.9**	**1,461.6**	**3.6**	**1,555.1**	95.0	1,506.4	4.2	1,605.6

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

Movement in investment securities

	30 June 2020				31 December 2019			
	Amortised cost	FVOCI	FVTPL	Total	Amortised cost	FVOCI	FVTPL	Total
At the beginning of the period	**95.0**	**1,506.4**	**4.2**	**1,605.6**	89.1	1,842.4	3.5	1,935.0
Acquisitions	**-**	**686.3**	**-**	**686.3**	15.2	1,032.7	0.2	1,048.1
Disposals and maturities	**(5.0)**	**(727.4)**	**-**	**(732.4)**	(9.4)	(1,351.7)	-	(1,361.1)
FVOCI	**-**	**(0.7)**	**-**	**(0.7)**	-	(12.3)	-	(12.3)
Fair value through profit or loss	**-**	**(5.5)**	**(0.6)**	**(6.1)**	-	(2.9)	0.5	(2.4)
Amortisation	**-**	**2.1**	**-**	**2.1**	-	1.9	-	1.9
Movement in interest accrual	**(0.1)**	**0.4**	**-**	**0.3**	0.1	(3.7)	-	(3.6)
At the end of the period	**89.9**	**1,461.6**	**3.6**	**1,555.1**	95.0	1,506.4	4.2	1,605.6

Included in investment securities are repurchase receivables of £458.6m. Certain investment securities have been pledged by the Group; see note 13 for further details on encumbered and pledged assets.

Analysis of investment securities by issuer

	30 June 2020	31 December 2019
Investment securities issued by public bodies:		
Government securities	**720.6**	925.8
Other public sector securities	**238.5**	242.4
	959.1	1,168.2
Other debt securities:		
Other floating rate notes	**438.7**	268.3
Mortgage backed securities	**157.3**	169.1
	596.0	437.4
Total investment securities by issuer	**1,555.1**	1,605.6

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

10. OTHER BORROWED FUNDS

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

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

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

11. PROVISIONS

	Note	Property	PPI	Conduct/ legal	Other	Total
At 1 January 2020		11.0	57.5	4.6	14.3	**87.4**
Provided in the period:						
Operating expenses	6	0.1	-	0.2	0.3	**0.6**
Net customer redress charge		-	-	-	-	**-**
Utilised during the period		(1.5)	(44.6)	(2.4)	(8.7)	**(57.2)**
At 30 June 2020		**9.6**	**12.9**	**2.4**	**5.9**	**30.8**
Amounts falling due within one year		4.7	12.9	2.2	4.3	**24.1**
Amounts falling due after one year		4.9	-	0.2	1.6	**6.7**
		9.6	**12.9**	**2.4**	**5.9**	**30.8**

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

Payment Protection Insurance (PPI)
Provisions have been made in respect of potential customer compensation claims relating to past sales of PPI. Claims are investigated on an individual basis and, where appropriate, compensation payments are made. For a number of years the Group, along with many other financial services providers, sold PPI alongside mortgage and non-mortgage credit products. The Group stopped selling non-mortgage PPI in January 2009 and stopped selling mortgage PPI in March 2012. The total amount recognised to date for costs related to the historical selling of PPI is £600.3m.

The Group has finished processing the vast majority of all enquiries and complaints received prior to the time-bar in August 2019. The main outstanding element relates to the cohort of complaints submitted by the Official Receiver which remains under discussion, and the Group continues to hold provision against redress offers made, most of which are expected to be settled within the second half of 2020.

Whilst a significant amount of estimation uncertainty has been extinguished, there remains some uncertainty around the timing and quantum of the acceptance and settlement of offers that would see the remainder of the provision fully utilised, as well as the outcome of the Group's discussions with the Official Receiver.

Conduct/legal provisions
The Group provided £0.2m in the six months period to 30 June 2020 in relation to potential litigation claims (30 June 2019: £0.7m).

Other
Other provisions include a net charge of £0.3m (30 June 2019: £5.7m) which mainly comprises movements in the provisions for employee variable pay and severance costs during the period.

12. RETIREMENT BENEFITS

Details of the pension schemes operated by the Group are provided in the 2019 Annual Report and Accounts. The amounts recognised in the balance sheet in relation to defined benefit schemes are as follows:

	31 December 2019	Movement	30 June 2020
Retirement benefit net surplus	690.2	68.1	**758.3**
Retirement benefit liabilities	(8.6)	(0.2)	**(8.8)**
Total amounts recognised in the balance sheet	**681.6**	**67.9**	**749.5**
Represented by:			
Funded DB schemes (Pace DB and BPS)	690.2	68.1	**758.3**
Unfunded DB schemes	(8.6)	(0.2)	**(8.8)**
Total amounts recognised in the balance sheet	**681.6**	**67.9**	**749.5**

12. RETIREMENT BENEFITS (continued)

The present value of the defined benefit obligation as at 30 June 2020 has been derived using assumptions that are consistent with those used for the 31 December 2019 value, updated for market conditions at the interim reporting date. Corporate bond yields have decreased over the first half of 2020, which has the effect of decreasing the discount rate and increasing liabilities. As a result of the hedging techniques employed within the schemes' investment strategies, which are calibrated to hedge the liabilities on the more prudent funding basis, together with changes in corporate credit spreads, this increase in liabilities has been more than offset by a corresponding increase in assets. The improvement in the net asset position further reflects £0.7m of employer contributions paid into BPS during the period.

During the first half of 2020, the Pace Trustee completed a £400 million pension insurance buy-in, covering liabilities for c.2,000 pensioner members in the Bank Section of the Pace Scheme. This transaction has been reflected in the retirement benefit net surplus at 30 June 2020 and had the impact of a reduction of c.£93m.

13. CONTINGENT LIABILITIES, CONTRACTUAL COMMITMENTS AND GUARANTEES

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

	30 June 2020	31 December 2019
	Contractual amount	Contractual Amount
Contingent liabilities arising from customer transactions:		
Guarantees and irrecoverable letters of credit	**6.6**	9.2
Other commitments arising from customer transactions:		
Undrawn formal standby facilities, credit lines and other commitments to lend (includes revocable and irrevocable commitments)[1]	**1,495.2**	1,975.1
	1,501.8	1,984.3

1. Undrawn loan commitments include revocable commitments which are unused credit card limits of £1,032.3m (31 December 2019: £1,005.1m).

Other contingent liabilities, contractual commitments and guarantees
There have been no significant changes to the position of the Group's other contingent liabilities, contractual commitments and guarantees as disclosed in the 2019 Annual Report and Accounts.

Encumbered and pledged assets

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

	30 June 2020	31 December 2019
Investment securities sold under repurchase agreements		
Carrying amount of assets not derecognised	**458.6**	187.8
Carrying amount of associated liabilities	**456.5**	179.1

b) Other assets transferred but not derecognised
Included within loans and advances to customers are £3,178.8m (31 December 2019: £3,198.4m) of balances pledged across the Group's securitisation and covered bond activities. The Group retains exposure to substantially all of the risks and rewards of ownership of these assets and they remain on the Group's balance sheet. Secured on these mortgage assets are £849.3m (31 December 2019: £849.0m) of fixed and floating rate notes. The carrying value of these notes excludes retained securitisation notes totalling £1,582.7m (31 December 2019: £1,675.9m).

c) Assets pledged under the Term Funding Scheme (TFS)
Investment securities and mortgage assets with a carrying value of £975.0m (31 December 2019: £1,112.7m) have been collateralised against the Group's TFS drawdowns.

13. CONTINGENT LIABILITIES, CONTRACTUAL COMMITMENTS AND GUARANTEES (continued)

d) Assets pledged under the Group's pension arrangements
The Group has arrangements with its pension schemes whereby it provides contingent security, where such assets would only be accessed by the trustees in the event that the Group was unable to meet future contribution obligations, as agreed with the relevant trustee, insolvency or the failure to adhere to the terms of the security deeds. The encumbered assets comprise of AAA Silk Road Four and Silk Road Five securitisation notes and cash generated from the amortisation of the notes, which can be substituted for further investment securities.

At 30 June 2020 the Group had pledged £163.9m of notes and £10.8m cash to the Britannia Pension Scheme, and £236.4m of notes and £5.7m cash to the Pace scheme. A further £12.5m in cash was held in custody for the benefit of the Pace scheme in lieu of deficit recovery contributions.

e) Other collateralised assets
Cash and investment securities totalling £322.8m (31 December 2019: £229.8m) and £93.0m (31 December 2019: £97.5m) respectively were collateralised under interest rate swap arrangements.

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

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

Contingent assets

Refund of ATM business rates following Supreme Court judgement
Historically, the Group owned a large number of Automatic Teller Machines (ATMs), a significant number of which were located within retail stores owned by the Co-op Group during a period when the Group and the Co-op Group were part of the same corporate group and for a number of years thereafter. The Bank sold the ATMs in 2014.

In 2013, the Valuation Office Agency, which is part of HMRC and compiles the business rates list for England, Scotland and Wales, determined that externally facing ATMs should be separately assessed for business rates in addition to store business rates already incurred by retailers, and this was applied with effect from April 2010. The additional rates due on the ATMs under these rules were paid by the Bank to the Co-op Group, who in turn paid the store and ATM rates to the relevant local billing authorities. Retailers, including the Co-op Group, successfully challenged the assessment, culminating in a Supreme Court decision in May 2020 ruling that externally facing ATMs form part of the stores offering and should not be subject to additional business rates.

As a result of the ruling, it is expected that the Valuation Office Agency will update the business rates list accordingly via settling the outstanding appeals. Once the rating list is updated the local billing authorities will then start to process these amendments in order for refunds of historic business rates that were paid for external ATMs to be recovered. It is not yet practicable to estimate the financial effect of the Supreme Court judgement on the Group's results and the Group continues to work through its estimation of monies to be received from the Co-op Group under this arrangement and the Group's share of associated professional services fees.

Unconsolidated structured entities
Details of the interests in unconsolidated structured entities are disclosed in note 36 of the 2019 Annual Report and Accounts. There has been no significant change in the nature of the transactions in these entities except for exercise of the Warwick Finance Two call option in June 2020. At the call option date, the Group's remaining interest in this unconsolidated structured entity related solely to the holding of legal title of mortgages previously sold by the Group to Warwick 2.

The Group has entered into an agreement to continue to hold and provide legal title services on commercial terms following the Warwick Finance Two call.

14. RELATED PARTY TRANSACTIONS

There were no changes to the nature of the related party transactions during the period to 30 June 2020 other than those disclosed in note 32 of the 2019 Annual Report and Accounts that would materially affect the position or performance of the Group.

15. SHARE CAPITAL

	30 June 2020		31 December 2019	
	No. of shares (millions)	Share capital	No. of shares (millions)	Share capital
Allotted, called up and fully paid				
At the beginning and end of the period	9,029.1	0.9	9,029.1	0.9
Share premium account				
At the beginning and end of the period		313.8		313.8

There are 9,029,130,200 A shares (2019: 9,029,130,200) and 83 B shares (2019: 83) in The Co-operative Bank Holdings Limited. The holders of the ordinary A shares do not hold any voting rights but are entitled to participate in distributions and to receive a dividend on liquidation. The B shareholders have one vote for every share held and also benefit from certain governance, notification and approval rights with respect to the Holding Company, but have no rights to distributions, other than on exit in an amount of £25.0m in aggregate, subject to achieving a minimum valuation threshold.

16. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The methodology and assumptions for determining the fair value of financial assets and liabilities are consistent with those disclosed in the 2019 Annual Report and Accounts.

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

30 June 2020	Amortised cost	Measured at fair value FVOCI	FVTPL – designated	FVTPL – mandatorily measured	Derivatives in a hedging relationship	Total
Financial assets						
Cash and balances at central banks	2,980.3	-	-	-	-	**2,980.3**
Loans and advances to banks	587.0	-	-	-	-	**587.0**
Loans and advances to customers	18,125.3	-	140.9	1.3	-	**18,267.5**
Investment securities	89.9	1,461.6	-	3.6	-	**1,555.1**
Derivative financial instruments	-	-	-	235.8	85.8	**321.6**
Equity shares	-	-	-	48.6	-	**48.6**
Other assets[1]	(1.5)	-	-	47.8	-	**46.3**
	21,781.0	**1,461.6**	**140.9**	**337.1**	**85.8**	**23,806.4**
Financial liabilities						
Deposits by banks	1,421.9	-	-	-	-	**1,421.9**
Customer accounts	20,076.3	-	-	-	-	**20,076.3**
Debt securities in issue	877.6	-	-	-	-	**877.6**
Derivative financial instruments	-	-	-	256.3	198.1	**454.4**
Other borrowed funds	209.3	-	-	-	-	**209.3**
Other liabilities	47.1	-	-	-	-	**47.1**
	22,632.2	**-**	**-**	**256.3**	**198.1**	**23,086.6**

1. Other assets include settlement funds, which at 30 June 2020 is a credit balance of £5.5m.

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

31 December 2019	Amortised cost	Measured at fair value FVOCI	FVTPL – designated	FVTPL – mandatorily measured	Derivatives in a hedging relationship	Total
Financial assets						
Cash and balances at central banks	2,153.5	-	-	-	-	2,153.5
Loans and advances to banks	474.3	-	-	-	-	474.3
Loans and advances to customers	17,775.2	-	141.5	1.7	-	17,918.4
Investment securities	95.0	1,506.4	-	4.2	-	1,605.6
Derivative financial instruments	-	-	-	162.8	50.5	213.3
Equity shares	-	-	-	44.5	-	44.5
Other assets[1]	4.8	-	-	47.8	-	52.6
	20,502.8	1,506.4	141.5	261.0	50.5	22,462.2
Financial liabilities						
Deposits by banks	1,143.7	-	-	-	-	1,143.7
Customer accounts	18,996.8	-	-	-	-	18,996.8
Debt securities in issue	867.5	-	-	-	-	867.5
Derivative financial instruments	-	-	-	178.7	109.3	288.0
Other borrowed funds	204.2	-	-	-	-	204.2
Other liabilities	53.5	-	-	-	-	53.5
	21,265.7	-	-	178.7	109.3	21,553.7

1. Other assets include settlement funds, which at 31 December 2019 is a credit balance of £1.4m.

16. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

Valuation of financial assets and liabilities measured at fair value

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

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

		Fair value at end of the reporting period using:			
30 June 2020	**Category**	**Level 1**	**Level 2**	**Level 3**	**Total**
Non-derivative financial assets					
Loans and advances to customers	FVTPL – designated	-	138.9	2.0	**140.9**
Loans and advances to customers	FVTPL – mandatorily measured	-	-	1.3	**1.3**
Investment securities	FVOCI	1,397.8	-	63.8	**1,461.6**
Investment securities	FVTPL – mandatorily measured	-	-	3.6	**3.6**
Equity shares	FVTPL – mandatorily measured	0.3	-	48.3	**48.6**
Other assets	FVTPL – mandatorily measured	-	-	47.8	**47.8**
Derivative financial assets		-	321.6	-	**321.6**
Non-financial assets:					
Investment properties		-	-	1.8	**1.8**
		1,398.1	**460.5**	**168.6**	**2,027.2**
Derivative financial liabilities		-	454.4	-	**454.4**

		Fair value at end of the reporting period using:			
31 December 2019	**Category**	**Level 1**	**Level 2**	**Level 3**	**Total**
Non-derivative financial assets					
Loans and advances to customers	FVTPL – designated	-	139.5	2.0	141.5
Loans and advances to customers	FVTPL – mandatorily measured	-	-	1.7	1.7
Investment securities	FVOCI	1,436.5	-	69.9	1,506.4
Investment securities	FVTPL – mandatorily measured	-	-	4.2	4.2
Equity shares	FVTPL – mandatorily measured	0.4	-	44.1	44.5
Other assets	FVTPL – mandatorily measured	-	-	47.8	47.8
Derivative financial assets		-	213.3	-	213.3
Non-financial assets:					
Investment properties		-	-	1.8	1.8
		1,436.9	352.8	171.5	1,961.2
Derivative financial liabilities		-	288.0	-	288.0

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

- **Investment securities**

Investment securities comprise RMBS of £63.8m (FVOCI) and £3.6m (FVTPL – mandatorily measured) as at 30 June 2020 (31 December 2019: £69.9m FVOCI and £4.2m FVTPL). An independent third-party valuation agent is used to provide prices for the rated RMBS obtained from large financial institutions. These prices are indicative values only and do not represent an offer to purchase the securities. These RMBS represent the Group's interests in unconsolidated structured entities. A 1% increase or decrease in the price of the notes will result in the value increasing or decreasing by approximately £0.7m respectively as at 30 June 2020.

16. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

- **Equity shares**

Equity shares comprise US Dollar denominated convertible preference shares in Visa International, which are classified as FVTPL – designated, with any movements in fair value being recognised in the income statement. The fair value of the Visa International shares has been calculated by taking the period-end NYSE share price and discounting for illiquidity and clawback. If the illiquidity discount was increased by a relative 10%, it would result in a reduction in the overall fair value of the equity shares of £2.3m (5%) as at 30 June 2020.

- **Other assets**

Other assets comprise the Surrendered Loss Debtor of £47.8m as at 30 June 2020 (31 December 2019: £47.8m). The fair value was determined by discounting the expected cash flows under the terms of the agreement with the Co-op Group. Cash flows are discounted at a discount rate reflecting the yield of the longest maturity Co-op Group bond in issue (adjusted to reflect the weighted average maturity of cash flows due from the Co-op Group), plus a premium to estimate the uncertainties associated with the matters set out in note 2.2.5 to the Group 2019 Annual Report and Accounts. The premium is calculated applying risk parameter estimation theory using observable inputs from related (but not identical) financial instruments or indices.

Scenario	Result
Deferral of receipt of payments applied in the payment forecast	If future payments from the Co-op Group are deferred by one year from the current estimates, the value of the Surrendered Loss Debtor decreases by £3.0m.
Changes in tax rates applied in the payment forecast	Increasing the corporation tax rate by 1% from 1 April 2020 throughout the life of the SLD increases the value of the Surrendered Loss Debtor by £2.7m.
Changes in the discount rate used to calculate the present value of the payment forecast	If the variables used to build up the discount rate change such that the total discount rate increases by 1%, the value of the Surrendered Loss Debtor decreases by £3.9m.

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

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

	Fair value at 31 December 2019	Purchases and transfers in	Sales, transfers out and repayments	Other comprehensive income	Income statement	Fair value at 30 June 2020
Loans and advances to customers	3.7	-	(0.4)	-	-	**3.3**
Investment securities	74.1	-	(6.0)	(0.1)	(0.6)	**67.4**
Equity shares	44.1	-	-	-	4.2	**48.3**
Investment properties	1.8	-	-	-	-	**1.8**
Other assets	47.8	-	-	-	-	**47.8**
	171.5	**-**	**(6.4)**	**(0.1)**	**3.6**	**168.6**

16. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

Fair values of financial assets and liabilities not carried at fair value
The carrying values of financial assets and liabilities measured at amortised cost are analysed in the following tables by the three level fair value hierarchy set out above.

30 June 2020	Total carrying value	Fair value				
		Level 1	Level 2	Level 3	Items where fair value approximates carrying value	Total
Financial assets						
Cash and balances at central banks	**2,980.3**	-	-	-	2,980.3	**2,980.3**
Loans and advances to banks	**587.0**	-	-	-	587.0	**587.0**
Loans and advances to customers	**18,125.3**	-	-	17,096.1	963.3	**18,059.4**
Investment securities	**89.9**	-	-	88.6	-	**88.6**
Other assets	**(1.5)**	-	-	-	(1.5)	**(1.5)**
Financial liabilities						
Deposits by banks	**1,421.9**	-	1,420.0	-	4.7	**1,424.7**
Customer accounts	**20,076.3**	-	-	3,135.9	16,957.7	**20,093.6**
Debt securities in issue	**877.6**	645.0	-	-	-	**645.0**
Other borrowed funds	**209.3**	-	184.0	-	-	**184.0**
Other liabilities	**47.1**	-	-	-	47.1	**47.1**

31 December 2019	Total carrying value	Fair value				
		Level 1	Level 2	Level 3	Items where fair value approximates carrying value	Total
Financial assets						
Cash and balances at central banks	2,153.5	-	-	-	2,153.5	2,153.5
Loans and advances to banks	474.3	-	-	-	474.3	474.3
Loans and advances to customers	17,775.2	-	-	16,613.6	1,070.3	17,683.9
Investment securities	95.0	-	-	95.4	-	95.4
Other assets	4.8	-	-	-	4.8	4.8
Financial liabilities						
Deposits by banks	1,143.7	-	1,145.0	-	2.4	1,147.4
Customer accounts	18,996.8	-	-	3,612.4	15,401.5	19,013.9
Debt securities in issue	867.5	633.2	-	-	-	633.2
Other borrowed funds	204.2	-	203.9	-	-	203.9
Other liabilities	53.5	-	-	-	53.5	53.5

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

17. EVENTS AFTER THE BALANCE SHEET DATE

There are no post balance sheet events to report.