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

2019 Annual Report and Accounts

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moneywise CUSTOMER SERVICE AWARDS 2019

MOST TRUSTED MAINSTREAM BANK

The Co-operative Bank

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for people with purpose

Our group structure

The Co-operative Bank Holdings Limited

↓ 100%

The Co-operative Bank Finance p.l.c.

↓ 100%

The Co-operative Bank p.l.c.

In the following pages the term ‘Group’ refers to The Co-operative Bank Holdings Limited and its subsidiaries. The term ‘Finance Group’ refers to The Co-operative Bank Finance p.l.c. and its subsidiaries. The term ‘Bank’ refers to The Co-operative Bank p.l.c. and its subsidiaries which are consolidated within the Finance Group and then ultimately the Group. Unless otherwise stated, information presented for the Group equally applies to the Bank and to the Finance Group.

Further detail on the group structure is provided on page 42.

Find us here:

@CooperativeBank

@TheCooperativeBank

@thecooperativebank

The Co-operative Bank plc

View information about The Co-operative Bank at:

www.co-operativebank.co.uk/investorrelations

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

Company information

Registered office
P.O. Box 101
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Manchester
M60 4EP

Tel: 0161 832 3456
Tel: 0370 702 0003

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

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

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

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

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 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.

More information is provided on page 15.

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**

Our three segments

Retail

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

Read more on page 24

73% of core income

78% of core assets

78% 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 27

16% of core income

1% of core assets

10% of core liabilities

Treasury

Manages the Bank's portfolio of liquid assets, interest rate risk and wholesale funding to meet liquidity and capital requirements. Also leads the day-to-day cash, clearing and collateral management for the Bank

Read more on page 29

11% of core income

21% of core assets

12% of core liabilities

The Group uses the phrase 'core' when referring to the total of these three segments.

Business highlights

Delivering our plan

In 2019, we reported an overall statutory loss before tax and an underlying loss as defined by management[1]. Our priority remains to return the Bank to a position of sustainable profitability in the future, against a challenging external environment with continuing margin pressure. To do so, we are investing in the future of the Bank through transforming our IT infrastructure and digital capability, to improve customer propositions and experience. This investment in the future is the main driver of the 2019 losses, as planned under the Group's strategy.

Statutory loss before tax [1]

£(152.1)m

31 December 2018: £(140.7)m

Underlying (loss)/profit [1]

£(19.7)m

31 December 2018 (restated): £23.6m profit

Customer net interest margin

1.75%

31 December 2018 (restated): 2.10%

Underlying cost:income ratio

106.2%

31 December 2018 (restated): 95.4%

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 32. During 2019, the Group revised its definition of underlying as explained on page 31. Comparatives have therefore been restated.

Strong capital foundation and investing for the future

Following the £200m Tier 2 debt issuance in April 2019, total capital increased to £1.14bn (23.8 %) at 31 December 2019 from £1.13bn (22.3 %) at 31 December 2018.

Common Equity Tier 1 (CET1)

19.6%

31 December 2018: 22.3%

Regulatory minimum: 10.9%

Total Capital Resources

23.8%

31 December 2018: 22.3%

Liquidity coverage ratio

173.7%

31 December 2018: 153.8%

Regulatory minimum: 100%

Risk weighted assets

£4.8bn

31 December 2018: £5.1bn

Investment in strategic projects

£96.6m

31 December 2018: £94.3m

Putting our customers first

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

Providing funding for homes…

New mortgage completions

£3.8bn

31 December 2018: £4.3bn

Net residential lending

£0.8bn

31 December 2018: £1.4bn

…and a range of savings and current accounts

Customer deposits (core)

£18.9bn

31 December 2018: £18.6bn

Prime current account holders

613k

31 December 2018: 627k

Colleagues with purpose

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

Colleague engagement score	Percentage of senior roles held by women	Gender pay gap (median)
82%	42.3%	22.62%
2018: 80%	31 December 2018: 40.6%	31 December 2018: 23.31%

Described further on page 67.

Improving our customer service

Delivering award-winning service through our people with purpose.

Branch network	Mortgage application to offer average	Current account customer satisfaction (NPS)[1]	Customers migrated to our new mobile digital app
68 (and no plans for closure)	13 days	+29 (our highest since 2013)	377k
31 December 2018: 68	31 December 2018: 17 days	31 December 2018: +19	

1: © Ipsos MORI Financial Research Survey (FRS) six months ended December 2013, 700 adults interviewed, achieved NPS score of 23% and six months ended December 2019, 541 adults interviewed, achieved NPS score of 29%.

Making a difference in our communities

We continue to make a difference to our customers through volunteering, fundraising, and providing support to the charities and causes which are important to them.

Donation to Centrepoint (raised since May 2017)	Colleague volunteering (average hours per volunteer)	Colleague volunteering hours
£1.4m	5.83	4,759
31 December 2018: £1.1m	31 December 2018: 6.36 (with 5ppt increase in active volunteers)	31 December 2018: 4,330

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

Welcome to our Annual Report and Accounts for 2019

Chair of the Board's welcome

I am pleased to present The Co-operative Bank's Annual Report and Accounts for 2019. Despite the ongoing effects of an uncertain economic landscape combined with an extremely competitive retail banking market, the Bank has continued to make strong progress and the Board and our majority shareholders are delighted with the achievements of our CEO, Andrew Bester, and the Executive team. We enter the new decade having successfully completed the first phase of our turnaround, fixing the basics that will enable a successful future for our Bank. I would like to thank our shareholders for their sustained commitment, enabling the most challenging phase of the turnaround to be successfully delivered. The real progress made in 2019 provides the foundations for the Bank to grow in the future and the second phase of our turnaround is underway.

During the year we reached a number of key milestones. The successful separation of our IT systems from the Co-op Group, in January 2020, and an improvement in our regulatory capital requirements as a result of further de-risking, draws a line under the issues of the past. This now allows us to focus on the next phase of our development as we move towards sustainable profitability. While the Bank continues to be loss-making, as anticipated in our plan, we have maintained a strong CET1 ratio, and the renegotiation of key supplier contracts has also achieved cost efficiencies and better customer propositions.

Overall, we have enjoyed a resilient business performance in our core segments of retail and SME banking, supported by our planned investment in The Co-operative Bank brand and in developing our digital services. We have continued with our commitments to our customers and our communities as an ethical bank. The values of the co-operative movement continue to be at the heart of our thinking, at a time when our customers and consumers generally are increasingly conscious of the choices they are making and their impact on the environment.

The Board has continued to evolve during 2019 and, in welcoming new Board members this year, we have renewed the Board skills and expertise appropriate to the challenges and opportunities within the current market, as well as those the Bank will continue to face in the future. My thanks to all Board members for their energy, challenge, insight and support throughout the year.

We are pleased with the achievements of 2019 and the positive position we have reached. On behalf of the Board, I would like to express our thanks to the leadership team and to all of our Co-operative Bank colleagues for their relentless hard work, enthusiasm and commitment to our loyal customers.

Bob Dench
Chair of the Board

Strategic report

This strategic report was approved by the Boards of The Co-operative Bank Holdings Limited, The Co-operative Bank p.l.c. and The Co-operative Bank Finance p.l.c. on 26 February 2020 and signed on their behalf

By order of the Boards

Robert Dench
Chair of the Board
26 February 2020

The co-operative bank
for people with purpose

“Resilient business performance in a challenging market”

Chief Executive’s review

I am pleased with the significant progress we have achieved in 2019 completing the first stage of our multi-year strategy. We continued our planned investment in IT, digital and brand, and successfully completed some major milestones dealing with legacy issues, including separating our IT systems from the Co-op Group, improving our regulatory capital requirements, and continuing to de-risk and simplify the Bank.

We are well-placed to start the next phase of our strategy in 2020 - enabling the future - but today we are reporting an underlying and statutory loss before tax. Whilst losses were anticipated, reflecting amongst other things, the cost of the planned investment and the impact of prevailing economic uncertainty and intense competition, the results were also impacted by charges related to PPI complaints incurred in the third quarter. Like other banks, we experienced a higher level of complaints than anticipated in the final few weeks ahead of the August 2019 deadline. Had it not been for this additional charge, our losses would have reduced significantly year-on-year, in line with our plan. We remain focussed on our strategy and are confident that this will achieve sustainable competitive advantage and a return to profitability.

“The first stage of our strategy - fix the basics - is complete”

Resilient financial performance

Despite pressure on margins as a result of the low interest rate environment and the competitive UK banking market, our core customer segments of retail and SME banking were resilient. Our mortgage business performed well, achieving controlled balance growth year-on-year. We delivered improvements in the retention of existing customers, and maintained positive broker relationships, which proved valuable, together with consistent agile pricing over the course of the year, which has meant that, despite increasing competitive pressure, margins have remained where we expected. Our cost of funding remains low due to our stable retail savings book.

Retail deposits have remained largely stable with customer average balances increasing. Our focus is on attracting and retaining customers whose values and purpose are aligned with our ethical brand and co-operative heritage. Our investment in digital transformation has seen the launch of a new current account app, with over 377,000 customers now regular users, and regular improvements being released every month informed by our customers' experience.

2019 has been a key year for our SME business, which I consider offers significant future growth potential. We are seeing positive inflows of new customers from the Incentivised Switching Scheme, and increased SME deposit balances. We will build on this in 2020. We were delighted to be awarded a £15m grant from the Banking Competition Remedies (BCR) which, together with investment of our own, is already helping us accelerate our development plans, with a new digital platform launched for new SME customers, soon also to be available for existing customers.

Our disciplined approach to cost reduction continued and will remain throughout 2020. Since the start of 2018 we have taken almost £50m from our underlying cost base. We are committed to our network of 68 branches, and will primarily seek to reduce costs in areas that do not impact directly on our customers.

Working co-operatively with strategic partners

We continue to prepare our business for future success and renegotiated some key supplier contracts: with Capita, to provide customer service in support of our mortgage business; and with IBM, who continue to be our key IT partner. Renewing both contracts will have financial and operational benefits for the Bank, which will ultimately benefit our customer experience.

Further progress made to de-risk the Bank

I am pleased with the significant progress we have made in reducing our total regulatory capital requirement, which was confirmed by the PRA in November 2019. This reflects our ongoing focus on effective risk management and capital efficiency over a number of years.

Another very important milestone was the issuance of £200m of Tier 2 debt, a significant step towards achieving the MREL regulatory requirements expected of all major UK banks in the coming years.

Simplify and strengthen…

- ✓ 2.15 % reduction in ICR capital requirements
- ✓ £200m issuance of Tier 2 debt
- ✓ Continued progress reducing legacy assets
- ✓ Greater resilience in our IT infrastructure arising from transformation investment

More information on risk management developments is included in our risk management report on pages 78 to 120.

While the Bank remains loss-making, the Common Equity Tier 1 (CET1) ratio will reduce year-on-year – reflecting that capital is being consumed. Our strategic plan was very clear on this as we resolve legacy issues and invest in our future. We finished the year with a CET1 ratio of 19.6 %, having updated our guidance in June 2019 to reflect a better than expected CET1 ratio. Total Capital Resources, however, increased in the year following the Tier 2 issuance described above.

We have continued to reduce the levels of legacy assets, and in 2019 we took further action on de-risking the legacy Optimum mortgage book by completing a further securitisation. Legacy assets now represent less than 5 % of the Group's assets, releasing capital and liquidity benefits for core strategic purposes.

Customer, brand, values and ethics

The Co-operative Bank brand is a key reason why customers join, and choose to stay with our Bank. We renewed our investment in the brand in 2019, with a new campaign, "For people with purpose", which saw us return to TV advertising for the first time in almost three years, and which ran throughout the year. We have seen improvements in net promoter score, brand recognition and customer perceptions, and we plan to build on this campaign in 2020.

In 2019, concern for the environment became a reality for many UK consumers. Our commitment to safeguarding the environment has been a central element of our customer-led Ethical Policy for over 25 years. During a year in which climate change moved to the top of the global agenda, our credentials are integral to our brand and continue to set us apart from other banks. For over 25 years we have declined to provide banking services to companies involved in the extraction or refinement of fossil fuels and we were the first UK bank to sign the 2015 Paris Pledge not to finance the coal industry. We are proud to have remained beyond carbon neutral for over 12 years, and we encouraged colleagues to take time off to take part in the global climate strikes taking place in September 2019.

We reinforced our commitment to co-operative values and ethics with a number of key initiatives in 2019. Our support to grow the co-operative movement through the Hive programme, which supports new and growing co-operatives continued, with 941 groups supported over the life of the programme. We were proud to sponsor the Co-operative Congress and Awards 2019 which took place in our home city of Manchester. We contributed to the work of the Mayor's Co-operative Commission, sharing our experience from The Hive programme.

We have been working to end youth homelessness, in partnership with specialist charity Centrepoint, since May 2017, and during that period Bank colleagues and customers have together raised £1.4m. We make a donation to Centrepoint for every mortgage sold, and this funds specialist telephone helpline services for young people at risk of homelessness in the North West region and nationally. We are proud to have helped over 5,000 young people during 2019.

Standing up for human rights has always been a key tenet of our customer-led Ethical Policy, and we were delighted to renew our partnership with Amnesty International, sponsoring Rise Up, a new programme to develop the young human rights defenders of the future. Additionally, we promoted Amnesty's Write for Rights campaign to colleagues and customers, resulting in a total of over 8,500 letters in support of human rights issues in the UK and around the world.

At the same time, we renewed our investment in our brand and reinforced our commitment to our co-operative values and ethics, which continue to be highly valued by our customers and set us apart from our competitors.

Our Co-operative Bank brand resonates at a time when consumers are increasingly seeking greener, more ethical choices, and we have continued to champion the causes that matter to our customers and communities.

Colleagues supporting our customers

Our colleagues are core to our success and their continued commitment to our customers is reflected in our improving net promoter score, which at +29 is at the highest level since 2013, and which was recognised with a number of significant banking industry awards during the year. These include: Branch Network of the Year, Best Business Current Account and Best Charity Banking provider from Moneyfacts. We were especially delighted to be voted 'Most trusted mainstream bank' by readers of Moneywise magazine.

We are making progress in our inclusion and diversity initiatives, with greater numbers of females in senior leadership roles than ever before. Our targeted plan will ensure we continue to work towards our goals in this area.

The hard work and commitment of many colleagues has been instrumental in delivering our achievements this year, in transformation, in financial performance, and in meeting the needs of our customers. Our colleague engagement score reached its highest ever level at 82%.

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

- Our external operating environment – the UK retail banking market (pages 11 to 13)
- Our business model – how The Co-operative Bank within that environment deploys its resources to generate maximum value for stakeholders (page 14)
- Our strategic priorities – what path are we following to ensure the future sustainable success of the Bank (page 15)
- A spotlight on transformation – what have we delivered in 2019 (pages 16 to 17)

UK retail banking market overview

We are operating in an intensely competitive and highly regulated market which has endured continuing economic uncertainty throughout 2019. Environmental and ethical concerns are gathering ever more increasing attention among consumers, and The Co-operative Bank's heritage and commitment to ethical banking continues to differentiate us. Here I outline some of the opportunities and challenges that the current environment presents and which influence our long-term priorities.

Economic and political overview

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

The UK's planned departure from the EU continued to create significant political and economic uncertainty throughout 2019. Although the direct impact on the Bank is expected to be low, the potential impact arises from the ramifications for the UK economy more widely, which may affect the Bank and could also affect our customer base, including the SME businesses we serve.

We expect the UK to exit the EU in 2020 in an orderly manner. However, a divergence from this expectation or a significant economic downturn could adversely impact interest rates, inflation, economic growth, unemployment and house prices. The prevailing economic conditions also influence the accessibility the Bank has to the market and the pricing of debt issuances, and as outlined in the regulatory environment section below, additional MREL-compliant debt is anticipated to be issued in the future.

The Co-operative Bank's business model is low-risk, with low loan-to-value lending. As a result, we are well placed to withstand a downturn in the economy. However, we remain alert to these risks generally and more information is provided in our principal risks and uncertainties disclosed on pages 81 to 87.

UK mortgage and savings market

The UK mortgage market is extremely competitive and government schemes such as the Term Funding Scheme (TFS) drove mortgage rates lower in 2017 and 2018 and during 2019. The impact of 'ring-fencing' regulation on large UK banks led to greater available liquidity in the mortgage market, which also caused lower lending rates. These factors combined resulted in record low mortgage rates for customers. We have seen some recovery in rates in 2019, but margins remain under pressure as customers on higher historical rates switch to lower new rates.

As a result of these low rates and the current economic and political uncertainty, many customers are choosing to fix their mortgage over longer terms or to sign up to a new fixed rate mortgage as their current deal expires, meaning that fewer customers are on variable products or on the standard variable rate products. This coupled with the continued low interest rate environment results in compressed margins.

The trading performance is covered in more detail on pages 31 to 33

Regulatory environment

Payments

The Bank continues to evolve its approach to opportunities enabled by Open Banking, which lays down the framework for more transparent and competitive banking.

The Bank is aligned to the banking industry roadmap and requirements to further extend authentication to e-commerce transactions under the second Payment Services Directive-PSD2 (often referred to as 'card not present') by the end of 2020.

Cross Border Payment Regulation (CBPR) has implications for firms carrying out cross border transactions and may require firms to review their payment charges.

Prudential

In line with many other UK banks, we continue to prepare for a number of regulatory reforms. Over the medium-term, the Minimum Requirements for Own Funds and Eligible Liabilities (MREL) will impact the whole industry, with significant increases in capital or 'bail-in' debt being introduced on a transitional basis from 2020 with end-state compliance expected to be in 2022. In addition, the Basel III developments (commonly referred to as Basel IV) are likely to increase capital requirements in the longer term for many, in particular the introduction of floors for those using an Internal Ratings Based (IRB) approach to credit risk.

The PRA is clarifying its supervisory approach to climate change risk in the banking sector, to assess how banks are responding to these risks.

Conduct

2019 saw the widely publicised time-bar come into force in relation to PPI complaints and enquiries. Many firms including The Co-operative Bank received unprecedented levels of complaints and enquiries in the last few days. As a result, an additional £60m charge was incurred and the processing of the complaints will continue in 2020. Inevitably in light of this challenge our discretionary expenditure was reviewed. However, our progress against plan and ability to achieve our goals largely remain unaffected.

You can read more about the regulatory environment in our principal risks and uncertainties on pages 81 to 87 and in the Risk Committee Report on pages 58 to 61.

Consumer trends

There continues to be a trend towards consumers being conscious of the impact that their decisions, and the behaviour of businesses, have on today's and future generations.

2019 has seen increased focus on this, with climate change and social impact featuring heavily in the media and in the minds of consumers.

At The Co-operative Bank, prioritising a positive social and environmental impact has always been central to the way we do business. As the UK's leading ethical bank, our customer-led Ethical Policy has defined the business decisions we have made, for over 25 years. Consumer trends now present us with the opportunity to connect to a wider audience whose interests align with ours, and our investment in our brand has sought to communicate this effectively.

Pioneering a more ethical banking system and representing a genuine alternative choice to other high street banks remains central to the external consumer sentiment and the expectations of an ethical bank.

During 2019, we planned to allocate resources to promote what The Co-operative Bank represents. Funds were provided to continue support for our charitable partners and active engagement in campaigns close to our heart, which are described in more detail on pages 64 to 65.

Having our voice heard by as wide an audience as possible promotes not only our message but the future success of the Bank and so we invested in the promotion of our brand via the 'For People with Purpose' TV and radio advertising campaign to re-connect to our loyal customer base, those who choose a bank that shares their drive and ambition for positive change.

We have reconfirmed our support for The Hive throughout 2020 and raised our ambition on our environmental impact, pledging to send zero waste to landfill by the end of 2020.

Developments in technology

Disruptive technology, reflecting advances in digital technology, data and analytics, is among the most significantly evolving areas of our business – both in terms of the pace of change in the Bank and in consumer expectations, and the opportunity this presents to the retail banking market.

As a result, digital transformation featured strongly in our priorities in 2019 and will continue to be a priority as we deliver our plan in the future. At the same time, we are committed to retaining a 'multi-channel' offering, so that customers who prefer to visit a branch or talk to us by phone will continue to be able to do so. Open banking and developments in digital apps aim to provide customers with greater freedom of choice and more control over their money and we aim to maximise the opportunities this presents for our customers. For more information on our strategic project investment in technology, please refer to pages 16 to 17.

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

While many of the advances represent opportunities to improve efficiencies, or to make the customer experience better, we are alert to the changing nature of criminal activity via cyber threats or fraudulent attempts on customer accounts. The Bank continues to invest strongly in its cyber-security defences and in the introduction of new steps to protect our customers.

In 2019, we signed up to the Contingent Reimbursement Model (CRM), a code of practice designed to protect customers from bank transfer scams, known as Authorised Push Payment (APP) scams, and for reimbursement of their losses for customers who meet certain criteria. We estimate that we prevented over £55m of fraudulent activity in 2019 and a further £184m of mortgage application fraud.

We have made progress on our digital journey in 2019:

✓c.360k customers migrated to a mobile platform

✓Increased number of digital releases to 19 (2018: 3), launching 22 new features to customers

✓Increased mobile channel usage from 7.6 to 13.5 transactions per month

✓Digital sales doubled year-on-year with 58 % of current accounts being opened through digital channels

✓38m visits to our website (now 11th in the industry)

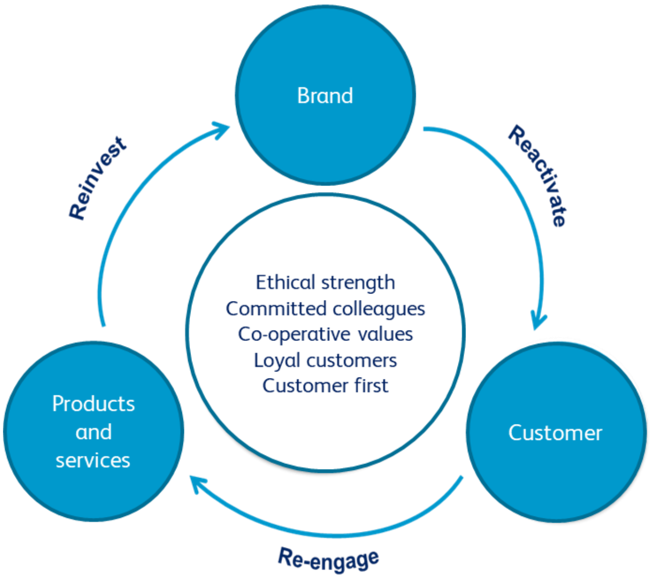
✓10 % more social media followers

✓SME customer portal upgraded and customer migrations progressed

Our business model

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

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



Financials—how we generate revenue and incur costs for the benefit of our business

We generate revenue on the difference in interest rates received from borrowers relative to that paid to our savers (our net interest margin) and also from fees and commissions receivable on our products and services. We also pay interest on our wholesale funding and pay interest and commissions to intermediaries.

Our aim is to keep the cost of funding low so that we can provide loans at competitive rates at an appropriate margin to cover the cost of running our operations. These are the costs that enable us to run the business, for example paying our staff but also longer-term expenditure, including our investment in strategic projects to develop The Co-operative Bank of the future. We fund our legacy and ongoing pension arrangements and make provisions for bad debt that we may incur as a result of the loans we provide or provisions for other exposures. We make financial and non-financial contributions to charitable causes for the benefit of the wider community.

We invest in key areas and relationships that make us successful, focussing on those that matter most to our stakeholders

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

We take these inputs and use them to deliver what our customers need through the channel of their choice and, in doing so, maximise the return on resources whilst remaining in risk appetite. We also work with our stakeholders to promote ethical banking, to campaign for positive social and economic change.

All of the elements of our business model combine to add value

All of these activities, aligned to our purpose, combine to create value for our stakeholders. In 2019 we were voted ‘Most trusted mainstream bank’ in the UK by readers of Moneywise magazine, demonstrating the value we have generated for our customers who trust us to do the right thing for them and for their money. Our net promoter scores have increased in the year, reflecting the impact of our investment in tackling service improvements and the difference this has made to our customers’ experience. These improvements, along with process improvements, simplify our bank, making it easier to be a customer and make it more efficient for us to give customers what they need, reducing our costs. Our customers tell us what principles they expect us to uphold and we engage actively in these causes close to our hearts. We aim to positively impact our environment and we have been beyond carbon neutral for over 12 years, an area we know is important to our customers. We have raised our targets in this area next year, aiming to send zero waste to landfill by the end of 2020.

As the leading ethical bank, we represent a real alternative for those aligned with our values and we are well placed to enable the future for our customers.

You can read more about how the Board considers long-term value and a range of stakeholders on pages 34 to 36.

Our strategy and priorities

We launched our five-year strategy to transform the Group in December 2018, comprising three phases:

…Our co-operative values and customer first approach underpin our five-year strategic plan…

Fix the basics

2018/19

Resilient financial performance

Full separation from the Co-op Group complete (Jan 2020)

£200m successful Tier 2 issuance a significant step towards regulatory compliance

Re-energised our people highest engagement score (82%) since 2013

Re-engaged loyal customers brand re-launch, industry recognised customer service & NPS score of +29

Enhanced digital engagement Increase in mobile users to 377k

Renewal of key strategic partnerships flexible value-for-money contracts with IBM & Capita

Enable the future

2020/21

Targeted growth opportunities

Improving our retail banking proposition for customers

Growing our SME banking business

Improved use of customer knowledge and segmentation

Expand products and channels

Launch new products to meet ethical customer needs

Digital access point to our ethical proposition

Real-time, convenient banking to enhance customer journeys

Award-winning telephony service

Commitment to a local branch network

Simplification

Cost savings driven by supplier rationalisation

Rationalising mortgage and savings administration platforms

Establish sustainable advantage

From 2022

The **ethical digital** Bank

Digital mortgages delivered at **low marginal costs**

Flexible digital **savings platform**

SME banking North West challenger

Enhancing customer experience and generating shareholder value

Re-enforcing our position as the market-leading ethical bank

Our transformation agenda

Building strong foundations

The first phase of our five-year transformation plan was to ensure we fixed the basics, building strong foundations on which we can enable the future of the Bank. Through our investment programmes, we delivered the following during 2019:

Separation from the Co-op Group

The separation of our IT infrastructure from the Co-op Group represents a major milestone in the simplification of our business and marks the culmination of several years of financial investment, hard work and commitment by many colleagues. Early in January 2020, the final technical separation was complete following a successful network transition. All business and cyber-security services have now been migrated into our own strategic data centres, and we have exited from all Co-op Group data centres.

Through remediation activities undertaken as part of the separation programme, we have increased the resilience of critical infrastructure and data platforms, as well as removed network weaknesses and complexity. The culmination of several years of financial investment has given the Bank full control of its IT infrastructure, enabling future transformation. With IT separation now complete, we will forge ahead with further investment in transforming our digital platforms, improving customer journeys and improving customer experience.

Desktop transformation

We have modernised our desktop IT estate to drive greater efficiency and agility in the way we work. The programme was completed in Q3 2019 and involved upgrading devices for over 4,800 users and over 300 mobile users. Additionally, we reduced our desktop applications by 80 % and transitioned desktop services to a new provider who will manage and maintain the estate going forward.

"We have completed the first phase of our five-year strategic plan, which involved major investment programmes..."

Payment services

We have delivered change aligned with the changing UK payments regulatory landscape. The Bank implemented changes to its cheque imaging services ahead of industry peers. We have also delivered the required transformation initiatives to ensure continued compliance with payment scheme rules, most notably the successful completion of SWIFT standards upgrade.

The changes we made to our payment processes in 2019 saw the Bank shortlisted for three awards in the Card and Payment Awards in February 2020: Best Achievement in Customer Services, Changing Lives in the Community and Excellence in Operational Innovation. We were proud to win the award for changing lives in the community in recognition of our contribution to a positive social impact.

"In combination these activities have driven improvements in the Bank's overall control environment; when combined with the enhancements made to the Bank's Risk Management Framework this has reduced the Bank's overall risk profile."

Whilst delivering these major transformation milestones in 2019, we have ensured our business as usual service has been excellent.

Tier 1 services	Customer channels
99.99% available	**99.59% available**
(payments, treasury, PoS)	(internet banking, branch, contact centre)

Digital development

We have invested in our digital technology capabilities, upgrading our digital platforms and delivering ongoing digital releases throughout the year, in alignment with our customer first approach. Key highlights include:

- Upgrading our retail mobile application
- New platform supporting new SME customers
- Delivering 22 releases in the year, enhancing online and mobile functionality

Further successful change deliveries

In addition to our major investment programmes, we have completed a number of change initiatives that have contributed toward the five-year transformation plan:

- Continued to improve our cyber security, protecting our customers through improved anti-financial crime capabilities
- Delivered a new intranet site improving communication and collaboration between colleagues
- Invested in our data and MI strategic assets and operating model
- Implemented significant enhancements to our IFRS 9 and IRB credit risk capabilities
- Delivered required initiatives to ensure ongoing compliance with regulatory standards

Enabling the future

The Co-operative Bank has made significant progress in 2019 and our low-risk business model and the performance of our retail and SME businesses have proved to be resilient. We enter 2020 in a positive position. The work last year to fix the basics provides the foundations for growth and our distinct brand is a major asset in a market where consumers want to drive change by seeking greener and more ethical choices. We have a clear transformation plan to enable the future of the Bank, which we continue to drive with determination, and delivery of the second phase of our turnaround is underway. We look to the future with a thriving customer franchise built on excellent service, engaged colleagues and a distinctive brand.

Finally, I would like to take this opportunity to thank all our colleagues for their significant contribution in 2019 and for their commitment as we take forward our plans. I am proud to lead such a dedicated and motivated workforce, who demonstrate co-operative values and ethics every day in their support of our loyal customers.

Andrew Bester
Chief Executive Officer

Environmental, social and governance reporting

As 'the Original Ethical Bank,' our customer-led Ethical Policy has been central to the way we do business for over 25 years. In a time when environmental and ethical concerns are becoming of increasing importance for consumers, our commitment to values and ethics is at the heart of everything we do. We have signed up to the UN Principles of Responsible Banking which will guide our reporting in future years and support the further development of our Environmental, Social and Governance goals and commitments. Some key highlights of our environmental, social and governance performance for 2019 is shown below:

Environmental

Protecting the environment has been one of the commitments within our Ethical Policy since 1992.

We have reported our greenhouse gas (GHG) emissions since 1998 and continue to see a downward trend in our carbon footprint. We are targeting a further 10 % decrease in our emissions in 2020. In addition, we offset our carbon emissions by supporting environmental projects across the world.

Additional environmental metrics and targets	2020 Target	2019	2018
% waste to landfill	0 %	25 % [5]	25 %
Lending to renewable energy sector	Ongoing investment	£24m	£26m
Total paper usage (reams)	Reduction in usage	20,246	23,306
% of electricity sourced from renewables[5]	100 %	100 % [6]	100 %

Did you know?

- We've been beyond carbon neutral since 2007
- We're aiming to send zero waste to landfill by the end of 2020
- Our debit and credit cards are PVC-free
- We only use chlorine-free, water- or vegetable-based inks in our customer mailings

We have developed a values and ethics strategy focussed on delivering the commitments within our Ethical Policy along with the following areas:

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

Greenhouse gas emissions by source: Total emission (tCo2e)	2019	2018
Fuel combustion	762	915
Electricity consumption[1,2]	5,518	7,230
Refrigerant leakages[3]	312	650
Business travel	423	671
Total Scope 1 & 2 emissions	**7,015**	**9,466**
Carbon intensity (tCO2e/FTE)[4]	**2.2**	**2.9**

1. The GHG emissions associated with electricity usage are calculated using the UK average GHG emissions figure. Electricity sourced by the Bank is 100 % renewable, therefore the actual GHG emissions associated with electricity usage are significantly lower than stated.
2. GHG emissions per unit of electricity are calculated by DEFRA and updated annually.
3. Refrigerant gas data includes major occupancy properties only.
4. Average number of full time equivalent (FTE) employees for the year.
5. Estimated based on 2018 data
6. All electricity sourced by The Co-operative Bank is from renewable sources

Social

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

Key metrics	2019	2018
Total charity donations	£997,996	£995,098
Number of co-operatives, charities and credit unions who bank with us	805 co-operatives 4,416 charities 194 credit unions	750 co-operatives 4,950 charities 218 credit unions
Support for the co-operative movement, through funding for The Hive	£158,700	£451,196
Supporting our local communities through colleague volunteering	4,759 hours	4,330 hours
% of colleagues volunteering to support their local communities	26%	21%
Number of customers we've helped to buy their first home	3,304	3,517
Number of customers supported through our partnership with Citizens Advice Manchester	418	437

"Citizens Advice Manchester are delighted that our partnership with The Co-operative Bank continues to develop. Providing customers with direct access to advice means they are better able to keep their homes and family secure and get their lives back on track. Our holistic approach ensures that customers access other local services."

Hayley Hughes
Head of Service and Business Development
Citizens Advice Manchester

citizens advice

Governance

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

The Values and Ethics Committee provides Board level oversight of the delivery of the values and ethics policy and strategy, ensuring effective governance and accountability and will continue to review the development of our ESG reporting over time. This will include the recommendations of the Financial Stability Taskforce on Climate-related Financial Disclosures (TCFD) as we assess how we can fully implement the recommendations into future years' reporting and along with UN Principles of Responsible Banking Framework.

The Values and Ethics Committee met four times in 2019 and will continue to meet on a quarterly basis in 2020. The Values and Ethics Committee report for 2019 can be found on page 62.

Key metrics	2019	2018
Number of business account applications received	14,680	5,228
Total number of applications referred for further Ethical Policy screening (explained further below)	223	138
% of women in senior positions	42.3 %	40.6 %
In 2016 we set our target to increase the number of women in senior positions from 32 % to 40 % and developed a five-point plan to drive the improvement. As we have exceeded our target we will continue to deliver against the five-point plan, ensuring we maintain the position and remain focussed on improving our gender inclusion and balance at all levels.		
Gender pay gap – median	22.62 %	23.31 %
Colleague engagement score	82 %	80 %

Ethical Policy screening

We ensure the activities of the businesses we provide banking services to do not conflict with our Ethical Policy by screening all new business applications. We also conduct further reviews throughout the customer's lifecycle. Our comprehensive screening process includes customer self-certification, colleague review and independent third party research when necessary. Decisions in relation to conflict with the Ethical Policy are made independently of the account opening team. Such decisions are in addition to the legal requirements in relation to screening for matters such as anti-money laundering risks.

Modern slavery and human trafficking statement

We are committed to ensuring that our business, and our suppliers, are free from modern slavery and human trafficking, upholding the principles of our Ethical Policy. Our modern Slavery and human trafficking statement sets out the steps we are taking to prevent modern slavery and is published on our website:
http://www.co-operativebank.co.uk/aboutus/ourbusiness/Human-Trafficking-Statement

Taxation policy

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

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

Bribery and corruption policy

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

Freedom of association

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

Our co-operative values and ethics in action

Our customer-led Ethical Policy has been shaping the way we do business for over 25 years, and in a time when environmental and ethical concerns are becoming of increasing importance for consumers, our commitment to positive values and ethics continues to be at the heart of everything we do.

Ethical banking

Protecting the environment and promoting sustainable development have always been cornerstones of our Ethical Policy. Since 1992 we have refused to provide banking services to businesses whose core activity contributes to global climate change via the extraction or refinement of fossil fuels. We support international efforts to tackle climate change and organisations that make a positive impact on the environment.

Our Ethical Policy reflects our views on a comprehensive range of issues and includes commitments to uphold human rights, animal welfare and fair payment of tax.

Ethical products and services

Our clear, fair and transparent products are designed to meet our customers' needs and to reflect the values and ethics that we and our customers believe in.

For example, we don't apply risk-based pricing to credit card applications. This means the rate isn't affected by the customer's credit score so they always get the advertised rate if their application is accepted.

Our customers support five leading UK charities through our Everyday Rewards current account product, which gives customers the option to donate their Everyday Rewards of up to £5.50 per month. In 2019, donations totalled over £300,000.

We're tackling youth homelessness by donating £5 to Centrepoint for every new completed mortgage and product switch through our retail and Platform brands. This has contributed to the £1.4 million we've raised for Centrepoint since the start of the partnership in May 2017.

Our Ethical Policy is comprised of five pillars:

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

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

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

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

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

"The customers and staff of The Co-operative Bank have been supporting some of the most vulnerable young people through Centrepoint since 2017 – young people who have found themselves homeless, bereft and on a downward spiral. As I write today, I am totally humbled by the immense commitment and effort to raise £1.4m to offer them hope that a better future is possible and to help them make that future a reality. This is, quite simply, an incredible achievement.

I cannot thank colleagues and customers enough for your support to help give homeless young people a future. The success of our partnership to date is testament to The Co-operative Bank living its values as an ethical bank. We are proud to work together and on behalf of all the young people Centrepoint supports, thank you."

Seyi Obakin OBE
Chief Executive, Centrepoint

Ethical business

Our Ethical Policy guides how we operate as a business, through our partnerships with suppliers, our external relationships and our own impact on the environment. We have been ‘beyond carbon neutral’ since 2007 and take steps to reduce our carbon footprint as much as possible by sourcing our electricity from renewable energy suppliers and reducing our business travel. We reduced our carbon emissions by more than 25 % in 2019 and we offset any residual carbon emissions by supporting environmental projects around the world - plus an additional 10 % to address the impact our business activities have had in the past.

We have reported our GHG emissions for more than twenty years, measured in carbon dioxide equivalent (tCO2e) using the UK Government guidance. Our 2019 GHG data is shown on the previous page and reflects the reduction in travel and energy usage over the past 12 months.

In 2019 we made a commitment to send zero waste to landfill by the end of 2020 and have made great progress towards achieving this ambitious target. Waste audits have been completed across all sites and new recycling bins that are made from recycled plastics are being installed across our branches and offices.

We stood by our environmental commitments in September 2019 by marching alongside representatives of Unite, our recognised trade union, in support of the global climate strike.

This act of solidarity with school strikers at the demonstration in Manchester highlighted our Ethical Policy commitment to refuse banking services to businesses whose activities contribute to global climate change via the extraction or refinement of fossil fuels.

Ethical workplace and culture

Our Ethical Policy shapes our approach to being an ethical employer, which includes our commitment to the HM Treasury Women in Finance Charter, our colleague engagement activities and how we develop future talent. More information can be found in the people section of the Directors’ Report, on page 66.

Colleague volunteering

Our colleagues can take two paid volunteering days and they continue to support their local communities by engaging in volunteering activities with charities and community organisations across the UK. In 2019 we strengthened our links to charities in the Manchester area by partnering with Benefacto, a social enterprise with a mission to engage more professional people in meaningful volunteering. Throughout the year, 816 colleagues took part in a volunteering activity, donating a total of 4,759 hours to their local communities. This included 85 team activities.

Remuneration

In 2019, we re-introduced variable pay linked to performance. More details are included in our remuneration report on pages 71 to 76.

Supporting the co-operative movement

Our commitment to ethical business also includes our support for co-operatives and the co-operative sector. In 2019 we continued our funding for The Hive, the support programme for new and existing co-operatives and will invest a total of £1.3m to support the programme to the end of 2020.

“The Co-operative Bank’s commitment to growing the co-operative sector in the UK has been an integral part of our grassroots co-op development work over the last four years. This fantastic partnership has helped us support over 900 groups, with a number of them going on to leverage nearly £6 million of community investment.

The Bank’s support for Co-op Congress and the Co-op of the Year Awards in 2019 saw a record 33,500 public votes cast online, providing a valuable opportunity to shout about the co-operative difference.

We look forward to building and evolving our partnership, so that together we can grow the co-ops of tomorrow.”

Ed Mayo
Secretary General, Co-operatives UK

Ethical campaigns

Supporting human rights defenders of the future

The Co-operative Bank has a long-standing relationship with Amnesty International UK (AIUK). In 2019 we became the principal supporter of 'Rise Up', a year long training programme that supports the next generation of human rights activists, helping them to be better connected, recognised and equipped to make change happen. The programme started in September 2019 and will continue throughout 2020.

We were also proud to support AIUK's Write for Rights campaign in December 2019. This multi-channel campaign ran across all our branches, social media and digital channels, encouraging customers, colleagues and non-customers to write letters of support to human rights defenders in the UK and overseas. Collectively, we generated over 8,500 letters of support to people fighting a range of issues, including climate change, trans rights and support for migrant women.

Kate Allen, Director, Amnesty International UK

"On behalf of the Amnesty movement, I'd like to offer my heartfelt thanks to The Co-operative Bank for standing alongside and supporting our movement for over two decades, and to each and every one of you who have supported us. Our partnership is a powerful display of support for the values we share, and across 2019 we strengthened our long-standing partnership even further to achieve incredible things.

Despite the challenges that young human rights defenders face, they do what's right and they remind us that every person's action is powerful. Our partnership work with The Co-operative Bank has helped to equip, train and stand in solidarity with young human rights defenders across the UK and all over the world, and I couldn't be prouder of what our two organisations have achieved. Together we have been able to demonstrate that even when things feel bleak and the very concept of humanity may seem distant - it's better to light a candle than curse the darkness.

Thank you so much for making our human rights work possible."

Kate Allen
Director, Amnesty International UK

Raising awareness of economic abuse in relationships

Our 'My money, my life' campaign, which launched in 2016 in partnership with domestic abuse charity, Refuge, continues to raise awareness and campaign for change to support victims of economic abuse.

Economic abuse is a significant issue that impacts the lives of millions of people every year. Half of women who were supported by domestic abuse charity Refuge last year said their partner controlled all of the household finances, while hundreds said they were forced into taking out debt in their own names. One in 10 had been made homeless as a result and one in five was unable to buy food for themselves and their children.

In 2019, we marked the anniversary of the industry-wide Financial Abuse Code of Practice, introduced as a direct result of The Co-operative Bank's campaign. We also supported the UN's 16 Days of Activism against gender based violence in partnership with Refuge.

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	Year ended 31 December 2019	2018	Change
Net interest income	**248.8**	277.2	(10.2%)
Other operating income	**13.6**	13.2	3.0%
Operating income	**262.4**	290.4	(9.6%)
Credit impairment losses	**(1.6)**	(6.8)	76.5%
Income net of impairment	**260.8**	283.6	(8.0%)

Segmental assets and liabilities - retail

£m	At 31 December 2019	2018	Change
Secured	**16,267.0**	15,494.7	5.0%
Unsecured	**321.4**	352.0	(8.7%)
Customer assets - lending	**16,588.4**	15,846.7	4.7%
Customer liabilities - deposits	**16,745.7**	16,595.3	0.9%
Risk weighted assets (credit)	**2,553.5**	2,242.2	13.9%

Lending

As explained on page 11, the market conditions for UK lending remain challenging, caused by the wider macro-economic environment but also the competitive pressure present in the UK mortgage market. Mortgage profitability has been declining over recent years, driven by reducing margins on new fixed rate business and customers moving away from standard variable rate products towards fixed rate products. This has driven a reduction in net interest income from £277.2m to £248.8m. Despite these challenges, mortgage balance growth has been positive, driven by strong customer retention levels, improvements to our digital solutions and new business through our Platform brand. There remain opportunities to benefit from customers becoming increasingly active and switching lenders, attracted by our service credentials and ethical way of working. Net residential lending remains positive as set out in the table below, however is lower than in 2018 as we have prioritised margin over growth levels. Growth levels remain above market average.

The credit quality of the mortgage book shows continued improvement and therefore a reduction in credit impairment losses. Average loan-to-value (LTV) is 57.2% (2018: 55.9%). Of the total portfolio, 39% (2018: 44%) is secured on properties based in London and the South East which has the lowest LTV of all the regions (54.4% average LTV at the end of 2019).

In relation to service, in 2019 we have reduced time to offer by 21% compared to 2018. Our Platform broker NPS score of +35 (2018: +41) placed us second in our peer group, and we have increased choice in customer contact channels through the introduction of new digital services. Eligibility criteria have been reviewed, making it easier for customers to access the mortgage they need.

We have removed the 'no DSS' clause in our buy-to-let mortgages which restricted landlords from letting to tenants in receipt of housing benefit. This condition is no longer included in the mortgages we offer and we will no longer enforce these clauses. It was removed from our processes and systems in May 2019.

£m	2019
Secured lending	
Gross lending at the start of the year	15,495
Maturities	(3,393)
Retention	2,236
New mortgage completions	3,810
Other movements	(1,881)
Net residential lending	772
Gross lending at the end of the year	**16,267**

In October 2019 we were delighted to announce the renewal of our contract with Capita for mortgage administration services. This marks the start of a programme to improve digital services and mortgage customer experience and will result in simpler systems and processes.

We have entered new markets, including re-entering the personal loan market, providing access to lending in partnership with Freedom Finance.

In October 2019 we reconfirmed our commitment to provide real help to our customers when they need it by re-entering the personal loans market in partnership with Freedom Finance, a credit broker carefully selected from a range of providers. The Bank receives commission income upon completion of a successful application. Our focus remains to offer products which are transparent and fairly priced with convenient and flexible service models. From its launch on 28 October 2019 to the end of the year, 366 loans with a value of £2.2m have been written.

Deposits

£m unless otherwise stated	2019	2018
Deposits		
Current accounts	4,305	4,199
Savings	8,845	8,243
Total franchise	**13,150**	**12,442**
Term deposits	3,595	4,154
Total	**16,745**	**16,596**
Growth in franchise (%)	5.7%	(3.5%)
Prime customers (% of total)	48.3%	46.6%
Acquisitions of new customers (number)	30,107	29,271
Net switching (number) see page 26	(24,142)	(37,766)

An emphasis on franchise growth and deepening customer relationships, led to a return to growth of 5.7% in franchise balances following a reduction in 2018.

The growth reflects:

- a 32% reduction in the number of 'high usage customers' (which includes prime current account and high balance savings customer) leaving the Bank
- 55% increase in the monthly average number of 'new to bank' customers compared to 2018
- £872m 'new to bank' balances in our Select Access Saver product

Customer liabilities of £16.7bn have grown slightly, 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. Growth in customer liabilities supports the Group's secured and unsecured lending strategies.

We continue to review the products on offer, and in 2019 we reduced the number of more expensive, price-sensitive term deposit products. Consequently our cost of deposits remained stable year-on-year.

Customer service

We, like many service providers, measure our customer service levels by net promoter scores (NPS) and industry benchmark rankings. We are proud that the bank won 'Most trusted mainstream bank' for the first time in 2019.

Also in 2019, our current account NPS increased in comparison to 2018, with the current account NPS of +29 being our best score since 2013. The score represents our commitment to customer service and continuous improvement, for which we have received a number of industry awards in the year, and shows our high levels of customer service. All of our colleagues are immensely proud of these awards and of our NPS, as they demonstrate that the changes we are making continue to positively impact our customers.

An improved digital service has featured heavily on our agenda in 2019 and will do so for the foreseeable future. During 2019, we:

- Saw a 78 % increase in average transactions per month using our mobile app
- Launched our first entirely app-based savings account in terms of the application process
- Launched an online application process for Cashminder, our basic banking product designed to support customers who want help in managing their money

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

The focus has been:

- **To strengthen our relationships with existing customers**
- **Growth in new business: customers attracted by our purpose and customer service**
- **Enhanced product proposition**
- **Improved payment processing**

We have made it easier than ever before to become a current account holder or saver with the Bank and, along with the digital developments above, key highlights from the year include simplifying the process to issue sort codes and account numbers for new customers – to be able to issue one day after application. Our time to open for current accounts has improved from 8.2 days in 2018 to 6.4 days. We also improved the personal contact points at key moments within the on-boarding process. For existing customers, there is an increasing expectation that service is tailored to the customers' needs and, with technological advances and better data analytics, we have enhanced our customer segmentation; in 2019 we extended this from current accounts only to the wider customer base.

With the focus on retention and targeted acquisition, the number of customers has remained broadly flat, while average balances have grown by 5.0 %. Our priority is to create long-lasting relationships with customers who bank with us because we pioneer a different way of working. We therefore have not been active in the current account switching market for several years, i.e. we do not offer introductory rates to attract new business or incentives to open new current accounts. In 2019, when looking at 'switchers' (i.e. those customers who have switched in the year) we are a 'net loser' but this is expected given our strategy – however, the net position is 36 % better than in 2018.

Our customers donated over £300k in 2019 to our charity partners via the Everyday Rewards account

Payment practices

Regulatory developments in payment practices have been a theme in the year and a number of projects were focussed on these requirements, along with simplification and speedier payment processing. More information is provided on pages 16 to 17.

Segment update: SME

We provide straightforward, value for money products to our SME customers, including transactional banking, overdrafts and loans. In 2019 we were awarded a £15m grant from the Capability and Innovation Fund by the Banking Competition Remedies, which along with our own £17m investment provides funding to develop and improve products and services specifically for customers in the SME sector. We will start delivering this capability in 2020 as we create the ethical digital bank for SMEs.

Segmental income - SME

£m	Year ended 31 December 2019	2018	Change
Net interest income	**38.9**	40.6	(4.2%)
Other operating income	**16.6**	16.7	(0.6%)
Operating income	**55.5**	57.3	(3.1%)
Credit impairment gains	**3.3**	9.7	(66.0%)
Income net of impairment	**58.8**	67.0	(12.2%)

Segmental assets and liabilities - SME

£m	At 31 December 2019	2018	Change
Customer assets - lending	**184.4**	291.3	(36.7%)
Customer liabilities - deposits	**2,118.7**	1,999.7	6.0%
Risk weighted assets (credit)	**186.8**	267.4	(30.1%)

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 6.0% in 2019 in a competitive market. This is supported by strong performance from the Incentivised Switching Scheme and our enhancements to customer experience and product offering as described below. Customer assets (lending) have decreased as expected and are now stable. As a result of the planned reductions in assets, net interest income has reduced year-on-year.

Trading update - SME deposits

£m unless otherwise stated	2019	2018
SME deposits		
Current accounts	1,757	1,713
Savings	362	287
Total franchise	**2,119**	**2,000**
New current accounts opened (number)	7,473	3,572
New savings accounts opened (number)	2,493	317

- 6% growth in core customer liability balances (current account and savings) in a flat and competitive market
- Over 100% growth in new current account volumes year-on-year as we re-establish our brand in the SME market

Products which work for our customers...

In July 2019 we launched the market-leading introductory free banking proposition for new customers - free everyday banking for 30 months. The extended introductory offer reflects our aim to support businesses when they need it most, as data suggests most businesses fail in their second year. New account volumes have grown by 24% since the introduction of this offer.

We aim to re-establish our brand as the leading ethical digital bank in the SME market and 2019 has shown an encouraging start to the multi-year transformation of our SME proposition. Key trading highlights include:

- Award-winning service recognised externally, being named by Moneyfacts as 'Best charity banking provider for the fourth consecutive year', and also 'Best service from a business bank for the third consecutive year'
- Successful application for £15m of funding from the Capability and Innovation Fund
- Net promoter scores for telephony channel up 9 points and account opening scores up 28 points since 2018

Digital advances have been key to our customer service improvements. In 2019 we revitalised our website design, digitalised applications for those customers who prefer this channel and also launched a new online banking platform. Alongside these digital improvements, we also focussed on our face-to-face service by increasing the range of transactions available to customers in branches and continuing to provide award-winning telephony service.

In 2019, we launched an SME-specific marketing campaign which has played a key part in re-establishing our brand in the SME market. We have also joined the Greater Manchester Chamber of Commerce as their strategic banking partner as a signal of our ambition to support local business networks. This is in addition to our existing relationships with Co-operatives UK and the Federation of Small Businesses.

All new customers continue to go through our ethical screening process which ensures that none of our SME customers are involved in industries or practices which conflict with our Ethical Policy. We support our community customers, including co-operatives, with free everyday banking and we continue to provide community funding for special projects and fundraising through our Customer Donation Fund, through which the Bank has donated nearly £840,000 to 966 community organisations since 2003.

As we have grown our core liability balances, we have continued to de-leverage our legacy assets in line with our plan. Whilst customer numbers and market share are stable year-on-year, we have generated significant momentum in 2019 which provides a strong base for the ongoing transformation of our SME proposition.

For over 25 years our Ethical Policy, described on page 21, has guided who we do and don't do business with. This remains key to our strategy as we grow our SME business.

A customer case study

Elaine Griffiths from The Monastery of St Francis & Gorton Trust tells us why they chose The Co-operative Bank:

"The Monastery of St Francis & Gorton Trust was set up by local volunteers in 1996 to save the precious heritage site of Gorton Monastery. Today the buildings provide a wonderful site for everything from conferences to weddings, as well as local community projects.

As a charitable trust we need to work with a bank that reflects and understands our values. The Co-operative Bank's commitment to lasting change and making a positive impact on the local communities is in total keeping with what we're trying to achieve. Similarly, they share our vision for The Monastery as an invaluable community resource. They've stood by us, through thick and thin, for over 22 years. They're always professional, always responsive and, because we've had the same relationship manager for many years, they understand who we are and what we do."

WINNER
FOUR TIMES
Business Moneyfacts
Awards 2016-2019

Best Charity Banking Provider

WINNER
THREE TIMES
Business Moneyfacts
Awards 2017-2019

Best Service from a Business Bank

Segment update: treasury

Our treasury segment reflects the activity to manage the Bank's liquidity position, market risk and wholesale funding with £4.5bn of non-customer assets and £2.5bn of non-customer liabilities at 31 December 2019. We aim to maintain liquidity and market risk within appetite and manage wholesale funding activity.

Segmental income - treasury

£m	Year ended 31 December 2019	2018	Change
Net interest income	**22.9**	35.7	(35.9 %)
Other operating income	**15.4**	(3.6)	>100 %
Operating income	**38.3**	32.1	19.3 %

Segmental assets and liabilities - treasury

£m	At 31 December 2019	2018	Change
Assets	**4,524.2**	4,501.9	0.5 %
Liabilities	**2,501.0**	2,309.3	8.3 %
Risk weighted assets	**220.0**	329.8	(33.3 %)

Treasury interest income continues to be affected by low rates and the impact of wholesale liability costs. In 2019 the reduction in net interest income is principally due to three factors: the lower levels of mortgage-backed securities held on average in the balance sheet following sales of such assets in the final quarter of 2018 and during 2019 (impact of £3.4m); the higher interest charges in 2019 following the issuance of Tier 2 debt in April 2019 (impact of £12.1m); and the impact of the amortisation of hedge accounting adjustments related to terminated swaps on this income statement line (£4.6m). These have been partially offset by a £6.6m increase in net interest arising from the pension surplus discount unwind. The amortisation of hedge accounting adjustments related to terminated swaps was recorded in other operating income in 2018.

Other operating income has increased in 2019. The drivers include: the non-recognition of amortisation of hedge accounting adjustments related to terminated swaps in this line item in 2019 (as noted above) for which an expense of £5.9m was recorded in 2018; an increase in gains on sales of gilts and mortgage-backed securities of £9.9m; and other fair value movements of £3.2m.

Treasury assets were broadly stable in the year, whilst liabilities increased as new Tier 2 and secured debt more than offset wholesale maturities.

Information on liquidity can be found on page 33.

Treasury highlights in 2019 include:

- Maintained liquidity and market risk positions within risk appetite
- Raised £0.2bn Tier 2, MREL-qualifying debt
- Execution of transactions to further de-leverage £0.3bn of Optimum mortgages
- Publicly issued £0.25bn of Retail Mortgage-Backed Securities (RMBS), for the first time since 2012

As the Group looks forward, it plans to issue further MREL and public securitisations to supplement its retail funding, and maintain a low and stable wholesale funding ratio over time.

Spotlight on wholesale funding...

Whilst the Bank is majority funded by retail deposits, it diversifies its funding sources through accessing capital markets (wholesale funding). Wholesale funding represents only 10.1 % of total liabilities at 31 December 2019 and comprises a mix of secured (securitisations, covered bonds, repurchase agreements, Bank of England Term Funding Scheme drawing) and unsecured (Tier 2 debt) transactions. The Bank does not expect this wholesale funding ratio to change significantly from this level in the future. In 2019, re-accessing Tier 2 capital and securitisation funding markets represented important milestones for the Bank in normalising its wholesale funding activity.

What is meant by…?

Tier 2

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

MREL-qualifying

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

Bail-in

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

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

Optimum

The Bank's portfolio of acquired, higher-risk mortgages. This has been significantly de-leveraged to reduce the Bank's risk exposures (potential future loss) and to improve resilience.

Securitisations

Where the bank receives funding (Mortgage Backed Securities — 'MBS') that is backed (secured) by a pool of mortgage collateral, typically for three to five years. MBS recourse is to the cash flows from the underlying mortgages and not the Bank. This reduces risk for the creditor and so the cost of this type of funding compared to wholesale funding that is not secured, is lower. The cost of securitisations ranks comparably with retail term deposits, offering access to a different funding market.

Secured sources of funding

This includes securitisations as above, but also other forms such as repos and covered bonds. The principle is the same in that the funding is backed by a pool of assets to support the debt should a default event occur and to lower risk for the creditor. The type of asset used as the security can vary, together with the term of the funding and the terms and conditions on which the investor may call upon the security.

Financial performance

Alternative performance measures

The Group uses a number of alternative performance measures, including underlying profit or loss, to monitor its financial performance relative to the Group's strategy. The statutory result, a loss before tax of £152.1m, which is defined by accounting rules, is also monitored for the Group overall.

During the year, management has benchmarked the items which are reclassified to determine underlying profit or loss and as a result, made some changes. The objective of the review was to create a clearer framework with defined principles, which can be applied consistently and which reflects consistently how the information is used to drive performance. The underlying performance a) reflects the areas of performance that management can influence and b) excludes significant items of income or expense that are temporary, or not considered part of day-to-day operations. A reconciliation of the 2018 comparatives on the old and new bases is shown on the following page.

Underlying performance

Underlying performance is monitored by management on a segmental basis – retail, SME and treasury, which together reflect our core business. The remainder of the Group relates to legacy operations which the Group is looking to exit, or is attributable to the Group overall and not allocated to any particular segment.

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

Year ended 31 December 2019 £m	Core				Legacy & unallocated	Group
	Retail	SME	Treasury	Total		
Net interest income	248.8	38.9	22.9	310.6	(0.6)	**310.0**
Other operating income	13.6	16.6	15.4	45.6	3.3	**48.9**
Operating income	**262.4**	**55.5**	**38.3**	**356.2**	**2.7**	**358.9**
Credit impairment (losses) / gains	(1.6)	3.3	-	1.7	0.8	**2.5**
Operating costs – staff						**(124.6)**
Operating costs – non-staff						**(236.9)**
Continuous improvement projects						**(19.6)**
Operating expenses						**(381.1)**
Underlying loss						**(19.7)**

Year ended 31 December 2018 £m (restated)	Core				Legacy & unallocated	Group
	Retail	SME	Treasury	Total		
Net interest income	277.2	40.6	35.7	353.5	5.9	**359.4**
Other operating income	13.2	16.7	(3.6)	26.3	6.4	**32.7**
Operating income	**290.4**	**57.3**	**32.1**	**379.8**	**12.3**	**392.1**
Credit impairment (losses) / gains	(6.8)	9.7	-	2.9	2.6	**5.5**
Operating costs – staff						**(129.0)**
Operating costs – non-staff						**(226.3)**
Continuous improvement projects						**(18.7)**
Operating expenses						**(374.0)**
Underlying profit						**23.6**

The Group has made an underlying loss of £19.7m (2018: profit of £23.6m). Income generated by core segments (retail, SME and treasury) of £356.2m is 6% lower than in 2018, reflecting the challenging UK retail banking market conditions which have prevailed during the year, continuing the trend previously reported on the reduction in net interest margin and also the cost of Tier 2 debt issued in April 2019. Income from legacy operations has reduced as the Group exits those products and services, and this, along with the interest expense arising on transition to IFRS 16 in 2019, has reduced legacy and unallocated net interest income year-on-year. Credit impairment gains overall arise from releases of provisions in SME and legacy as corporate positions were settled during the year. This is partly offset by a charge on the retail portfolio reflecting growth in the portfolio.

During the same period, operating costs have increased by 1.9%, leading to an increase in the underlying cost:income ratio from 95% to 106%. This reflects the Group's planned investment in reinvigorating and energising its brand and in its people as part of the strategy to build the future of the Bank, offset by cost efficiencies. More information on the results by segment is given on pages 24 to 30.

Income statement – reconciliation to IFRS basis

Year ended 31 December	2019	2018
Underlying (loss)/profit	**(19.7)**	23.6
Strategic project costs	**(96.6)**	(94.3)
Legacy net customer redress charge	**(63.5)**	(31.7)
Surrendered loss debtor revaluation	**14.6**	(28.1)
Revaluations on shares	**18.1**	2.0
Non-recurring	**(5.0)**	(12.2)
Statutory loss before tax	**(152.1)**	(140.7)

The underlying results are described on the previous page. A significant element of the increase in statutory loss in 2019 is in relation to the legacy net customer redress charge of £63.5m (2018: £31.7m) which predominantly relates to the costs associated with PPI claims and enquiries. In 2019, the FCA introduced a well-publicised deadline at the end of August for claims to be submitted, and in line with many UK banks, we received an unprecedented level of claims and enquiries. Expected costs for assessing these claims and enquiries, along with redress payments to impacted customers increased significantly as a result and an additional charge of £60.0m was reflected. These redress claims reflect legacy issues not reflective of today's business operations and are therefore excluded from the underlying cost used to measure strategic progress today.

The Group is entitled to receive payments from the Co-op Group for tax losses surrendered historically under a legacy arrangement. This receivable (the Surrendered Loss Debtor) is fair valued and can be volatile. In 2018, the net impact was a loss of £28.1m but in 2019, the movement in fair value has generated a gain of £14.6m. In addition, the Group holds preference shares in Visa Inc., the value of which has increased by £18.1m during the year. 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 in 2019 and 2018. In 2018, non-recurring items also included a £12.4m charge for the impact of Guaranteed Minimum Pensions.

As described on the previous page, items reversed from the IFRS statutory loss before tax to derive underlying profit or loss have been revised during 2019 and accordingly the underlying profit for 2018 was restated. The table below shows the reconciliation between the previously reported result and the result disclosed in the table above for 2018.

£m	2018 as reported	Pension income	Visa revaluation gains	2018 as restated
Underlying profit	**14.9**	**10.7**	**(2.0)**	**23.6**

Pension income was re-categorised on the basis that the pension funding is managed over the long-term. The Bank's share of associated administration costs were 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

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

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

Core segment assets have increased by £657m, driven by controlled growth of retail lending. Core segment liabilities have also grown, by £461m over the same period. The growth in liabilities has been seen across all three segments.

Legacy & unallocated assets have reduced in the year in total. Legacy assets have decreased by 30% (£453m) 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 14% (£129m) largely reflecting the right-of-use assets under IFRS 16 adopted in the period (£72.3m) and the increase in net pension surplus (£66.7m). Legacy & unallocated liabilities have in contrast, marginally increased in the year. Legacy balances represent the customers which the Group is seeking to exit, but whilst remaining with the Group, such deposit balances can fluctuate month-on-month. Legacy liabilities reduced by 28% (£33m) between December 2018 and December 2019. Other liabilities which are unallocated increased, primarily due to the recognition of lease liabilities under IFRS 16 and fluctuations in accrued expenditure.

Capital as at 31 December

£m unless stated	2019	2018
CET1 and total Tier 1 capital	**939.6**	1,128.0
Tier 2 capital	**205.3**	-
Total capital resources	**1,144.9**	1,128.0

CET1 and Tier 1 resources

CET1 resources have decreased by £188.4m since 31 December 2018, principally due to the loss incurred in 2019 and contributions of £12.5m into the pension schemes during that period.

Tier 2 capital

The Group completed a £200m Tier 2 capital transaction in April 2019 to strengthen capital and MREL resources and expects to issue further MREL qualifying transactions in the future. The uncapped capital value of the transaction at 31 December 2019 is £205.3m, reflecting the net impact of changes in fair value (£4.2m), driven by interest rates, accrued interest and transaction costs, and also reflecting regulatory adjustments of £1.1m.

£m unless stated	2019	2018
Capital ratios and other capital metrics		
CET1 ratio	**19.6%**	22.3%
Total capital ratio	**23.8%**	22.3%
Total Capital Requirement (TCR)	**698.5**	843.4
Overall Capital Requirement (OCR)	**866.6**	988.7
Risk weighted assets		
Credit risk	**4,346.0**	4,506.6
Operational risk	**457.7**	546.9
Total risk weighted assets	**4,803.7**	5,053.5

The reported CET1 ratio of 19.6% (2018: 22.3%) remains well above the regulatory minimum. At the end of year, the Group had Pillar 1 requirements equivalent to 8.0% of total risk weighted assets (RWAs) and an Individual Capital Requirement (ICR) equivalent to 6.54% of total RWAs (2018: 8.69%). The Group has a Total Capital Requirement (TCR) of 14.54% of RWAs (or £698.5m) which is required to be met by a minimum 10.9% of CET1 capital resources, and a maximum of 3.6% Tier 2 capital resources. Current MREL requirements are aligned to TCR plus £200m.

The Group currently has an Overall Capital Requirement (OCR) of 3.5% of RWAs (or £167.5m) above the TCR. The Group is targeting compliance with the PRA buffer within the planning period and this surplus to OCR contributes towards meeting this target.

Risk weighted assets (RWAs)

Total RWAs have declined throughout the year and comprise credit and operational RWAs. Credit RWAs in total have reduced by £160.6m. Credit RWAs in respect of retail have increased by £311.3m, but this is offset by reductions in treasury (£94.1m), legacy and unallocated (£297.2m) and SME (£80.6m). The increase in retail RWAs is driven by the increase in the mortgage portfolio as the Platform book continues to grow. Unsecured lending shows a £34.2m reduction in RWAs and legacy RWAs decrease as exposures continue to reduce, reflecting contractual and early repayments. Operational RWAs have reduced by £89.2m reflecting a reduction in the Bank's three-year average gross income.

Leverage ratio

The leverage ratio (i.e. CET1 resources divided by leverage exposures) of 3.9% (2018: 4.7%) has reduced, mainly as a result of the reduction in CET1 resources. 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 Liquid Coverage Ratio (LCR) at 173.7% (2018: 153.8%).

Board focus in 2019

In addition to overseeing the delivery of the first phase of the Strategy and the financial strategy, the Board has focussed on the following items:

- The regulatory agenda, including the annual review and approval of the risk management framework (RMF) and the Group's risk appetite. The Board continues to oversee the embedding of the RMF within the risk culture of the Bank.
- Following the issuance of Tier 2 in the first half of 2019, the Board continues to oversee the governance of capital adequacy and has regularly considered the planned MREL issuances in line with Bank of England requirements.
- The continued de-risking and de-leveraging of the Bank's balance sheet, including the £0.3bn Warwick transaction and Silk Road Five and Six securitisations.
- Continued investment in the franchise, aligned to our customer first principles.
- Oversight of progress on diversity targets and other leadership and colleague matters, including approval of the Diversity Policy, Code of Conduct, Modern Day Slavery Statement and other policies. The Board reviews the results of the employee engagement survey and those action plans developed as a result.
- The remuneration policy, and the re-introduction of variable pay arrangements, including how performance is assessed via the Bank's scorecard.

A significant amount of time and attention has been invested by the Board on delivering the transformation agenda, safely and effectively ensuring that operational resilience is maintained throughout, and the continued improvement to operational risk as a result of dealing with these legacy issues.

In addition, the continued commitment to co-operative values including those matters is specifically referred to on pages 35 to 36 with regards to Section 172 obligations.

Statement by the Directors — s172

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

The successful delivery of the five-year plan to generate sustainable competitive advantage relies on key inputs and positive relationships with a wide variety of stakeholders, as described in our business model on page 14.

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

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

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

and

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

The Board annually reviews and approves the five-year strategic plan (the 2020-2024 plan was approved on 11 December 2019) and monitors its implementation throughout the year. As part of the review process, the Directors consider the long-term consequences of the plan. In doing so, the Board oversees the strategic priorities over the short-term and long-term, including the level of funding required to deliver the strategic priorities and the availability of capital to meet requirements over the period. The Board also considers how the Bank's values and ethics have been incorporated in the strategic plan and its alignment with the Bank's Ethical Policy (as seen on the Bank's website), compliance with the requirements of Co-operatives UK and maintenance of its reputation for high standards of business conduct. Further information on the Bank's Ethical Policy and how this informs strategic activity can be found on pages 62 to 65.

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

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

b) The interests of the company's employees;

The Directors understand that the Bank's employees are fundamental to the long-term success of the Bank, and the Bank aims to be a responsible employer in its approach to pay and benefits. The health, safety and well-being of the Bank's employees is a primary consideration for the way in which the Bank conducts its business and promoting an ethical workplace is one of the five pillars within our Ethical Policy. Further information on the Bank's engagement with its employees and how it promotes an ethical workplace can be found in the Directors' Report, on pages 66 to 70 and in the strategic report on pages 21 to 23. During the year, the Directors spent time with a variety of colleagues outside of formal Board meetings and attended call centre site visits as well as visits to branches, during which, time was spent directly with colleagues at those locations. As set out within the Joint Audit Committee report on page 52, there is a process through which employees can formally raise a concern at work on a confidential basis. There is an annual review by the Joint Audit Committee which considers, amongst other things whether the policy remains appropriate and effective.

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

The Directors consider how the Bank maintains positive relationships with all of its stakeholders, including suppliers, customers and others. A key part of promoting the long-term success of the organisation is the way in which our values and ethics are intrinsically linked to our brand, and why our customers choose to join us. More information on customer engagement can be found in the strategy and priorities section on page 15. In 2020, the Group will seek to refresh its Ethical Policy by consulting with customers on those areas about which they wish us to represent their views and causes they wish us to champion.

The Directors recognise the impact of the supply chain on the long-term success of the Group and the way in which our suppliers impact our customer and colleague experience. During the year, the Group re-negotiated a number of key supplier contracts. Extensive financial and operational diligence was performed to consider a range of alternative options when reaching these decisions. This included consideration of how the suppliers' objectives align with those of the Group and of our customers. Our customer-led Ethical Policy also guides with whom we choose to do business. More information on our approach to supplier selection and management more widely can be found in the Directors' Report on page 69.

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

Colleagues participated in the climate strike which took place in Manchester in September 2019

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

Throughout the strategic report, we have outlined how the Bank and its staff consider the way in which we impact the environment and the society around us. The Board mandates that when matters are discussed, the papers supporting these discussions specifically consider the alignment to our values and ethics. The Board's role in promoting and embedding the continuous commitment to these co-operative values is set out in more detail within the Values and Ethics Committee report on pages 62 to 65. Our purpose is to pioneer banking that makes a positive difference to the lives of our customers and communities and the five-year strategic plan places significant emphasis on how we intend to serve that purpose and the Board-approved priorities that will be funded to make a positive difference and how performance against these expectations will be monitored via the Bank's scorecard metrics. During the year, targets have been set, both qualitatively and quantitatively in relation to the impact on the environment and social matters.

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

The Bank Company and Finance Company are owned by a single shareholder. The Group structure is set out on page 1 of this report. Their Boards ensure that matters are referred to their respective shareholders in line with each company's Articles of Association and relevant statutory requirements. The Holding Company itself has a number of A shareholders and the Finance Company's and Bank Company's Joint Disclosure Committee reviews all information shared with the shareholders to ensure that there is no asymmetry of information between the A and B shareholders of the Holding Company. The Joint Disclosure Committee reviews all information to see whether it is inside information that needs to be publicly disclosed to comply with the European Market Abuse Regulation 596/2014 (MAR) in the context of the Bank's covered bonds and the Finance Company's listed £200m fixed rate callable subordinated Tier 2 notes due in 2029. Further information on relations with shareholders can be found in the ownership section of the corporate governance report on pages 42 to 45 and on the investor relations page of the Bank's website.

Corporate governance

The co-operative bank
for people with purpose

Corporate governance framework

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

Board Committees

- The Co-operative Bank p.l.c. Board
  - Nomination Committee
  - Joint Audit Committee
  - Risk Committee
  - Values and Ethics Committee
  - Remuneration Committee

You can read more about the Nomination Committee on pages 48 to 49

You can read more about the Joint Audit Committee on pages 50 to 57

You can read more about the Risk Committee on pages 58 to 61

You can read more about the Values and Ethics Committee on pages 62 to 65

You can read more about the Remuneration Committee on pages 71 to 76

Executive Committees

- CEO
  - Executive Committee
    - Investment and Project Oversight Committee
    - Operating Committee
    - Customer First Committee
    - Asset and Liability Committee
    - Product Governance Committee
    - People Committee
    - Disclosure Committee
    - Executive Risk Oversight Committee

Board of Directors

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

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

C

A, N, VE

Bob Dench – Chair of the Board, Chair of Nominations Committee

Independent: On appointment

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

C

A, R, VE, RE

Glyn Smith – Non-Executive Director, Chair of Joint Audit Committee

Independent: Yes

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

C

A, N, RE, R

Derek Weir – Senior Independent Director, Chair of Risk Committee

Independent: Yes

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

C

N, RE, R

Sir Bill Thomas – Non-Executive Director, Chair of Remuneration Committee

Independent: Yes

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

A, VE

Sue Harris – Non-Executive Director, Chair of Values and Ethics Committee

Independent: Yes

Sue joined the Bank Board in May 2019. She has held senior executive positions in the financial services and retail sectors, most recently at Lloyds Banking Group (LBG) as Group Audit Director and prior to that, as the Group's Financial Control Director. She led negotiations with HMT for potential accession into the Government Asset Protection Scheme, as part of LBG's recapitalisation. She was the Finance Director of LBG's Retail Bank and Finance Director of Cheltenham & Gloucester. She was Managing Director Finance at Standard Life and formerly Head of Corporate Development and Group Treasurer of Marks & Spencer. She is a former Non-Executive Director of Bank of Ireland UK, Abcam plc (an AIM listed biotech company), St. James's Place, Chair of the Finance and Audit Committees at Mencap (the leading charity for people with a learning disability) and Chair of Trustees of KCP Youth.

She is a Non-Executive Director of Schroders & Co. Limited and Chair of the Audit and Risk Committee of Schroder's Wealth Management Division. She is also a Non-Executive Director of Barclays Pension Funds Trustees Limited, FNZ (UK) Ltd and Wates Group Limited. She is Chair of the Audit and Assurance Council at the Financial Reporting Council and is a member of the Codes and Standards Committee. She is a member of the external advisory board of the School of Chemistry at the University of Manchester.

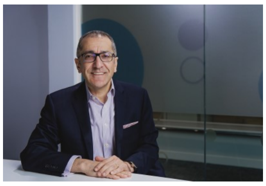
RE, R

Sally-Ann Hibberd – Non-Executive Director

Independent: Yes

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

Sally-Ann is currently a Non-Executive Director and Chair of the Risk Committee at Equiniti Group plc; a Non-Executive director of IG Group plc; a non-executive member of the governing body of Loughborough University; and an advisory board member at Go Beyond Partners. She previously served as a Non-Executive Director of NFU Mutual and Shawbrook Group Plc.



N, RE, R

Morteza Mahjour – Non-Executive Director

Independent: No

Morteza joined the Bank Board on 12 December 2019. He is a seasoned Chief Information and Operations Officer with over 30 years of experience in technology and financial services globally. He is passionate about driving business and digital transformation and execution excellence. Previous positions include group CIO at Lloyds Banking Group, Chief Information and Operations Officer at the Royal Bank of Canada, and senior advisory engagements. He has experience leading transformation for growth and has international expertise in financial services, customer segments and regulatory requirements.

He is currently a partner at M&L Technology Advisory, where he provides strategic advisory services to senior executives and boards. He has a Bachelor of Electrical Engineering from McGill University and is qualified with the Institute of Corporate Directors.

Andrew Bester – Chief Executive Officer

Andrew joined the Bank Board on 9 July 2018 and assumed full CEO responsibilities from 20 July 2018. He is a banking leader with a track record in business turnaround and large-scale transformation. A qualified chartered accountant, whose career began with three years at PwC and subsequently three years at Deloitte, Andrew joined Standard Chartered Bank in 2004, where he held senior leadership roles in wholesale banking in Africa and Asia. In 2008, he took on the role of Chief Financial Officer for Standard Chartered's Consumer Banking division, and in 2011 he was appointed Chief Operating Officer for Consumer Banking. He was then appointed Group Director and Chief Executive of the Commercial Banking division of Lloyds Banking Group, where he led the successful customer-focused turnaround and transformation of the commercial/wholesale banking business over five years from 2012. He also led on inclusion and diversity for Lloyds Banking Group, and has multiple awards for his work, including 'Advocate of the Year' at the 2017 Women in Finance Awards.

Chris Davis – Chief Operating Officer

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

Nick Slape – Chief Financial Officer

Nick joined the Bank in October 2018, having spent five years as Chief Financial Officer of the Commercial Division at Lloyds Banking Group, and was appointed to the Bank Board on 9 December 2019. He has worked in the financial services sector in the UK and overseas for more than 30 years and has extensive operational and financial experience in strategic and financial planning and control. Throughout his career he has worked at a number of investment banks including Lehman Bros, Dresdner Bank, Deutsche Bank and Merrill Lynch. Nick is a Fellow of The Chartered Institute of Management Accountants.

Corporate governance report

Ownership

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

The Finance Company is a public limited company with Fixed Rate Reset Callable Subordinated Tier 2 Notes with a contractual maturity date of 2029 that are listed on the London Stock Exchange. Its equity is not listed. As at 31 December 2019, the Finance Company's sole shareholder is The Co-operative Bank Holdings Limited (Holding Company), which is a private company limited by share capital. The Holding Company is the ultimate parent company of the Bank Company.

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

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

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

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

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

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

Christiaan Vogelzang stepped down as a B Director on 18 June 2019 and Paul Copley stepped down as a B Director on 31 December 2019. Morteza Mahjour was appointed as a B Director on 12 December 2019. Paul Copley has agreed to remain as an advisor until 31 March 2020.

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

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

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

As at 26 February 2020, the B shareholders of the Holding Company (and their percentage B shareholding) were:

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

Values and ethics

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

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

Board composition

During the year, there have been changes to the Board of the Holding Company, to the Board of the Finance Company and to the Board of the Bank Company (the Boards). Details of the members of the Boards, their biographies and length of service are set out from page 44.

Sue Harris and Sally-Ann Hibberd joined the Boards as Non-Executive Directors on 7 May 2019 and 1 August 2019 respectively. Chris Davis and Nick Slape joined the Boards as Executive Directors on 23 July 2019 and 9 December 2019 respectively. Christiaan Vogelzang and Paul Copley resigned from the Boards as B Directors on 18 June 2019 and 31 December 2019 respectively. Morteza Mahjour joined the Boards as a B Director on 12 December 2019.

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

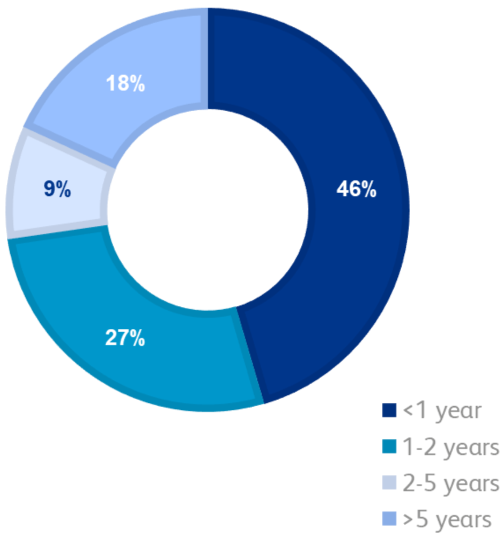
The Non-Executive Directors are of sufficient calibre and number such that their views carry significant weight in the Boards' decision making.

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

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

The Board and shareholders have approved a schedule of Matters Reserved for the Board and authorities delegated to the CEO. Both the Matters Reserved for the Board and the CEO's delegated authorities have been revisited by the Board and have been re-adopted for 2020. Implementation of the strategy set by the Board of the Bank Company and the management and day-to-day running of the Bank is delegated to the CEO, with oversight by the Board, with the exception of the Matters Reserved for the Board. The Board has approved the division of responsibilities between the Chair and CEO, and this can be found on the Bank's website, along with the Matters Reserved for the Board.

Tenure as Director of Bank as at 31 December 2019



Board changes

During 2019, five Directors were appointed to the Boards of the Holding Company, the Finance Company and the Bank Company, and two Directors stood down from these Boards.

Current members of the Boards		Independent	Appointed (Holding Company)	Appointed (Finance Company)	Appointed (Bank Company)
Bob Dench	Chair	On appointment	1 Feb 2018[1]	1 Feb 2019	1 Feb 2018[1]
Derek Weir	Senior Independent Director	Independent	1 Sep 2017	1 Feb 2019	25 Jul 2014
Sue Harris	Non-Executive	Independent	7 May 2019	7 May 2019	7 May 2019
Sally-Ann Hibberd	Non-Executive	Independent	1 Aug 2019	1 Aug 2019	1 Aug 2019
Glyn Smith	Non-Executive	Independent	1 Sep 2017	1 Feb 2019	10 Oct 2016
Sir Bill Thomas	Non-Executive	Independent	1 Sep 2017	1 Feb 2019	28 Oct 2013
Morteza Mahjour	Non-Executive	Not independent	12 Dec 2019	12 Dec 2019	12 Dec 2019
Andrew Bester	Chief Executive Officer	N/A	9 Jul 2018	1 Oct 2018	9 Jul 2018
Chris Davis	Chief Operating Officer	N/A	23 Jul 2019	23 Jul 2019	23 Jul 2019
Nick Slape	Chief Financial Officer	N/A	9 Dec 2019	9 Dec 2019	9 Dec 2019

1. Chair since 14 March 2018

Members of the Boards stepping down since 1 January 2019		Independent	Appointed to Holding and Bank Company Boards	Appointed to Finance Company Board	Ceased to be a Director of these Boards
Christiaan Vogelzang	Non-Executive	Not independent	1 Sep 2018	1 Feb 2019	18 Jun 2019
Paul Copley	Non-Executive	Not independent	1 Sep 2018	1 Feb 2019	31 Dec 2019

Appointment and reappointment of Directors

All Non-Executive Directors are appointed to the Boards for an initial term of three years but, under the terms of their appointment, are required to submit themselves for annual re-election at the Holding Company's, Finance Company's and Bank Company's Annual General Meetings (AGMs). All Directors will offer themselves for election or re-election at the AGMs in 2020. The terms of appointment of the Non-Executive Directors are available for inspection on request to the Secretary.

The biographical details of all Directors are discussed on pages 39 to 41 and can also be found on our website at:

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

Attendance

The following table sets out the attendance at the scheduled Holding Company, Finance Company and Bank Company Board and Bank Committee meetings during 2019:

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

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

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

Number of Bank Company Board and Committee meetings in 2019

Board meetings:	17
Joint Audit Committee meetings:	10
Risk Committee meetings:	7
Values and Ethics Committee meetings:	4
Remuneration Committee meetings:	7
Nomination Committee meetings:	5

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

Information to Directors

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

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

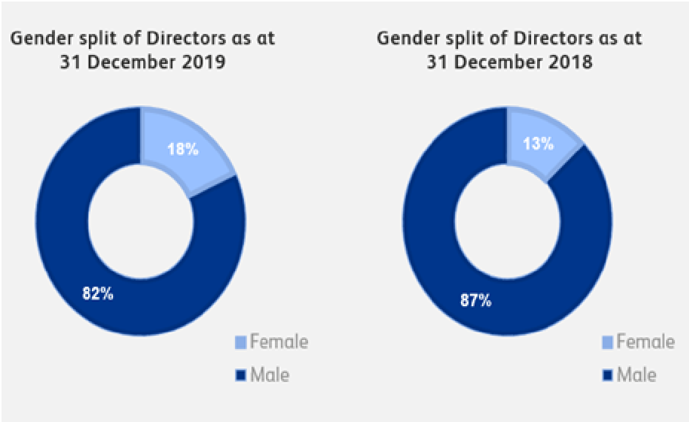
Board Committees

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

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

The terms of reference for the Joint Audit Committee, Risk Committee, Values and Ethics Committee, Remuneration Committee and Nomination Committee can be found at www.co-operativebank.co.uk/aboutus/governance/terms-of-reference-for-Board-Committees.

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



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

- Pensions
- Treasury and hedge accounting
- Cyber-security
- Digital
- Visa shareholding
- Market Abuse Regulation
- Senior Managers and Certification Regime

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

	Page
Joint Audit Committee	50
Values and Ethics Committee	62
Risk Committee	58
Nomination Committee	48
Remuneration Committee	71

Board effectiveness

Performance evaluation

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

In November 2018, the Bank engaged The Effective Board LLP to carry out an external review of the effectiveness of the Board and Committees of the Bank Board. The review suggested some areas for improvement, including employee engagement and broadening the Board's digital skills, and an action plan was devised, supported by The Effective Board LLP, which was presented to the Nomination Committee and the Bank Board. All actions have been addressed.

The Bank Board and its Committees undertook an internal self-assessment during Q4 2019 based on a questionnaire completed by each Director. The outcomes from these various reviews were considered by the Bank Board and its respective Committees in February 2020 and action was taken where appropriate, including amongst others, trialling for 2020, dedicating full days to Board training rather than at the end of Board meetings, to maximise its effectiveness. These self-assessments are undertaken annually, with external reviews generally taking place every three years.

Induction and continuing professional development

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

As part of the process, an individual training needs profile is designed for each Director, which is reviewed periodically. Throughout 2019 the Board continued to hold collective training sessions, which took place in April, August and September 2019. In addition to formal training sessions, the Directors, where appropriate, have one-to-one sessions with members of the Executive. An electronic 'Knowledge Area' is available as a resource to enable all Directors to access, revisit and review copies of presentations and materials from formal development sessions.

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

Senior Managers and Certification Regime (SMCR)

The Bank continues to deliver robust compliance with its governance over the Senior Managers and Certification Regime as set out in the Directors' Report on page 66. Directors have been briefed extensively and received further training on 26 September 2019 in connection with the requirements set out in the SMCR.

Conflicts of interest

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

Directors and their interests

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

Insurance and indemnities

During 2019 the Holding Company maintained appropriate Directors' and officers' liability insurance on behalf of all Group entities in respect of legal action against their Directors and officers. Various officers had, and continue to have, the benefit of indemnities from the Bank Company in relation to losses and liabilities they may incur in their employment. In addition, qualifying third party indemnity provisions (as defined by section 234 of the Companies Act 2006) were in operation during 2019 and are in force for the benefit of the Directors in relation to certain losses and liabilities which they may incur in connection with their appointment.

Professional advice and Board support

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

Statutory disclosures information

Share capital structure, transfer restrictions and takeover bid related disclosures

The Bank's total issued share capital of ordinary shares of £0.05 each are all owned by the Finance Company. The Finance Company's total issued share capital of ordinary shares of £0.05 each are all owned by the Holding Company. The Holding Company's share capital is divided into class A ordinary shares of £0.0001 each and class B redeemable preference shares of £0.01 each. For further information relating to ownership, please see the corporate governance report on page 42.

Transfer of shares

The shareholder of the Bank Company and Finance Company may transfer any shares in any manner which is permitted by law and is from time to time approved by the Board of the Bank Company and Finance Company respectively. The A ordinary shares in the Holding Company are freely transferrable save that they may not be transferred to a commercial competitor without the sanction of a special resolution of the Holding Company. Restrictions on the transfer of the B redeemable preference shares can be found within the Holding Company's Articles of Association and further details are shown in the corporate governance report on page 42.

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

Voting rights

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

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

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

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

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

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

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

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

Nomination Committee report

Increased digitalisation and diversity underpins the succession planning for Board and senior Executive appointments

Dear Stakeholder

During 2019, the Nomination Committee was instrumental in the recruitment of a replacement Non-Executive B Director with over 30 years of experience in technology and financial services globally and two female Independent Non-Executive Directors with extensive audit and risk experience to strengthen the Board for the immediate and foreseeable future. The appointment of the Chief Financial Officer and Chief Operating Officer to the Board and product leaders for retail deposits, SME and customer channels to the Executive Committee positions the Bank well to enter the second phase of the strategic plan and deliver the Bank's transformation agenda.

Robert Dench, Nomination Committee Chair, 26 February 2020

Purpose of the Nomination Committee

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

Committee membership	Date of appointment	Date of resignation
Bob Dench (Chair)	14 Mar 2018	
Sir Bill Thomas	26 Sep 2017	
Derek Weir	14 Mar 2018	
Paul Copley	1 Sep 2018	31 Dec 2019
Morteza Mahjour	1 Jan 2020	

During 2019, the Nomination Committee met five times and focussed on new appointments to the Executive Committee and the overall strengthening of the Board to meet the needs of the business and to be responsive to the regulatory environment in which the Bank operates.

Full regard to the benefits of diversity in all its elements, including gender diversity, is given. The Executive Committee has approved the enforcement of 50:50 male: female shortlists with the Bank's recruitment agencies. The Bank encourages the executive search consultancies engaged in the search process to reflect diversity in the lists of candidates nominated for the consideration of the Board. Active searches for a replacement Non-Executive B Director are under way. During 2019, the number of women on the Bank's Board increased to two. In 2016, the Board set a target to have a minimum of three women on the Board, which remains.

Principal responsibilities of the Nomination Committee

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

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

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

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

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

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

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

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

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

Key areas discussed and reviewed by the Nomination Committee in 2019

Board composition	Review of the structure, size and composition of the Board along with the skills, knowledge and experience of its members to ensure that Directors remain able and have sufficient time to discharge their duties and responsibilities effectively and to the high standard required.
Board vacancies	During 2019 the Nomination Committee considered a number of nominations at both Board and senior Executive level. Sue Harris and Sally-Ann Hibberd were appointed to the Boards as Independent Non-Executive Directors on 7 May 2019 and 1 August 2019 respectively. Chris Davis, COO was appointed as an Executive Director on 23 July 2019 and Nick Slape, CFO was appointed as an Executive Director on 9 December 2019. The B shareholders of the Holding Company are entitled to appoint up to two Directors to the Board of the Holding Company, and the Holding Company is entitled to appoint up to two Directors to the Board of the Finance Company, and the Finance Company is entitled to appoint up to two Directors to the Board of the Bank Company, who are designated as B Directors of the Holding Company, Finance Company and the Bank Company. Following the resignation of Christiaan Vogelzang, the B shareholders engaged external recruiters and identified and interviewed candidates, along with members of the Nomination Committee and the Chief People Officer. As a result, Morteza Mahjour was appointed as a B Director on 12 December 2019. The B shareholders have engaged with external recruiters to find a suitable replacement for Paul Copley.
Succession planning	Succession planning, including identification of external and potential external candidates for senior vacancies which may arise on a short-, medium- or long-term basis.
Diversity policy	The Board adopted the Board Diversity Policy recommended by the Nomination Committee in February 2015. The Nomination Committee reviewed and approved the updated policy in August 2019.
Committee membership	During the year, and as a result of new appointments to the Board and members stepping down during the year, the Nomination Committee considered and made recommendations to the Board on committee composition across all Board Committees.
Performance evaluation	The Nomination Committee commissioned an external Board evaluation by The Effective Board LLP in 2018, with the following objectives: 1. To consider whether the structure of the Board and its Committees is appropriate; 2. To determine whether the collective skillset of the Board is appropriate for the firm, and whether the allocation of responsibilities between Directors is appropriate; 3. To assess whether the Board is interacting appropriately and effectively with key stakeholders: in particular the B shareholders, the Executive team (ExCo) and the regulators; and 4. To determine whether the Board can demonstrate that decisions are taken in appropriate fora, with due consideration of customer impact and potential customer harm.
Election and re-election	The Nomination Committee and Board noted the results of the external effectiveness review on 6 February 2019, and an action plan, developed by Company Secretariat based on the review, was presented to the Nomination Committee on 1 August 2019 (all rated green). The only resulting action which related to Board and Committee effectiveness and skills was to consider strengthening the information technology skills of the Board with customer-facing digital skills and experience. To this end, Sally-Ann Hibberd was appointed as a Non-Executive Director on 1 August 2019 and Morteza Mahjour was appointed as a Non-Executive B Director on 12 December 2019. The Directors conducted their first self-assessment in late 2015 and the Board has completed one each year since then. The self-assessment for 2019 was deferred to July 2019 due to the external Board evaluation which took place earlier in the year. The summary Board skills matrix produced underpinned the Directors' annual appraisal process conducted by the Chair and also informed generic skills gaps and individual development needs. The 2019 training needs identified included digital and treasury, and the Board received such training along with training on pensions, Visa share valuations and cyber crime, on 26 September 2019, with further digital and treasury/money markets training proposed for 2020. The Committee reviewed the position of Directors offering themselves for election and re-election at the 2019 AGM.

Joint Audit Committee report

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

Dear Stakeholder

The Joint Audit Committee continues to provide oversight and informed challenge over the systems of financial reporting and control, accounts preparation and internal and external audit processes. During 2019, there has been considerable focus on the the determination of the remaining PPI provision following unprecedented levels of claims and enquiries in the run-up to time-bar in the summer. In addition, the continued development of our International Financial Reporting Standard 9 (IFRS 9) models, the re-introduction of half-yearly reporting and the improvements made to the way we engage with our stakeholders through our external financial reporting have been areas of attention for the Joint Audit Committee. Through the work of internal audit, the Joint Audit Committee has continued to provide oversight of the embedding of the Risk Management Framework (RMF). It also oversees the Concern at Work (Whistleblowing) arrangements.

Glyn Smith, Joint Audit Committee Chair, 26 February 2020

Purpose of the Joint Audit Committee

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

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

1. Chair since 26 October 2016

There have been no resignations of Joint Audit Committee members during the year.

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

Alignment with Risk Committee

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

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

Principal responsibilities of the Joint Audit Committee	Key areas discussed and reviewed by the Joint Audit Committee in 2019

Financial and narrative reporting

Review the content of the financial statements included in this Annual Report and Accounts (‘the financial reports’) and advise the Boards on whether, taken as a whole, they are fair, balanced and understandable and provide the information necessary for shareholders to assess the performance, business model and strategy.

Monitor the integrity of the financial statements.

Review and challenge where necessary:

- the consistency of, and any changes to, significant accounting policies both on a year-on-year basis and across the financial statements;
- the methods used to account for significant or unusual transactions where different approaches are possible;
- whether appropriate accounting standards have been followed and appropriate estimates and judgements made, taking into account the views of the external auditor;
- the assumptions or qualifications in support of the going concern statements;
- the clarity and completeness of disclosure in the financial reports and the context in which statements are made.

The Joint Audit Committee allocates a number of meetings in its calendar to focus on the preparation for and review of the financial statements. During 2019, the review process included a detailed review of significant accounting judgements and accounting policies and regular dialogue with the external auditor. The Accounting Policy Forum reviews all accounting policies for significant transactions and the Key Judgements Forum reviews, challenges and approves all key judgements and associated journal postings. The Joint Audit Committee received regular updates relating to decisions made at the Key Judgements Forum. The Joint Audit Committee also reviews the financial statements process to ensure that financial reporting risk is adequately managed.

Key judgements discussed as part of the 2019 accounts process are detailed on pages 54 and 55, including reports by the external auditor throughout the year.

The Boards receive a report from the Joint Audit Committee prior to the Board meetings, which considers the content of the financial statements. Compliance with accounting standards and the completeness of disclosures are also discussed.

The Joint Audit Committee received regular updates on the continued development of the IFRS 9 models following their implementation in 2018.

The Joint Audit Committee reviewed and challenged the quarterly financial reports for Q1 and Q3 2019, the Interim Financial Report and the Annual Report and Accounts and recommended them to the Boards for onward circulation to the shareholders.

Internal controls and risk management systems

Review the adequacy and effectiveness of internal financial controls and internal control and risk management systems and statements in the Annual Report and Accounts concerning internal controls and risk management.

Review the Bank’s arrangements for the deterrence, detection, prevention and investigation of fraud and receive and consider special investigation reports relating to fraud or major breakdowns in internal controls or major omissions including remedial action by management.

During 2019 the Joint Audit Committee considered the recommendations of Internal Audit and the external auditor in respect of internal control mechanisms and monitored progress against those recommendations. Both the Director of Internal Audit and the Chief Risk Officer attended Joint Audit Committee meetings throughout the year.

During 2019 the Joint Audit Committee considered reports on risk management, internal controls and other reports from management in relation to the Bank’s Risk Management Framework or in relation to the Annual Report and Accounts.

Principal responsibilities of the Joint Audit Committee	Key areas discussed and reviewed by the Joint Audit Committee in 2019
Raising a concern at work (whistleblowing)	
Review the adequacy and security of the arrangements for employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters and annually review and approve the Bank's Raising a Concern at Work (Whistleblowing) Policy. Annual review of the Concern at Work report.	The Joint Audit Committee received regular updates on incidents reported under the Bank's Raising a Concern at Work (Whistleblowing) Policy. In November 2019, the Joint Audit Committee carried out an annual review of the Concern at Work report and review and re-approval of the Policy.
Terms of reference	
Review the Joint Audit Committee's terms of reference and monitor its execution.	The Joint Audit Committee conducted an annual review of its terms of reference and reviewed its deliveries against these.
Internal audit	
Approve the appointment or termination of appointment of the Director of Internal Audit. Review and approve the Charter of the Internal Audit function and ensure that the function has the necessary resources and access to information to enable it to fulfil its mandate, has unrestricted scope and is equipped to perform in accordance with appropriate professional standards for internal auditors. Ensure the Director of Internal Audit has direct access to the Chair of the Board and to the Chair of the Joint Audit Committee, and is accountable to the Joint Audit Committee, ensuring that Internal Audit is independent of the Executive and able to exercise independent judgement. Review and assess the annual Internal Audit work plan and the reasons for any significant change or delay to this plan, ensuring that it includes the evaluation of the effectiveness of the Risk, Compliance and Finance functions. Receive reports on the results of the internal auditor's work. Review and monitor management's responsiveness to the internal auditor's findings and recommendations. Meet with the Director of Internal Audit at least once a year without the presence of management. Monitor and review the effectiveness of the Bank's Internal Audit function, in the context of the overall risk management system and consider whether an independent, third party review of internal audit effectiveness and processes is appropriate.	The Joint Audit Committee received and considered the results of the internal audit annual self-effectiveness review, which included Internal Audit's view of the control environment, its assessment of key risks, delivery of internal audit reports, control theme monitoring and issue assurance. In accordance with the Bank's Internal Audit Charter, an external assessment is conducted at least every four years, and an independent review was conducted by Independent Audit Limited in 2016. The next external assessment is due in 2020. During 2019, the Committee also provided its own review and challenge of the Internal Audit Charter, the resources of the function and the plan of activities taking place during the year. The Joint Audit Committee considers internal audit activity reports covering key thematic risks. The Joint Audit Committee receives all 'red' rated Internal Audit reports and invites management to present findings and remedial actions. During the year, in camera sessions were held with the Director of Internal Audit.

Principal responsibilities of the Joint Audit Committee

Key areas discussed and reviewed by the Joint Audit Committee in 2019

External audit

Consider and make recommendations to the Boards, to be put to shareholders for approval at the AGMs, in relation to the appointment, reappointment and removal of the external auditor.

Ensure that at least once every ten years the audit services contract is put out to tender and oversee the selection process.

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

Oversee the relationship with the external auditor and review the findings of the audit with the external auditor; approve their remuneration including fees for both audit and non-audit services.

Develop and implement policy on the supply of non-audit services by the external auditor specifying the types of non-audit service for which use of the external auditor is pre-approved and the requirement to authorise provision of any non-audit services by the external auditor to avoid any threat to auditor objectivity and independence, taking into account any relevant ethical guidance on the matter. Reporting of the use of non-audit services should include those subject to pre-approval.

Annually assess their independence and objectivity.

Review any representation letter(s) requested by the external auditor before they are signed by management; review the management letter and management's response to the auditor's major findings and recommendations.

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

The Joint Audit Committee recommended the re-appointment of Ernst & Young LLP (EY) to the Boards and the relevant member(s) at the Annual General Meetings.

The Joint Audit Committee liaised closely with the external auditor in respect of their views on the most significant of the key accounting judgements and findings.

The Joint Audit Committee reviewed the external audit plan.

In the course of making a recommendation to the Boards in respect of representations to the auditor, the Joint Audit Committee reviewed and challenged management assurances supporting management representation letters to the external auditors.

The Joint Audit Committee considered the external auditor's management letter containing observations arising from the annual audit leading to recommendations for control or financial reporting improvement and monitored progress.

The Joint Audit Committee reviewed and approved the policy for the supply of non-audit services by the external auditor in February 2019 and approved the 2019 fees for audit and non-audit services.

The Joint Audit Committee reviewed the independence of the external auditor and the objectivity of the audit engagement partner and audit staff using self-assessments from the external auditor and based on a review conducted by Internal Audit to review the independence and objectivity of the external auditor and their effectiveness, which the Committee considers on at least an annual basis and which was most recently considered in February 2020. In line with the Financial Reporting Council Auditing Practices Board Ethical Standard 3, key audit personnel are required to step down after serving five years on the audit. Accordingly, in 2019 the lead audit partner along with another key audit partner were replaced. The new lead audit partner was appointed with effect from May 2019.

1. Significant accounting matters considered by the Joint Audit Committee

In relation to the 2019 financial statements, the Joint Audit Committee considered the following significant accounting issues, matters and judgements. The disclosure and presentation of these matters were discussed and debated with management and the external auditors (EY).

1.1 Going concern

The Group has recently approved its 2020-2024 financial plan and has used this as the basis of its assessment in evaluating whether adopting the going concern basis of accounting is appropriate for the financial statements included in this Annual Report and Accounts. This includes a detailed review of projected profitability, forecast liquidity position, capital ratios and regulatory capital considerations. Appropriate consideration has also been given to the 2020 budget and how this compares to the 2019 performance and the principal risks and uncertainties that could impact future performance. The plan also documents both a route to profitability and to full regulatory compliance.

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

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

1.2 Impairment of loans and advances to customers

The Joint Audit Committee reviewed detailed papers prepared by management covering the drivers for changes to impairment provisions which include, as in previous years, the emergence period and probability of default, governance and controls over the provisions and substantive evidence supporting model parameters and appropriate post model adjustments. Enhancements to the model environments were made during 2019, in particular to the secured and unsecured portfolio models. The Joint Audit Committee reviewed detailed papers covering the progress made in implementing these changes and the overall impact on expected credit loss (ECL). The Joint Audit Committee reviewed the management proposal to change the definition of default on secured portfolios from 180 days past due to 90 days past due. The Joint Audit Committee also carefully considered evidence in the post balance sheet period as to whether additional provisions were required relative to conditions existing at the balance sheet date.

1.3 Conduct risk and legal provisioning

The Joint Audit Committee considered at length detailed accounting papers prepared by management regarding conduct risk and legal provisioning.

For conduct matters, discussion covered the underlying assumptions for the population affected, size of potential redress and the number of customer complaints or enquiries received.

Extensive, detailed discussion and challenge of management's conclusions and assumptions took place throughout the year in relation to PPI.

Significant review and challenge of management's estimates including future volumes was performed in the lead up to the time-bar. Following the time-bar, the Joint Audit Committee considered management's revised approach to estimating PPI exposure, reviewing and challenging the significant inputs including volumes of valid complaints, valid rates, uphold rates and average redress. Particular attention was given to management's assessment of key risks associated with the PPI provision.

The Joint Audit Committee concurred with management's conclusion regarding conduct risk and legal provisions.

1.4 Effective interest rate

Management presented analysis on the behavioural lives, economic assumptions and the fees and costs which are reflected in the effective interest rate (EIR) basis of revenue recognition. The Joint Audit Committee reviewed the impact of changes in customer behaviour during 2019 on the EIR assumptions at the 2019 year end, considering both the year end value of the EIR asset, and the assumptions set out within the paper.

1.5 Pensions

The Joint Audit Committee considered the accounting treatment of the principal pension schemes, Pace and Britannia. The key judgements also considered by the Joint Audit Committee include the ability of the pension surplus to be recognised on balance sheet, and the assumptions adopted within the IAS 19 valuation.

1.6 Surrendered Loss Debtor

The Joint Audit Committee discussed the measurement of the Surrendered Loss Debtor (SLD) due from the Co-op Group in relation to previous losses surrendered, and reviewed a paper prepared by management setting out the key assumptions inherent in the calculation and the basis and rationale for such assumptions. The key judgements associated with the calculation of the SLD include assumptions about the Co-op Group's capacity to realise the benefit of the tax losses surrendered, the accuracy of the repayment profile information and extrapolation of the profile provided by the Co-op Group, and future changes to tax legislation.

1.7 Unlisted equity shares

The Joint Audit Committee considered the value of the unlisted equity shares, reviewing the revised valuation assumptions applied at 31 December 2019.

1.8 Hedge accounting

The Joint Audit Committee reviewed the Group's hedge accounting programmes in depth over a number of meetings, including the accounting policies and their application, together with an overview of the process and controls which operate over the programmes.

1.9 Other accounting matters

The Joint Audit Committee considered papers presented by management covering the following matters:

- methodology to determine the fair value of financial instruments for disclosure in the Annual Report and Accounts;
- the definition and re-statement of underlying profit or loss;
- IFRS 16 leases accounting judgements;
- accounting for the group reorganisation to facilitate MREL debt issuances and the accounting;
- judgements applied in the classification and measurement of the Tier 2 debt issued during the year; and
- the accounting treatment applied to the Warwick Special Purpose Entities (SPEs).

1.10 Unadjusted errors

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

1.11 Fair, balanced and understandable

The Joint Audit Committee considered whether the 2019 Annual Report and Accounts are fair, balanced and understandable. The Joint Audit Committee satisfied itself that there was a robust process of review and challenge to ensure balance and consistency. This process included internal verification of the document and senior level review of the document both on an individual and committee basis prior to a meeting of the Joint Audit Committee held to review and consider the Annual Report and Accounts in advance of approval by the Board.

2. Governance over accounting policy and judgements

The Joint Audit Committee considered the governance to support financial reporting risk including the Accounting Policy Forum, which oversees accounting policy, and the Key Judgements Forum which reviews and challenges significant accounting judgements, including the key sources of estimation uncertainty.

3. Performance evaluation

3.1 External audit

The external auditor is appointed by shareholders to provide an opinion on the financial statements and certain other disclosures prepared by the Directors. EY was appointed as the Bank's statutory auditor with effect from the 2014 financial year. Michael-John Albert of EY is the Senior Statutory Auditor and was appointed to this role with effect from the 2019 financial year.

The Joint Audit Committee is responsible for oversight of the external auditor, including reviewing the audit strategy and, on behalf of the Board, approving the audit fee. The Joint Audit Committee has developed and implemented a policy on the supply of non-audit services by the external auditor to avoid any threat to auditor objectivity and independence, taking into consideration any relevant guidance on the matter.

Non-audit services are normally limited to assignments that are closely related to the annual audit or where the work is of such a nature that existing knowledge and understanding is necessary. Management regularly provides the Joint Audit Committee with reports on audit, audit-related and non-audit expenditure, together with proposals of any significant non-audit related assignments.

Total auditor's remuneration for the year amounted to £2.7m (2018: £2.9m). Details of the auditor's remuneration can be found in note 4 to the consolidated financial statements. The Joint Audit Committee is satisfied that the remuneration payable to the auditor is not material relative to the income of the external audit officers and firm as a whole, and did not impair the objectivity and independence of the external auditor.

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

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

During 2019, the external auditor provided the Joint Audit Committee with a management letter summarising its main observations and conclusions arising from the 2018 year end audit, and any recommendations for enhancements to reporting and controls. Mitigating actions were identified for implementation. Internal Audit have been monitoring and tracking the implementation of these actions, with regular reporting to the Joint Audit Committee on progress made.

3.2 Internal controls

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

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

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

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

3.3 Internal audit

The Joint Audit Committee monitors the progress of the internal audit function and the Director of Internal Audit reports directly to the Chair of the Joint Audit Committee and administratively to the CEO. The Committee meets regularly with the Director of Internal Audit without other management present.

The internal audit team comprises staff with a mix of professional skills and qualifications, including qualified accountants and auditors with recent financial experience. The Joint Audit Committee annually assesses the effectiveness of the internal audit function and considers on a quarterly basis, whether it is appropriately resourced. The Audit Committee is responsible for evaluating the performance of the internal audit function on a regular basis to ensure that the function complies with the Chartered Institute of Internal Auditors' (CIIA) International Standards. The Committee concluded that the function remains effective.

The last independent External Quality Assessment (EQA) was conducted in 2016. There were no high priority issues raised, and all of the suggested areas for improvement have been actioned. The next EQA is scheduled for 2020.

In 2019, internal audit moved away from its historical risk-based, cyclical audit model to a Full Coverage Variable Intensity Approach (FCVI). This change in approach means that all areas of the Bank are subject to assurance activity each year, at different levels of intensity based on risk, rather than a cyclical approach which aimed to cover all areas of the Bank over a multi-year cycle. The internal audit plan is approved by the Joint Audit Committee, and shared with the regulator.

Internal audit reports are issued to Executive management and a summary of reports issued are reported to the Joint Audit Committee on a quarterly basis. High and medium-rated audit issues are tracked to completion by internal audit. Where audit issues are overdue, these are reported to executive management, the Executive Risk Oversight Committee (EROC) and the Joint Audit Committee.

Internal audit produces an annual control opinion covering all activities of the Bank and concluded that the control framework effectively identifies and mitigates the majority of risks across the Bank. Whilst there are areas where controls require strengthening, plans are in place to address these. Internal audit's view is that this aligns with the Bank's priorities of fixing the basics in 2018/19 to provide a platform for the Bank's continued development.

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

The Co-operative Bank p.l.c.	122
The Co-operative Bank Holdings Limited	133
The Co-operative Bank Finance p.l.c.	136

Risk Committee report

The Risk Committee has responsibility for the oversight of the operation of the Bank's risk management framework.

Dear Stakeholder

There has been significant progress made over a number of years to establish and embed the Bank's Risk Management Framework (RMF), and critically, the strong risk culture that underpins it. The Risk Committee has continued to review and challenge the work undertaken to identify, mitigate and report risks through the Bank's RMF and has focussed on ensuring that asset growth is consistent with the low-risk, high-quality appetite that the Board has set. The Risk Committee remains vigilant to the residual risks of the resolution of historical issues during their close-down phases, including the remediation of conduct breaches. Reporting and management information (including credit management information) considered by the Risk Committee have continued to be improved, as have controls over financial crime (including anti-money laundering), the control framework relating to conduct and product risk and the management and governance of model risk. Going forward, the Risk Committee will continue to monitor any risks which could impact the ability to implement the 2020–2024 plan.

Derek Weir, Risk Committee Chair, 26 February 2020

Purpose of the Risk Committee

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

Committee membership	Date of appointment	Date of resignation
Derek Weir (Chair)	30 Sep 2014[1]	
Sir Bill Thomas	1 Jan 2014	
Glyn Smith	10 Oct 2016	
Christiaan Vogelzang	1 Sep 2018	18 Jun 2019
Paul Copley	1 Sep 2018	31 Dec 2019
Sally-Ann Hibberd	1 Aug 2019	
Morteza Mahjour	1 Jan 2020	

1. Chair since 26 January 2016

The Risk Committee met in total seven times during the financial year: four times for regularly scheduled meetings with three additional meetings to specifically consider the ICAAP, ILAAP and Recovery Plan. In performing its duties, the Risk Committee has access to the services of the Chief Risk Officer, the Chief Executive Officer, the Chief Financial Officer, the Director of Internal Audit and the General Counsel, as well as external professional advisors. To support the alignment between the role of the Risk Committee and the Joint Audit Committee, the Chair of the Joint Audit Committee is a member of the Risk Committee and the Chair of the Risk Committee is a member of the Joint Audit Committee.

The principal risks and uncertainties faced are described in the risk management section on pages 81 to 87.

Derek Weir, Sir Bill Thomas, Sally-Ann Hibberd and Morteza Mahjour are also members of the Remuneration Committee. This provides the cross-over between the work of the Remuneration and Risk Committees and ensures that qualitative and quantitative advice is provided to the Remuneration Committee on risk weightings to be applied to performance objectives incorporated in setting levels of executive remuneration.

During 2019 the Risk Management Framework has been, and continues to be, refined to reflect the changing nature of the risks the Bank is exposed to. The Risk Committee has worked closely with the Joint Audit Committee to monitor risk management and internal controls and during 2019, the external auditor attended the Risk Committee as an observer and contributed when requested by the Chair.

Principal risks and the level of acceptable risks are determined by reference to what is stipulated in the risk appetite statements, aiming to ensure that there is an adequate system of risk management and that the levels of capital and liquidity held are consistent with the risk profile of the business. Exposure to credit and other risk types such as market, liquidity, operational, pension, reputational and other risks that are inherent in our industry such as strategy, product range and geographical coverage, and the processes for managing those risks, are described in detail on pages 81 to 87.

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

Principal responsibilities of the Risk Committee	Key areas discussed and reviewed by the Risk Committee in 2019
Risk Management Framework (RMF)	
Review and challenge the design, implementation and effectiveness of the RMF and make recommendations to the Board for approval. At least annually, review and approve all new policies and those which have changed materially, supporting the RMF. Ensure the remit of the risk management function has: • adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards; and • adequate independence, being free from management or other restrictions. Review the capability to identify, assess, and manage new risk types.	The Risk Committee actively discussed the embedding of the RMF and an update was provided to each meeting of the Risk Committee. The Bank Risk Report was refreshed during 2019 and includes a RMF Dashboard, Credit Asset Quality Dashboard, as well as summaries of significant risks, issues under management and emerging risks, for the Risk Committee to review and challenge at each business as usual meeting. The Risk Committee reviewed and recommended the RMF Policy and Strategy to the Board for approval, and reviewed all new policies and those which had changed materially, supporting the RMF Policy. The Risk Committee considered a report which reviewed the remit, independence and effectiveness of the Risk and Compliance functions.
Risk culture	
Review, promote and challenge the risk culture, and seek assurance to satisfy itself that an appropriate risk culture prevails in the organisation. Provide qualitative and quantitative advice to the Remuneration Committee on risk weightings to be applied to performance objectives incorporated in Executive remuneration.	At each meeting of the Risk Committee, the Chief Risk Officer presents the Bank Risk Report described above which provides a holistic view of risks, including a summary of the key risk appetite trends, significant risks and emerging risks. Individual detailed risk appetite returns and credit risk metrics are also presented to the Risk Committee at each meeting as set out above. The Risk Committee reviewed the embedding of risk into performance objectives and role profiles, so that all employees have at least one risk-related objective for 2019. The Chief Risk Officer has reviewed risk weightings applying to Executive remuneration structures and provided analysis to support Remuneration Committee activities in this area.
Risk appetite, limits and tolerances	
Review, challenge and recommend to the Board for approval all new risk appetite statements and at least annually, or more frequently as required, the risk appetite. Review, challenge and approve any material changes to the risk appetite measures, tolerances and limits. Review, challenge and exercise oversight of capital and liquidity management and advise the Board on strategy for capital and liquidity management. Annually review, challenge and recommend to the Board for approval the ICAAP. Annually review, challenge and recommend to the Board for approval the ILAAP. Review, challenge and recommend to the Board for approval submissions to competent authorities to be submitted in the Board's name.	During 2019 the Risk Committee has continued to work with the Chief Risk Officer to refine the quality of data reporting seen at Committee and Board levels in order to assist the Risk Committee in its oversight of the monitoring of risk appetite, of risk acceptances and of risk events. The Risk Committee reviewed, challenged and recommended to the Board for approval, the risk appetite during 2019, and changes to market risk and liquidity risk appetite as part of the RMF. The Risk Committee reviewed and challenged the utilisation of delegated lending within the boundaries of the Lending Discretion Framework during 2019, and reviewed, challenged and recommended the ICAAP, ILAAP and Recovery Plan to the Board for approval. A regular progress update was provided on model risk to each business as usual meeting of the Risk Committee during 2019. Prior to recommending to the Board for approval, the Risk Committee reviewed all material submissions to be provided to regulatory bodies.

Principal responsibilities of the Risk Committee	Key areas discussed and reviewed by the Risk Committee in 2019
Business strategy	
Provide detailed review and challenge of proposed business strategy, giving consideration to the impact on the risk profile, and make recommendations to the Board. Ensure appropriate due diligence is carried out focussing on risk aspects and implications for risk profile and appetite when advising the Board on strategic acquisitions or disposals.	The Risk Committee, throughout 2019, discussed and monitored the principal risks and uncertainties faced. The risk function reviewed the 2020-2024 financial plan and reported its findings to the Board in December 2019.
Risk monitoring	
Consider, oversee and advise the Board on, and provide challenge on the Bank's exposure to, all principal risks to the business, and dedicate clear and explicit focus to current and forward-looking aspects of risk exposure, especially where those risks could undermine strategy, reputation or long-term viability. Review and challenge management's risk mitigation and control remediation actions. In co-operation with the Joint Audit Committee, monitor identified control failings and weaknesses that raise systemic risk issues and management actions taken to resolve them. Review reports on any material breaches of risk limits and the adequacy of proposed action. Consider risks posed by the current and prospective macroeconomic and financial environment, drawing on financial stability assessments such as those published by the Bank of England, the Prudential Regulation Authority, the Financial Conduct Authority and other authoritative sources that may be relevant for the Bank's risk policies when preparing advice for the Board.	The Risk Committee monitors all principal risks to the business using the Bank Risk Report which provides a holistic view of risk, including significant and emerging risks and risk appetite trends. During 2019, the Risk Committee reviewed reports on potential breaches of risk appetite and proposed actions to resolve them. The Risk Committee considered key corporate exposures in terms of consolidated exposures and large exposure positions and risk mitigation. The Risk Committee has received regular reporting to help it review IT risk and the remediation programme. The Risk Committee has considered reporting of emerging risks during the year, together with regulatory feedback given to the Bank by the Prudential Regulation Authority and the Financial Conduct Authority and the plans agreed with regulators published to the market from time to time.
Regulatory risks and compliance	
Review and approve the annual Risk Assurance Plan and the reasons for any significant changes to the plan, taking into account the regulatory risks identified from time to time. Review, consider and challenge regular reports from the Director of Compliance and Financial Crime and keep under review the adequacy and effectiveness of the Regulatory Risk and Compliance function. Receive prompt notification of any material adverse reports or sanctions by any competent authority.	The Risk Committee has challenged the development of certain risk models to support the attestation of, and achieving compliance with, the Capital Requirements Regulation. The Risk Committee reviewed, challenged and approved the 2019 Risk Assurance Plan which provides coverage of principal risks including conduct, regulatory, fraud and AML. The Chief Risk Officer and Director of Compliance and Financial Crime attended Risk Committee meetings during the year providing regular reporting analysis. During 2019 the Risk Committee considered a report which reviewed the remit, independence and effectiveness of the Risk and Compliance functions.

Principal responsibilities of the Risk Committee	Key areas discussed and reviewed by the Risk Committee in 2019
Bribery prevention, anti-money laundering/terrorist financing and Code of Conduct	
Review and challenge the adequacy and effectiveness of the systems and procedures for the prevention of bribery and annually review and approve the Bank's Anti-Bribery and Corruption Control Standard. Review and challenge regular reports from the Money Laundering Reporting Officer and the adequacy and effectiveness of the anti-money laundering and counter terrorist financing systems and controls. Review and recommend to the Board for approval the Code of Conduct and the Personal Investment Dealing Policy.	The Risk Committee reviewed and approved the Bank's Anti-Bribery and Corruption Control Standard in July 2019. The Risk Committee considered reporting from the Money Laundering Reporting Officer during the year, including the Annual Money Laundering Reporting Officer's Report. The Risk Committee reviewed and recommended the Code of Conduct and Personal Investment Dealing Policy to the Board during the year
Risk reporting	
Receive reports, findings and recommendations from the Executive Risk Oversight Committee, noting significant issues. In co-operation with the Joint Audit Committee, review and approve the statements to be included in the Annual Report and Accounts concerning internal controls and risk management.	Through the reporting from the Chief Risk Officer, the Risk Committee continued to have access to the findings and recommendations of the Executive Risk Oversight Committee on matters referred to the Risk Committee or to the Board. The Risk Committee continues to work closely with the Joint Audit Committee in determining the Group's annual reporting.
Chief Risk Officer	
Recommend to the Board the appointment and/or removal of the Chief Risk Officer. Meet at least once a year with the Chief Risk Officer without the presence of management.	The Committee Chair regularly met with the Chief Risk Officer without the presence of management during the year. Private sessions were held regularly between the Risk Committee and the Chief Risk Officer. During 2019 the Risk Committee considered a report which reviewed the remit, independence and effectiveness of the Risk and Compliance functions.

Values and Ethics Committee report

Our customer-led Ethical Policy defines our Bank and 2019 showed these issues are increasingly important to customers.

Dear Stakeholder

In a year when environmental and ethical concerns gathered increasing importance for consumers, our commitment to values and ethics resonates strongly.

Values and ethics are intrinsic to our unique ethical brand and remain one of the key reasons customers choose to join and stay with The Co-operative Bank. The Values and Ethics Committee provides Board-level oversight ensuring continuous commitment to co-operative values and our customer-led Ethical Policy. I was proud to take over as Chair of the Values and Ethics Committee on 1 August 2019 and would like to thank Bob Dench for his stewardship earlier in the year.

Effective governance and implementation of co-operative values and our Ethical Policy have been key areas of focus for the Value and Ethics Committee and we support and challenge the business in its delivery of its policy and ethical focus. We continue to screen our SME business account applications to ensure we only bank those organisations that align with the commitments set out in our Ethical Policy and we support co-operatives via The Hive, the business support programme for new and existing co-operatives.

Our colleagues and customers have continued to support charities that help those with societal disadvantages, such as the homeless or those suffering from financial abuse.

Sue Harris, Values and Ethics Committee Chair, 26 February 2020

Purpose of the Values and Ethics Committee

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

Committee membership	Date of appointment	Date of resignation
Sue Harris (Chair)	7 May 2019[1]	
Glyn Smith	26 Sep 2017	
Bob Dench	14 Mar 2018	
Christiaan Vogelzang	1 Sep 2018	18 Jun 2019

1. Chair since 1 August 2019

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

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

Our Ethical Policy is published on the Bank's website at: www.co-operativebank.co.uk/aboutus/ourbusiness/ethicalpolicy

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

The Chair, together with other members of the Values and Ethics Committee, will attend the Annual General Meeting to answer any shareholder questions on the Values and Ethics Committee's activities.

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

Principal responsibilities of the Values and Ethics Committee	Key areas discussed and reviewed by the Values and Ethics Committee in 2019
Values and ethical policies	
Recommend to the Board for approval and adoption the values and ethical policies. Represent, monitor and advise the Board on matters concerning the interests of all stakeholders in their dealings with the Bank in line with the Articles of Association having regard to: i) the legal and regulatory requirements applicable; ii) the need to be commercially sustainable and profitable; and iii) the desirability of maintaining and enhancing image and public reputation.	The Values and Ethics Committee oversaw the continued adherence to the Bank's Ethical Policy, the latest version of which was launched in January 2015 and which is due to be updated through customer consultation in 2020.
Statement to Co-operatives UK	
Monitor compliance with the statement[1] to Co-operatives UK and report on this at least annually to the Board. *1. The statement underpins our commitment to promote co-operative activities and to operate in line with co-operative values.*	The Values and Ethics Committee monitored the Bank's compliance with its statement to Co-operatives UK at each meeting. Regular meetings continue between management and Co-operatives UK to monitor compliance with the statement. The Values and Ethics Committee monitored progress against the commitment to the three year partnership with Co-operatives UK for The Hive, a business support programme to promote social and economic development and enterprise in accordance with co-operative values. The Values and Ethics Committee discussed the Bank's activities to support positive social change, including our commitment to eliminating youth homelessness, support those suffering from financial abuse and Amnesty's campaign Write for Rights.

Support for co-operatives and the co-operative sector continues to be a key focus and we have committed funding for The Hive, the support programme for new and existing co-operatives, to the end of 2020. Since the start of the programme to the end of 2019, 941 groups have benefitted from support, including direct technical advice, peer mentoring, training and introductory workshops. A number of supported groups went on to leverage nearly £6 million of community investment. As well as direct support, The Hive has successfully raised the profile of co-operatives. Nearly half a million people have viewed case study films, there have been more than 10,000 downloads of free and comprehensive website resources and more than 100,000 people have engaged with social media activities. These businesses span all sectors of the UK economy, creating jobs and delivering goods and services in a sustainable way. During 2020, we will review our future commitment to The Hive.

Don from Litherland REMYCA FC, A Co-operative business and beneficiary of The Hive

thehive. Building better co-operative businesses

By... Co-operatives UK coop

In partnership with... The co-operative bank

We have committed £1.3m of funding over five years to support The Hive to the end of 2020

We were proud to sponsor the annual Co-operatives UK Congress in Manchester in June 2019 and, together with over 200 co-operative businesses from across the UK, demonstrated our ongoing support for co-operatives. We also supported the annual Co-operative of the Year Awards, celebrating the achievements of co-operative businesses across the UK, and were delighted to see one of the winners had received support from The Hive, highlighting the impact of this unique support programme.

We remain committed to our North West base, and were proud to take part in the Greater Manchester Co-operative Commission, submitting evidence about the success of The Hive project, to support the development of co-operative activity across the region and exploring how co-operative methods can help to improve the economy and help to address some of the issues faced by businesses within the region.

In August 2019 we supported Manchester Pride for the fourth consecutive year running as a main sponsor. Around 60 colleagues took part in the event, demonstrating our ongoing commitment to diversity and inclusion and demonstrating our support for the Manchester community.

Tackling youth homelessness in partnership with Centrepoint

Throughout 2019 we have continued our work to end youth homelessness in partnership with the leading youth homelessness charity Centrepoint and continue to donate £5 to Centrepoint for every mortgage product sold. This initiative has achieved almost £200,000 of vital funding, bringing the total raised so far since the start of our partnership to £1.4m. Funding from the Bank will continue to support Centrepoint's national helpline, which helped over 5,000 young people in 2019. In November 2019 we sponsored Centrepoint's Sleep Out Manchester for the third consecutive year. 51 colleagues took part and contributed to the £84,000 raised from the event.

We have a long-standing relationship with Amnesty International UK and are committed to supporting human rights defenders of the future. During the second half of 2019 we became the principal supporter of 'Rise Up', a year-long training programme supporting the next generation of activists, helping them to be better connected, recognised and equipped so that they can use their power to make change happen. In December 2019 we supported Amnesty's Write for Rights campaign, promoting the campaign to our colleagues and customers, sending over 8,500 letters and cards of support to tackle human rights injustice across the world.

In October 2019 we marked the anniversary of the Financial Abuse Code of Conduct which was launched by UK Finance in October 2018 as a direct result of our joint campaign with Refuge to raise awareness of financial abuse. This is a significant achievement in the Bank's history of campaigning, and we continue to raise awareness of the issue of financial abuse. We are pleased that financial abuse is set to be recognised for the first time in legislation in the forthcoming domestic abuse bill.

Our environmental commitments within our policy continue to differentiate us from our competitors. Our unique customer-led Ethical Policy commits that we won't provide banking services to businesses who are involved in the extraction or refinement of fossil fuels. As demonstration of this commitment and in partnership with colleagues from Unite, we supported the global climate strike on 20 September 2019, as colleagues joined in a demonstration in Manchester.

We have been 'beyond carbon neutral' since 2007 as we continue to offset our carbon emissions through environmental projects around the world. In addition, in 2019 we committed to send zero waste to landfill by the end of 2020, an ambitious but worthwhile goal.

The Values and Ethics Committee approved a new, more ambitious values and ethics strategy in July 2019 and will continue to oversee the delivery of this strategy, which supports the Bank's strategy throughout 2020 and beyond. Our ongoing commitment to retaining co-operative values and our Ethical Policy through everything we do will ensure we are delivering on customers' expectations to provide an ethical alternative to other UK banks.

Directors' Report

The Directors of The Co-operative Bank Holdings Limited, The Co-operative Bank Finance p.l.c. and The Co-operative Bank p.l.c. (the Directors) present their report and audited accounts for the year ended 31 December 2019.

The Co-operative Bank Holdings Limited (Registered number 10865342), The Co-operative Bank Finance p.l.c. (Registered number 11598074) and The Co-operative Bank p.l.c. (Registered number 00990937) and its subsidiaries provide a range of banking and financial services in the United Kingdom. See page 14 for a full description of our business model and focus.

Dividends

The Directors do not recommend payment of a dividend for 2019 and do not expect to pay dividends in the near future.

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

The business review and future developments, key performance indicators, principal risks and uncertainties are referred to in the strategic report or the information on pages 7 to 36. Financial risk management objectives and policies can be found as detailed below:

	Page
Detailed financial review	31 to 33
Risk management objectives and policies	78 to 80
Principal risks and uncertainties	81 to 87

Post balance sheet events

There are no post balance sheet events to report.

Going concern

The assessment of the appropriateness of the going concern basis of accounting for The Co-operative Bank Holdings Limited, The Co-operative Bank Finance p.l.c. and The Co-operative Bank p.l.c. in the 2019 Annual Report and Accounts has been subject to thorough consideration involving analysis and discussion by management, Executive and Board Committees and the Board, in line with our governance process.

The Directors have assessed the going concern status using a framework focusing on forecast capital, liquidity and profitability as set out within the Group's strategic plan for 2020-2024. The Directors have also considered the actual versus planned performance for 2019, in addition to any other relevant and material information. After making enquiries of management and considering the plan, in particular for the 12 month period following the date of approval of the Group, Finance Company's and Bank's financial statements, the Directors have a reasonable expectation that the Group, Finance Company and Bank will have adequate resources to continue in business over this period.

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

Political donations

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

Directors' details

Details of Directors, including appointments and resignations during the financial year, and changes since the end of the financial year, are provided on page 44 of the corporate governance report. Details of the Directors offering themselves for election and re-election at the 2020 Annual General Meeting are provided on page 44.

Directors' third party and pension scheme indemnity provisions

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

Related parties

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

Corporate responsibility

Corporate responsibility activities are outlined on page 62 to 65.

CO2 emissions

The greenhouse gas emissions report is detailed on page 18.

Anti-bribery and corruption

Based upon the business activity, strategy and UK focus of the Group, it is assessed as being an inherently low risk organisation in terms of bribery and corruption. For 2019, there are no anti-bribery matters to disclose and no material risks have been identified. The Group has a comprehensive Anti-Bribery and Corruption Control Standard, part of which requires due diligence on new third party suppliers and treasury counterparties during the on-boarding process and is supplemented by annual due diligence of existing suppliers. In addition, annual training is provided to all colleagues on their anti-bribery and corruption obligations.

Our people

Our customer-led Ethical Policy shapes our continued focus to create an ethical workplace in terms of how we treat our colleagues and how our colleagues treat our customers.

Our values and behaviours are a reflection of the co-operative values in which we believe and underpin how we all engage at work. We updated these values during the year in collaboration with our colleagues to align more strongly to our strategy and the culture we aim to foster. They ensure that we are all moving in the same direction and delivering in the right way. We expect all colleagues to hold themselves and each other to account so we all demonstrate the values consistently, ensuring we are at our best for our customers, communities, stakeholders and each other.

Our annual engagement survey was completed in September 2019 and confirms that our people remain highly engaged (82%, an increase of two points from 2018) with our Bank, its strategy and its leadership. Our overall score is now 13 points above external industry benchmarks, continuing the strong progress we have seen since 2014. These scores are encouraging and we will use insight gained from the survey to act on colleague feedback in order to continue to progress through 2020. Our Colleague Co-operative Forum was launched earlier this year to maintain our focus on a consistent, co-operative dialogue. It empowers colleagues to provide ideas and feedback on all aspects of our Bank's operations, enabling continued co-operative working and that colleague feedback continues to shape our strategy.

Leadership and succession planning

Great leadership is integral to shaping the right culture for our Bank. We have continued our focus on leadership capability in 2019 through our Growing Great Leaders programme and our core leadership development offering which is open to all leaders and aspiring leaders, delivered across face-to-face and digital channels. We also launched our Co-operative Leadership Group, a cohort of leaders whose role, alongside the day-to-day running of the Bank, is to translate our ambition into action, both through their critical personal delivery and influence of others.

This leadership focus sits alongside a further enhanced performance management framework, with a strong focus on both the 'what is achieved' and importantly, 'how it is achieved', together with a renewed focus on identifying and nurturing talent across our Bank. We also remain focussed on supporting the development of all our people through the provision of high quality development opportunities, as well as a suite of mandatory training modules including: risk, conduct and inclusion and diversity.

Entry talent and development

Identifying and developing entry talent is also a key focus and our intern and graduate programme is integral to this. We have 30 colleagues on our three-year graduate scheme, and in 2019, fourteen graduates finished their programme and successfully secured permanent roles across our Bank.

Fifteen new graduates started with our Bank in September this year, including five joining our new Banking Leadership cohort, where they have the opportunity to complete rotational placements across a variety of business functions.

We also have over 100 colleagues studying towards an apprenticeship programme across a number of areas including customer service, risk & compliance, finance, accounting and taxation professional qualifications. We are introducing programmes in data analytics and software development as we continue to develop our existing colleagues, supporting our strategic objectives to be a digital first, ethical bank.

Inclusion and diversity

We remain focussed on a range of initiatives to increase diversity and to promote inclusion throughout 2019, working closely with our four inclusion networks: Access, supporting colleagues with disabilities, long-term health conditions and caring responsibilities; Reach, our Race, Ethnicity And Cultural Heritage network; Proud Together, our LGBT network and Elevate, our women's career network. These networks are run by colleagues for colleagues, and continue to make a real difference across our Bank.

We prioritise gender balance across all areas of our Bank and in particular, striving to increase the number of women in our senior roles. This work underpins our HMT Women in Finance Charter commitments including having women in at least 40% of senior roles by 2020. We are progressing well with this focus, exceeded the target set and further details can be found in our Continuing to Build Gender Balance 2019 report. Our gender balance focus is driven forward by our five -point gender diversity plan including our Career Confidence programme, our female-focussed mentoring initiatives and our parental mentoring programme. We also held career events to encourage internal colleagues to consider opportunities and to attract a wider demographic of external applicants to our roles. We were also proud to sign up to the HMT Investing in Women Code, focussed on improving female entrepreneurs' access to tools, resources and finance this year.

We support colleagues from different cultural backgrounds, including those identifying as Black, Asian and Ethnic Minorities (BAME). We were delighted to host six work experience students again this year from the Social Mobility Foundation charity (SMFc), with our REACH network providing buddying support. We plan to build on this with the launch of our SMFc e-mentoring programme in 2020.

We officially sponsored Manchester Pride for the fourth year running in 2019, our biggest event yet with many more colleagues attending, all supported by our Proud Together LGBT network.

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

We also continue to leverage our relationship with Inclusive Employers, a diversity advisory group who provides us with support on inclusion activities.

In January 2015, as part of our refreshed Ethical Policy, we committed to paying colleagues no less than the real living wage as set by the Living Wage Foundation and we have re-affirmed this commitment each year.

Regular informal and formal consultations take place with Unite, our Trade Union. The Union continues to be fully consulted where organisational change and other issues may affect colleagues.

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

Employment litigation levels continue to be low. Two employment tribunal claims were issued against the Bank in 2019, both of which are being defended.

HR key performance indicators

Gender diversity (Headcount) as at 31 December

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

2018	Female No.	Female %	Male No.	Male %	Grand total No.
Board[1]	1	13 %	7	87 %	8
Executive management team[2]	3	25 %	9	75 %	12
Other employees	1,966	59 %	1,375	41 %	3,341
Grand total	1,970	59 %	1,391	41 %	3,361

1. *Board: Includes Executive and Non-Executive Directors.*
2. *Executive management team: Includes senior managers who have responsibility for planning, directing or controlling the activities of the business.*

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

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

2018	Full time	Part time	Grand total
Female	1,264	706	1,970
Male	1,329	62	1,391
Grand total	2,593	768	3,361

Senior Managers and Certification Regime (SMCR) and whistleblowing

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

Engagement with suppliers

During the year, the Bank reviewed its procurement policy, which sets out the approach to procuring products and services from third parties in a responsible and sustainable way. The procurement policy is aligned to our Ethical Policy and includes seven goals that we expect to be shared amongst third parties in our supply chain. These include: acting with honesty and integrity; being a responsible bank that treats customers fairly; promoting human rights and equality; promoting economic and social development in Britain; protecting the environment; supporting international development; protecting animal welfare. Within the policy, we re-confirmed our commitments to suppliers as well as our expectations of them. All staff involved in buying decisions, or the payment of suppliers, received training in 2019 on the process and expectations involved.

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare Group, Finance Group, Bank, Holding Company, Finance Company, and Bank Company financial statements for each financial year. Under that law they have elected to prepare the Group, Finance Group, Bank, Holding Company, Finance Company and Bank Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and applicable law.

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

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

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

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

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

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

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

Disclosure of information to the auditor

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

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

Corporate governance statement

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

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

This responsibility statement was approved by the Board of Directors of the Holding Company, Finance Company and Bank Company on 26 February 2020 and is signed on its behalf:

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

Robert Dench
Chair
26 February 2020

Directors' Report on remuneration to the shareholder

The re-introduction of incentive arrangements has rebalanced our pay structures, aligning them to the Bank's short-term and strategic objectives.

Dear Stakeholder

I am pleased to present an overview of the key developments relating to remuneration in 2019 together with The Co-operative Bank Pillar 3 remuneration disclosure for 2019. Our full Executive Directors' remuneration policy remained unchanged in 2019 and can be found at:

https://www.co-operativebank.co.uk/assets/pdf/investorrelations/annual-report.pdf

Looking back on 2019

During the year, the Bank completed a review of its overall reward strategy, following consultation with internal stakeholders, including members of the Values and Ethics Committee, and externally with our regulators. The Remuneration Committee subsequently gave its approval for the re-introduction of an 'all employee' annual bonus scheme in 2019 and long-term incentive awards to selected senior staff. In doing so, the Remuneration Committee has been keen to ensure that the designs of both the 2019 bonus and long-term incentive arrangements promote strong individual and team performance, aligning a combination of financial and non-financial performance metrics to the Bank's short-term and strategic objectives respectively.

The re-introduction of variable remuneration schemes this year also demanded a further review of how risk is taken into account when assessing performance. Building on previous work, the outcome of this year's review, overseen by the Chief Risk Officer and approved by the Remuneration Committee, is a more robust framework, which sets out clearly how risk issues are to be identified and categorised. Such issues, as they relate to remuneration, are then considered in depth by the Bank's Risk Adjustment Forum and People Committee, before referral with recommendations to the Remuneration Committee to consider any collective and/or individual adjustments to variable pay awards.

In recent years, in the absence of a bonus scheme, we have recognised the contribution of the wider workforce with an annual allowance payment for colleagues below senior levels. With a bonus scheme in place for 2019, no allowance will be paid. Where appropriate, however, targeted adjustments to individual base salaries have been applied again this year to recognise strong performance and ongoing criticality to the business.

There were further Executive team changes, including the appointment of a new Chief Operating Officer in June 2019. In addition to agreeing remuneration packages for new and changed roles, the Remuneration Committee approved proposals for the transition of Executive pay to a normalised structure. This will see the rebalancing of Executive pay from fixed to a combination of fixed and variable pay by 2020.

The performance of our Executive team remains critical to achieving a sustainable and profitable bank. Accordingly, the Remuneration Committee has continued to closely monitor performance in 2019, by reference to the Bank's scorecard.

Scorecard performance – what does it measure?

The scorecard sets out five performance areas:

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

More detail on these performance areas is included on page 72.

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

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

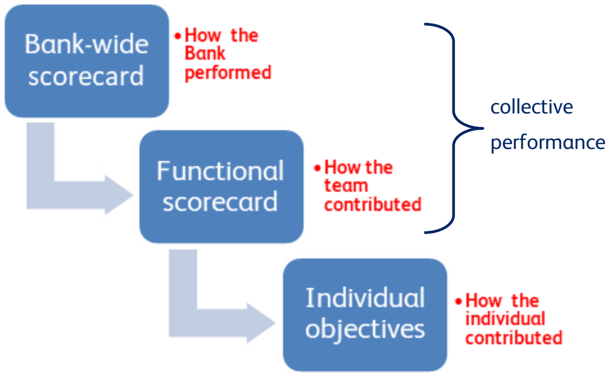
The performance achieved is monitored on a monthly basis and the annual results, in the context of variable pay awards, are subject to review by the Remuneration Committee.

By the end of the year, the scorecard measures showed overall performance achieved was 97.3 % (rounded). Within the scorecard, each area carries a target weighting of 20 % and, in this regard, the overall performance reflects the following achievement in each area:

- Performance for our customers was measured at 16.7 %;
- Performance for our people was measured at 21.5 %;
- In building our future, performance was measured at 20.0 %;
- Our financial performance was measured at 15.2 %, and
- Risk and control performance was measured at 23.9 %.

Integral to this focus on performance is the Remuneration Committee's attention to risk issues and considerations. Therefore, it was particularly pleasing to see operational improvements against our Risk Management Framework through the year and performance against all 'risk and control' scorecard measures tracking on or above target.

1. Performance is measured relative to outcomes delivered by the Executive…



2. …and once the performance outcomes have been assessed, any adjustment for individual risk outcomes is reflected.

Once final performance for 2019 was determined, the Remuneration Committee oversaw the distribution of variable pay, including annual bonuses for all employees and long-term incentive awards to selected staff, for the 2019 performance year. Awards varied subject to both corporate performance through reference to Bank-wide and functional scorecards and individual performance against agreed personal objectives, and behaviours, in terms of 'how' performance was achieved. Appropriate consideration was, therefore, given to the underlying performance of the Bank, in accordance with regulatory requirements and a discretionary adjustment to the bonus pool was applied taking the overall scorecard result down to 87.7 %. All awards remained within the parameters set out in the approved policy.

Meanwhile, in early 2019 the Bank's regulators advised us that, for supervisory purposes, the Bank would be treated as a Proportionality Level 2 firm. Whilst this reduces the Bank's regulatory remuneration reporting, the work we have previously undertaken to strengthen our policy and process documentation in this area remains relevant and will continue to support the Bank's ongoing compliance with remuneration regulations.

Remuneration Committee agenda for 2020

The Remuneration Committee will continue to oversee the development and implementation of the Bank's remuneration policy and practices, including the determination and distribution of variable pay, comprising annual bonuses for all employees and long-term incentive awards to selected staff in 2020. We remain committed to ensuring our reward framework continues to align Executive performance with shareholder expectations, as well as the customer experience, while ensuring that pay remains competitive and aligned to the strategy of the Bank over the short and long term. The Remuneration Committee will continue to consult with both the Risk Committee and the Values and Ethics Committee on certain aspects of remuneration policy.

Diversity remains a key area of focus for the Bank and through the Bank's focussed work on gender diversity, in particular for internal promotions, we have met our HMT Women in Finance target of 40 % of senior management roles occupied by women by 2020. The Remuneration Committee will continue to monitor continuing compliance with this target. The Remuneration Committee will also review the Bank's Gender Pay Gap reportable data on an annual basis.

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

Sir Bill Thomas
Remuneration Committee Chair
26 February 2020

Introduction

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

Remuneration governance

The Co-operative Bank has an established Remuneration Committee consisting of Non-Executive Directors of The Co-operative Bank. The Remuneration Committee met seven times in 2019. Their responsibilities include recommending to the Board for approval the overarching principles and parameters of the remuneration policy across the Bank, and applying the necessary oversight to ensure an overall coherent approach to remuneration is implemented for all employees, whilst ensuring arrangements are consistent with effective risk management.

During 2019 the members of the Remuneration Committee were as follows:

Committee membership	Date of appointment	Date of resignation
Sir Bill Thomas (Chair)	26 Sep 2017[1]	
Sally-Ann Hibberd	11 Dec 2019	
Derek Weir	26 Sep 2017	
Glyn Smith	27 Mar 2019	
Paul Copley	1 Sep 2018	31 Dec 2019
Morteza Mahjour	1 Jan 2020	

1. Chair since 19 December 2017

In setting remuneration policies, the Remuneration Committee seeks to:

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

The Remuneration Committee received support and advice from external advisors during the year. In the first few months of 2019, Deloitte LLP continued to advise the Remuneration Committee. However, following a scheduled review of this appointment, involving a number of consulting firms, the Remuneration Committee felt that the time was right to seek some new perspectives and appointed PwC with effect from August 2019. Both Deloitte LLP and PwC are members of the Remuneration Consultants Group and, as such, voluntarily operate under the code of conduct in relation to ‘Executive remuneration consulting in the UK’.

The role and activities of the Remuneration Committee are further detailed in the Remuneration Committee’s terms of reference (which are available on the Group’s website). The Remuneration Committee continues to regularly consult with management on aspects of remuneration and benefits, corporate governance and risk. For these purposes, management includes the Chief Executive Officer, Chief People Officer, General Counsel and Chief Risk Officer. The Remuneration Committee also works closely with Chairs of the Risk Committee, Joint Audit Committee, Nomination Committee and Values and Ethics Committee.

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

Material Risk Taker criteria

The Remuneration Committee oversees remuneration for staff identified as Material Risk Takers (MRTs). In 2019, eighty MRTs were identified within the Bank, according to the qualitative and quantitative criteria contained within the Regulatory Technical Standards published by the EBA and the Bank's own assessment of individuals who can create material risks through their professional activities. The process for identification and the final list of MRTs was approved by the Remuneration Committee.

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

Link between pay and performance

Components of remuneration

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

In 2019, the Remuneration Committee approved the re-introduction of variable pay arrangements including both annual and long-term incentives. The Bank's variable pay arrangements aim to reward individual and collective performance achieved in a manner consistent with the Bank's values and ethics and within the Bank's risk appetite. Senior colleagues (Executive Committee and certain MRTs) are eligible for grants under a Long-Term Incentive Plan (LTIP), as provided under our approved policy. Recognising the progress being made since the Bank's Restructuring and Recapitalisation in 2017 and with that the easing of constraints under the requirements of CRD IV regulations, the Remuneration Committee approved the grant of awards in 2019 under a new LTIP. A one-off Management Incentive Plan (MIP), which was implemented in late 2018, continued to operate, with four additional individual awards under the MIP being made in early 2019. This Plan aligns certain senior colleagues with long-term value creation, subject to maintaining sound risk management. Full details can be found in the 2018 Directors' remuneration report in the 2018 Annual Report and Accounts.

Fixed remuneration

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

Variable remuneration

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

- Our customers (including brand strength and digital adoption);
- Our people (including embedding a culture that is aligned to our values);
- Building our future (including performance against the Bank's key strategic priorities);
- Our finances (including performance against our key KPIs including profitability, cost:income ratio and CET1 ratio); and
- Our risk and control environment (including consideration of operational losses, timely reporting and remediation of risk issues and internal audit findings, effective AML controls, overall compliance with the regulatory environment and productive relationships with the Bank's regulators).

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

The CRO's quarterly report to the Remuneration Committee also provides a summary of year-to-date risk performance, including:

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

Accordingly, annual bonus pools are risk adjusted:

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

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

Individual performance assessment, deferral, malus and clawback

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

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

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

Ratio between fixed and variable remuneration

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

Quantitative remuneration disclosure

1. Aggregate remuneration – all employees

	2019		
	Total fixed remuneration	Total variable remuneration	Total remuneration
Total number of employees[1]	£m	£m	£m
3,327	**115.2**	**7.0**	**122.2**

1. Figures are based on the Bank's employee population as at 31 December 2019.

2. Aggregate remuneration[3] – Senior Management and other Material Risk Takers by business area

			2019		
	Number of employees	Remuneration	Retail and SME £m	Corporate functions[2] £m	Internal control functions £m
Senior management[1]	28	Fixed	1.92	6.89	0.99
		Variable	0.79	0.95	0.35
Other MRTs	48	Fixed	1.09	4.93	1.43
		Variable	0.34	0.82	0.18
Total	**76**		**4.14**	**13.59**	**2.95**

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

2. CEO and Non-Executive Directors are included in corporate functions;

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

CEO total remuneration for 2019 was £2.6m. This was made up of the following:

Fixed remuneration	£000s
Basic salary	1,300
Allowances and benefits	842
	2,142
Variable remuneration	
2019 bonus	455

In addition, an award over a number of notional shares with a face value of 100 % of basic salary was awarded under the 2019 Long-Term Incentive Plan. The award is subject to meeting multiple performance targets over a three year period, linked to delivering the Bank strategy, and then a further holding period of two years plus additional regulatory deferral as required.

Risk management

The co-operative bank
for people with purpose

1. RISK MANAGEMENT OBJECTIVES AND POLICIES

1.1 Our approach to risk management

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

- 1st line – are responsible for owning and managing all risks within defined appetites, complying with Risk Policies and Control Standards, ensuring supporting procedures are documented and maintained using the Bank's Risk and Control Self-Assessment (RCSA), and are responsible for reporting the performance, losses, near misses and status of risks through governance;

- 2nd line – the Risk function act as the 2nd line of defence. The Risk Framework Owners (RFOs) are responsible for setting Risk Policies, Control Standards, Bank-wide procedures and Risk appetite. RFOs sit within the 2nd line with the exception of some specialist areas where the RFO sits within 1st line (for example Legal, Financial Reporting and People Risk), the 2nd line risk function will provide oversight over the RFO activities in such cases;

- 3rd line – the internal audit function assesses the adequacy and effectiveness of the control environment and independently challenges the overall management of the Risk Management Framework (RMF).

1.2 Overview

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

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

Material risks and issues, whether realised or emerging, inclusive of those documented in relation to the RMF itself are described within section 1.9.

1.3 Our Risk Management Framework (RMF)

1.4 Risk management strategy and appetite

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

Risk appetite is translated into specific risk measures which are tracked, monitored and reported to the appropriate Risk Committees (refer to section 1.7). The risk appetite framework has been designed to create clear links to the strategic planning process whereby appropriate metrics and limits for each risk category are established, calibrated and reported.

1.5 Our risk culture

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

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

1.6 Evolution of the RMF in 2019

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

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

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

1.7 Our risk governance

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

The Board has established Board Committees and senior management committees to oversee the RMF, including identifying the key risks faced and assessing the effectiveness of any risk management actions. In 2019, the Bank Restructuring Committee (BResCo) was reconstituted as the Investment & Project Oversight Committee (IPOC) and two new Committees were formed, the People Committee and the Customer First Committee. The structure of committees in operation are outlined below. The Committees which directly oversee the effective management and oversight of the RMF are highlighted in the table overleaf.

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

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

1.8 Principal risk categories

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

Credit risk

Definition:
Credit risk is the risk to profits and capital arising from a customer's failure to meet their legal and contractual obligations. Credit risk comprises of treasury, retail, and corporate.

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

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

Key indicators:
2019 impairment charge: The Group is in a net credit position (2018: same). See page 31.
Year-on-year reduction in 3 months in arrears: from 0.2% to 0.1%.

Capital risk

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

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

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

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

Key indicators:
CET1 ratio: 19.6%
Total Capital Resources: 23.8%
Whilst the CET1 ratio has reduced since 2018, Total Capital Resources have increased following the recent Tier 2 issuance. Further information is included on page 33.

Model risk

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

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

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

Key indicators:
N/A

Pension risk

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

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

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

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

Key indicators:
The schemes are in a significant surplus position on an accounting basis. Further information is included in the retirement benefits note to the Annual Report and Accounts.

Market risk

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

Key themes:
The Bank's exposures to market risk include interest rate, basis, swap spread, currency and product option risks. The Bank's business model results in a more limited exposure to market risk and as such, its main sources of market risk are mismatches between the profiles of mortgage lending assets and deposit liabilities. The Bank hedges its High Quality Liquid Asset (HQLA) portfolio, however changes in credit spreads may expose the Bank to changes in the fair value of the portfolio.

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

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

Key indicators:
PV01: This measures the sensitivity of future cash flows to a one-basis point shift in interest rates. Analysis of PV01 is provided on page 110, where we explain market risk exposures have reduced.

Reputational risk

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

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

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

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

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

Liquidity and funding risk

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

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

The Bank seeks to maintain a diversified customer funding base, across retail and SME segments, and using a range of products, including current account, demand and term. Inherently the focus on customer funding includes risk around customer behaviour and the behaviour of the savings market, with competition increasing the cost or reducing availability of funding as described on page 116. Risks associated with wholesale market access and volatility are also faced. The Bank has re-entered the UK RMBS market in 2019 to support the funding profile and provide access to alternative funding sources.

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

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

Key indicators:
Loan to deposit ratio: 94.3% (2018: 94.7%)
LCR eligible assets: £6,768.8m (2018: £7,025m)
Liquidity Coverage Ratio: 173.7% (2018: 153.8%).

Operational risk

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

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

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

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

Key indicators:
Analysis of operational net losses is disclosed in our Pillar 3 report (table 35). In the current year, 81.6% of net losses arose from external fraud (2018: 51.4%).

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

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

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

Significant risks: A significant risk is a risk that, if crystallised, the residual risk (based on 5x5 probability versus impact matrix) is likely to cause a significant impact to the Bank's ability to operate, service customers, protect its reputation and sustain its viability.
Emerging risks: An emerging risk is a risk that has been identified but not yet sufficiently materialised to allow it to become a significant risk or issue that the Bank is actively managing.

1.9 Significant risks

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

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

Net interest margin (NIM)
The plan targets a conservation of NIM over the medium-term, although a short-term reduction in NIM is anticipated. The plan targets are most susceptible to interest rate changes and competitive pressures. 'lower for longer' interest rates (including the Bank of England base rate), will restrict the Bank's ability to increase NIM and, consequently, restrict organic capital generation and profitability, as well as any improvement in the Bank's underlying cost:income ratio.

The Bank regularly reviews its central economic scenario to ensure that emerging risks are identified and understood.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1.10 Emerging risks

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

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

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

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

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

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

1.11 Risk profile of the Bank

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

Retail	**Business activities:** • Deposits • Lending to retail (secured, credit cards and overdrafts)	**Loans and advances to customers (L&A to customers)[1] (£m)** 16,638.6	**RWAs (£m)** Credit risk: 2,553.5 Operational risk: 342.8
SME	**Business activities:** • Corporate lending including business banking • Deposits to the SME sector	**L&A to customers[1] (£m)** 180.7	**RWAs (£m)** Credit risk: 186.8 Operational risk: 93.7
Treasury	**Business activities:** • Cash flow, liquidity management, FX	**Credit risk balances (£m)** 2,345.8[2]	**RWAs (£m)** Credit risk: 755.2 Operational risk: 9.8
Legacy and unallocated	**Business activities:** • Closed books of corporate, unsecured and residential (Optimum) lending	**L&A to customers[1] (£m)** 1,099.1	**RWAs (£m)** Credit risk: 850.5 Operational risk: 11.4

1. L&A to customer balances include other accounting adjustments and total £17,918.4m (2018:£17,733.9m) as per note 14.
2. Combination of loans and advances to banks, investment securities and derivative financial instruments and other assets.

2. CAPITAL RISK

Overview - Unaudited

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

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

The strategic report and the 2019 Pillar 3 (Section 3 Capital Adequacy) report provide further detail on the capital risk and common leverage rate disclosures.

3. CREDIT RISK

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

3.1 Overview

Credit risk is managed through a framework that sets out policies and procedures covering both its measurement and management. There is a clear segregation of duties between transaction originators in the businesses and the approvers in the risk function. All credit exposure limits are approved within a defined credit approval authority framework. Credit exposures are managed through diversification across products, regional spread (UK), clients and customer segments.

3.1.1 Credit exposure (Audited):

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

31 December 2018	L&A to Banks	L&A to Customers	Investment securities	Derivative financial instruments	Other Assets	Total
Analysis of credit risk exposure						
Gross customer balance	485.8	17,658.8	1,935.0	192.2	54.7	20,326.5
Credit commitments	-	2,247.4	-	-	-	2,247.4
Gross customer exposure	485.8	19,906.2	1,935.0	192.2	54.7	22,573.9
Less: allowance for losses	-	(52.7)	-	-	-	(52.7)
Net customer exposure	485.8	19,853.5	1,935.0	192.2	54.7	22,521.2
Gross exposure for ECL calculation						
Gross customer exposure	485.8	19,906.2	1,935.0	192.2	54.7	22,573.9
Less Fair Value Through Profit and Loss (FVTPL)[1]	-	(123.9)	(3.5)	(192.2)	(32.9)	(352.5)
Net customer exposure for ECL calculation	485.8	19,782.3	1,931.5	-	21.8	22,221.4
Reconciliation of customer to accounting balances						
Net customer exposure	485.8	19,853.5	1,935.0	192.2	54.7	22,521.2
Less credit commitments	-	(2,247.4)	-	-	-	(2,247.4)
Plus accounting adjustments	-	127.8	-	-	-	127.8
Gross loans and advances – notes 13, 14, 15, 16, 18	485.8	17,733.9	1,935.0	192.2	54.7	20,401.6

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

All balances except L&A to customers are stage 1 (2018: stage 1) and did not transfer during the year. L&A to customers is further analysed in the credit risk management section below.

3.2 Credit risk management

3.2.1 Loans and advances to customers

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

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

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

An Expected Credit Loss (ECL) is calculated for the drawn element of the book (gross loans and advances) plus an ECL for the undrawn (credit commitments excluding the derivative). The drawn and undrawn ECL is set against the gross loans and advances balance to give the net loans and advances (see note 14).

The disclosures in the sections below are based on:
- Gross customer balance;
- Gross customer exposure (which includes the gross customer balance plus credit commitments); and
- Allowance for losses (which includes drawn ECL and undrawn ECL).

Tables showing the movement in opening and closing customer exposure and allowance for losses is shown for each business segment. The basis of calculation of the reconciliation of opening and closing balances and the allowance for loan losses is calculated in the sequential order of the tables. The calculation of the reconciliation of transfers between stages is performed by comparing 1 January opening values compared to closing 31 December values. New assets originated or purchased in the table below include loan commitments. Changes to risk parameters (model inputs) in the table below include repayments. Assets de-recognised disclosed in the table below only includes write-offs. For the 2018 calculation stage transfers also included repayments on assets which had transferred during the year. All repayments, including those related to assets which transferred stages during the year, are reflected within other changes to risk parameters for the year ended 31 December 2019.

There has been minimal impact due to the macroeconomic scenarios. There has been some refinement of the data inputs throughout the year and new models have been introduced for the secured and unsecured books.

Retail unsecured products are all subject to an allowance being calculated and allocated under the ECL models. None are excluded on the basis of low LTV.

Impairment

The Bank assesses the ECL on a forward-looking basis for debt instruments carried at amortised cost, for exposures related to loan commitments, and financial guarantee contracts.

The modelling of credit risk impairment is subject to a number of sensitivities including:
- Change in the indexed collateral value;
- Change in the forced sale discount applied; and
- Assumptions around discount rate.

Changes to the above parameters can have a significant impact on the allowance for losses provision, see note 2.2 Key sources of estimation uncertainty for further detail.

See the Explanatory Information to the financial statements for the recognition criteria applicable to each of the three stages.

Below is a summary of the Loans and advances to customers analysed by business segment (Unaudited):

31 December 2019	Core Retail	Core SME	Legacy & unallocated	Total	Of which: FVTPL
Analysis of credit risk exposure					
Gross customer balance	16,588.4	184.4	1,073.8	**17,846.6**	117.0
Credit commitments	1,891.3	65.9	147.8	**2,105.0**	-
Gross customer exposure	18,479.7	250.3	1,221.6	**19,951.6**	117.0
Less: allowance for losses	(17.3)	(5.3)	(4.1)	**(26.7)**	-
Net customer exposure	**18,462.4**	**245.0**	**1,217.5**	**19,924.9**	**117.0**
Gross exposure for ECL calculation					
Gross customer exposure	18,479.7	250.3	1,221.6	**19,951.6**	
Less Fair Value Through Profit and Loss (FVTPL)	(1.8)	(5.2)	(110.0)	**(117.0)**	
Net customer exposure for ECL calculation	**18,477.9**	**245.1**	**1,111.6**	**19,834.6**	
Reconciliation of customer to accounting balances					
Net customer exposure	18,462.4	245.0	1,217.5	**19,924.9**	117.0
Less credit commitments	(1,891.3)	(65.9)	(147.8)	**(2,105.0)**	-
Plus accounting adjustments	67.5	1.6	29.4	**98.5**	26.2
Gross loans and advances – note 14	**16,638.6**	**180.7**	**1,099.1**	**17,918.4**	**143.2**

31 December 2018[1]	Core Retail	Core SME	Legacy & unallocated	Total	Of which: FVTPL
Analysis of credit risk exposure					
Gross customer balance	15,843.5	291.3	1,524.0	17,658.8	123.9
Credit commitments	1,998.6	48.0	200.8	2,247.4	-
Gross customer exposure	17,842.1	339.3	1,724.8	19,906.2	123.9
Less: allowance for losses	(20.8)	(20.8)	(11.1)	(52.7)	-
Net customer exposure	17,821.3	318.5	1,713.7	19,853.5	123.9
Gross exposure for ECL calculation					
Gross customer exposure	17,842.1	339.3	1,724.8	19,906.2	
Less FVTPL	(2.6)	(7.7)	(113.6)	(123.9)	
Net customer exposure for ECL calculation	17,839.5	331.6	1,611.2	19,782.3	
Reconciliation of customer to accounting balances					
Net customer exposure	17,821.3	318.5	1,713.7	19,853.5	123.9
Less credit commitments	(1,998.6)	(48.0)	(200.8)	(2,247.4)	-
Plus accounting adjustments	81.6	5.5	40.7	127.8	26.9
Gross loans and advances – note 14	15,904.3	276.0	1,553.6	17,733.9	150.8

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

The tables show that there has been a small net overall increase of 1.0% in the net customer exposure over the year, with growth in the retail segment (driven through secured lending) offsetting the expected decline in the legacy books as these run off. The 2019 closing position for credit risk provision is £26.7m, a £26.0m reduction from the 2019 opening balance position of £52.7m. Movement is driven predominantly by the ECL release associated with write-offs in the corporate portfolio (£13m) and releases in the secured portfolio driven by the Warwick Finance Four securitisation (£3m), the full release of the interest only term expiry PMA (£4m) and reduction in ECL as a result of the IFRS 9 model rebuild (£1m).

3.2.1.1 Retail - Secured residential mortgage and unsecured credit risk

The retail business segment comprises of two main portfolios:

- Retail secured – this is predominantly prime residential mortgages alongside buy-to-let (BTL) mortgages. All new secured completions are in this portfolio (see origination and account management for details); and
- Retail unsecured– this is made up of two sub-portfolios of credit cards and overdrafts.

Unless stated otherwise, all analysis is based on gross customer balances/exposure.

Movement in IFRS 9 gross customer exposure and allowance for losses

The write-offs for retail secured mortgages in 2019 was £2.1m (2018: £2.8m). At the point of write-off, the Bank has no further pro-active debt recovery activity since recovery of the outstanding balance is deemed unlikely, uneconomical or inappropriate. The exception is mortgage shortfall balances, which are 100% provided, but can still be pursued for payment.

The write-off for retail unsecured was £7.3m (2018: £8.0m). At the point of write-off the Bank has no further pro-active debt recovery activity as recovery of the outstanding balance is deemed unlikely, uneconomical or inappropriate. The movement in the gross customer exposure and the related allowance for losses (excludes those assets held at FVTPL) across the retail segment is shown below (Audited):

Gross customer exposure	Stage 1	Stage 2	Stage 3	Purchased or Originated Credit Impaired (POCI)	Total
At 1 January 2019	17,184.2	461.0	73.7	120.6	**17,839.5**
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	(243.7)	243.7	-	-	**-**
To credit impaired (stage 1 or 2 or 3)	(10.5)	(12.6)	23.1	-	**-**
To 12 month ECL (stage 2 or 3 to 1)	136.1	(136.1)	-	-	**-**
From credit impaired (stage 3 to 2)	3.6	1.2	(4.8)	-	**-**
Net changes arising from stage transfers	**(114.5)**	**96.2**	**18.3**	**-**	**-**
Other charges/(releases):					
New assets originated or purchased	3,906.8	-	-	-	**3,906.8**
Other changes to risk parameters[1]	(3,107.2)	(95.9)	(35.3)	(20.6)	**(3,259.0)**
Changes to model used for ECL calculation	(278.6)	269.9	8.7	-	**-**
Net other charges/(releases)	**406.5**	**270.2**	**(8.3)**	**(20.6)**	**647.8**
Assets written off	(3.6)	(1.8)	(3.9)	(0.1)	**(9.4)**
At 31 December 2019	**17,587.1**	**729.4**	**61.5**	**99.9**	**18,477.9**

Gross customer exposure	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2018	15,848.3	534.3	89.4	149.1	16,621.1
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	(171.6)	156.9	-	-	(14.7)
To credit impaired (stage 1 or 2 or 3)	(13.7)	(14.8)	25.7	-	(2.8)
To 12 month ECL (stage 2 or 3 to 1)	122.2	(129.0)	-	-	(6.8)
From credit impaired (stage 3 to 2)	4.4	3.5	(9.6)	-	(1.7)
Net changes arising from stage transfers	(58.7)	16.6	16.1	-	(26.0)
Other charges/(releases):					
New assets originated or purchased	5,178.5	-	-	-	5,178.5
Other changes to risk parameters[1]	(3,781.2)	(86.9)	(26.8)	(28.4)	(3,923.3)
Net other charges/(releases)	1,338.6	(70.3)	(10.7)	(28.4)	1,229.2
Assets written off	(2.7)	(3.0)	(5.0)	(0.1)	(10.8)
At 31 December 2018	17,184.2	461.0	73.7	120.6	17,839.5

1. Includes repayments and changes due to other model inputs.

Allowance for losses	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2019	9.0	3.6	7.8	0.4	**20.8**
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	(0.3)	2.4	-	-	**2.1**
To credit impaired (stage 1 or 2 or 3)	0.1	(0.2)	4.2	-	**4.1**
To 12 month ECL (stage 2 or 3 to 1)	0.1	(0.8)	-	-	**(0.7)**
From credit impaired (stage 3 to 2)	-	-	(0.7)	-	**(0.7)**
Net changes arising from stage transfers	**(0.1)**	**1.4**	**3.5**	**-**	**4.8**
Other charges/(releases):					
New assets originated or purchased	2.0	-	-	-	**2.0**
Other changes to risk parameters[1]	(1.0)	(0.5)	(2.8)	(0.1)	**(4.4)**
Changes to model used for ECL calculation	0.6	(0.2)	(1.4)	-	**(1.0)**
Others[2]	0.4	0.6	0.4	(0.1)	**1.3**
Net other charges/(releases)	**1.9**	**1.3**	**(0.3)**	**(0.2)**	**2.7**
Assets written off	(2.2)	(1.6)	(2.3)	(0.1)	**(6.2)**
At 31 December 2019	**8.7**	**3.3**	**5.2**	**0.1**	**17.3**

Allowance for losses	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2018	5.1	2.1	11.6	0.3	19.1
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	(0.1)	1.2	-	-	1.1
To credit impaired (stage 1 or 2 or 3)	-	(0.2)	4.2	-	4.0
To 12 month ECL (stage 2 or 3 to 1)	0.3	(0.6)	-	-	(0.3)
From credit impaired (stage 3 to 2)	-	0.1	(1.6)	-	(1.5)
Net changes arising from stage transfers	0.2	0.5	2.6	-	3.3
Other charges/(releases):					
New assets originated or purchased	2.7	-	-	-	2.7
Other changes to risk parameters[1]	2.8	2.9	(3.4)	0.1	2.4
Net other charges/(releases)	5.7	3.4	(0.8)	0.1	8.4
Assets written off	(1.8)	(1.9)	(3.0)	-	(6.7)
At 31 December 2018	9.0	3.6	7.8	0.4	20.8

1. Includes repayments and changes due to other model inputs.
2. The £1.3m increase in retail unsecured ECL relates to refinement of data inputs.

The risk ratios for the retail segment are:

Risk ratios – 2019	Stage 1	Stage 2	Stage 3	POCI	Total
Gross customer exposure	17,587.1	729.4	61.5	99.9	**18,477.9**
of which impaired exposure	-	-	61.5	99.9	**161.4**
Impaired as a % of Gross customer exposure	-	-	100.0 %	100.0 %	**0.9%**
Allowance for losses	8.7	3.3	5.2	0.1	**17.3**
Coverage – over impaired	N/a	N/a	8.5 %	0.1 %	**10.7%**
Coverage – over total exposure	0.05 %	0.45 %	8.46 %	0.10 %	**0.09%**

Risk ratios – 2018	Stage 1	Stage 2	Stage 3	POCI	Total
Gross customer exposure	17,184.2	461.0	73.7	120.6	17,839.5
of which impaired exposure	-	-	73.7	120.6	194.3
Impaired as a % of Gross customer exposure	-	-	100.0 %	100.0 %	1.1 %
Allowance for losses	9.0	3.6	7.8	0.4	20.8
Coverage – over impaired	N/a	N/a	10.6 %	0.3 %	10.7 %
Coverage – over total exposure	0.05 %	0.78 %	10.58 %	0.33 %	0.12 %

3.2.1.1.1 Retail - Secured residential mortgage

The following section provides analyses and commentary on the secured residential element of the retail business segment:

Origination and account management
Mortgages are loans to customers secured by a first charge over a residential property, with nearly all originated via intermediaries under the Platform brand with a limited value directly to customers under The Co-operative Bank and Britannia brands. Of the mortgage completions (including ports) in the year to 31 December 2019, 98.6% (2018: 97.8%) was originated through intermediaries and 1.4% (2018: 2.2%) were further advances and variations from historic direct business.

Platform currently originates a combination of prime residential mortgages and BTL loans. Historically, these loans have been advanced on a capital and interest payment basis, where the loan is repaid over the term of the loan, or interest only, where the capital element of the loan is repayable at the end of the term. All new advances are on a capital repayment basis with the exception of BTL lending and existing interest only loans for customers moving home.

During the term of the mortgage, interest only mortgages are managed in the same way as capital repayment mortgages. In addition, the Bank has a communication strategy to remind the customer that they must ensure they have a satisfactory repayment strategy in place on loan maturity, in line with our customer contact strategy.

Risk in the portfolio is recalculated monthly, using internally-developed behavioural models. This process is also used to determine the amount of capital which is required to be held for individual loans.

The level of new completions in the year with related average LTV's and interest only percentage is shown below (Unaudited):

	2019			2018		
Origination	Advanced amount	Average LTV - %	Interest only - %	Advanced amount	Average LTV - %	Interest only - %
Britannia and Co-operative Bank prime	**53.5**	**58.2**	**2.2**	92.7	59.6	3.4
Platform prime	**3,417.0**	**71.4**	**-**	4,040.9	72.3	-
Total prime residential	**3,470.5**	**71.2**	**-**	4,133.6	72.0	0.1
Buy-to-let	**270.1**	**58.6**	**75.5**	149.3	61.3	83.8
Total completions (including ports)	**3,740.6**	**70.3**	**5.5**	4,282.9	71.6	3.0

The table below shows gross customer balance (excluding commitments) analysed by the number of years after the initial origination (Audited):

Origination by age	2019	2018
<1 year	**3,819.3**	4,388.8
1-4 years	**8,100.5**	6,814.3
4-7 years	**1,616.4**	1,294.8
7+ years	**2,730.8**	2,994.9
Total	**16,267.0**	15,492.8

Portfolio analysis
The following tables show the secured residential balances (excluding legacy) analysed by a number of key risk measurements. The portfolio grew in the year by a net £0.8bn (2018: £1.3bn).

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 £0.2bn. At the same time, total capital repayment balances have increased by £1.0bn. The proportion of total balances with current LTV less than 50% has reduced in the period to 33.4% (2018: 36.1%).

(Audited):

LTV %	2019 Capital repayment	2019 Interest only	2019 Total	2018 Capital repayment	2018 Interest only	2018 Total
Less than 50 %	**4,323.1**	**1,105.8**	**5,428.9**	4,345.9	1,253.8	5,599.7
50 % to 60 %	**2,090.9**	**528.7**	**2,619.6**	1,923.5	546.2	2,469.7
60 % to 70 %	**2,632.1**	**403.3**	**3,035.4**	2,391.0	402.7	2,793.7
70 % to 80 %	**2,950.6**	**127.2**	**3,077.8**	2,551.9	118.7	2,670.6
80 % to 90 %	**1,769.8**	**20.1**	**1,789.9**	1,757.8	28.1	1,785.9
90 % to 100 %	**305.2**	**5.4**	**310.6**	160.7	6.9	167.6
Greater than or equal to 100 %	**0.6**	**4.2**	**4.8**	0.8	4.8	5.6
	14,072.3	**2,194.7**	**16,267.0**	13,131.6	2,361.2	15,492.8

The contractual maturity of the interest only balances are shown below (Unaudited):

	< 1 year	1-5 years	5-10 years	10-20 years	20+ years	Total
2019	**62.5**	**281.6**	**542.5**	**900.3**	**407.8**	**2,194.7**
2018	94.2	298.9	537.0	1,032.0	399.1	2,361.2

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.

(Unaudited):

	2019 Gross customer balance	2019 Average LTV %	2019 Interest only %	2018 Gross customer balance	2018 Average LTV %	2018 Interest only %
Prime residential	**14,966.2**	**57.4**	**7.2**	14,316.9	56.0	9.2
Buy-to-let	**1,250.0**	**54.9**	**86.6**	1,119.2	55.1	89.4
Self-certified	**33.8**	**37.1**	**90.7**	38.3	37.3	90.0
Almost prime	**14.6**	**36.5**	**35.3**	17.7	37.4	34.3
Non-conforming	**2.4**	**58.8**	**21.3**	0.7	49.0	52.8
	16,267.0	**57.2**	**13.5**	15,492.8	55.9	15.2

c) UK regional distribution

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

(Unaudited):

	2019 £m	2019 LTV - %	2018 £m	2018 LTV - %
London & South East	**6,370.3**	**54.4**	6,473.6	53.6
Northern England	**3,625.1**	**60.8**	3,250.9	59.5
Midlands & East Anglia	**3,446.6**	**57.9**	3,172.5	55.7
Wales & South West	**1,897.9**	**56.9**	1,770.7	55.8
Other	**927.1**	**60.2**	825.1	59.7
	16,267.0	**57.2**	15,492.8	55.9

Collateral

Mortgages are secured by a first charge over the property being purchased or re-mortgaged and this security is referred to as collateral. Valuation of the property is either assessed by a Royal Institution of Chartered Surveyors (RICS) certified surveyor from the Bank's approved panel, or through the use of an Automated Valuation Model (AVM).

The Bank reassesses the valuation of collateral for the non-default book on a quarterly basis using a regional property price index. There has been no significant change in the overall quality of the collateral held during the year and the Bank did not take possession of any of its collateral.

The table below analyses the indexed value of property collateral held against the retail residential secured book (balance includes credit commitments which are all stage 1) (Audited):

	2019				2018			
IFRS 9 stage	Gross customer exposure	Collateral	Cover %	Impairment allowance	Gross customer exposure	Collateral	Cover %	Impairment allowance
Stage 1	**16,136.2**	**16,135.6**	**100.0**	**6.9**	15,591.1	15,589.0	100.0	8.0
Stage 2	**671.9**	**671.5**	**99.9**	**0.7**	405.3	405.0	99.9	1.4
Stage 3	**54.8**	**54.7**	**98.8**	**0.3**	67.3	67.1	99.7	2.7
POCI	**95.9**	**95.9**	**100.0**	**-**	115.5	115.5	100.0	0.2
	16,958.8	**16,957.7**	**100.0**	**7.9**	16,179.2	16,167.6	100.0	12.3

Risk grade

The table below analyses the credit risk exposure by grade of retail secured mortgages (Unaudited):

2019 - Credit grade	Stage 1	Stage 2	Stage 3	POCI	Total
0.00 to 1.00 %	13,580.4	494.2	3.3	69.6	**14,147.5**
1.00 to 100.00 %	2,555.8	177.7	51.5	26.3	**2,811.3**
Gross exposure	16,136.2	671.9	54.8	95.9	**16,958.8**
Less: allowance for losses	(6.9)	(0.7)	(0.3)	-	**(7.9)**
Net balance	16,129.3	671.2	54.5	95.9	**16,950.9**

2018 - Credit grade	Stage 1	Stage 2	Stage 3	POCI	Total
0.00 to 1.00 %	13,193.1	299.8	-	82.8	13,575.7
1.00 to 100.00 %	2,398.0	105.5	67.3	32.7	2,603.5
Gross exposure	15,591.1	405.3	67.3	115.5	16,179.2
Less: allowance for losses	(8.0)	(1.4)	(2.7)	(0.2)	(12.3)
Net balance	15,583.1	403.9	64.6	115.3	16,166.9

All PDs are calculated using the Internal Ratings Based (IRB) approach under CRD IV (12 months PDs).

Forbearance

Forbearance is when a bank, for reasons relating to the actual or apparent financial stress of a borrower, grants a concession whether temporarily or permanently to that borrower, where the concession may involve restructuring the contractual terms of a debt or payment. Forbearance facilities may be made to customers in arrears or financial difficulty or those unable to meet outstanding financial commitments to the Bank. Customers may be identified as potentially in financial difficulty at any customer contact and this should be confirmed by a review of the customer's circumstances and full financial assessment. The identification of financial difficulty is a key part of the process of deploying forbearance. Customers are considered to be in financial difficulty if they cannot afford repayments on their financial commitments.

The table below analyses secured residential mortgage balances by type of forbearance and the associated gross allowance for losses coverage (including credit fair value adjustments) (Unaudited):

2019 Forbearance category	Stage 1	Stage 2	Stage 3	POCI	Total	Allowance for losses
Concessions	0.8	1.1	9.2	0.3	**11.4**	-
Arrangements	0.9	3.3	8.0	2.0	**14.2**	-
IO / Capitalisation	0.4	0.3	0.1	-	**0.8**	-
Term expired	-	0.3	15.0	0.1	**15.4**	0.1
Payment holiday	6.3	2.3	0.2	-	**8.8**	-
Deceased grace period	2.4	0.6	0.4	-	**3.4**	-
	10.8	**7.9**	**32.9**	**2.4**	**54.0**	**0.1**

2018 Forbearance category	Stage 1	Stage 2	Stage 3	POCI	Total	Allowance for losses
Concessions	1.1	3.3	0.6	0.3	5.3	-
Arrangements	3.7	5.8	7.1	3.2	19.8	0.3
IO / Capitalisation	0.9	0.3	0.1	0.1	1.4	-
Term expired	0.3	0.2	41.9	0.4	42.8	1.8
Payment holiday	0.8	4.6	-	-	5.4	0.1
Deceased grace period	1.0	0.2	2.4	-	3.6	-
	7.8	14.4	52.1	4.0	78.3	2.2

3.2.1.1.2 Retail - unsecured

The retail unsecured book comprises balances for credit cards and overdrafts.

Origination and account management

Customers' applications for credit are assessed using a combination of credit scoring and policy rules. Credit cards and overdrafts are also subject to ongoing account management to determine any increase or decrease in credit limit that should apply as well as to manage over limit authorisations.

The portfolio risk is reassessed monthly using behavioural scorecards to determine the amount of capital required to be held for individual exposures.

Portfolio analysis

The following table shows unsecured lending gross customer balances and exposures (including undrawn commitments) by product type and associated allowance for losses (Audited):

	Gross customer balance		Gross customer exposure	
	2019	2018	2019	2018
Credit cards	**299.6**	322.7	**1,304.7**	1,428.8
Overdrafts	**21.8**	28.0	**214.4**	231.5
	321.4	350.7	**1,519.1**	1,660.3

	Allowance for losses	
	2019	2018
Credit cards	**5.7**	4.8
Overdrafts	**3.7**	3.7
	9.4	8.5

Risk grade

The table below analyses the credit risk exposure for retail unsecured for which ECL is recognised. The gross carrying amount also represents the Bank's maximum exposure to credit risk on these assets (Unaudited):

2019 Credit grade	Stage 1	Stage 2	Stage 3	POCI	Total
0.00 to 1.00 %	1,253.8	2.0	-	1.2	**1,257.0**
1.00 to 100.0 %	197.1	55.5	6.7	2.8	**262.1**
Gross balance	**1,450.9**	**57.5**	**6.7**	**4.0**	**1,519.1**
Less: allowance for losses	(1.8)	(2.6)	(4.9)	(0.1)	**(9.4)**
Net balance	**1,449.1**	**54.9**	**1.8**	**3.9**	**1,509.7**

2018 Credit grade	Stage 1	Stage 2	Stage 3	POCI	Total
0.00 to 1.00 %	1,335.1	7.5	-	1.4	1,344.0
1.00 to 100.0 %	257.9	48.2	6.5	3.7	316.3
Gross balance	1,593.0	55.7	6.5	5.1	1,660.3
Less: allowance for losses	(1.0)	(2.2)	(5.1)	(0.2)	(8.5)
Net balance	1,592.0	53.5	1.4	4.9	1,651.8

Forbearance

Forbearance occurs when, for reasons relating to actual or apparent financial difficulty of the borrower, a temporary or permanent concession is granted. A concession may involve short-term restructuring of the payment terms of the loan, or an extension of the maturity date. The primary aim of forbearance is to help the borrower through a period of financial difficulty and return the account into a sustainable position, where the facility can be serviced through to full repayment. Where the primary aim cannot be achieved, the secondary aim is to maximise recovery of debt.

A number of forbearance options, including concessionary arrangements, are available to borrowers in financial difficulty. These are handled either with customers directly or through a third party whom they have chosen to represent them. Accounts classified as forborne remain so until the period of financial difficulty has passed and the account has demonstrated it can operate under sustainable terms or ownership is transferred to a third party.

(Unaudited):

2019 Forbearance category	Stage 1	Stage 2	Stage 3	POCI	Total	Allowance for losses
Arrangements	-	0.2	0.2	-	**0.4**	0.2
Hardship	-	-	0.6	-	**0.6**	0.4
Temporary reducing overdraft	0.1	-	1.6	-	**1.7**	0.9
	0.1	**0.2**	**2.4**	**-**	**2.7**	**1.5**

2018 comparative not available as 2019 is the first year that the table has been published.

3.2.1.2 SME risk

The SME business segment comprises business loans that are considered core to the operation of the Bank. They comprise a mix of sub-portfolios such as business banking, retail, charities, and commercial real estate (CRE).
Unless stated otherwise all analysis is based on gross customer balances/exposure.

Movement in IFRS 9 gross customer exposure and allowance for losses

The write-off for SME was £28.9m (2018: £5.3m). Corporate write-off occurs when the Bank expects no further recoveries and all recovery activity has been explored and exhausted.

The movement in the gross customer exposure and the related advances for losses (excludes those assets held at FVTPL) across the SME segment is shown below (Audited):

Gross customer exposure – SME	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2019	256.6	35.9	37.8	1.3	**331.6**
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	(11.3)	11.3	-	-	**-**
To credit impaired (stage 1 or 2 or 3)	(0.1)	(2.3)	2.4	-	**-**
To 12 month ECL (stage 2 or 3 to 1)	2.6	(2.6)	-	-	**-**
From credit impaired (stage 3 to 2)	-	-	-	-	**-**
Net changes arising from stage transfers	**(8.8)**	**6.4**	**2.4**	**-**	**-**
Other charges/(releases):					
New assets originated or purchased	29.7	-	-	-	**29.7**
Other changes to risk parameters[1]	(61.4)	(21.3)	(4.6)	-	**(87.3)**
Net other charges/(releases)	**(40.5)**	**(14.9)**	**(2.2)**	**-**	**(57.6)**
Assets written off	(0.2)	-	(27.4)	(1.3)	**(28.9)**
At 31 December 2019	**215.9**	**21.0**	**8.2**	**-**	**245.1**

Gross customer exposure – SME	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2018	338.6	50.5	60.7	1.3	451.1
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	(11.4)	10.9	-	-	(0.5)
To credit impaired (stage 1 or 2 or 3)	(0.1)	(0.1)	0.2	-	-
To 12 month ECL (stage 2 or 3 to 1)	7.2	(7.9)	-	-	(0.7)
From credit impaired (stage 3 to 2)	-	2.7	(3.1)	-	(0.4)
Net changes arising from stage transfers	(4.3)	5.6	(2.9)	-	(1.6)
Other charges/(releases):					
New assets originated or purchased	20.5	(0.5)	-	-	20.0
Other changes to risk parameters[1]	(98.0)	(18.9)	(15.7)	-	(132.6)
Net other charges/(releases)	(81.8)	(13.8)	(18.6)	-	(114.2)
Assets written off	(0.2)	(0.8)	(4.3)	-	(5.3)
At 31 December 2018	256.6	35.9	37.8	1.3	331.6

1. Includes repayments and changes due to other model inputs.

(Audited):

Allowance for losses – SME	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2019	0.5	0.1	18.9	1.3	**20.8**
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	-	-	-	-	**-**
To credit impaired (stage 1 or 2 or 3)	-	-	0.1	-	**0.1**
To 12 month ECL (stage 2 or 3 to 1)	-	-	-	-	**-**
From credit impaired (stage 3 to 2)	-	-	-	-	**-**
Net changes arising from stage transfers	**-**	**-**	**0.1**	**-**	**0.1**
Other charges/(releases):					
Other changes to risk parameters[1]	0.1	-	(2.3)	-	**(2.2)**
Net other charges/(releases)	**0.1**	**-**	**(2.2)**	**-**	**(2.1)**
Assets written off	(0.2)	-	(11.9)	(1.3)	**(13.4)**
At 31 December 2019	**0.4**	**0.1**	**4.8**	**-**	**5.3**

Allowance for losses – SME	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2018	1.7	0.9	27.7	1.3	31.6
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	-	-	-	-	-
To credit impaired (stage 1 or 2 or 3)	-	-	0.1	-	0.1
To 12 month ECL (stage 2 or 3 to 1)	-	(0.2)	-	-	(0.2)
From credit impaired (stage 3 to 2)	-	-	(0.3)	-	(0.3)
Net changes arising from stage transfers	-	(0.2)	(0.2)	-	(0.4)
Other charges/(releases):					
Other changes to risk parameters[1]	(1.0)	(0.5)	(6.1)	-	(7.6)
Net other charges/(releases)	(1.0)	(0.7)	(6.3)	-	(8.0)
Assets written off	(0.2)	(0.1)	(2.5)	-	(2.8)
At 31 December 2018	0.5	0.1	18.9	1.3	20.8

1. Includes repayments and changes due to other model inputs.

The risk ratios for the SME segment are (Audited):

Risk ratios – 2019	Stage 1	Stage 2	Stage 3	POCI	Total
Gross customer exposure	215.9	21.0	8.2	-	**245.1**
of which impaired exposure	-	-	8.2	-	**8.2**
Impaired as a % of Gross customer exposure	-	-	100.0 %	N/a	**3.3%**
Allowance for losses	0.4	0.1	4.8	-	**5.3**
Coverage – over impaired	N/a	N/a	58.5 %	N/a	**64.6%**
Coverage – over total exposure	0.19 %	0.48 %	58.54 %	N/a	**2.16%**

Risk ratios – 2018	Stage 1	Stage 2	Stage 3	POCI	Total
Gross customer exposure	256.6	35.9	37.8	1.3	331.6
of which impaired exposure	-	-	37.8	1.3	39.1
Impaired as a % of Gross customer exposure	-	-	100.0 %	100.0 %	11.8 %
Allowance for losses	0.5	0.1	18.9	1.3	20.8
Coverage – over impaired	N/a	N/a	50.0 %	100.0 %	53.2 %
Coverage – over total exposure	0.19 %	0.28 %	50.00 %	100.00 %	6.27 %

Origination and account management

The lending criteria requires borrowers to meet criteria as laid down in individual sector strategy guidelines and operates a strict policy with regards to single name concentrations.

Watchlist accounts are considered as being at risk and require close control, but not sufficiently so as to warrant transitioning to stage 3. There are a number of triggers, which when met, will result in the customer being classed as watchlist. These triggers include being 30 days past due, cash flow pressures, failure to pay interest when it falls due, potential insolvency event, unsatisfactory account operation or other signs of financial distress.

Collateral

Various forms of collateral are used, including guarantees, to mitigate credit risk. Property collateral for business lending is categorised as security for property investment customers (i.e. CRE) or owner occupied premises to secure mainstream loan and overdraft facilities. For general lending, in addition to taking charges over property assets owned by the customer, other security is taken in modest proportion to the total portfolio. This includes debentures or floating charges, cash cover and guarantees (often supported by tangible security where appropriate, including property and life policies).

Property valuations are obtained when the facility is first approved and our lending procedures typically require collateral to be revalued every five years, or more frequently in higher risk situations (typically annually or when a material change has occurred that is likely to affect the value and/or recoverability of the debt). In certain circumstances, such as syndicates, the multi-bank facility letter may preclude revaluations at the customer's expense, of all the assets as frequently as this and a decision is required by all banks involved, to decide if they require the updates more frequently.

The policies for obtaining collateral have not significantly changed during the year. There has been no significant change in the overall quality of the collateral held during the year.

The table below analyses the market value of the property collateral held against assets across all sectors (Audited):

SME - non-impaired loans	Stage 1			Stage 2		
2019	Exposure	Collateral[1]	Allowance for losses	Exposure	Collateral[1]	Allowance for losses
≤50 % LTV	80.0	79.8	-	9.9	9.9	-
>50 % ≤80 % LTV	37.3	37.3	-	9.9	9.9	-
>80 % ≤100 % LTV	0.5	0.5	-	-	-	-
>100 % LTV	5.3	3.3	-	-	-	-
Not secured by property	92.8	-	0.4	1.2	-	0.1
	215.9	**120.9**	**0.4**	**21.0**	**19.8**	**0.1**

SME - impaired loans	Stage 3			POCI		
2019	Exposure	Collateral[1]	Allowance for losses	Exposure	Collateral[1]	Allowance for losses
≤50 % LTV	3.1	3.1	-	-	-	-
>50 % ≤80 % LTV	0.1	0.1	-	-	-	-
>80 % ≤100 % LTV	-	-	-	-	-	-
>100 % LTV	2.9	-	2.9	-	-	-
Not secured by property	2.1	-	1.9	-	-	-
	8.2	**3.2**	**4.8**	**-**	**-**	**-**

SME - total	Total		
2019	Exposure	Collateral[1]	Allowance for losses
≤50 % LTV	93.0	92.8	-
>50 % ≤80 % LTV	47.3	47.3	-
>80 % ≤100 % LTV	0.5	0.5	-
>100 % LTV	8.2	3.3	2.9
Not secured by property	96.1	-	2.4
	245.1	**143.9**	**5.3**

SME - non-impaired loans	Stage 1			Stage 2		
2018	Exposure	Collateral[1]	Allowance for losses	Exposure	Collateral[1]	Allowance for losses
≤50 % LTV	92.0	92.0	-	11.9	11.9	-
>50 % ≤80 % LTV	41.1	41.1	0.1	11.2	11.2	-
>80 % ≤100 % LTV	2.2	2.2	-	-	-	-
>100 % LTV	4.3	2.9	-	0.5	0.1	-
Not secured by property	117.0	-	0.4	12.3	-	0.1
	256.6	138.2	0.5	35.9	23.2	0.1

SME - impaired loans	Stage 3			POCI		
2018	Exposure	Collateral[1]	Allowance for losses	Exposure	Collateral[1]	Allowance for losses
≤50 % LTV	0.4	0.4	-	-	-	-
>50 % ≤80 % LTV	0.8	0.8	-	-	-	-
>80 % ≤100 % LTV	-	-	-	-	-	-
>100 % LTV	30.2	22.8	13.1	-	-	-
Not secured by property	6.4	-	5.8	1.3	-	1.3
	37.8	24.0	18.9	1.3	-	1.3

SME - total	Total		
2018	Exposure	Collateral[1]	Allowance for losses
≤50 % LTV	104.3	104.3	-
>50 % ≤80 % LTV	53.1	53.1	0.1
>80 % ≤100 % LTV	2.2	2.2	-
>100 % LTV	35.0	25.8	13.1
Not secured by property	137.0	-	7.6
	331.6	185.4	20.8

1. Collateral is constrained to a maximum of 100 % of the exposure to each customer to correctly reflect the maximum protection available to the Bank. For the purposes of determining capital and impairment appropriate forced sale discounts are applied to collateral.

Risk grade

The following tables show the split of the SME book by stage and by their risk grade (Unaudited):

2019 - Credit grade	Stage 1	Stage 2	Stage 3	POCI	Total
Standardised	93.6	8.0	-	-	101.6
Strong	22.3	-	-	-	22.3
Good	86.5	6.7	-	-	93.2
Satisfactory	10.8	3.9	-	-	14.7
Weak	2.7	2.4	-	-	5.1
Default	-	-	8.2	-	8.2
Gross balance	**215.9**	**21.0**	**8.2**	**-**	**245.1**
Less: allowance for losses	(0.4)	(0.1)	(4.8)	-	(5.3)
Net balance	**215.5**	**20.9**	**3.4**	**-**	**239.8**

2018 - Credit grade	Stage 1	Stage 2	Stage 3	POCI	Total
Standardised	67.8	4.5	-	-	72.3
Strong	48.4	0.1	-	-	48.5
Good	116.0	13.0	-	-	129.0
Satisfactory	21.0	11.8	-	-	32.8
Weak	3.4	6.5	-	-	9.9
Default	-	-	37.8	1.3	39.1
Gross balance	**256.6**	**35.9**	**37.8**	**1.3**	**331.6**
Less: allowance for losses	(0.5)	(0.1)	(18.9)	(1.3)	(20.8)
Net balance	**256.1**	**35.8**	**18.9**	**-**	**310.8**

Forbearance

The identification of financial difficulty is a key part of the process of deploying forbearance. The Bank's practices and accounting policies in relation to forborne assets are detailed in Explanatory Information. Forborne concessions that are considered include:

- a partial write-off of debt, following which the account continues to be classified as impaired for at least 12 months; or
- a material postponement or forgiveness of interest or waiver or reduction of normal fees and charges; the account must remain impaired while such favourable terms are being applied.

The table below analyses the gross carrying amount (maximum exposure to credit risk including credit commitments) subject to forbearance (Unaudited):

2019	Forborne	Non-forborne	Total
Stage 1			
Exposure	-	215.9	**215.9**
Collateral	-	120.9	**120.9**
Allowance for losses	-	0.4	**0.4**
Stage 2			
Exposure	0.8	20.2	**21.0**
Collateral	0.2	19.6	**19.8**
Allowance for losses	-	0.1	**0.1**
Stage 3			
Exposure	5.2	3.0	**8.2**
Collateral	2.3	0.9	**3.2**
Allowance for losses	2.9	1.9	**4.8**
POCI			
Exposure	-	-	**-**
Collateral	-	-	**-**
Allowance for losses	-	-	**-**
Total			
Exposure	6.0	239.1	**245.1**
Collateral	2.5	141.4	**143.9**
Allowance for losses	2.9	2.4	**5.3**

2018	Forborne	Non-forborne	Total
Stage 1			
Exposure	-	256.6	256.6
Collateral	-	138.2	138.2
Allowance for losses	-	0.5	0.5
Stage 2			
Exposure	5.5	30.4	35.9
Collateral	4.2	19.0	23.2
Allowance for losses	-	0.1	0.1
Stage 3			
Exposure	11.3	26.5	37.8
Collateral	9.4	14.6	24.0
Allowance for losses	6.8	12.1	18.9
POCI			
Exposure	-	1.3	1.3
Collateral	-	-	-
Allowance for losses	-	1.3	1.3
Total			
Exposure	16.8	314.8	331.6
Collateral	13.6	171.8	185.4
Allowance for losses	6.8	14.0	20.8

For those customers that benefit from ongoing concessions (such as postponement of principal payments), the forbearance status is retained for as long as the concession remains in place. In the event of one off concessions (such as capitalisation of interest payments), the forbearance status is required to be removed 12 months after the occurrence, provided that the loan has been kept up to date during that period and all covenants continue to be met.

3.2.1.3 Legacy risk

The legacy portfolio exists of books where the Bank considers the loans to no longer be part of the core operation of the Bank. These comprise:

- Corporate – this mainly relates to long-term, low-margin sectors such as Registered Social Landlords (RSLs) and PFI. Due to the low-risk nature of these books no specific allowance for losses exists on these books.
- Unsecured – this relates to a personal loan book and Professional and Career Loan Development book (PCDL). Both are closed to new business.
- Residential secured – this relates to a closed mortgage book acquired as part of the Britannia merger. It has been managed under the Optimum name and now has a balance of less than £0.2bn following natural run-off and a series of securitisations.

The above books are risk managed in the same way as the secured residential, unsecured and SME (corporate) books already described in section 3.2.1.1 and 3.2.1.2.

Movement in IFRS 9 gross customer exposure and allowance for losses

The write-off for legacy was £6.3m (2018: £33.2m). Write-off occurs when the Bank expects no further recoveries and all recovery activity has been explored and exhausted.

The movement in the gross customer exposure and the related advances for losses (excludes those assets held at FVTPL) across the legacy segment is shown below (Audited):

Gross customer exposure – Legacy	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2019	1,269.6	80.1	25.8	235.7	**1,611.2**
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	(7.8)	7.8	-	-	**-**
To credit impaired (stage 1 or 2 or 3)	(3.2)	(2.3)	5.5	-	**-**
To 12 month ECL (stage 2 or 3 to 1)	1.6	(1.6)	-	-	**-**
From credit impaired (stage 3 to 2)	0.5	0.1	(0.6)	-	**-**
Net changes arising from stage transfers	**(8.9)**	**4.0**	**4.9**	**-**	**-**
Other charges/(releases):					
New assets originated or purchased	4.9	-	-	-	**4.9**
Other changes to risk parameters[1]	(273.1)	(50.8)	(16.1)	(158.2)	**(498.2)**
Changes to model used for ECL calculation	(7.8)	7.8	-	-	**-**
Net other charges/(releases)	**(284.9)**	**(39.0)**	**(11.2)**	**(158.2)**	**(493.3)**
Assets written off	(0.6)	(0.6)	(3.9)	(1.2)	**(6.3)**
At 31 December 2019	**984.1**	**40.5**	**10.7**	**76.3**	**1,111.6**

Gross customer exposure – Legacy	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2018	1,502.6	84.2	66.7	280.0	1,933.5
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	(14.1)	11.3	-	-	(2.8)
To credit impaired (stage 1 or 2 or 3)	(2.8)	(3.0)	5.3	-	(0.5)
To 12 month ECL (stage 2 or 3 to 1)	19.2	(20.9)	-	-	(1.7)
From credit impaired (stage 3 to 2)	2.9	2.3	(5.9)	-	(0.7)
Net changes arising from stage transfers	5.2	(10.3)	(0.6)	-	(5.7)
Other charges/(releases):					
New assets originated or purchased	12.6	0.5	-	-	13.1
Other changes to risk parameters[1]	(250.2)	7.0	(12.5)	(40.8)	(296.5)
Net other charges/(releases)	(232.4)	(2.8)	(13.1)	(40.8)	(289.1)
Assets written off	(0.6)	(1.3)	(27.8)	(3.5)	(33.2)
At 31 December 2018	1,269.6	80.1	25.8	235.7	1,611.2

1. Includes repayments and changes due to other model inputs.

Allowance for losses – Legacy	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2019	2.3	1.4	4.2	3.2	**11.1**
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	-	0.3	-	-	**0.3**
To credit impaired (stage 1 or 2 or 3)	(0.2)	0.1	0.8	-	**0.7**
To 12 month ECL (stage 2 or 3 to 1)	-	(0.3)	-	-	**(0.3)**
From credit impaired (stage 3 to 2)	-	-	(0.1)	-	**(0.1)**
Net changes arising from stage transfers	**(0.2)**	**0.1**	**0.7**	**-**	**0.6**
Other charges/(releases):					
Other changes to risk parameters[1]	(0.6)	0.1	(0.8)	(2.0)	**(3.3)**
Changes to model used for ECL calculation	0.4	(0.3)	-	(0.5)	**(0.4)**
Net other charges/(releases)	**(0.4)**	**(0.1)**	**(0.1)**	**(2.5)**	**(3.1)**
Assets written off	(0.5)	(0.4)	(2.7)	(0.3)	**(3.9)**
At 31 December 2019	**1.4**	**0.9**	**1.4**	**0.4**	**4.1**

Allowance for losses – Legacy	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2018	2.1	2.2	20.3	5.6	30.2
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	-	0.2	-	-	0.2
To credit impaired (stage 1 or 2 or 3)	-	(0.1)	0.9	-	0.8
To 12 month ECL (stage 2 or 3 to 1)	-	(0.5)	-	-	(0.5)
From credit impaired (stage 3 to 2)	-	0.2	(0.8)	-	(0.6)
Net changes arising from stage transfers	-	(0.2)	0.1	-	(0.1)
Other charges/(releases):					
Other changes to risk parameters[1]	0.4	(0.3)	(0.7)	(1.4)	(2.0)
Net other charges/(releases)	0.4	(0.5)	(0.6)	(1.4)	(2.1)
Assets written off	(0.2)	(0.3)	(15.5)	(1.0)	(17.0)
At 31 December 2018	2.3	1.4	4.2	3.2	11.1

1. Includes repayments and changes due to other model inputs. For 2019 this includes the impact of the Warwick 4 loss on sale release of £(2.7)m.

Portfolio analysis

The relative size of the books (includes FVTPL) and associated allowance for losses are (Audited):

	Gross customer balance		Gross customer exposure	
	2019	2018	**2019**	2018
Corporate[1]	**826.0**	869.2	**973.8**	1,070.0
Unsecured – loans	**29.2**	64.6	**29.2**	64.6
Unsecured – PCDL	**45.9**	60.7	**45.9**	60.7
Optimum	**172.7**	529.5	**172.7**	529.5
	1,073.8	1,524.0	**1,221.6**	1,724.8

	Allowance for losses	
	2019	2018
Corporate[1]	**1.5**	2.1
Unsecured – loans	**2.1**	4.0
Unsecured – PCDL	**-**	-
Optimum	**0.5**	5.0
	4.1	11.1

1. FVTPL balances are: 2019 - £110.0m / 2018 - £113.6m. These relate only to the FVTPL customer balances. The remaining FVTPL balance is within other accounting adjustments.

Corporate

The table below shows the risk grade of the legacy corporate book, split by IFRS 9 stages (excluding FVTPL balances). As the book is predominantly in the low risk sectors any associated collateral is mainly at 100 % (overall average of 2019: 95 % / 2018: 93 %).
(Unaudited):

2019 - Credit grade	Stage 1	Stage 2	Stage 3	POCI	Total
Standardised	43.0	1.6	-	-	44.6
Strong	781.0	-	-	-	781.0
Good	23.9	0.8	-	-	24.7
Satisfactory	-	-	-	-	-
Weak	-	13.5	-	-	13.5
Default	-	-	-	-	-
Gross balance	**847.9**	**15.9**	**-**	**-**	**863.8**
Less: allowance for losses	(1.1)	(0.4)	-	-	(1.5)
Net balance	**846.8**	**15.5**	**-**	**-**	**862.3**

2018 - Credit grade	Stage 1	Stage 2	Stage 3	POCI	Total
Standardised	22.6	-	-	-	22.6
Strong	814.1	0.6	-	-	814.7
Good	103.9	-	-	-	103.9
Satisfactory	-	0.8	-	-	0.8
Weak	-	14.4	-	-	14.4
Default	-	-	-	-	-
Gross balance	940.6	15.8	-	-	956.4
Less: allowance for losses	(1.5)	(0.6)	-	-	(2.1)
Net balance	939.1	15.2	-	-	954.3

The level of cases in forbearance is £13.5m or 1.6 % of the book (2018: £14.4m / 1.5 %).

Unsecured

The risk grades for the unsecured loan and PCDL book are below (Unaudited):

2019 - Credit grade	Stage 1	Stage 2	Stage 3	POCI	Total
0.00 to 1.00 %	55.5	5.5	2.6	-	63.6
1.00 to 100.00 %	6.8	3.2	1.5	-	11.5
Gross balance	**62.3**	**8.7**	**4.1**	**-**	**75.1**
Less: allowance for losses	(0.3)	(0.4)	(1.4)	-	(2.1)
Net balance	**62.0**	**8.3**	**2.7**	**-**	**73.0**

2018 - Credit grade	Stage 1	Stage 2	Stage 3	POCI	Total
0.00 to 1.00 %	63.0	25.3	-	-	88.3
1.00 to 100.00 %	25.6	5.6	5.8	-	37.0
Gross balance	**88.6**	**30.9**	**5.8**	**-**	**125.3**
Less: allowance for losses	(0.2)	(0.6)	(3.2)	-	(4.0)
Net balance	**88.4**	**30.3**	**2.6**	**-**	**121.3**

The level of forbearance on the book is £0.2m or 0.3 % of the book. No comparative available for 2018 as 2019 was the first year the table has been published.

Optimum

The book has reduced significantly in the year due to the Warwick 4 securitisation. The key splits of the book are shown below:

a) LTV and repayment type (Audited):

	2019			2018		
LTV %	Capital repayment	Interest only	Total	Capital repayment	Interest only	Total
Less than 50 %	**19.7**	**40.5**	**60.2**	52.4	168.6	221.0
50 % to 60 %	**3.6**	**33.4**	**37.0**	7.0	107.4	114.4
60 % to 70 %	**1.4**	**34.3**	**35.7**	3.8	99.4	103.2
70 % to 80 %	**0.5**	**24.4**	**24.9**	0.8	57.7	58.5
80 % to 90 %	**0.3**	**9.9**	**10.2**	0.3	21.2	21.5
90 % to 100 %	**-**	**2.4**	**2.4**	-	7.3	7.3
Greater than or equal to 100 %	**-**	**2.3**	**2.3**	-	3.6	3.6
	25.5	**147.2**	**172.7**	64.3	465.2	529.5

The contractual maturity of the interest only balances are shown below:

	< 1 year	1-5 years	5-10 years	10-20 years	20+ years	Total
2019	**7.6**	**16.6**	**42.4**	**80.6**	**-**	**147.2**
2018	35.3	54.7	129.5	245.6	0.1	465.2

b) Mortgage type (Unaudited):

	2019			2018		
	Gross customer balance	Average LTV %	Interest only %	Gross customer balance	Average LTV %	Interest only %
Prime residential	**14.7**	**57.1**	**73.1**	32.3	54.1	81.9
Buy-to-let	**50.9**	**56.5**	**95.0**	129.6	51.2	92.0
Self-certified	**38.2**	**54.4**	**85.4**	197.8	51.0	93.3
Almost prime	**19.5**	**64.1**	**80.8**	41.6	66.5	86.6
Non-conforming	**49.4**	**56.3**	**80.5**	128.2	52.3	77.1
	172.7	**56.9**	**85.3**	529.5	52.8	87.8

c) UK regional distribution (Unaudited):

	2019		2018	
	£m	LTV - %	£m	LTV - %
London & South East	**75.1**	**49.6**	258.8	46.7
Northern England	**40.5**	**64.8**	105.7	60.8
Midlands & East Anglia	**26.2**	**58.5**	85.9	54.5
Wales & South West	**19.7**	**60.6**	56.7	58.5
Other	**11.2**	**66.4**	22.4	64.4
	172.7	**56.9**	529.5	52.8

The level of forbearance on the book is £13.8m or 8.0 % of the book (2018: £50.4m / 9.5 %).

3.2.2 Investment securities credit risk

No allowance for losses has been recognised for investment securities in either 2019 or 2018. All are classified as low-to-medium risk and within stage 1 (2018: stage 1). The Bank has applied the low credit risk exemption available within IFRS 9 to treasury assets with an external rating of investment grade. For further information see the Explanatory Information to the consolidated financial statements, on page 242.

Credit risk mitigation

There are policies in place with regard to the management and valuation of collateral which are used as a form of credit risk mitigation. Only cash deposits, UK government bonds or other debt securities issued by a central government or qualifying multi-lateral development bank with a minimum rating of AA are accepted as collateral. It is also a requirement of the Treasury Credit Risk Policy that all securities received as collateral are valued on a daily basis and collateral calls made in line with the relevant legal agreement.

Only investments in treasury assets which have a rating from an external credit rating agency equivalent to a rating by Fitch Rating Services of A or above are made.

Impaired assets

ECL is assessed on a forward-looking basis for debt instruments carried at amortised cost.

At the balance sheet date, investment securities were reassessed for objective evidence that an impairment loss has occurred. Particular consideration was given to evidence of any significant difficulty of the issuer or measurable decrease in the estimated cash flows from the investments. No investment security assets were deemed to be impaired.

3.2.3 Loans and advances to banks

No allowance for losses has been recognised for loans and advances to banks in either 2019 or 2018. These exposures are currently considered to all be of low-to-medium risk and the ECL has been deemed to be immaterial.

3.2.4 Derivative financial instruments

During 2019, the majority of new derivative transactions continued to be cleared through a central clearing counterparty. In accordance with IFRS 13, a credit value adjustment (CVA) of £0.4m was recorded (31 December 2018: £0.6m) in relation to non-collateralised swaps.

(Audited):

	2019		2018	
	Notional	Fair value (net)	Notional	Fair value (net)
Interest rate				
Bi-lateral collateral agreements	**18,995.7**	**(211.8)**	15,233.0	(203.0)
One way collateral[1]	**3,403.5**	**16.1**	2,015.2	22.9
No collateral agreement	**361.1**	**120.7**	376.9	112.0
Foreign exchange				
Bi-lateral collateral agreements	**13.0**	**0.3**	15.0	(0.1)
One way collateral[1]	**-**	**-**	-	-
No collateral agreement	**-**	**-**	6.0	(0.2)
	22,773.3	**(74.7)**	17,646.1	(68.4)

1. The above table separately identifies one way collateral agreements. Further disclosures on derivatives are contained in the Explanatory Information to the consolidated financial statements.

3.2.5 Wholesale credit risk

The treasury asset portfolio is held primarily for liquidity management purposes and, in the case of derivatives, for the purpose of managing market risk. Exposures to the UK Government and the Bank of England account for 74% (2018: 66%) of all treasury exposures. The remaining exposures are split 4% (2018: 11%) to residential mortgage-backed securities, 8% (2018: 9%) to financial institutions and 14% (2018: 14%) non-domestic sovereign and qualifying multi-lateral development bank bonds. No allowance for losses has been recognised in either 2019 or 2018.

3.2.5.1 Direct exposures

Within the treasury asset portfolio there are a number of risk mitigation techniques available including netting and collateralisation agreements. Other methods such as disposal and credit derivatives are used periodically to mitigate the credit risk associated with particular transactions.

Treasury operates a risk-based approach which monitors counterparty limits and exposure. Both the counterparties and assets held are monitored against a Board-approved matrix of risk tolerance and associated indicators. The scope of this monitoring activity includes rating actions, market events and financial results as they are announced. These factors may influence a change in risk status and possible escalation requiring management actions and inclusion on the watchlist.

The portfolio and watchlist is monitored daily for appropriate risk status bandings and any associated management actions. As at 31 December 2019, there were no red (highest-risk) exposures outstanding (2018: £nil).

During 2019, exposures to financial institutions in European countries were broadly consistent with the year-end, with a total gross exposure outstanding at 31 December 2019 of £93m (2018: £92m). Post credit risk mitigation, the net exposure was £50m (2018: £51m).

3.2.5.2 Indirect exposures

Treasury monitoring extends beyond direct risk incurred through counterparty trading, to the underlying exposures, which the counterparties may maintain on their own balance sheets. In analysing each counterparty's secondary exposure, the vulnerability and impact on that counterparty is assessed should it suffer different degrees of losses.
Where secondary sovereign exposure or contagion risk is deemed to undermine the performance of the counterparty, remedial management actions are taken in respect of the counterparty limits and exposure.

3.2.6 Other assets

An allowance for losses has been recognised for other assets under IFRS 9. There is currently a very small provision of less than £0.1m at the end of 2019 (also less than £0.1m at the end of 2018). The exposures are currently considered to be of low risk. ECL is assessed on a forward-looking basis for instruments carried at amortised cost and FVOCI.

3.2.7 Amounts due from group undertaking

The Finance Company has recognised a £201.1m receivable due from Bank Company which includes an expected credit loss provision of £2.4m, representing 12 months ECL. This is the internal MREL debt related to the external MREL-qualifying Tier 2 debt issued by the Group (see note 25) and note 27 to the Finance Company financial statements for credit risk disclosures.

4. MARKET RISK

Market risk is the risk of loss, as a result of the value of financial assets or liabilities (including off-balance sheet instruments) being adversely affected by movements in market rates or prices.

4.1 Overview – Unaudited

Market risk loss can be reflected in near-term earnings by a reduction in net interest income, or in the longer term, because of changes in the economic value of future cash flows. As the Bank does not have a trading book, the main sources of market risk include: fixed rate mortgages and savings products, the Bank's holdings of bonds in its liquidity buffer, and the degree to which these are hedged using derivative instruments.

With no trading book and net currency positions below the required threshold, no Pillar 1 market risk exists. All market risk exposures are addressed under the Pillar 2 framework, captured in the Bank's ICR requirement.

The main market risk measure utilised by the Bank is PV01, which measures the sensitivity of the Net Present Value (NPV) of future cash flows to a one basis point (bp) shift in interest rates. The PV01 measures the effect of both parallel and specific point of yield curve stress testing (i.e. non-linear yield curve shifts) by one bp. The residual interest rate risk is hedged using predominantly LIBOR-based, but increasingly SONIA (Sterling Overnight Interbank Average rate) based swaps as the Bank responds to the future move from LIBOR to SONIA. Where exposures to floating rate indices do not match between floating rate, or hedged to floating rate assets and liabilities, there is also a resultant basis risk.

Market risk exposures have been maintained well within risk appetite which has decreased since the end of 2018. Interest rate risk when expressed in terms of PV01 averaged £119.2k during 2019 with a low of £47.4k and a high of 172.9k.

The Bank-wide market risk position was managed to a short asset position ahead of the year end, with total net sensitivity across the Bank's balance sheet managed up to a total PV01 of £62.4k.

4.2 Primary risk metrics and sources of market risk

The key drivers of market risk faced, and the metrics used to manage those risks are (Unaudited):

Market risk indicators	2019	2018
Total PV01 (£k)	**62.4**	12.0
Average PV01 for the year (£k)	**119.2**	(26.2)
Largest PV01 for the year (£k)	**172.9**	30.0
Lowest PV01 for the year (£k)	**47.4**	(113.0)
Average basis risk (% of annual NII)	**0.8%**	1.4%
Swap spread PV01 (£k)	**(506.0)**	(837.0)
Average swap spread PV01 (£k)	**(713.4)**	(865.8)
RMBS holding (£m)	**163.9**	487.0
Average RMBS holding (£m)	**336.8**	754.0
FX notional (£m)	**(0.2)**	(0.4)
Average FX notional (£m)	**(0.4)**	0.2

Interest rate risk

Sensitivity of the Bank's NPV to a one basis point parallel shift in interest rates (i.e. the PV01) is employed to manage directional interest rate risk and yield curve risk, with limits set at an overall level for directional risk and against individual time buckets for yield curve risk. To supplement these limits, stress testing of exposures against historical yield curve shifts is undertaken to assess the sensitivity to the most extreme curve steepening and curve flattening movements, to a 99% confidence, observed over appropriate historical periods.

Behavioural assumptions are considered in the treatment of non-interest bearing balances and with regard to customer prepayments within the residential mortgage portfolios.

Risk exposures are formally reported at least monthly, with interest rate risk and effectiveness of hedging monitored, at a minimum of weekly frequency. Interest rate risk is hedged using derivative instruments and investment securities to external wholesale markets as appropriate.

During 2019, the largest absolute PV01 exposure of £172.9k reflected the Bank absorbing the shortening of non-Net Interest Bearing Balances (NIBBs) net asset exposures versus the behaviouralised NIBBs liability maturity profile, while the Bank responded to and managed increasingly flatter swap curves.

Basis risk

The definition of basis risk is the risk of loss as a result of the balance sheet being adversely affected by the movement between different index rates.

Basis risk in the balance sheet is mainly driven by the mix of exposures to LIBOR and SONIA, base rate and administered rates. LIBOR exposures are present through the holding of LIBOR assets such as certain mortgages and legacy loans, RMBS (Residential Mortgage Backed Securities) and as a result of hedging fixed rate retail products. The Bank does not intend to increase its LIBOR asset exposure including its holdings of LIBOR FRNs, with any new asset purchases limited to fixed or SONIA indexed FRNs. Reserve balances at the Bank of England and tracker mortgages generate a base rate asset with administered rate exposures generated by mortgages and savings products.

Basis risk is managed using an earnings-at-risk based metric, focussing on the sensitivity of changes in net interest income over a one-year period. The assumed potential loss of earnings reflects the downside risk comparing prevailing spreads against their historical extremes. The basis risk exposure primarily reflects a net LIBOR asset funded by an administered rate net liability.

Basis risk is monitored monthly with action taken as required.

HQLA swap spread risk

Swap spread risk is defined as the sensitivity of the combined economic value of HQLA securities and their associated derivative hedges to changes in the spread between benchmark sovereign bond yields and swap rates. These assets are used for liquidity purposes within the treasury portfolio.

Swap spread risk is managed by calculating the sensitivity of its hedged fixed rate bond portfolio to a one bp divergence in yields between the fixed rate bond and its hedge (PV01).

Swap spread risk has continued to reduce through 2019 due to a reduction in both notional value and duration of the fixed rate sovereign bonds held within the liquid asset portfolio.

Credit spread risk

Credit spread risk is defined as the risk of loss from changes in the credit spread on wholesale assets.

Non-HQLA term exposures relate primarily to holdings of MBS issued by Warwick Finance One to Four, which reflect retained elements from the deleveraging of Bank's Optimum assets. The potential risk from these holdings is assessed against historical spread movements of similar transactions. MBS holdings have reduced by c.£323m: reflecting an outright sale of a portion of Warwick Finance holdings and quarterly amortisation of these notes, partly offset by the Bank receiving a 5% (£15m) risk retention of each note and equity class from its Warwick Finance Four issuance in 2019.

Foreign exchange risk

The exposure to foreign exchange risk is primarily limited to customer hedging transactions and incidental customer transactions. To manage this risk, an overall maximum notional net sterling position limit is set for overnight exposures. This is supported by applying sub-limits to currencies by tier to reflect their liquidity.

The balance sheet is predominantly sterling as the table below shows. The assets comprise loans to banks and the unlisted equity shares. All values shown in the sterling equivalent.

(Unaudited)

	2019					2018				
	£	$	€	Other	Total	£	$	€	Other	Total
Assets[1]										
Total assets	23,378.2	52.2	4.7	0.4	23,435.5	23,054.8	39.4	8.2	0.4	23,102.8
Liabilities[1]										
Total liabilities	21,824.2	(0.1)	(0.3)	(0.2)	21,823.6	21,353.6	(0.2)	(0.6)	(0.1)	21,352.7
Net assets	1,554.0	52.3	5.0	0.6	1,611.9	1,701.2	39.6	8.8	0.5	1,750.1

1. All currencies are consistent between the Group and Bank Company reporting. There is a £0.1m (2018: £0.1m) difference between the Group and Bank Customer accounts balance but this is a sterling balance.

At 31 December 2019, the Bank's open currency position was £(0.2)m (2018: £(0.4)m). Currency positions are managed against both an overall limit and individual currency limits.

Other sources of market risk

Other sources of market risk include:

- Prepayment risk: the risk that an asset or liability repays more quickly or slowly than anticipated, resulting in a mismatch between the asset, liability and associated hedge;
- Pipeline risk: the risk that the sales profile for new fixed rate products do not match hedging assumptions, resulting in a mismatch between the amount of product sold and that hedged, which can result in a hedge rebalancing cost;
- Explicit option risk: the sensitivity to the overall direction of interest rates, speed of change of rates and market prices for positions which contain explicit options e.g. caps, floors, and swaps;
- Repricing and implicit optionality in products: the risk that options embedded or implied within retail or commercial products have an impact on market value or earnings with changing interest rates; and
- Equity price risk: the risk that the fair value of equities decreases as a result of changes in the level of equity indices and individual stocks. Non-trading equity price risk exposure arises from equity securities classified as fair value through profit and loss. A 10% increase in the value of equities at 31 December 2019 would equate to an increase of £4.5m (2018: £2.6m). An equivalent decrease would reduce the value by the same degree.

4.3 Hedge accounting

The Group is exposed to interest rate risk arising from changes in market interest rates. A variety of strategies are employed to mitigate interest rate risk with the overall objective of hedging interest rates paid and received, predominantly back to three-month LIBOR. To reduce the reporting volatility introduced as a result of entering into derivatives for economic hedging purposes, the Group applies hedge accounting. The hedge accounting strategies applied are as follows:

Strategy	Hedging instruments and underlying hedged items	Objective of strategy
1) Macro fair value hedge	Interest rate risk on fixed rate mortgages and customer loans.	Macro hedge accounting is used to recognise fair value changes related to changes in net interest rate risk in the fixed rate mortgages and customer loans and therefore reduce the profit or loss volatility that would otherwise arise from changes in the fair value of the interest rate swaps alone.
2) Micro fair value hedge	Interest rate risk on certain fixed rate treasury assets and liabilities.	Micro fair value hedge accounting is used to recognise fair value changes related to changes in interest rate risk in certain treasury assets/liabilities and therefore reduce the profit or loss volatility that would otherwise arise from changes in the fair value of the interest rate swaps alone.
3) Macro cash flow hedge	Reset risk on variable rate loans and mortgages.	Macro cash flow accounting is used to mitigate reporting volatility as a result of entering into interest rate swaps to economically hedge market risk on non-interest bearing deposits. The related interest rate swaps are designated in a cash flow hedge accounting relationship with variable rate loans and mortgages of similar maturity. Provided the hedge is effective, changes in the fair value of the interest rate swaps are recognised in a hedging reserve in equity via the statement of other comprehensive income. If the change in value of the swaps is greater than the change in value of the hedged item, then the ineffective portion will remain on P&L. The values held in the hedging reserve are recycled to the income statement when the hedged item affects profit or loss.

Interest rate risk on fixed rate mortgages and customer deposits (macro fair value hedge)
The Group is exposed to interest rate risk on its fixed rate mortgages and customer loans due to changes in LIBOR. This interest rate risk is managed by entering into pay fixed/receive floating externally-traded interest rate swaps. Such interest rate swaps are entered into on a regular basis (as and when interest exposure is identified). Only the interest rate risk element is hedged and therefore other risks, such as credit risk, are managed but not hedged.

To mitigate volatility in the income statement generated by this hedge relationship, macro fair value hedge accounting is applied. Relevant interest rate swaps are immediately designated in a hedge accounting relationship. Prospectively the hedging relationship is established by matching the fixed flows of the derivatives against the fixed flows of the portfolio of items being hedged.

The interest rate risk component of the underlying hedged item is determined using proxy derivatives. The fair value change in these proxy derivatives due to changes in LIBOR/SONIA are compared to the fair value changes in the hedging swaps due to changes in LIBOR and SONIA. The relationship of these two fair value movements will determine the retrospective hedge ratio. The main sources of ineffectiveness arise from the difference between expected and actual prepayments of mortgages and from SONIA and LIBOR basis spreads.

Interest rate risk on fixed rate treasury assets and liabilities (micro fair value hedge)
The Group enters into micro fair value hedges in relation to certain fixed rate treasury assets and liabilities to manage changes in interest rate risk. The interest rate risk is managed by entering into interest rate swaps. Only the interest rate risk element is hedged and therefore other risks, such as credit risk, are managed but not hedged.

To mitigate volatility in the income statement generated by these economic hedge relationships, micro fair value hedge accounting is applied.

Prospectively, a hedging relationship is established by matching the notional value of derivatives with the principal (or part of the principal) of the instrument being hedged (micro hedge) and running a prospective effectiveness test which compares changes in the values of the hedged item and hedging instrument for a 1 bp move in the underlying yield curves.

Retrospectively, the interest rate risk component of the hedged item is calculated using a spreadsheet valuation. The change in the valuation of the interest rate component of the hedged item is compared to the change in value of the swaps and the resulting ratio determines the effectiveness. If effective (between 80% -125%) then these positions will be designated in micro fair value hedge relationships.

Possible sources of ineffectiveness include:
- SONIA/LIBOR basis spread (main source of ineffectiveness);
- Imperfect economic hedges as the derivatives are not always an exact match for the risk in the hedged item; and
- LIBOR fixings on the floating swap leg.

Reset risk on variable rate loans and mortgages (macro cash flow hedge)
The Group enters into pay floating/receive fixed interest rate swaps to manage interest rate risk on non-interest bearing deposits. To mitigate reporting volatility as a result of entering into this economic hedge, the related interest rate swaps are designated in a cash flow hedge accounting relationship with variable rate loans and mortgages of similar maturity. A hedging ratio is established by matching the notional value of the derivatives with a percentage of the principal of the portfolios being hedged.

Retrospective effectiveness is assessed by comparing changes in the hedged risk with changes in the fair value of interest rate swaps, using the hypothetical derivative method. The main source of ineffectiveness arises from SONIA/LIBOR basis spreads. There are no transactions for which cash flow hedge accounting has been used in the previous period and which are no longer expected to occur.

Quantitative hedge accounting information
The following table sets out the maturity profile and average price\rate of micro hedge accounting strategies applied by the Group (Audited):

	Maturity					
2019	Up to 1 month	1-3 months	3 months to 1 year	1 year to 5 years	> 5 years	Total
Fair value hedges - interest rate swap						
Notional	-	-	-	1,010.0	373.4	**1,383.4**
Average fixed interest rate	-	-	-	1.25%	1.67%	

2018	Maturity Up to 1 month	1-3 months	3 months to 1 year	1 year to 5 years	> 5 years	Total
Fair value hedges - interest rate swap						
Notional	-	-	25.0	1,110.2	617.2	1,752.4
Average fixed interest rate	-	-	1.13 %	1.58 %	2.01 %	

The following tables show details of the hedging instruments used by the Group (Audited):

2019	Notional	Carrying amount Assets	Carrying amount Liabilities	Balance sheet line items	Changes in fair value used for calculating hedge ineffectiveness
Fair value hedges – interest rate risk					
Interest rate swaps	8,622.2	27.3	106.4	Derivative Financial Instruments	(76.6)
Cash flow hedges					
Interest rate swaps	3,865.2	23.1	2.9	Derivative Financial Instruments	19.2

2018	Notional	Carrying amount Assets	Carrying amount Liabilities	Balance sheet line items	Changes in fair value used for calculating hedge ineffectiveness
Fair value hedges – interest rate risk					
Interest rate swaps	7,552.8	28.6	106.5	Derivative Financial Instruments	(74.0)
Cash flow hedges					
Interest rate swaps	5,991.4	32.7	9.8	Derivative Financial Instruments	21.0

The following table contains details of the hedged exposures covered by the Group's hedging strategies (Audited):

2019	Carrying amount of hedged item Assets	Carrying amount of hedged item Liabilities	Accumulated amount of fair value adjustments on the hedged item Assets	Accumulated amount of fair value adjustments on the hedged item Liabilities	Balance sheet line items	Change in fair value of hedged item for ineffectiveness assessment	Cash flow hedge reserve Continuing hedges	Cash flow hedge reserve Discontinued hedges
Macro fair value hedges								
Interest rate risk								
Fixed rate mortgages	4,950.3		72.6		Loans and Advances to Customers	24.5	N/a	N/a
Fixed rate bonds	242.4		3.9		Investment Securities - FVOCI	4.9	N/a	N/a
Fixed rate bonds		602.4		(15.5)	Debt Securities in Issue	0.6	N/a	N/a
Fixed rate bonds		204.2		(3.0)	Other Borrowed Funds	(3.0)	N/a	N/a
Fixed rate gilts	897.3		28.5		Investment Securities - FVOCI	(7.8)	N/a	N/a
Cash flow hedges								
Interest rate risk								
Floating rate mortgages	789.9		N/a	N/a	Loans and Advances to Customers	2.5	(18.5)	(3.7)

2018	Carrying amount of hedged item		Accumulated amount of fair value adjustments on the hedged item		Balance sheet line items	Change in fair value of hedged item for ineffectiveness assessment	Cash flow hedge reserve	
	Assets	Liabilities	Assets	Liabilities			Continuing hedges	Discontinued hedges
Macro fair value hedges								
Interest rate risk								
Fixed rate mortgages	5,794.1	-	53.4	-	Loans and Advances to Customers	(16.8)	N/a	N/a
Fixed rate bonds	309.1	-	(0.1)	-	Investment Securities - FVOCI	(0.3)	N/a	N/a
Fixed rate bonds	-	601.5	-	(16.1)	Debt Securities in Issue	10.6	N/a	N/a
Fixed rate gilts	890.3	-	36.3	-	Investment Securities - FVOCI	(34.6)	N/a	N/a
Cash flow hedges								
Interest rate risk								
Floating rate mortgages	1,659.5	-	N/a	N/a	Loans and Advances to Customers	18.9	(21.0)	(5.7)

The accumulated amount of fair value hedge adjustments remaining in the balance sheet for hedged items that have ceased to be adjusted for hedging gains and losses is £6.3m (2018: £9.2m).

The following table illustrates the effectiveness of the designated hedging relationships as well as the impact on the income statement (IS) and other comprehensive income (OCI) (Audited):

2019	Gain/(loss) recognised in OCI	Hedge effectiveness recognised in the IS	IS line item that includes hedge ineffectiveness	Amounts reclassified from reserves to IS as: Hedged cash flows will no longer occur	Hedged item affected IS	IS line item that includes reclassified amount
Macro fair value hedges						
Interest rate risk						
Fixed rate mortgages	N/a	(0.2)	Other operating (expense)/income net	N/a	N/a	N/a
Fixed rate bonds	N/a	0.3	Other operating (expense)/income net	N/a	N/a	N/a
Fixed rate gilts	N/a	0.0	Other operating (expense)/income net	N/a	N/a	N/a
Cash flow hedges						
Interest rate risk						
Floating rate mortgages	(4.5)	0.7	Other operating (expense)/income net	N/a	(2.9)	Net interest income on financial instruments not in a hedging relationship (drip of terminated IRS) Net interest income on financial instruments hedging assets (drip of futures)

2018	Gain/(loss) recognised in OCI	Hedge effectiveness recognised in the IS	IS line item that includes hedge ineffectiveness	Amounts reclassified from reserves to IS as: Hedged cash flows will no longer occur	Hedged item affected IS	IS line item that includes reclassified amount
Macro fair value hedges						
Interest rate risk						
Fixed rate mortgages	N/a	(3.5)	Other operating (expense)/income net	N/a	N/a	N/a
Fixed rate bonds	N/a	0.9	Other operating (expense)/income net	N/a	N/a	N/a
Fixed rate gilts	N/a	(3.5)	Other operating (expense)/income net	N/a	N/a	N/a
Cash flow hedges						
Interest rate risk						
Floating rate mortgages	(13.2)	-	Other operating (expense)/income net	N/a	(2.8)	Net interest income on financial instruments not in a hedging relationship (drip of terminated IRS) Net interest income on financial instruments hedging assets (drip of futures)

(Audited):

	2019	2018
Cash flow hedge reserve as at 1 January	**20.0**	29.9
Net changes in fair value recognised directly in equity	(7.4)	(16.0)
Transfers from equity to income or expense	2.9	2.8
Income tax	1.2	3.3
Cash flow hedge reserve as at 31 December	**16.7**	20.0

Early adoption of temporary and narrow exemptions to the hedge accounting requirements of IAS 39
Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* which was issued by the IASB in 2019 and endorsed by the EU on 15 January 2020. The amendments provide temporary and narrow exemptions to the hedge accounting requirements of IAS 39. The Group has early adopted this amendment, which has been applied on a retrospective basis. The information below is disclosed in respect of hedging relationships to which the Group applies the narrow exemptions.

(Audited):

Programme	Benchmark of hedged item	Benchmark of hedging instrument	Exposure (PV01) (£k)	Notional (£m)	Exemption applied
Micro Hedges	Fixed Rate assets hedged against SONIA Derivatives	SONIA	70.1	399.0	• None as these are SONIA hedges
Micro Hedges	Fixed Rate assets hedged against LIBOR Derivatives	LIBOR	122.3	984.4	• Non-Contractually Specified Risk Component • Prospective Test
Macro FV Hedge	Fixed Rate assets hedged against LIBOR Derivatives	LIBOR	1,539.6	7,239.8	• Non-Contractually Specified Risk Component • Prospective Test • Retrospective Test
Macro Cash Flow Hedge	Base Rate assets hedged with LIBOR derivatives	LIBOR	(241.4)	1,087.9	• Non-Contractually Specified Risk Component • Prospective Test • Retrospective Test
Macro Cash Flow Hedge	LIBOR assets hedged with LIBOR derivatives	LIBOR	(92.2)	221.9	• Prospective Test • Highly Probable Test • Retrospective Test

Non-Contractually Specified Risk Component - The Bank plans to transition these hedges to SONIA prior to the cessation of LIBOR; however, in the event that some LIBOR hedges remain, then we would use the relief that the risk component only needs to be separately identifiable at designation.

Prospective Test - The Bank plans to transition these hedges to SONIA prior to the cessation of LIBOR; however, in the event that some LIBOR hedges remain then we assume the swap cash flows do not change as a result of the reform. In addition, where the hedged item references LIBOR within the Macro Cash Flow Hedge, we will assume the flows do not change as a result of the reform.

Retrospective Test - The Bank plans to transition these hedges to SONIA ahead of the cessation of LIBOR; however, should the transition take longer than expected and IBOR reform cause the hedge relationship to fall outside of the required 80%-125% ratio, then we will continue the hedge so long as other requirements for hedge accounting are met.

Highly Probable Test - The Bank applies the relief that the rate on which the cash flows are based do not change, hence the highly probable test is met.

The Group is progressing its transition plans with regular updates provided to ALCo. As noted above, derivatives within the micro hedge programme are expected to be transitioned to SONIA by the end of 2020. Front book derivatives in the cash flow and fair value hedging programmes are expected to transition to SONIA ahead of the cessation of LIBOR. The Group is considering its approach to transition of back-book of LIBOR exposures to alternative risk free rates. It is expecting to make use of protocol arrangements to update the fall-back language in derivative contracts and through other bilateral renegotiation of contracts with retail, corporate and wholesale counterparts.

5. LIQUIDITY AND FUNDING RISK

Liquidity and funding risk is that obligations cannot be met as they fall due or can only be met at excessive cost.

5.1 Overview

The Board determines the level of liquid resources required to support the business objectives through the risk appetite and by undertaking an Internal Liquidity Adequacy Assessment Process (ILAAP). The ILAAP process involves the review of the liquidity Risk Management Framework, the assessment of the exposure to qualitative and quantitative liquidity and funding risks (including under stressed conditions) and concludes on the adequacy of its liquid resources.

The ILAAP and compliance with the Overall Liquidity Adequacy Rule (OLAR) is reviewed and approved by the Board. The Liquidity Coverage Ratio (LCR), a 30-day liquidity measure, is the Bank's primary regulatory liquidity metric, with a regulatory minimum of 100% as at 31 December 2019. Following review of the Bank's ILAAP, the Prudential Regulation Authority (PRA) provides Individual Liquidity Guidance (ILG) which determines the amount of eligible liquidity which is required to be held, including Pillar 2 in respect of liquidity risks not captured by the LCR.

The Bank also monitors its position against the regulatory Net Stable Funding Ratio (NSFR) metric, which is a longer-term funding metric.

The Group has an established funding base, predominantly comprising retail deposits. The Bank ensures it maintains a liquidity buffer appropriate for its funding profile in order to ensure that financial obligations are met as and when they fall due through:

- compliance with the liquidity Risk Management Framework including appropriate policies and limits;
- daily management, monitoring and reporting of compliance against both internally defined stress testing and LCR requirements;
- maintenance of a Liquidity Contingency Plan (LCP) which would be invoked in a more severe stress;
- a Recovery and Resolution Plan (RRP), maintained under UK regulatory rules implementing the European Bank Recovery and Resolution Directive (BRRD), which documents a number of potential management actions; and
- liquidity management information provided on a regular basis to ALCo and the Board which details compliance with key liquidity risk metrics.

5.2 Liquidity risk metrics

The Bank monitors a suite of liquidity metrics which includes the following (Unaudited):

Metric	2019	2018	
LCR	173.7 %	153.8 %	• Represents a surplus to regulatory minima of 100 % • Aligns to the risk strategy to maintain a prudent liquidity position
Internal Liquidity Stress Tests	Buffer held in excess of internal requirements	Buffer held in excess of internal requirements	• Measures the survival period under an internally defined applicable stress scenario
NSFR	139.1 %	138.2 %	• Based on current interpretation of requirements and guidance
Customer Loan/Deposit Ratio	94.3 %	94.7 %	• Ratio of customer loans (excluding credit commitments) to customer deposits
Encumbrance Ratio	19.8 %	19.9 %	• According to the European Banking Authority (EBA) definition asset encumbrance ratio is calculated as the carrying amount of encumbered assets and collateral divided by total assets and collateral

An asset is defined as encumbered if it has been pledged as collateral against an existing liability or to collateralise an exposure that the Group may have, restricting access to that asset in the event of resolution or bankruptcy. An encumbered asset would be no longer available to use in secured funding, to satisfy collateral needs, or to be sold to reduce the funding requirement. The encumbrance table is presented in the Pillar 3 disclosures (5.3 liquidity and funding – table 34).

5.3 Liquid asset portfolios

Total liquidity resources as at 31 December 2019 were £6,768.8m (2018: £7,025.0m). There is a focus on maintaining a high percentage of liquid assets which are high-quality and the table below analyses the liquidity portfolio by product and unencumbered liquidity value. The liquidity portfolio is categorised into primary and secondary (other liquid assets and contingent liquidity).

Primary liquid assets include cash and balances at central banks, gilts and other high quality government bonds (all are eligible under European Banking Authority (EBA) regulations (High Quality Liquid Assets)).

Secondary liquidity comprises unencumbered liquid investment securities not included as part of primary liquidity, as well as other forms of contingent liquidity sources (mortgage and corporate collateral).
(Unaudited):

Liquidity – primary & secondary	2019	2018
Operational balances with central banks	1,993.3	1,662.2
Gilts	945.9	532.1
Central government and multilateral development bank bonds	287.0	467.3
Total primary liquid assets	**3,226.2**	2,661.6
Other liquid assets	649.7	364.0
Contingent liquidity	2,892.9	3,999.4
Total secondary liquid assets	**3,542.6**	4,363.4
Total liquidity	**6,768.8**	7,025.0
Average balance	6,517.8	8,357.9

A combination of these asset pools is used to manage liquidity, with primary liquidity used predominantly for short-term cash flow movements, while other liquidity is used for creating longer term liquidity. Regular realisation through repo transactions and outright sales provide assurance that these asset pools remain sufficiently liquid.

Included within the primary liquid asset balance above is £148.8m (2018: £99.4m) of UK government gilts obtained through a collateral upgrade transaction. In accordance within the recognition criteria for financial assets under IFRS 9 Financial Instruments, these gilts are not recognised on the Bank's balance sheet. The disclosures above are based on what is eligible for liquidity purposes and so does not exactly match the balance sheet.

5.3.1 Wholesale funding

Wholesale funding is used to supplement retail and commercial deposits to diversify the source of funds to support the strategic plan as described on page 30. There are a variety of long-term wholesale funding sources outstanding, including Tier 2 subordinated debt, covered bonds, repos (including Bank of England indexed long-term repo), Bank of England Term Funding Scheme (TFS) drawings, Silk Road Six MBS, as summarised in the table below (Unaudited):

Wholesale funding	2019	2018
Subordinated debt	**204.2**	-
Secured funding	**1,815.5**	1,564.7
Repos	**179.1**	468.8
	2,198.8	2,033.5

The wholesale funding position has been managed by the reduction of repos offset by the Tier 2 subordinated debt issued earlier in 2019 and Silk Road Six secured funding. Gilt repos make up £28.5m of total repo funding. The following table sets out contractual wholesale funding by maturity, with the maturity of securitisations based on call dates. The funding below is included within deposits by banks and debt securities in issue on the balance sheet.
(Unaudited):

Wholesale funding maturity	2019	2018
Repayable in less than 1 month	**181.3**	325.6
Repayable between 1 and 3 months	**0.3**	95.3
Repayable between 3 and 6 months	**3.5**	50.1
Repayable between 6 and 9 months	**-**	-
Repayable between 9 and 12 months	**4.0**	-
Repayable between 1 and 2 years	**599.0**	-
Repayable between 2 and 5 years	**1,410.7**	1,562.5
Repayable in more than 5 years	**-**	-
	2,198.8	2,033.5

5.4 Liquidity gap

Details of contractual maturities for assets and liabilities underpin the management of liquidity risk. However, management recognises that customer behaviour differs to contractual maturity, therefore as part of the planning process, behavioural run-off of customer assets and liabilities over time are estimated. The assumptions used to create these estimates and the estimates themselves are recommended for approval by ALCo as part of its responsibility to manage the strategic plan.

Gross cash flows include interest and other revenue cash flows. Other assets and liabilities include non-financial items and these are excluded from the maturity analysis. The following table is an analysis of gross undiscounted contractual cash flows of financial assets and liabilities held at the balance sheet date.
(Audited)

2019 – Contractual cash flows	Carrying value	Gross nominal flow	Less than 1 month	1-3 months	3-6 months	6-9 months	9-12 months	1-2 years	2-5 years	Over 5 years
Assets										
Cash and balances at central banks	2,153.5	2,153.5	2,153.5	-	-	-	-	-	-	-
Loans and advances to banks	474.3	474.4	353.9	120.5	-	-	-	-	-	-
Loans and advances to customers	17,918.4	27,440.2	453.3	202.1	310.7	307.7	313.6	1,309.4	3,984.7	20,558.7
Investment securities	1,605.6	1,907.7	55.5	173.4	451.0	16.2	16.2	118.9	511.6	564.9
Derivative financial instruments	213.3	311.3	14.1	9.7	15.5	12.0	11.6	41.1	62.9	144.4
Other assets	1,070.4	-	-	-	-	-	-	-	-	-
Total recognised assets	**23,435.5**	**32,287.1**	**3,030.3**	**505.7**	**777.2**	**335.9**	**341.4**	**1,469.4**	**4,559.2**	**21,268.0**

(Audited)

2019 – Liabilities	Carrying value	Gross nominal flow	Less than 1 month	1-3 months	3-6 months	6-9 months	9-12 months	1-2 years	2-5 years	Over 5 years
Deposits by banks	1,143.7	1,162.9	184.5	1.4	2.2	2.2	2.3	8.9	961.4	-
Customer accounts[1]	18,996.8	19,050.7	15,592.8	187.4	688.5	808.0	451.1	944.9	378.0	-
Debt securities in issue	867.5	921.9	4.3	8.3	12.5	12.5	16.4	644.9	223.0	-
Derivative financial instruments	288.0	403.1	8.3	13.0	18.1	19.4	13.7	48.2	96.2	186.2
Other borrowed funds	204.2	305.2	1.6	3.1	8.2	4.8	4.8	19.0	263.7	-
Lease liabilities	71.2	90.0	-	2.7	2.6	2.6	2.6	9.9	26.3	43.3
Other liabilities	252.2	-	-	-	-	-	-	-	-	-
Total recognised liabilities	**21,823.6**	**21.933.8**	**15,791.5**	**215.9**	**732.1**	**849.5**	**490.9**	**1,675,8**	**1,948.6**	**229.5**
Unrecognised loan commitments	2,105.0	2,105.0	2,105.0	-	-	-	-	-	-	-
Total liabilities	**23,928.6**	**24,038.8**	**17,896.5**	**215.9**	**732.1**	**849.5**	**490.9**	**1,675,8**	**1,948.6**	**229.5**

2018 – Contractual cash flows	Carrying value	Gross nominal flow	Less than 1 month	1-3 months	3-6 months	6-9 months	9-12 months	1-2 years	2-5 years	Over 5 years
Assets										
Cash and balances at central banks	1,843.8	1,843.8	1,843.8	-	-	-	-	-	-	-
Loans and advances to banks	485.8	485.9	404.1	81.8	-	-	-	-	-	-
Loans and advances to customers	17,733.9	26,938.2	534.3	211.2	314.6	320.6	325.4	1,294.2	4,011.8	19,926.1
Investment securities	1,935.0	2,181.7	4.2	8.2	12.4	12.5	37.6	443.5	845.8	817.5
Derivative financial instruments	192.2	321.4	13.3	11.5	11.9	11.6	11.1	38.5	65.8	157.7
Other assets	912.1	-	-	-	-	-	-	-	-	-
Total recognised assets	23,102.8	31,771.0	2,799.7	312.7	338.9	344.7	374.1	1,776.2	4,923.4	20,901.3

2018 – Liabilities	Carrying value	Gross nominal flow	Less than 1 month	1-3 months	3-6 months	6-9 months	9-12 months	1-2 years	2-5 years	Over 5 years
Deposits by banks	1,433.5	1,462.0	329.0	96.9	52.3	2.2	2.3	8.9	970.4	-
Customer accounts[1]	18,735.8	18,789.2	14,756.5	297.9	829.2	1,259.0	605.0	787.1	254.5	-
Debt securities in issue	617.6	685.6	2.4	4.6	7.0	7.1	11.2	28.5	624.8	-
Derivative financial instruments	260.6	430.3	7.2	16.1	12.9	17.4	12.4	44.5	100.3	219.5
Other liabilities	305.2	-	-	-	-	-	-	-	-	-
Total recognised liabilities	21,352.7	21,367.1	15,095.1	415.5	901.4	1,285.7	630.9	869.0	1,950.0	219.5
Unrecognised loan commitments	2,247.4	2,247.4	2,247.4	-	-	-	-	-	-	-
Total liabilities	23,600.1	23,614.5	17,342.5	415.5	901.4	1,285.7	630.9	869.0	1,950.0	219.5

1. The carrying value of customer accounts for the Bank is £18,997.2m (2018: £18,735.9m) and the gross nominal flow is £19,051.1m (2018: £18,789.3m). The additional £0.4m (2018: £0.1m) is within the less than 1 month band. All other balances and timing bands are consistent with the Group.

The principal difference between the gross nominal value and the accounting carrying value set out above is due to discounting. Discounting has a greater impact on cash flows in later years, and a minimal impact on cash flows within 1 year. Therefore the contractual cash flows on assets and liabilities expected in less than one year are a fair representation of the contractual maturity of current assets and liabilities at carrying value in the balance sheet.

5.5 Financial instruments in the balance sheet subject to netting arrangements

The Group has netting agreements in place with counterparties to manage the associated credit risks. Such arrangements primarily include repo and reverse repo transactions and exchange traded derivatives. These netting agreements enable the counterparties to offset liabilities against available assets received in the ordinary course of business and/or in the event of the counterparty's default. The offsetting right is a legal right to settle, or otherwise eliminate, all or a portion of an amount due by applying an amount receivable from the same counterparty against it, thus, reducing credit exposure.

The table below shows the net exposure for sale and repurchase agreements and derivative contracts after any netting benefits and collateral.
(Unaudited):

2019	Gross amount[1]	Master netting arrangements	Financial collateral[2]	Net amount
Financial assets				
Derivative financial instruments	213.3	(67.7)	(3.9)	(141.7)
Total financial assets	**213.3**	**(67.7)**	**(3.9)**	**(141.7)**
Financial liabilities				
Derivative financial instruments	288.0	(67.7)	(220.3)	-
Sale and repurchase agreements	179.1	-	(179.1)	-
Total financial liabilities	**467.1**	**(67.7)**	**(399.4)**	**-**

2018	Gross amount	Master netting arrangements	Financial collateral	Net amount
Financial assets				
Derivative financial instruments	192.2	(54.0)	-	138.2
Total financial assets	**192.2**	**(54.0)**	**-**	**138.2**
Financial liabilities				
Derivative financial instruments	260.6	(54.0)	(206.6)	-
Sale and repurchase agreements	468.8	-	(468.8)	-
Total financial liabilities	**729.4**	**(54.0)**	**(675.4)**	**-**

1. As reported on balance sheet.
2. The financial collateral disclosed is limited to the amount of the related financial asset or related financial liability (i.e. over-collateralisation, where it exists, is not reflected in the table).

Financial Statements

The co-operative bank
for people with purpose

Opinion

We have audited the financial statements (see table below) of the Co-operative Bank p.l.c. (the "Bank Company") and its subsidiaries (together, the "Bank") for the year ended 31 December 2019. In our opinion:

- The financial statements give a true and fair view of the state of the Bank's and of the Bank Company's affairs as at 31 December 2019 and of the Bank's loss for the year then ended;
- the Bank financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Bank Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Bank financial statements, Article 4 of the IAS Regulation.

The financial statements comprise:

Bank	Bank Company
Consolidated balance sheet as at 31 December 2019	Balance sheet as at 31 December 2019
Consolidated income statement for the year then ended	Statement of changes in equity for the year then ended
Consolidated statement of comprehensive income for the year then ended	Cash flow statement for the year then ended
Consolidated statement of changes in equity for the year then ended	Related notes 1 to 28 to the financial statements, (except for the columns marked as unaudited in Note 24), including a summary of significant accounting policies set out within the Explanatory Information on pages 242 to 251
Consolidated statement of cash flows for the year then ended	
Related notes 1 to 37 to the financial statements, (except for the columns marked as unaudited in Note 31), including a summary of significant accounting policies set out within the Explanatory Information on pages 242 to 251	
Information in the Risk Management section, identified as "audited" on pages 78 to 120	

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards to the Bank Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Bank and Bank Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue.

Overview of our audit approach

Key audit matters	• Going Concern • Valuation of credit impairment provisions • Valuation of the Surrendered Loss Debtor • Valuation of the fair value adjustments to hedged risk and the macro cash flow hedge reserve • Valuation of the defined benefit pension scheme surplus in the PACE and Britannia pension schemes • Risk of fraud in the recognition of income using the Effective Interest Rate ("EIR") method • Completeness and valuation of conduct and compliance risk provisions
Audit scope	• We performed an audit of the complete financial information of the Bank and Bank Company
Materiality	• Overall Bank and Bank Company materiality was £10.0m, consistent with the prior year, which represents 0.62% of equity (2018: 0.57%)

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified.

These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk
Going concern *Please refer to the Audit Committee Report (page 54) and Accounting policies (page 157) of the Consolidated Financial Statements.* The Bank has identified its principal risks and uncertainties on page 81 to 84 of the Risk Management section. Key risks to the Bank that are most relevant to the going concern assumption include: - The risk that the Bank will be unable to issue MREL debt, when planned or at all, which may lead to the Bank's regulators exercising their powers of intervention including the power to place the Bank within the Special Resolution Regime if it is considered that the Bank would otherwise be likely to fail; - The risk that the financial performance of the Bank worsens to the extent that it is unable to meet its capital requirements and needs to raise additional capital or seek regulatory forbearance. The Bank remains structurally loss making and committed to further strategic spend. This continues to erode regulatory capital, which increases the Bank's exposure to worsening economic conditions, losses arising from new and unexpected conduct events, increasing credit losses and the activities of competitors, customers or regulators; and - The risk that the Bank has insufficient liquidity to meet its obligations as they fall due or can only do so at excessive cost.	Our audit procedures included evaluating the Directors' going concern assessment in order to establish whether events or conditions exist that may cast significant doubt on the Bank's ability to continue as a going concern. We reviewed correspondence between the Bank and its regulators to evidence changes in the Bank's capital requirements. We met with the PRA throughout the audit cycle to understand their views on existing and emerging risks to the Bank and validate the Bank's progress in achieving regulatory milestones. We assessed the 2020 – 2024 Financial Plan with reference to Management's historical forecasting accuracy and performed stress testing to consider the reasonableness of forecast income growth and cost reduction plans over the going concern period, as defined by ISA 570, IAS 1 and the FRC guidelines. With the support of EY valuations specialists we assessed the likelihood of future debt issuances and considered Management's assumptions over timing, demand and pricing of such issuances. We assessed the Bank's liquidity forecasts over the going concern period. We considered whether there were any additional matters not evaluated by Management that are relevant to the assessment of going concern. We assessed whether the Bank's disclosures in relation to going concern adequately reflected the risks and uncertainties inherent in the going concern assessment.

Key observations communicated to the Audit Committee
We concluded to the Audit Committee that it was appropriate to prepare the 2019 Annual Report and Accounts on a going concern basis, and that the risks identified do not represent a material uncertainty. We also concluded that the Bank's disclosures adequately reflect the risks relevant to going concern.

Risk	Our response to the risk
Valuation of credit impairment provisions *Please refer to the Audit Committee Report (page 54); Accounting policies (page 246); and Note 14 of the Consolidated Financial Statements (page 168).* At 31 December 2019, the Bank reported total gross loans of £17,945m (2018: £17,787m) and credit impairment provisions of £26.7m (2018: £52.7m). The determination of expected credit losses (ECL) is highly subjective and judgemental. Key judgements and estimates in respect of the timing and measurement of ECL include: - The appropriateness of staging criteria selected by Management to determine whether a significant increase in credit risk (SICR) has arisen; - Accounting interpretations and modelling assumptions used to build the models that calculate the ECL; - Inputs and assumptions used to estimate the impact of multiple economic scenarios; - Completeness and valuation of Post Model Adjustments ("PMAs"); - Measurements of individually assessed provisions including the assessment of multiple scenarios; and - Accuracy and adequacy of the financial statement disclosures.	We understood and evaluated the adequacy of the design effectiveness of key controls over the impairment process relevant to the ECL and tested the operating effectiveness of the controls which we intended to rely on for our audit. We assessed the methodology for determining the SICR criteria and independently tested the staging allocation by reperforming this across the complete loan portfolio, with reference to the SICR thresholds and cure periods. We also performed sensitivity analysis over these assumptions. With the support of EY modelling specialists we risk rated the ECL models and then focused on the higher risk models where we tested the assumptions, inputs and formulas. This included assessing the appropriateness of model design and formulas used, considering alternative modelling techniques and recalculating the Probability of Default, Loss Given Default and Exposure at Default. We performed testing over the integrity of the data used in developing Management's IFRS 9 models and the monthly information used to calculate the provision, including collateral valuations. With the support of EY economic specialists, we assessed the base case and alternative economic scenarios, including challenging probability weights and comparing to other scenarios from a variety of external sources, as well as EY internally developed forecasts. We assessed whether GDP, unemployment, interest rates and House Price Index forecasted macro-economic variables were appropriate. With the support of EY modelling specialists, we performed sensitivity analysis over the underlying macro-economic factors included in the models to assess how the models would perform in a more volatile economic environment, and the resulting impact on ECL. For a sample of higher risk corporate stage 3 provision cases we obtained an understanding of the latest developments in the borrower's situation and the factors impacting the measurement of provisions. With the support of EY valuation specialists we independently assessed the underlying collateral used in Management's cash flow calculations. In each case we tested key data inputs and, where relevant, considered alternative scenarios in challenging Management's estimate. We tested a risk based sample of performing corporate loans to assess the appropriateness of the staging classification. We assessed the completeness and appropriateness of post model adjustments by understanding the basis for each, recalculating a sample and considering the need for alternative model adjustments. We assessed the adequacy and appropriateness of disclosures made within the financial statements for compliance with IFRS 9.

Key observations communicated to the Audit Committee

We are satisfied that credit impairment provisions are reasonable and in compliance with IFRS 9.

We highlighted to the Committee that, considering the economic uncertainties prevailing, the forecast losses were uncertain. However, we are satisfied that credit impairment provisions are reasonable and in compliance with IFRS 9.

We highlighted to the Audit Committee that although we observed model deficiencies, the resulting ECL was reasonable when incorporating the necessary post-model adjustments.

We considered the multiple economic scenarios incorporated in the IFRS 9 models to be reasonable.

Risk	Our response to the risk
Valuation of the Surrendered Loss Debtor *Please refer to the Audit Committee Report (page 55); Accounting policies (page 245); and Note 18 of the Consolidated Financial Statements (page 171).* At 31 December 2019, the Bank reported a fair value for the Surrendered Loss Debtor of £47.8m (2018: £32.9m). At the time of the Bank's separation from the Co-op Group, a deed was agreed relating to the historic surrender of group relief between the entities in the Bank's tax group and entities in the Co-op Group's tax group. In line with the deed, the Bank receives payment when the Co-op Group realises the benefit of the losses surrendered. The fair value of this asset is therefore dependent on the level and timing of taxable income in the Co-op Group and the extent of its capital expenditure. Payments are made at the corporation tax rate at the point at which the benefit is realised. Management are required to estimate the future profitability of the Co-op Group and forecast the use of the surrendered tax losses. This is subject to significant judgement and estimation uncertainty and is reliant on the accuracy and reliability of data received from the Co-op Group and the timing of cash receipts.	We obtained the deed between the Co-op Group and the Bank to confirm the existence of the debtor and confirm the terms of the agreement. With the support of EY modelling specialists we tested Management's forecast cash flow calculation and compared the data points to the source information received from the Co-op Group. With the support of EY valuation specialists we determined an independent range of valuations for the Surrendered Loss Debtor, with reference to historical experience and considering plausible alternative assumptions. We assessed Management's estimate against this independent range. We established the appropriateness of Management's application of UK tax legislation in calculating the fair value estimate. We also evaluated the Surrendered Loss Debtor against the requirements of IFRS 9.

Key observations communicated to the Audit Committee
We are satisfied that the fair value of the Surrendered Loss Debtor was reasonably estimated as the Bank's estimate is within our independent range of reasonable outcomes. We communicated to the Audit Committee that the Bank's future recovery of the Surrendered Loss Debtor is uncertain as the crystallisation of this receivable is dependent on the future performance of the Co-op Group, and future tax legislation, over which the Bank has no control.

Risk	Our response to the risk
Valuation of the fair value adjustments to hedged risk and the macro cash flow hedge reserve *Please refer to the Audit Committee Report (page 55); Accounting policies (page 245); and Note 16 of the Consolidated Financial Statements (page 170).* At 31 December 2019, the Bank reported fair value adjustments to hedged risk of £72.6m (2018: £53.4m) and the macro cash flow hedge reserve was valued at £16.7m (2018: £20.0m). The Bank's macro cash flow and macro fair value hedge accounting models are governed by complex accounting rules and requires the application of significant assumptions in the determination of the notional balance forecasts, future cash flow forecasts, hedging instrument valuations and the calculation of hedge ineffectiveness. As a result, there is a risk that the methodology or assumptions used in the valuation of hedged items and hedge effectiveness within the models may be inappropriate, or that the modelled forecast hedge item balances or cash flows may be inaccurate due to the application of inaccurate data, inappropriate formulae or incorrect assumptions. This could give rise to misstatement of the fair value adjustment to hedged risk or the macro cash flow hedge reserve lines in the balance sheet.	We examined any changes to existing hedge documentation to assess the adequacy of this documentation against the requirements of the IAS 39 criteria. We examined the Bank's' macro hedging models, including the methodology and assumptions used. We assessed the appropriateness of the assumptions used to create the modelled forecast cash flows for the hedged items in the macro cash flow hedge and the macro fair value hedge models by reference to underlying mortgage portfolios. We reconciled model inputs to underlying source systems to verify the completeness and accuracy of the hedged item and hedging instruments. With the support of EY valuations specialists we tested the fair value attributable to hedged risk of hedged items, through testing the value of the ineffectiveness, with reference to independent market data. We independently recalculated the hedge effectiveness throughout the reporting period on a sample basis and compared our results against the hedge effectiveness thresholds defined by IAS 39 and the IAS 39 amendments for Interest Rate Benchmark Reform, which have been early adopted.

Key observations communicated to the Audit Committee

We concluded to the Audit Committee that the Bank's macro hedge accounting models were materially in line with the hedge accounting provisions of IAS 39, ineffectiveness recorded in the income statement was materially correct and there were no hedge relationships that should have been discontinued.

We highlighted the following matters:
- Appropriate market data had been used as inputs to the fair value attributable to the hedged risk on hedge items.
- The assumptions used to create modelled forecast balances of the hedged item in the macro cash flow hedge model and the forecast cash flows in the macro fair value hedge model were appropriate;
- Data flows into the models were materially complete and accurate; and
- We did not note any material misstatements from recalculation of hedge effectiveness on a sample basis.

Risk	Our response to the risk
Valuation of the defined benefit pension scheme surplus in the PACE and Britannia pension schemes *Please refer to the Audit Committee Report (page 54); Accounting policies (page 250); and Note 30 of the Consolidated Financial Statements (page 178).* At 31 December 2019, the Bank reported a defined benefit pension scheme surplus of £690m (2018: £624m). This consisted of assets of £2,031m and liabilities of £1,492m relating to the PACE pension scheme and Britannia pension scheme assets of £825m and liabilities of £674m. The valuation of the liabilities of each of these pension schemes is subject to the following significant assumptions: - Discount rate; - Inflation; - Revaluation of deferred pensions; and - Mortality. In addition, the asset pools of both the PACE and Britannia schemes also contain an element of illiquid investment funds that are harder to value, which increases the risk of incorrect valuation.	With the support of EY pension actuaries we considered the appropriateness of the assumptions supporting the valuation of the scheme liabilities through the development of an independent range of reasonable assumptions against which to assess those used by Management. We assessed the impact on pension liabilities of changes in financial, demographic and longevity assumptions and whether these were in line with our expectations. We also tested the completeness and accuracy of member data on which these assumptions are based. With the support of EY valuation specialists we challenged the appropriateness of Management's asset valuation methodology, including the judgements made in determining significant assumptions used in the valuation of illiquid pension assets, through assessing asset valuation statements, pricing policies and evidence of the performance of the pension assets. We assessed the recognition of the PACE and Britannia pension schemes surplus against the requirements of IFRIC 14. We assessed the adequacy of the disclosures made, and their compliance with the accounting standards including the appropriateness of the key assumptions and sensitivities disclosed.

Key observations communicated to the Audit Committee
We highlighted to the Audit Committee that the defined benefit pension scheme surplus in the PACE and Britannia pension schemes is reasonably estimated and recognised in accordance with both IAS 19 and IFRIC 14. We highlighted that there is subjectivity in the valuation of the scheme liabilities due to the use of significant assumptions in calculating the balance. Overall, we are satisfied that the assumptions made by the Bank were within a reasonable range. We also noted that the asset pools of both the PACE and Britannia pension schemes contained an element of "hard to value" illiquid funds. We are satisfied that the Bank's methods for valuing these assets, and the valuations themselves, were materially appropriate.

Risk	Our response to the risk
Risk of fraud in the recognition of income using the effective interest rate method *Please refer to the Audit Committee Report (page 54) and the Accounting policies (page 243).* The Bank records interest income on its mortgage portfolio under the effective interest rate ('EIR') method. The EIR method of revenue recognition spreads the income statement recognition of income and expense cash flows that are, in substance, integral to the overall yield of the financial instrument over its modelled life. The method involves significant Management judgement and the use of complex models in both determining the initial EIR and recording the present value of adjustments arising in subsequent periods when cash flows are reforecast. As such, it represents a risk of fraud in revenue recognition through Management override of internal controls. The Bank's EIR models are most sensitive to changes in the behavioural life assumptions and future interest rate expectations. Management also make use of judgemental post model adjustments where the models do not reflect the expectations of future customer behaviour. Modelled forecast cash flows may be measured incorrectly due to the use of inaccurate or incomplete data, erroneous formulae or inappropriate assumptions.	We evaluated the assumptions used by Management in the EIR models and post model adjustments, including the behavioural lives of assets and the forecasting of standard variable rates to which mortgages revert following the conclusion of their fixed rate term. We considered the appropriateness of these assumptions by comparing customer redemption assumptions with recent customer behaviours observable in the Bank's portfolios, and establishing the consistency of forecast standard variable rates with market derived base rate forecasts and the Bank's expectations of future interest margins. We tested the completeness of data within these models by selecting a sample of loans from Management's underlying source systems and checking these were included in the model. We tested the accuracy of the data within the models through agreement of the model data to the Bank's source systems. We tested the accuracy of the EIR calculations by recalculating the EIR balance for a sample of mortgages and agreeing this to the model balance.

Key observations communicated to the Audit Committee

We communicated to the Audit Committee that the models, assumptions and calculations underpinning the EIR calculation as at 31 December 2019, were appropriate and reasonable in the context of current observable market behaviours and economic conditions, and that these resulted in EIR adjustments which were appropriately derived.

We noted the potential future risks to the EIR adjustments related to potential changes in customer behaviour as a result of wider current economic, market and regulatory pressures, and that we considered the modelled calculation, and post model adjustments, recorded in respect of changes in behavioural lives to be within a reasonable range of outcomes.

Risk	Our response to the risk
Completeness and valuation of conduct and compliance risk provisions *Please refer to the Audit Committee Report (page 54); Accounting policies (page 251); and Note 28 of the Consolidated Financial Statements (page 176).* The Bank has historically carried a number of provisions relating to its conduct towards its past and present customers. The most significant of these has been the provision for Payment Protection Insurance ("PPI") mis-selling, with significant judgement historically being applied in assessing the present obligation for customer redress due to the subjective assumptions used in determining the estimate. The FCA deadline of 29 August 2019 for customers to lodge PPI related complaints has now passed and the Bank received a significant number of complaints and enquiries from claims management companies and direct from consumers in the run up to this deadline. As all complaints have been received and valid complaints recorded, the level of uncertainty and risk associated with provision estimate has now reduced. Judgements and assumptions are required to be made by Management in relation to the quality of the complaints and information requests received, the quantum of future redress payments and the associated administration costs that will be required. In addition, Management continue to hold provisions for other conduct matters, such as Packaged Bank Accounts, and there is a risk that these are not reasonably valued.	We tested the completeness and accuracy of data within the models used by the Bank in creating the provisions. We assessed the appropriateness of key PPI provision model assumptions which included uphold and average redress rates, as well as case processing costs, with reference to the Bank's historic experience. We modelled the impact of reasonably possible alternative assumptions on the Bank's PPI provision and developed independent ranges of outcomes to evaluate and challenge Management's provision assumptions around future redress and delivery costs. We engaged EY conduct risk specialists to perform an independent assessment of PPI complaint outcomes with reference to source documentation, and also recalculate a sample of redress amounts that have been offered to customers. Completeness of the identification of conduct issues (with the potential to lead to provisions) was assessed through discussions with Management, including General Counsel, review of regulatory correspondence and, through discussions with our conduct risk specialists, consideration of broader industry issues and developments.

Key observations communicated to the Audit Committee
We communicated to the Audit Committee that the provision for PPI related claims as at 31 December 2019 was within our independently determined range of reasonable outcomes and was compliant with the requirements of IFRS. We noted to the Audit Committee that while the risk in relation to estimation uncertainty has reduced as a result of the FCA deadline now having passed the costs that will be incurred by the Bank in the remediation of the remaining PPI complaints remains uncertain.

In the prior year, our auditor's report included a key audit matter in relation to the Bank's control environment which is no longer considered as a key audit matter as a result of improvements the Bank has made in its control environment resulting in this being more aligned to its peers.

An overview of the scope of our audit

Tailoring the scope

The Bank is principally managed from one location in Manchester, with certain functions such as Treasury and some corporate activities operated from London. The Bank also has one subsidiary, Britannia International Limited ("BINT"), which is based in the Isle of Man. All audit work performed for the purposes of the audit was undertaken by the Bank audit team.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Bank and Bank Company to be £10.0m (2018: £10.0m), which is 0.62% (2018: 0.57%) of equity. The reason for selecting equity as the basis for our audit materiality consideration is that the Bank's stated focus is to maintain regulatory capital, as it has been loss making for several years. We also see equity as a proxy for regulatory capital, as the main focus for the users of the financial statements given the importance of regulatory capital to the Bank's solvency.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Bank's overall control environment, our judgement was that performance materiality was 50% of our planning materiality, namely £5.0m. 50% is at the conservative end of the normal range that we use due to our assessment of the inherent risk associated with this audit.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.5m (2018: £0.5m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other Information

The Other Information comprises the information included in the Annual Report and Accounts set out on pages 1 to 120, other than the financial statements and our auditor's report thereon. The Directors are responsible for the Other Information.

Our opinion on the financial statements does not cover the Other Information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the Other Information. If, based on the work we have performed, we conclude that there is a material misstatement of the Other Information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Bank and the Bank Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Bank Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Bank Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 69, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud, to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Bank and determined that the most significant are
  - Companies Act 2006
  - Financial Reporting Council (FRC) rules and guidance
  - Tax Legislation (governed by HM Revenue and Customs)
  - Financial Conduct Authority (FCA) rules
  - CRD IV (Basel III) and Prudential Regulation Authority (PRA) rules
- We understood how the Bank is complying with those frameworks by reviewing relevant committee minutes and reports, holding discussions with the Bank's general counsel and internal audit, amongst others. We inquired as to any known instances of non-compliance or suspected non-compliance with laws and regulations. We also reviewed the Bank's Complaints Management Policy and Whistleblowing Policy.
- We assessed the susceptibility of the Bank's financial statements to material misstatement, including how fraud might occur by holding discussions with senior management, internal audit, and the Audit Committee.
- Based on this understanding we designed our audit procedures to identify material non-compliance with such laws and regulations. Our procedures involved inquiring of key management, reviewing the key policies and reports on the aforementioned legal and regulatory frameworks as well as reviewing the correspondence exchanged with the Regulators, and meeting with them at least annually, and gaining an understanding of any regulatory investigations and enforcement actions being undertaken.
- The Bank operates in the financial services industry, which is a highly regulated environment. As such, the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

We were appointed by the Bank at the AGM on 30 May 2014 to audit the financial statements for the year ending 31 December 2014 and subsequent financial periods. Our first engagement letter was signed on 17 July 2014. The period of total uninterrupted engagement including previous renewals and reappointments is six years, covering the years ending 31 December 2014 to 31 December 2019.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Bank or the Bank Company and we remain independent of the Bank and the Bank Company in conducting the audit.
The audit opinion is consistent with the additional report to the Audit Committee.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank's and the Bank Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Michael-John Albert (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
26 February 2020

Notes:

1. The maintenance and integrity of the Bank's web site is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Opinion

We have audited the financial statements of The Co-operative Bank Holdings Limited (the 'Holding Company') and its subsidiaries (the 'Group') for the year ended 31 December 2019 which comprise the Group income statement, the Group and Holding Company balance sheet, the Group statement of cash flows, the Group statement of comprehensive income, the Group and Holding Company statement of changes in equity, the Risk Management sections identified as audited on pages 78 to 120, the related Group notes 1 to 37 (except for the columns marked as unaudited in Note 31), and the related Holding Company notes 1 to 6 including a summary of significant accounting policies as set out in the Explanatory Information on pages 242 to 251. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the Group's and of the Holding Company's affairs as at 31 December 2019 and of the Group's loss for the year then ended;

- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;

- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union in accordance with the provisions of the Companies Act 2006; and

- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the Holding Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other Information

The Other Information comprises the information included in the Annual Report and Accounts, set out on pages 1 to 120, other than the financial statements and our auditor's report thereon. The Directors are responsible for the Other Information.

Our opinion on the financial statements does not cover the Other Information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the Other Information. If, based on the work we have performed, we conclude that there is a material misstatement of the Other Information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Holding Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Holding Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Holding Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 69, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Holding Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Holding Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Holding Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Holding Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Holding Company and the Holding Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Michael-John Albert (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
26 February 2020

Notes:

1. The maintenance and integrity of the web site within which these accounts are available is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

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

Opinion

We have audited the financial statements (see table below) of the Co-operative Bank Finance p.l.c. (the "Finance Company") and its subsidiaries (together, the "Finance Group") for the year ended 31 December 2019. In our opinion:

- The financial statements give a true and fair view of the state of the Finance Group's and of the Finance Company's affairs as at 31 December 2019 and of the Finance Group's loss for the year then ended;
- the Finance Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Finance Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Finance Group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise:

Finance Group	Finance Company
Consolidated balance sheet as at 31 December 2019	Balance sheet as at 31 December 2019
Consolidated income statement for the year then ended	Statement of changes in equity for the year then ended
Consolidated statement of comprehensive income for the year then ended	Cash flow statement for the year then ended
Consolidated statement of changes in equity for the year then ended	Related notes 1 to 29 to the financial statements, including a summary of significant accounting policies set out within the Explanatory Information on pages 242 to 251
Consolidated statement of cash flows for the year then ended	
Related notes 1 to 29 to the financial statements, (except for the columns marked as unaudited in Note 31 of the Group and Bank financial statements as referenced in Note 23), including a summary of significant accounting policies set out within the Explanatory Information on pages 242 to 251	
Information in the Risk Management section, identified as "audited" on pages 78 to 120	

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards to the Finance Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Finance Group and Finance Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue.

Overview of our audit approach

Key audit matters	• Valuation of credit impairment provisions • Valuation of the Surrendered Loss Debtor • Valuation of the fair value adjustments to hedged risk and the macro cash flow hedge reserve • Valuation of the defined benefit pension scheme surplus in the PACE and Britannia pension schemes • Risk of fraud in the recognition of income using the Effective Interest Rate ("EIR") method • Completeness and valuation of conduct and compliance risk provisions • Valuation of the Finance Company's investment in the Co-operative Bank p.l.c. and related going concern considerations • Impairment of the Finance Company's intercompany receivable
Audit scope	• We performed an audit of the complete financial information of the Finance Group and Finance Company
Materiality	• Overall Finance Group materiality was £10.0m, which represents 0.62% of equity • Overall Finance Company materiality was £2.7m, which represents 0.5% of assets

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk
Valuation of credit impairment provisions *Please refer to the Audit Committee Report (page 54); Accounting policies (page 246); and Note 5 of the Consolidated Financial Statements (page 237).* At 31 December 2019, the Finance Group reported total gross loans of £17,945m (2018: £17,787m) and credit impairment provisions of £26.7m (2018: £52.7m). The determination of expected credit losses (ECL) is highly subjective and judgemental. Key judgements and estimates in respect of the timing and measurement of ECL include: - The appropriateness of staging criteria selected by Management to determine whether a significant increase in credit risk (SICR) has arisen; - Accounting interpretations and modelling assumptions used to build the models that calculate the ECL; - Inputs and assumptions used to estimate the impact of multiple economic scenarios; - Completeness and valuation of Post Model Adjustments ("PMAs"); - Measurements of individually assessed provisions including the assessment of multiple scenarios; and - Accuracy and adequacy of the financial statement disclosures.	We understood and evaluated the adequacy of the design effectiveness of key controls over the impairment process relevant to the ECL and tested the operating effectiveness of the controls which we intended to rely on for our audit. We assessed the methodology for determining the SICR criteria and independently tested the staging allocation by reperforming this across the complete loan portfolio, with reference to the SICR thresholds and cure periods. We also performed sensitivity analysis over these assumptions. With the support of EY modelling specialists we risk rated the ECL models and then focused on the higher risk models where we tested the assumptions, inputs and formulas. This included assessing the appropriateness of model design and formulas used, considering alternative modelling techniques and recalculating the Probability of Default, Loss Given Default and Exposure at Default. We performed testing over the integrity of the data used in developing Management's IFRS 9 models and the monthly information used to calculate the provision, including collateral valuations. With the support of EY economic specialists, we assessed the base case and alternative economic scenarios, including challenging probability weights and comparing to other scenarios from a variety of external sources, as well as EY internally developed forecasts. We assessed whether GDP, unemployment, interest rates and House Price Index forecasted macro-economic variables were appropriate. With the support of EY modelling specialists, we performed sensitivity analysis over the underlying macro-economic factors included in the models to assess how the models would perform in a more volatile environment, and the resulting impact on ECL. For a sample of higher risk corporate stage 3 provision cases we obtained an understanding of the latest developments in the borrower's situation and the factors impacting the measurement of provisions. With the support of EY valuation specialists we independently assessed the underlying collateral used in Management's cash flow calculations. In each case we tested key data inputs and, where relevant, considered alternative scenarios in challenging Management's estimate. We tested a risk based sample of performing corporate loans to assess the appropriateness of the staging classification. We assessed the completeness and appropriateness of post model adjustments by understanding the basis for each, recalculating a sample and considering the need for alternative model adjustments. We assessed the adequacy and appropriateness of disclosures made within the financial statements for compliance with IFRS 9.

Key observations communicated to the Audit Committee

We are satisfied that credit impairment provisions are reasonable and in compliance with IFRS 9.

We highlighted to the Committee that, considering the economic uncertainties prevailing, the forecast losses were uncertain. However we are satisfied that credit impairment provisions are reasonable and in compliance with IFRS 9.

We highlighted to the Audit Committee that although we observed model deficiencies, the resulting ECL was reasonable when incorporating the necessary post model adjustments.

We considered the multiple economic scenarios incorporated in the IFRS 9 models to be reasonable.

Risk	Our response to the risk
Valuation of the Surrendered Loss Debtor *Please refer to the Audit Committee Report (page 55); Accounting policies (page 245); and Note 10 of the Consolidated Financial Statements (page 237).* At 31 December 2019, the Finance Group reported a fair value for the Surrendered Loss Debtor of £47.8m (2018: £32.9m). At the time of the Co-operative Bank p.l.c.'s ("the Bank's") separation from the Co-op Group, a deed was agreed relating to the historic surrender of group relief between the entities in the Bank's tax group and entities in the Co-op Group's tax group. In line with the deed, the Bank receives payment when the Co-op Group realises the benefit of the losses surrendered. The fair value of this asset is therefore dependent on the level and timing of taxable income in the Co-op Group and the extent of its capital expenditure. Payments are made at the corporation tax rate at the point at which the benefit is realised. Management are required to estimate the future profitability of the Co-op Group and forecast the use of the surrendered tax losses. This is subject to significant judgement and estimation uncertainty and is reliant on the accuracy and reliability of data received from the Co-op Group and the timing of cash receipts.	We obtained the deed between the Co-op Group and the Bank to confirm the existence of the debtor and confirm the terms of the agreement. With the support of EY modelling specialists we tested Management's forecast cash flow calculation and compared the data points to the source information received from the Co-op Group. With the support of EY valuation specialists we determined an independent range of valuations for the Surrendered Loss Debtor, with reference to historical experience and considering plausible alternative assumptions. We assessed Management's estimate against this independent range. We established the appropriateness of Management's application of UK tax legislation in calculating the fair value estimate. We also evaluated the Surrendered Loss Debtor against the requirements of IFRS 9.

Key observations communicated to the Audit Committee
We are satisfied that the fair value of the Surrendered Loss Debtor was reasonably estimated as the Finance Group's estimate is within our independent range of reasonable outcomes. We communicated to the Audit Committee that the Finance Group's future recovery of the Surrendered Loss Debtor is uncertain as the crystallisation of this receivable is dependent on the future performance of the Co-op Group, and future tax legislation, over which the Finance Group has no control.

Risk	Our response to the risk
Valuation of the fair value adjustments to hedged risk and the macro cash flow hedge reserve *Please refer to the Audit Committee Report (page 55); Accounting policies (page 245); and Note 7 of the Consolidated Financial Statements (page 237).* At 31 December 2019, the Finance Group reported fair value adjustments to hedged risk of £72.6m (2018: £53.4m) and the macro cash flow hedge reserve was valued at £16.7m (2018: £20.0m). The Finance Group's macro cash flow and macro fair value hedge accounting models are governed by complex accounting rules and requires the application of significant assumptions in the determination of the notional balance forecasts, future cash flow forecasts, hedging instrument valuations and the calculation of hedge ineffectiveness. As a result, there is a risk that the methodology or assumptions used in the valuation of hedged items and hedge effectiveness within the models may be inappropriate, or that the modelled forecast hedge item balances or cash flows may be inaccurate due to the application of inaccurate data, inappropriate formulae or incorrect assumptions. This could give rise to misstatement of the fair value adjustment to hedged risk or the macro cash flow hedge reserve lines in the balance sheet.	We examined any changes to existing hedge documentation to assess the adequacy of this documentation against the requirements of the IAS 39 criteria. We examined the Finance Group's macro hedging models, including the methodology and assumptions used. We assessed the appropriateness of the assumptions used to create the modelled forecast cash flows for the hedged items in the macro cash flow hedge and the macro fair value hedge models by reference to underlying mortgage portfolios. We reconciled model inputs to underlying source systems to verify the completeness and accuracy of the hedged item and hedging instruments. With the support of EY valuations specialists we tested the fair value attributable to hedged risk of hedged items, through testing the value of the ineffectiveness, with reference to independent market data. We independently recalculated the hedge effectiveness throughout the reporting period on a sample basis and compared our results against the hedge effectiveness thresholds defined by IAS 39 and the IAS 39 amendments for Interest Rate Benchmark Reform, which have been early adopted.

Key observations communicated to the Audit Committee

We concluded to the Audit Committee that the Finance Group's macro hedge accounting models were materially in line with the hedge accounting provisions of IAS 39, ineffectiveness recorded in the income statement was materially correct and there were no hedge relationships that should have been discontinued.

We highlighted the following matters:
- Appropriate market data had been used as inputs to the fair value attributable to the hedged risk on hedge items;
- The assumptions used to create modelled forecast balances of the hedged item in the macro cash flow hedge model and the forecast cash flows in the macro fair value hedge model were appropriate;
- Data flows into the models were materially complete and accurate; and
- We did not note any material misstatements from recalculation of hedge effectiveness on a sample basis.

Risk	Our response to the risk
Valuation of the defined benefit pension scheme surplus in the PACE and Britannia pension schemes *Please refer to the Audit Committee Report (page 54); Accounting policies (page 250); and Note 22 of the Consolidated Financial Statements (page 239).* At 31 December 2019, the Finance Group reported a defined benefit pension scheme surplus of £690m (2018: £624m). This consisted of assets of £2,031m and liabilities of £1,492m relating to the PACE pension scheme and Britannia pension scheme assets of £825m and liabilities of £674m. The valuation of the liabilities of each of these pension schemes is subject to the following significant assumptions: - Discount rate; - Inflation; - Revaluation of deferred pensions; and - Mortality. In addition, the asset pools of both the PACE and Britannia schemes also contain an element of illiquid investment funds that are harder to value, which increases the risk of incorrect valuation.	With the support of EY pension actuaries we considered the appropriateness of the assumptions supporting the valuation of the scheme liabilities through the development of an independent range of reasonable assumptions against which to assess those used by Management. We assessed the impact on pension liabilities of changes in financial, demographic and longevity assumptions and whether these were in line with our expectations. We also tested the completeness and accuracy of member data on which these assumptions are based. With the support of EY valuation specialists we challenged the appropriateness of Management's asset valuation methodology, including the judgements made in determining significant assumptions used in the valuation of illiquid pension assets, through assessing asset valuation statements, pricing policies and evidence of the performance of the pension assets. We assessed the recognition of the PACE and Britannia pension schemes surplus against the requirements of IFRIC 14. We assessed the adequacy of the disclosures made, and their compliance with the accounting standards including the appropriateness of the key assumptions and sensitivities disclosed.

Key observations communicated to the Audit Committee
We highlighted to the Audit Committee that the defined benefit pension scheme surplus in the PACE and Britannia pension schemes is reasonably estimated and recognised in accordance with both IAS 19 and IFRIC 14. We highlighted that there is subjectivity in the valuation of the scheme liabilities due to the use of significant assumptions in calculating the balance. Overall, we are satisfied that the assumptions made by the Finance Group were within a reasonable range. We also noted that the asset pools of both the PACE and Britannia pension schemes contained an element of "hard to value" illiquid funds. We are satisfied that the Finance Group's methods for valuing these assets, and the valuations themselves, were materially appropriate.

Risk	Our response to the risk
Risk of fraud in the recognition of income using the effective interest rate method *Please refer to the Audit Committee Report (page 54) and the Accounting policies (page 243).* The Group records interest income on its mortgage and credit card portfolio under the effective interest rate ('EIR') method. The EIR method of revenue recognition spreads the income statement recognition of income and expense cash flows that are, in substance, integral to the overall yield of the financial instrument over its modelled life. The method involves significant Management judgement and the use of complex models in both determining the initial EIR and recording the present value of adjustments arising in subsequent periods when cash flows are reforecast. As such, it represents a risk of fraud in revenue recognition through Management override of internal controls. The Finance Group's EIR models are most sensitive to changes in the behavioural life assumptions and future interest rate expectations. Management also make use of judgmental post model adjustments where the models do not reflect the expectations of future customer behaviour. Modelled forecast cash flows may be measured incorrectly due to the use of inaccurate or incomplete data, erroneous formulae or inappropriate assumptions.	We evaluated the assumptions used by Management in the EIR models and post model adjustments, including the behavioural lives of assets and the forecasting of standard variable rates to which mortgages revert following the conclusion of their fixed rate term. We considered the appropriateness of these assumptions by comparing customer redemption assumptions with recent customer behaviours observable in the Finance Group's portfolios, and establishing the consistency of forecast standard variable rates with market derived base rate forecasts and the Finance Group's expectations of future interest margins. We tested the completeness of data within these models by selecting a sample of loans from Management's underlying source systems and checking these were included in the model. We tested the accuracy of the data within the models through agreement of the model data to the Finance Group's source systems. We tested the accuracy of the EIR calculations by recalculating the EIR balance for a sample of mortgages and agreeing this to the model balance.

Key observations communicated to the Audit Committee
We communicated to the Audit Committee that the models, assumptions and calculations underpinning the EIR calculation as at 31 December 2019, were appropriate and reasonable in the context of current observable market behaviours and economic conditions, and that these resulted in EIR adjustments which were appropriately derived. We noted the potential future risks to the EIR adjustments related to potential changes in customer behaviour as a result of wider current economic, market and regulatory pressures, and that we considered the modelled calculation, and post model adjustments, recorded in respect of changes in behavioural lives to be within a reasonable range of outcomes.

Risk	Our response to the risk
Completeness and valuation of conduct and compliance risk provisions *Please refer to the Audit Committee Report (page 54); Accounting policies (page 251); and Note 20 of the Consolidated Financial Statements (page 239).* The Bank, which the Finance Group consolidates, has historically carried a number of provisions relating to its conduct towards its past and present customers. The most significant of these has been the provision for Payment Protection Insurance ("PPI") mis-selling, with significant judgement historically being applied in assessing the present obligation for customer redress due to the subjective assumptions used in determining the estimate. The FCA deadline of 29 August 2019 for customers to lodge PPI related complaints has now passed and the Bank received a significant number of complaints and enquiries from claims management companies and direct from consumers in the run up to this deadline. As all complaints have been received and valid complaints recorded, the level of uncertainty and risk associated with provision estimate has now reduced. Judgements and assumptions are required to be made by Management in relation to the quality of the complaints and information requests received, the quantum of future redress payments and the associated administration costs that will be required. In addition, Management continue to hold provisions for other conduct matters, such as Packaged Bank Accounts, and there is a risk that these are not reasonably valued.	We tested the completeness and accuracy of data within the models used by the Finance Group in creating the provisions. We assessed the appropriateness of key PPI provision model assumptions which included uphold and average redress rates, as well as case processing costs, with reference to the Bank's historic experience. We modelled the impact of reasonably possible alternative assumptions on the Finance Group's PPI provision and developed independent ranges of outcomes to evaluate and challenge Management's provision assumptions around future redress and delivery costs. We engaged EY conduct risk specialists to perform an independent assessment of PPI complaint outcomes with reference to source documentation, and also recalculate a sample of redress amounts that have been offered to customers. Completeness of the identification of conduct issues (with the potential to lead to provisions) was assessed through discussions with Management, including General Counsel, review of regulatory correspondence and, through discussions with our conduct risk specialists, consideration of broader industry issues and developments.

Key observations communicated to the Audit Committee

We communicated to the Audit Committee that the provision for PPI related claims as at 31 December 2019 was within our independently determined range of reasonable outcomes and was compliant with the requirements of IFRS.

We noted to the Audit Committee that while the risk in relation to estimation uncertainty has reduced as a result of the FCA deadline now having passed, the costs that will be incurred by the Finance Group in the remediation of the remaining PPI complaints remains uncertain.

Risk	Our response to the risk
Valuation of the Finance Company's investment in subsidiary and related going concern considerations *Please refer to the Accounting policies (page 251) and Note 9 of the Consolidated Financial Statements (page 237).* At 31 December 2019, the Finance Company reported an investment in subsidiary of £333.0m (2018: £nil). The Finance Company holds an investment in the Bank on its balance sheet, which is recorded at cost less impairment under IAS 27. Management are therefore required to perform an annual impairment assessment over this investment. This involves a degree of subjectivity and estimation in relation to the future performance of the Bank. We consider the going concern assumption to be a Key Audit Matter for the Bank. The Bank's ability to continue as a going concern is a key consideration in the Finance Company's valuation of its investment and the inherent uncertainty over this assumption means we consider this to be a Key Audit Matter in our audit of the Finance Company. The going concern status of the Finance Company is also dependent on the Bank's ability to continue as a going concern. Key risks to the Bank that are most relevant to the going concern assumption include: - The risk that the Bank will be unable to issue MREL debt, when planned or at all, which may lead to the Bank's regulators exercising their powers of intervention including the power to place the Bank within the Special Resolution Regime if it is considered that the Bank would otherwise be likely to fail; - The risk that the financial performance of the Bank worsens to the extent that it is unable to meet its capital requirements and needs to raise additional capital or seek regulatory forbearance. The Bank remains structurally loss making and committed to further strategic spend. This continues to erode regulatory capital, which increases the Bank's exposure to worsening economic conditions, losses arising from new and unexpected conduct events, increasing credit losses and the activities of competitors, customers or regulators; and - The risk that the Bank has insufficient liquidity to meet its obligations as they fall due or can only do so at excessive cost.	We have reviewed the Finance Company's assessment of impairment in its investment in the Bank and have reviewed the factors identified. In addition, we have considered whether there were any additional matters not considered by the Finance Company and performed our own independent assessment. Our independent assessment has examined the financial position of the Bank at the year-end and the performance in the year. We have also considered developments from the point at which the initial cost value of the investment was determined, to assess whether the underlying value has reduced. We have incorporated our work over the Bank's ability to continue as a going concern in our assessment in order to identify any events or conditions which exist which may cast significant doubt on the Bank's ability to continue as a going concern. Our audit procedures to assess the Bank's ability to continue as a going concern included evaluating the Directors' going concern assessment in order to establish whether events or conditions exist that may cast significant doubt on the Bank's ability to continue as a going concern. We reviewed correspondence between the Bank and its regulators to evidence changes in the Bank's capital requirements. We met with the PRA throughout the audit cycle to understand their views on existing and emerging risks to the Bank and validate the Bank's progress in achieving regulatory milestones. We assessed the 2020 – 2024 Financial Plan with reference to Management's historical forecasting accuracy and performed stress testing to consider the reasonableness of forecast income growth and cost reduction plans over the going concern period, as defined by ISA 570, IAS 1 and the FRC guidelines. With the support of EY valuations specialists we assessed the likelihood of future debt issuances and considered Management's assumptions over timing, demand and pricing of such issuances. We assessed the Bank's liquidity forecasts over the going concern period. We considered whether there were any additional matters not evaluated by Management that are relevant to the assessment of going concern. We assessed whether the Finance Group's disclosures in relation to going concern adequately reflected the risks and uncertainties inherent in the going concern assessment.

Key observations communicated to the Audit Committee
We communicated to the Audit Committee that we concluded the Finance Company's investment in the Bank was not impaired. We also concluded to the Audit Committee that it was appropriate to prepare the Finance Group's 2019 Annual Report and Accounts on a going concern basis, and that the risks identified do not represent a material uncertainty.

Risk	Our response to the risk
Impairment of the Finance Company's intercompany receivable *Please refer to the Accounting policies (page 243) and Note 27 of the Consolidated Financial Statements (page 241).* At 31 December 2019, the Finance Company reported a £2.4m (2018: N/A) impairment of its intercompany receivable balance. The intercompany MREL receivable held by the Finance Company with the Bank is required to carry an expected credit loss provision under IFRS 9. Determining a Probability of Default and corresponding Loss Given Default for the Bank involves a high degree of subjectivity and estimation.	We calculated an independent range against which we assessed the Finance Company's impairment balance and found it to be appropriate. To calculate our range we considered third party and internal default data, and historical losses observed on the Bank's Restructuring and Recapitalisation transaction in 2017. To establish the appropriateness of the staging classification, we assessed the change in credit risk between MREL issuance and the year-end reporting date through a comparison of external credit ratings and review of the Bank's performance. We concluded that Management's classification was appropriate.

Key observations communicated to the Audit Committee
We concluded to the Audit Committee that the Finance Company's impairment of its intercompany receivable balance was reasonably estimated, as the Finance Company's impairment value fell within our independent range.

An overview of the scope of our audit

Tailoring the scope

The Finance Group is principally managed from one location in Manchester, with certain functions such asTreasury and some corporate activities operated from London. The Finance Group also has one subsidiary, Britannia International Limited ("BINT"), which is based in the Isle of Man. All audit work performed for the purposes of the audit was undertaken by the Finance Group audit team.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Finance Group to be £10.0m, which is 0.62% of equity. The reason for selecting equity as the basis for our audit materiality consideration is that the Finance Group consolidates activities of the Co-operative Bank p.l.c. ("the Bank"), whose stated focus is to maintain regulatory capital, as it has been loss making for several years. We also see equity as a proxy for regulatory capital, as the main focus for the users of the financial statements given the importance of regulatory capital to the Bank's solvency. As the consolidated results of the Finance Group do not substantially differ from those of the Bank nor does the focus of the users of those accounts, we have therefore concluded that the basis of materiality should remain consistent with that of the Bank.

We determined materiality for the Finance Company to be £2.7m, which is 0.5% of assets. The reason for selecting assets as the basis for our audit materiality consideration is that the users of the Finance Company financial statements would primarily focus on the Finance Company's investment in the Bank.

Performance materiality
The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Finance Group's overall control environment, our judgement was that performance materiality was 50% of our planning materiality, namely £5.0m. 50% is at the conservative end of the normal range that we use due to our assessment of the inherent risk associated with this audit.

We have set performance materiality for the Finance Company at 50% of materiality, namely £1.35m due to this being the first year we have audited this entity.

Reporting threshold
An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.5m for the Finance Group and £0.14m for the Finance Company, which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other Information
The Other Information comprises the information included in the Annual Report and Accounts set out on pages 1 to 120, other than the financial statements and our auditor's report thereon. The Directors are responsible for the Other Information.

Our opinion on the financial statements does not cover the Other Information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the Other Information. If, based on the work we have performed, we conclude that there is a material misstatement of the Other Information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the Finance Group and the Finance Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:
- adequate accounting records have not been kept by the Finance Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Finance Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors
As explained more fully in the Directors' responsibilities statement set out on page 69, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud, to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses, and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Finance Group and determined that the most significant are
  - Companies Act 2006
  - Financial Reporting Council (FRC) rules and guidance
  - Tax Legislation (governed by HM Revenue and Customs)
  - Financial Conduct Authority (FCA) rules
  - CRD IV (Basel III) and Prudential Regulation Authority (PRA) rules
- We understood how the Finance Group is complying with those frameworks by reviewing relevant committee minutes and reports, holding discussions with the Finance Group's general counsel and internal audit, amongst others. We inquired as to any known instances of non-compliance or suspected non-compliance with laws and regulations. We also reviewed the Bank's Complaints Management Policy and Whistleblowing Policy.
- We assessed the susceptibility of the Finance Group's financial statements to material misstatement, including how fraud might occur by holding discussions with senior management, internal audit, and the Audit Committee.
- Based on this understanding we designed our audit procedures to identify material non-compliance with such laws and regulations. Our procedures involved inquiring of key management, reviewing the key policies and reports on the aforementioned legal and regulatory frameworks as well as reviewing the correspondence exchanged with the Regulators, and meeting with them at least annually, and gaining an understanding of any regulatory investigations and enforcement actions being undertaken.
- The Finance Group operates in the financial services industry, which is a highly regulated environment. As such, the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address
We were appointed by the Finance Group's Audit Committee on 7 May 2019 to audit the financial statements for the year ending 31 December 2019 and subsequent financial periods. We signed an engagement letter on 25 July 2019. The period of total uninterrupted engagement including previous renewals and reappointments is one year, covering the year ending 31 December 2019.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Finance Group or the Finance Company and we remain independent of the Finance Group and the Finance Company in conducting the audit.

The audit opinion is consistent with the additional report to the Audit Committee.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Finance Group's and the Finance Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Michael-John Albert (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
26 February 2020

Notes:

1. The maintenance and integrity of the web site within which these accounts are available is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated Financial Statements of The Co-operative Bank Holdings Limited and The Co-operative Bank p.l.c. (Group and Bank)

Ultimate parent company

The Co-operative Bank Holdings Limited
Company Number 10865342
(England and Wales)

↓ **100%**

The Co-operative Bank Finance p.l.c.
Company Number 11598074
(England and Wales)

↓ **100%**

The Co-operative Bank p.l.c.
Company Number 00990937
(England and Wales)

Operating company

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

CONSOLIDATED INCOME STATEMENT

For year ended 31 December 2019

£million

	Note	Group and Bank 2019	2018
Interest income calculated using the effective interest rate method		**466.4**	503.4
Other interest and similar income		**18.1**	2.6
Interest income and similar income	6	**484.5**	506.0
Interest expense and similar charges	6	**(174.5)**	(146.6)
Net interest income		**310.0**	359.4
Fee and commission income	7	**66.3**	63.5
Fee and commission expense	7	**(45.6)**	(43.3)
Net fee and commission income		**20.7**	20.2
Income from investments		**0.7**	0.1
Other operating income/(expense) (net)	8	**55.2**	(11.0)
Operating income		**386.6**	368.7
Operating expenses	9	**(477.7)**	(480.7)
Net customer redress charge	28	**(63.5)**	(34.2)
Total operating expenses		**(541.2)**	(514.9)
Operating loss before net credit impairment gains		**(154.6)**	(146.2)
Net credit impairment gains	14	**2.5**	5.5
Loss before taxation		**(152.1)**	(140.7)
Income tax	11	**(0.9)**	72.0
Loss for the financial year		**(153.0)**	(68.7)

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

The results above are for the consolidated Group and Bank and wholly relate to continuing activities. More information regarding the basis of preparation can be found in note 1 to the consolidated financial statements.

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

The notes on pages 157 to 196 form part of these consolidated Group and Bank financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For year ended 31 December 2019

£million

	Group and Bank	
	2019	**2018**
Loss for the financial year	**(153.0)**	(68.7)
Items that may be recycled to profit or loss:		
Changes in cash flow hedges:		
Net changes in fair value recognised directly in equity	**(7.4)**	(16.0)
Transfers from equity to income or expense	**2.9**	2.8
Income tax	**1.2**	3.3
Changes in fair value through other comprehensive income:		
Net changes in fair value recognised directly in equity	**(51.6)**	9.1
Transfers from equity to income or expense	**39.2**	(14.1)
Income tax	**2.6**	0.5
Items that may not subsequently be recycled to profit or loss:		
Changes in net retirement benefit asset:		
Recognition of defined benefit asset	**-**	528.9
Defined benefit plans gains/(losses) for the year	**37.6**	(69.5)
Income tax	**(9.7)**	(114.7)
Other comprehensive income for the financial year, net of income tax	**14.8**	330.3
Total comprehensive (expense)/income for the financial year	**(138.2)**	261.6

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

The results above are for the consolidated Group and Bank. More information regarding the basis of preparation can be found in note 1 to the consolidated financial statements.

The notes on pages 157 to 196 form part of these consolidated Group and Bank financial statements.

CONSOLIDATED BALANCE SHEET

At 31 December 2019

£million

		Group		Bank	
	Note	2019	2018	2019	2018
Assets					
Cash and balances at central banks	12	**2,153.5**	1,843.8	**2,153.5**	1,843.8
Loans and advances to banks	13	**474.3**	485.8	**474.3**	485.8
Loans and advances to customers	14	**17,918.4**	17,733.9	**17,918.4**	17,733.9
Fair value adjustments for hedged risk		**72.6**	53.4	**72.6**	53.4
Investment securities	15	**1,605.6**	1,935.0	**1,605.6**	1,935.0
Derivative financial instruments	16	**213.3**	192.2	**213.3**	192.2
Property, plant and equipment classified as held-for-sale		**0.8**	3.9	**0.8**	3.9
Equity shares	17	**44.5**	26.4	**44.5**	26.4
Investment properties		**1.8**	2.3	**1.8**	2.3
Other assets	18	**52.6**	54.7	**52.6**	54.7
Prepayments	19	**21.7**	31.8	**21.7**	31.8
Property, plant and equipment	20	**38.6**	40.8	**38.6**	40.8
Intangible assets	21	**75.3**	72.4	**75.3**	72.4
Right-of-use assets	22	**72.3**	-	**72.3**	-
Deferred tax assets	29	**-**	2.9	**-**	2.9
Net retirement benefit asset	30	**690.2**	623.5	**690.2**	623.5
Total assets		**23,435.5**	23,102.8	**23,435.5**	23,102.8
Liabilities					
Deposits by banks	23	**1,143.7**	1,433.5	**1,143.7**	1,433.5
Customer accounts		**18,996.8**	18,735.8	**18,996.9**	18,735.9
Debt securities in issue	24	**867.5**	617.6	**867.5**	617.6
Derivative financial instruments	16	**288.0**	260.6	**288.0**	260.6
Other liabilities	26	**53.5**	92.1	**53.5**	92.1
Accruals and deferred income	27	**59.0**	63.0	**59.0**	63.0
Provisions	28	**87.4**	103.6	**87.4**	103.6
Other borrowed funds	25	**204.2**	-	**-**	-
Amounts owed to Finance Company	25	**-**	-	**204.2**	-
Lease liabilities	22	**71.2**	-	**71.2**	-
Deferred tax liabilities	29	**43.7**	38.9	**43.7**	38.9
Net retirement benefit liability	30	**8.6**	7.6	**8.6**	7.6
Total liabilities		**21,823.6**	21,352.7	**21,823.7**	21,352.8
Capital and reserves attributable to the Group's equity holders					
Ordinary share capital	33	**0.9**	0.9	**25.6**	25.6
Share premium account	33	**313.8**	313.8	**2,416.9**	2,416.9
Retained earnings		**(1,314.5)**	(1,161.5)	**(1,704.9)**	(1,551.9)
Other reserves	34	**2,611.7**	2,596.9	**874.2**	859.4
Total equity		**1,611.9**	1,750.1	**1,611.8**	1,750.0
Total liabilities and equity		**23,435.5**	23,102.8	**23,435.5**	23,102.8

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

The financial positions above are for the consolidated Group and Bank. More information regarding the basis of preparation can be found in note 1 to the consolidated financial statements.

The notes on pages 157 to 196 form part of these consolidated Group and Bank financial statements.

Approved by the Board of The Co-operative Bank Holdings Limited on 26 February 2020:

Robert Dench
Chair of the Board

Andrew Bester
Chief Executive Officer

Approved by the Board for The Co-operative Bank p.l.c. on 26 February 2020:

Robert Dench
Chair of the Board

Andrew Bester
Chief Executive Officer

CONSOLIDATED STATEMENT OF CASHFLOWS

For year ended 31 December 2019

£million

		Group		Bank	
	Note	2019	2018	2019	2018
Cash flows used in operating activities:					
Loss before taxation		**(152.1)**	(140.7)	**(152.1)**	(140.7)
Adjustments for non-cash movements:					
Non-cash movements on pension		**(13.9)**	4.4	**(13.9)**	4.4
Net credit impairment gains		**(2.5)**	(5.5)	**(2.5)**	(5.5)
Depreciation, amortisation and impairment of property, equipment, right-of-use assets and intangibles		**42.8**	33.5	**42.8**	33.5
Other non-cash movements including exchange rate movements		**86.7**	112.1	**86.7**	112.1
Changes in operating assets and liabilities:					
(Decrease)/increase in deposits by banks		**(289.8)**	310.8	**(289.8)**	310.8
Decrease/(increase) in prepayments and accrued income		**8.0**	(7.1)	**8.0**	(7.1)
Decrease in accruals and deferred income		**(4.0)**	(17.0)	**(4.0)**	(17.0)
Increase/(decrease) in customer accounts		**259.5**	(1,899.2)	**259.5**	(1,899.2)
Increase/(decrease) in debt securities in issue		**249.9**	(9.8)	**249.9**	(9.8)
(Increase)/decrease in loans and advances to banks		**(55.5)**	1.8	**(55.5)**	1.8
Increase in loans and advances to customers		**(210.3)**	(998.7)	**(210.3)**	(998.7)
Net movement of other assets and other liabilities		**(154.0)**	(58.9)	**(154.0)**	(58.9)
Income tax received		**-**	1.0	**-**	1.0
Net cash flows used in operating activities		**(235.2)**	(2,673.3)	**(235.2)**	(2,673.3)
Cash flows from investing activities:					
Purchase of tangible and intangible assets		**(34.5)**	(24.4)	**(34.5)**	(24.4)
Purchase of investment securities		**(1,048.1)**	(462.6)	**(1,048.1)**	(462.6)
Proceeds from sale of property and equipment		**5.9**	0.5	**5.9**	0.5
Proceeds from sale of shares and other interests		**13.2**	2.3	**13.2**	2.3
Proceeds from sale and maturity of investment securities		**1,363.2**	875.5	**1,363.2**	875.5
Proceeds from sale of joint venture		**-**	0.7	**-**	0.7
Proceeds from sale of investment properties		**0.5**	-	**0.5**	-
Dividends received		**0.7**	5.8	**0.7**	5.8
Net cash flows from investing activities		**300.9**	397.8	**300.9**	397.8
Cash flows from financing activities:					
Proceeds from issuance of Tier 2 notes (net of cost)		**197.3**	-	**197.3**	-
Interest paid on Tier 2 notes		**(9.5)**	-	**(9.5)**	-
Lease liability principal payments		**(10.8)**	-	**(10.8)**	-
Net cash flows from financing activities		**177.0**	-	**177.0**	-
Net increase/(decrease) in cash and cash equivalents		**242.7**	(2,275.5)	**242.7**	(2,275.5)
Cash and cash equivalents at the beginning of the year		**2,193.9**	4,469.4	**2,193.9**	4,469.4
Cash and cash equivalents at the end of the year		**2,436.6**	2,193.9	**2,436.6**	2,193.9
Comprising of:					
Cash and balances at central banks	12	**2,094.6**	1,789.6	**2,094.6**	1,789.6
Loans and advances to banks	13	**342.0**	404.3	**342.0**	404.3
		2,436.6	2,193.9	**2,436.6**	2,193.9

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

RECONCILIATION OF MOVEMENTS OF LIABILITIES TO CASHFLOWS ARISING FROM FINANCING ACTIVITIES

For year ended 31 December 2019

£million

	Group			
	2019			2018
	Lease liabilities	Other borrowed funds	Total	Total
Balance at the beginning of the year	-	-	-	-
Changes from financing cash flows:				
Proceeds from issuance of Tier 2 notes	-	197.3	**197.3**	-
Interest paid on Tier 2 notes	-	(9.5)	**(9.5)**	-
Lease liability principal payments	(10.8)	-	**(10.8)**	-
	(10.8)	**187.8**	**177.0**	-
Other changes:				
Interest payable on lease liabilities and Tier 2 notes	2.5	13.0	**15.5**	-
Other non-cash movements	-	3.4	**3.4**	-
Recognition of lease liabilities	79.5	-	**79.5**	-
Balance at the end of the year	**71.2**	**204.2**	**275.4**	-

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

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

£million

	Bank			
	2019			2018
	Lease liabilities	Amounts owed to Finance Company	Total	Total
Balance at the beginning of the year	-	-	-	-
Changes from financing cash flows:				
Proceeds from issuance of Tier 2 notes	-	197.3	**197.3**	-
Interest paid on Tier 2 notes	-	(9.5)	**(9.5)**	-
Lease liability principal payments	(10.8)	-	**(10.8)**	-
	(10.8)	**187.8**	**177.0**	-
Other changes:				
Interest payable on lease liabilities and Tier 2 notes	2.5	13.0	**15.5**	-
Other non-cash movements	-	3.4	**3.4**	-
Recognition of lease liabilities	79.5	-	**79.5**	-
Balance at the end of the year	**71.2**	**204.2**	**275.4**	-

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

Lease liabilities arise from the adoption of IFRS 16 which came into force in 2019. In 2018, the Bank did not have any liabilities associated with financing activities.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For year ended 31 December 2019

£million

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

	Attributable to equity holders of the Bank							
2019	Share capital	Share premium	FVOCI reserve	Cash flow hedging reserve	Capital redemption reserve	Defined benefit pension reserve	Retained earnings	Total equity
At 1 January 2019	25.6	2,416.9	13.9	20.0	410.0	415.5	(1,551.9)	**1,750.0**
Total comprehensive (expense)/income for the year	-	-	(9.8)	(3.3)	-	27.9	(153.0)	**(138.2)**
At 31 December 2019	**25.6**	**2,416.9**	**4.1**	**16.7**	**410.0**	**443.4**	**(1,704.9)**	**1,611.8**

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

	Attributable to equity holders of the Bank								
2018	Share capital	Share premium	Available for sale reserve	FVOCI reserve	Cash flow hedging reserve	Capital redemption reserve	Defined benefit pension reserve	Retained earnings	Total equity
As reported 31 December 2017	25.6	2,416.9	25.1	-	29.9	410.0	70.8	(1,472.8)	1,505.5
IFRS 9 transition adjustments	-	-	(25.1)	18.4	-	-	-	(10.4)	(17.1)
At 1 January 2018 adjusted for IFRS 9	25.6	2,416.9	-	18.4	29.9	410.0	70.8	(1,483.2)	1,488.4
Total comprehensive (expense)/income for the year	-	-	-	(4.5)	(9.9)	-	344.7	(68.7)	261.6
At 31 December 2018	25.6	2,416.9	-	13.9	20.0	410.0	415.5	(1,551.9)	1,750.0

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

The notes on pages 157 to 196 form part of these consolidated Group and Bank financial statements.

All amounts are stated in £m unless otherwise indicated.

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

1.1 General information

The Annual Report and Accounts presents information in relation to The Co-operative Bank Holdings Limited, its direct subsidiary, The Co-operative Bank Finance p.l.c. and its indirect subsidiaries including the main trading company, The Co-operative Bank p.l.c. Together, these entities are referred to as "the Group".

The Co-operative Bank Finance p.l.c. (the Finance Company) and The Co-operative Bank p.l.c. (the Bank) are also required to produce their own individual and consolidated financial statements and these are included within this Annual Report and Accounts as referenced below. In the financial statements of the Finance Company and of the Bank, the Directors refer to disclosures produced in relation to the Group, where there is no difference in the information required to be presented to that disclosed for the Group.

The financial statements presented within the 2019 Annual Report and Accounts comprise:

Pages 149 to 196. The consolidated financial statements of The Co-operative Bank Holdings Limited and its subsidiaries (the consolidated financial statements of the Group). These are presented together with the consolidated financial statements of The Co-operative Bank p.l.c. and its subsidiaries (the consolidated financial statements of the Bank). Unless otherwise stated, references to the Group also apply to the Bank. Where differences arise, this is explicitly stated.

Pages 197 to 221. The individual financial statements of The Co-operative Bank p.l.c. (the main trading company or the "Bank Company")

Pages 222 to 227. The individual financial statements of The Co-operative Bank Holdings Limited (the ultimate parent company or the "Holding Company")

Pages 228 to 241. The consolidated and individual financial statements of The Co-operative Bank Finance p.l.c. (the "Finance Company") and its subsidiaries (together, the "Finance Group")

1.2 Basis of preparation

The financial statements of the Group have been prepared and approved by the Directors of the respective companies in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB) and interpretations as issued by the IFRS Interpretations Committee of the IASB and adopted by the European Union (EU), together IFRS. The financial statements comprise all audited sections of the accounts. Where indicated, the risk management section forms part of the audited accounts.

The Holding Company and Bank Company are incorporated in the UK and registered in England and Wales.

The financial statements have been prepared under the historical cost convention as modified by the revaluation of fair value through other comprehensive income (FVOCI), derivative contracts, investment properties and certain other financial assets and financial liabilities held at fair value through profit or loss (FVTPL).

1.3 Going concern

IAS 1 (Presentation of Financial Statements) requires Directors to make an assessment of a company's ability to 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. This assessment is required for the Group, the Bank and the Finance Group.

When considering the going concern status of the respective companies, the Directors have referenced the FRC published guidance on the going concern Basis of Accounting and Reporting on Solvency and Liquidity Risks (the 2016 Guidance).

The Group has recently approved its strategic plan for 2020-2024 and has used this 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 includes a detailed review of projected profitability, forecast liquidity position, capital adequacy ratios and regulatory capital considerations. It also reflects the potential impact on going concern of the principal risks faced by the Group as summarised in the risk management sections 1.8 and 1.9, together with potential mitigating actions.

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

As part of the review of these risks, the Directors' assessment includes, but was not limited to, risks relating to the macroeconomic environment in which the Group operates, and in particular, the amount and timing of future changes to the Bank of England base rate, the extent to which the Group performs in line with its MREL commitments and transformation/restructuring strategies, and changes in regulatory capital requirements which require further commitment of available resources to remain compliant. Appropriate consideration has also been given to 2019 performance relative to expectations set at the start of the year and the trajectory into 2020 projections relative to the 2019 exit position.

After considering the matters above, the Directors have a reasonable expectation that both the Group and the Bank will continue in operational existence for at least the next 12 months. Accordingly, the results for the year ended 31 December 2019 have been prepared on a going concern basis.

1.4 Significant accounting policies

The significant accounting policies applied by the Group are set out in the Explanatory Information on page 242. The accounting policies which are most critical to the financial statements are:

- Basis of consolidation – The accounting policy determines which entities the Group consolidates, and which it does not (see section 1.1 of the Explanatory Information).
- Financial instruments – The accounting for the majority of the assets and liabilities, income and expense recognised by the Group are governed by IFRS 9 Financial Instruments (see section 1.3 of the Explanatory Information).

A number of additions, amendments and expansions to accounting policies were applied during the year, the majority of which were minor. The most significant changes were as follows:

- The definition of default applied within the retail secured IFRS 9 impairment calculation was changed from 180 days past due to 90 days past due during the year, this change had an insignificant impact on Expected Credit Losses (ECL) (see section 1.3.j) iii) of the Explanatory Information).
- The fee and commission accounting policy was expanded to reflect the agent capacity in which the Group is acting in respect of a new unsecured lending product launched during the year.
- The Group adopted IFRS 16 - Leases on 1 January 2019. Adoption resulted in an increase of total assets of £78.2m as at the date of transition and an increase in total liabilities of £78.2m. The adoption had no impact on shareholders' equity on transition. See note 22 for transition disclosures and section 1.6 of the Explanatory Information for the new IFRS 16 accounting policy.

  At the commencement date, the right-of-use asset is measured at cost which comprises the amount of the initial measurement of the lease liability and an estimate of dismantling/restoration of the underlying asset. The right-of-use asset is subsequently measured at cost less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability arising from a reassessment of lease term, revision to lease break assumptions or in-substance fixed lease repayments. The depreciation and impairment accounting policies applied to the right-of-use assets are consistent with those applied to the respective tangible asset categories.

  The lease liability is measured initially at the present value of unpaid lease payments. At the commencement date, the lease liability is measured at the present value of the lease payments that are not paid at that date (discounted at the Group's incremental borrowing rate). The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payments made and adjusted to reflect any reassessment of lease term, revision to lease break assumptions or in-substance fixed lease repayments. The interest expense is recognised within interest expense and similar charges in the income statement.

- Amendments to IAS 39 Financial Instruments: Recognition and Measurement which was issued by the IASB in 2019 and endorsed by the EU on 15 January 2020. The amendments provide temporary and narrow exemptions to the hedge accounting requirements of IAS 39. The Group has early adopted this amendment, which has been applied on a retrospective basis. Accordingly, the Group can continue to meet the hedge accounting requirements of IAS 39 assuming that the existing interest rate benchmarks are not altered because of the interbank offered rate reform. See the market risk section of risk management (section 4.3) for further details.

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial information requires management to make judgements and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The critical judgements and estimates are the same for both the Group and Bank.

Assumptions and estimates are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The critical judgements and estimates which have a significant impact on the financial statements are described below.

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

2.1 Critical judgements

2.1.1 Recognition of IAS 19 pension valuation surplus

The Group is the principal employer of the Bank Section of The Co-operative Pension Scheme, a hybrid scheme, consisting of a closed defined benefit (DB) element and a defined contribution element. In addition, the Group, through its wholly owned subsidiary BPS Principal Employer Limited, is the principal employer in the Britannia Pension Scheme which is a DB scheme.

Both schemes are accounted for as DB pension schemes and a surplus is recognised as a DB asset. In order to recognise the DB asset in full, the Group must have an unconditional right to return of any surplus arising on wind up of the schemes, either in the form of reduced future contributions or in a form of a refund. The trustees of each scheme must not have the unilateral power to augment member benefits or wind up the scheme without cause. From discussions with the trustees and review of the scheme rules for Pace Complete and BPS, the Group believes the trustees cannot unilaterally augment benefits nor wind up those schemes without cause. Surplus contributions would be used to reduce future funding risk (and therefore reduce future contributions) or be refunded to the Group. Accordingly, the full value of the defined benefit scheme surplus is recognised on the Group’s balance sheet as an asset.

2.1.2 Unconsolidated structured entities

The Group is the sponsor for a number of unconsolidated structured entities listed in note 36 (the Warwick SPEs). The Warwick SPEs were created for the purposes of selling Optimum (legacy retail secured mortgages) in the most capital efficient manner. The Group performs an assessment of the requirement to consolidate the Warwick SPEs on at least an annual basis, or more frequently as relevant. The Warwick SPEs are not included within the consolidated results of the Group as its ongoing interest represents a less-than-deminimis variability of return.

During the year, a further off-balance sheet securitisation transaction was completed with a further tranche of Optimum assets sold to Warwick Finance Number Four Limited (Warwick 4). In addition to the non-consolidation analysis performed, a detailed review of risk and reward was conducted which concluded that de-recognition of the assets from the Group’s balance sheet was appropriate.

2.2 Key sources of estimation uncertainty

2.2.1 Loan impairment provisions

a) Overview

The loan portfolios are reviewed on a regular basis to assess for impairment. In determining the expected credit loss impairment provision, the salient assumptions under IFRS 9 are as follows:

Assumption	Nature of assumption (see Explanatory Information ref 1.3 i))
Criteria for identifying significant increase in credit risk	Whether at the reporting date, credit risk had increased significantly on a financial instrument since initial recognition (and therefore should be regarded as a stage 2 asset for impairment purposes attracting a lifetime ECL).
Criteria for defining default	Whether at the reporting date, a financial instrument is credit impaired (and therefore should be regarded as a stage 3 asset for impairment purposes attracting a lifetime ECL with interest income recognised on a net basis).
Incorporation of forward-looking information	How the Group calculates a probability-weighted amount that is determined by evaluating a range of possible outcomes.
Segmentation of portfolios	How assets should be grouped such that risk characteristics of assets within a group are homogeneous and the risk characteristics of each group are statistically significant to another.

There have been no significant changes in estimation techniques or significant assumptions made during the year.

b) Collective impairment provisions

Sensitivity analysis for the model variables which are most material to the collective ECL calculation is shown in the tables below. The table below illustrates the changes to the ECL as at 31 December 2019 that would result from reasonably possible changes in these parameters from the actual assumptions used in the Group’s economic variable assumptions (for example, the impact on the ECL of increasing the expected unemployment rate by 2% (absolute percentage increase) in each of the base, upside, and downside scenarios with all other non-illustrated variables remaining constant). The changes in ECL include the impact of transition between stage 1 and 2.

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Increase/(decrease) in ECL	Retail secured	Optimum	Retail unsecured Loan and Current Account	Retail unsecured Cards	Corporate
HPI +15 %	(8.4 %)	(14.0 %)	-	-	-
HPI -15 %	25.1 %	33.4 %	-	-	-
Unemployment rate +2 %	-	-	2.4 %	-	-
Unemployment rate -2 %	-	-	(2.3 %)	-	-
Consumption growth +2 %	-	-	-	(3.8 %)	-
Consumption growth -2 %	-	-	-	3.8 %	-
GDP growth +2 %	-	-	-	-	(2.9 %)
GDP growth -2 %	-	-	-	-	3.2 %

c) Individual impairment provisions

Individual provisions are recorded for loans which are assessed for impairment on an individual basis. Loans considered as individually significant are typically corporate loans. The individual provision element of the overall ECL calculation is considered to be most sensitive to collateral values. A 20 % reduction or increase in collateral values attributed to the corporate portfolio would increase or decrease ECL by 1.1 % or (0.2) % , respectively.

d) Scenario selection and weighting

In order that the ECL is a probability-weighted amount, which is determined by evaluating a range of possible outcomes and captures non-linearities and asymmetries within the ECL calculation, a number of possible scenarios, together with their weightings are determined internally. Probability-weighted ECLs are calculated by applying each scenario to the ECL models and multiplying the result by the respective scenario weighting. The scenarios selected and the weightings applied to each scenario as at 31 December 2019 are set out below. The base scenario represents the most likely economic forecast and is aligned with the central scenario used in the Group's financial planning processes.

2019		2018	
Scenario	Weighting	Scenario	Weighting
Upside	5 %	Upside	10 %
Mild upside	10 %	Mild upside	20 %
Base	40 %	Base	40 %
Mild downside	30 %	Mild downside	20 %
Downside	15 %	Downside	10 %

The key economic assumptions used within the Bank's range of economic scenarios are shown in the table below as the average over a 5 year period.

5 year average	Upside	Mild upside	Base	Mild downside	Downside
GDP	2.3 %	2.0 %	1.5 %	1.2 %	0.6 %
Consumption	2.8 %	2.3 %	1.6 %	1.2 %	0.2 %
Unemployment	3.0 %	3.4 %	3.8 %	5.0 %	5.8 %
HPI	5.1 %	4.3 %	2.5 %	0.8 %	(0.7 %)

The table below illustrates how the ECL would have changed if the weighting applied to the 31 December 2019 scenarios had been Upside 0 % , Mild upside 0 % , Base 40 % , Mild downside 40 % and Downside 20 % .

	Retail secured	Optimum	Retail unsecured	Corporate	Total
Increase in ECL	+1.2 %	+3.2 %	+0.5 %	2.6 %	+1.0 %

2.2.2 Conduct risk and legal provisions

Overview

The amounts recognised as conduct risk and legal provisions are the best estimate of the consideration required to settle the present obligations at the reporting date, taking into account the risks and uncertainties surrounding the obligations.

The most significant component of the conduct risk and legal provision is potential customer redress in relation to Payment Protection Insurance (PPI).

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

A provision of £57.5m was recognised at 31 December 2019 in respect of potential customer redress relating to past sales of PPI (2018: £67.8m). The provision is in respect of the total expected cost of carrying out this work and paying compensation, making total provisions raised to date of £600.3m (2018: £537.8m). The PPI charge is £62.5m in 2019, covering both redress and delivery, £60.0m of which reflects the significant increases in cases received immediately prior to the August time-bar.

Key assumptions applied in estimating the PPI provision are the uphold rates and average redress estimated to be observed in the remaining unworked complaints received from customers and claims management companies prior to the time-bar.

Sensitivities to these key assumptions are shown in the table below:

Key assumption	Sensitivity	increase in provision for the stated sensitivity
Uphold rate	10 % increase in the uphold rate	2.4
Average redress	£100 increase in average redress per case	1.3

2.2.3 Estimate of the defined benefit pension valuation

Actuarial valuations of the defined benefit schemes are conducted as determined by the pension scheme trustees, at an interval of not more than three years. The accounting valuation of liabilities is prepared biannually for the Group's reporting purposes by a qualified actuary. Results before tax and net assets are affected by the actuarial assumptions used. The key assumptions include: discount rates, mortality rates and increases to pensions in payment (including GMP equalisation) and to deferred pensions. Actual rates may differ significantly from assumptions used due to changing market and economic conditions, as well as longer or shorter lives of members and other factors, therefore these represent a key source of estimation uncertainty. Sensitivities in respect of the assumptions are disclosed in note 30 for Pace DB and BPS.

2.2.4 Effective interest rate

When calculating the EIR to apply to an asset or liability held at amortised cost, the Group estimates future cash flows considering all contractual terms of an instrument. In most cases, the future cash flows arising from an asset or liability will be dependent on a number of variables, such as the proportion of mortgage customers who do not switch product after a discount period ends, or future interest rates set by the market. Therefore, it follows that management is required to apply significant judgement in creating assumptions about the value of these variables in the future.

In calculating the EIR adjustment to apply to mortgage balances, the most significant two assumptions in terms of impact and volatility are:

Standard variable rate:

The assumed standard variable rate which will be in effect at the end of a fixed rate product term determines expected income to be received post-reversion. This is determined with reference to expected Bank of England base rate changes, with a proportion of future increases assumed to pass through to the Group's standard variable rate (SVR).

As a measure of the sensitivity of these models, a 0.5 % increase in the assumed SVR in place after the expiry of the fixed rate period for all products would result in a £3.3m (5.8 %) increase in the EIR asset within the loans and advances to customers balance as at 31 December 2019.

Timing of redemptions (behavioural lives):

Once a customer reaches the expiry of the fixed rate period on the fixed product, interest is charged at the Group's standard SVR, which is higher than the product fixed rate. The amount of time that the customer stays on SVR affects the total lifetime income from the customer, which affects the EIR adjustment.

As a measure of the sensitivity of these models, if the average time spent by customers at SVR after the end of their fixed rate discount period reduces by one week, the EIR asset would reduce by £3.1m (5.1 % of the total EIR asset).

2.2.5 Fair value of the Surrendered Loss Debtor

As part of the negotiations relating to the separation of the Group from the Co-op Group, the Group and the Co-op Group agreed terms relating to the surrender of group relief between the entities in the Bank's tax group and entities in Co-op Group tax group. A deed sets out the basis of the agreement by the Co-op Group to take proactive steps to allow it to maximise its claim for tax losses from the Bank for the accounting periods to 31 December 2012 and 31 December 2013. The deed also addresses the terms of the payment by the Co-op Group to the Bank for those tax losses. The 2019 consolidated financial statements, which include a Surrendered Loss Debtor at a fair value of £47.8m (2018: £32.9m), have been prepared on a basis consistent with the deed. The gross undiscounted amount payable by the Co-op Group under the terms of the deed is estimated to be approximately £132m (2018: £132m).

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

The Bank receives payment from the Co-op Group when the Co-op Group realises the benefit of the losses surrendered and at the corporation tax rate at which the benefit is realised. The estimated fair value of the asset is highly sensitive to a number of forward-looking assumptions outside the control of the Group including:

- The forecast repayments provided by the Co-op Group for the periods to 2024;
- The assumptions used in the discount rate;
- The Co-op Group's capital expenditure qualifying for capital allowances in future periods;
- The Co-op Group's taxable profits in future periods;
- The Bank's extrapolation of the forecast repayments for the periods after 2024;
- Changes in tax legislation, including the rate of corporation tax and the rates at which capital allowances on qualifying capital expenditure are available;
- The Co-op Group's capacity to claim the tax losses; and
- The quantum of the illiquidity adjustment.

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 £4.1m.
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 increases by £3.5m.
Changes in the discount rate used to calculate the present value of the payment forecast	If the variables used to build up the discount rate change such that the total discount rate increases by 1 %, the value of the Surrendered Loss Debtor decreases by £4.4m.

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

2.2.6 Fair value of unlisted equity shares

The estimate of the fair value of unlisted equity shares includes assumptions related to significant inputs which are not observable. Such assumptions are based on all relevant information available at the balance sheet date. Equity shares of £44.5m (2018: £26.4m) mainly comprise Visa International Series B preference shares, for which the valuation technique is described in note 35, together with sensitivity analysis.

3. SEGMENTAL INFORMATION

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

The segmental basis of presentation has been changed and the prior year presentation has been restated, to report separately those business areas which are in run-off within legacy. Accordingly, the group has identified three segments: retail banking, SME business banking and treasury as part of its core business. In 2018, the analysis was based on retail, corporate, Optimum, treasury and other. The table below shows the segmental information as reported in 2019, with comparatives on the following page as restated. A reconciliation is also shown on the following pages to show the impact of the change in segments.

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

3. SEGMENTAL INFORMATION (continued)

	Group and Bank					
	Core				Legacy &	
2018 (restated)	Retail	SME	Treasury	Total	unallocated	Group
Net interest income	277.2	40.6	35.7	353.5	5.9	359.4
Other operating income/(expense)	13.2	16.7	(3.6)	26.3	6.4	32.7
Operating income	290.4	57.3	32.1	379.8	12.3	392.1
Net credit impairment (losses)/gains	(6.8)	9.7	-	2.9	2.6	5.5
Operating expenses						(374.0)
Underlying profit						23.6
Strategic project costs						(94.3)
Legacy net customer redress charge						(31.7)
Surrendered Loss Debtor revaluation						(28.1)
Gain on shares revaluation						2.0
Gain on share sales						0.2
Loss on asset sales						-
Guaranteed Minimum Pensions						(12.4)
Statutory profit/(loss) before tax						(140.7)

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

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

1. The SME segment was previously named Corporate.
2. The Legacy & unallocated balance previously included Other and unallocated.
3. Segmental result is Operating income less net credit impairment (losses)/gains. Expenditure is not allocated between segments.

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

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

1. In the year ended 2019, this comprises the impact of the revaluation of the Surrendered Loss Debtor (£14.6m) and the revaluation gain on equity shares (£18.1m).
2. In the year ended 2019, this comprises the loss recognised on the sale of Optimum mortgage assets (£8.1m) offset by the gain on Vocalink shares (£3.1m).

3. SEGMENTAL INFORMATION (continued)

	Group and Bank					
		Removal of:				
2018 (restated)	IFRS statutory	Volatile Items[1]	Strategic projects	Legacy customer redress charges	Non recurring[2]	Underlying basis
Net interest income	359.4	-	-	-	-	359.4
Other operating income/(expense)	9.3	26.1	-	(2.5)	(0.2)	32.7
Operating income	368.7	26.1	-	(2.5)	(0.2)	392.1
Operating expenses	(480.7)	-	94.3	-	12.4	(374.0)
Net customer redress charge	(34.2)	-	-	34.2	-	-
Net credit impairment gains	5.5	-	-	-	-	5.5
Statutory (loss)/profit before tax	(140.7)	26.1	94.3	31.7	12.2	23.6

1. In the year ended 2018, this comprises the impact of the revaluation of the Surrendered Loss Debtor (£28.1m) and the revaluation gain on equity shares (£2.0m).
2. In the year ended 2018, this comprises the impact of past GMP pension service costs (£12.4m) offset by the gains on sale of shares (£0.2m).

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

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

	Group and Bank					
	Core					
2018 – restated	Retail[1]	SME[2]	Treasury	Total	Legacy & unallocated	Underlying basis
Segment assets	15,846.7	291.3	4,501.9	20,639.9	2,462.9	23,102.8
Segment liabilities	16,595.3	1,999.7	2,309.3	20,904.3	448.4	21,352.7

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

4. AUDITOR'S REMUNERATION

	Group and Bank	
	2019 £'000	2018 £'000
Fees payable to the Bank's auditor for the audit of the annual accounts	**2,188**	2,575
Audit expenses	**150**	180
Fees payable to the Bank's auditor for other services:		
Audit of the accounts of group undertakings	**119**	110
Audit-related assurance services	**150**	-
Other assurance services	**115**	64
Total audit fees and expenses for the financial year	**2,722**	2,929
All other services provided by the auditor	**-**	-
Total auditor's remuneration	**2,722**	2,929

5. DIRECTORS' EMOLUMENTS

	Group and Bank	
	2019	2018
Total remuneration receivable by Directors	**5.3**	6.2

No retirement benefits are accruing to Directors under defined benefit schemes. The aggregate of emoluments and amounts receivable under incentive schemes of the highest paid Director was £2.6m (2018: £2.5m).

6. NET INTEREST INCOME

Interest income and similar income

	Group and Bank							
	2019				2018			
	Amortised cost	FVOCI	Other	Total	Amortised cost	FVOCI	Other	Total
On financial assets not at fair value through profit or loss:								
Loans and advances to customers	**422.6**	**-**	**-**	**422.6**	444.3	-	-	444.3
Loans and advances to banks	**15.2**	**-**	**-**	**15.2**	16.9	-	-	16.9
Investment securities	**2.2**	**26.4**	**-**	**28.6**	1.5	40.7	-	42.2
Net interest income on net defined benefit pension asset	**-**	**-**	**17.6**	**17.6**	-	-	10.9	10.9
	440.0	**26.4**	**17.6**	**484.0**	462.7	40.7	10.9	514.3
On financial assets at fair value through profit or loss:								
Loans and advances to customers	**-**	**-**	**5.9**	**5.9**	-	-	8.4	8.4
Net interest expense on financial instruments hedging assets	**-**	**-**	**(15.2)**	**(15.2)**	-	-	(19.0)	(19.0)
Net interest income on financial instruments not in a hedging relationship	**-**	**-**	**9.8**	**9.8**	-	-	2.3	2.3
Total net interest income	**440.0**	**26.4**	**18.1**	**484.5**	462.7	40.7	2.6	506.0

Interest expense and similar charges

	Group and Bank					
	2019			2018		
	Amortised cost	Other	Total	Amortised cost	Other	Total
On financial liabilities not at fair value through profit or loss:						
Customer accounts	**(112.5)**	**-**	**(112.5)**	(108.7)	-	(108.7)
Subordinated liabilities, debt securities in issue and other deposits	**(55.2)**	**(0.2)**	**(55.4)**	(39.8)	(0.5)	(40.3)
Interest on lease liabilities	**-**	**(2.5)**	**(2.5)**	-	-	-
Net interest expense on unfunded schemes	**-**	**(0.2)**	**(0.2)**	-	(0.2)	(0.2)
	(167.7)	**(2.9)**	**(170.6)**	(148.5)	(0.7)	(149.2)
On financial liabilities at fair value through profit or loss:						
Net interest income on financial instruments hedging liabilities	**-**	**8.0**	**8.0**	-	5.2	5.2
Net interest expense on financial instruments not in a hedging relationship	**-**	**(11.9)**	**(11.9)**	-	(2.6)	(2.6)
Total interest expenses and similar charges	**(167.7)**	**(6.8)**	**(174.5)**	(148.5)	1.9	(146.6)

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

7. NET FEE AND COMMISSION INCOME

The net fee and commission income for the Group and Bank relates to items not at fair value through profit or loss. Details of the accounting policy is provided in the Explanatory Information on page 242.

During 2019, the presentation of fee and commission income in relation to a specific contract was revised to be reported gross in the income statement, having previously been reported net. The comparative results for 2018 have not been restated on the basis that the impact on the prior year (of £7.5m) is not material.

8. OTHER OPERATING INCOME/(EXPENSE) (NET)

	Group and Bank	
	2019	2018
Profit on sale of investment securities	**2.1**	2.8
Gain on sale of shares	**3.1**	0.2
(Loss)/gain on sale of loans and advances to customers[1]	**(8.0)**	2.0
Fair value movement on loans and advances to customers designated at fair value	**1.5**	(6.7)
Income from derivatives and hedge accounting	**11.8**	1.0
Income/(expense) from assets and liabilities held at fair value through profit or loss[2]	**33.2**	(27.1)
Foreign exchange gains	**8.2**	9.1
Other operating income	**3.3**	7.7
Total other operating income/(expense) (net)	**55.2**	(11.0)

1. (Loss)/gain on sale of loans and advances to customer includes £(8.1)m loss on sale relating to the Warwick 4 transaction.
2. Income/(expense) from assets and liabilities held at fair value through profit or loss of £33.2m (2018: £(27.1)m) includes £14.6m gain on the Surrendered Loss Debtor (2018: £28.1m) and £18.1m gain on equity shares (2018: £2.0m).

Within the table above, in 2019 hedge ineffectiveness generated an income of £0.8m (2018: expense of £6.8m) in relation to fair value hedge programmes.

9. OPERATING EXPENSES

		Group and Bank	
	Note	2019	2018
Staff costs		**162.6**	189.1
Depreciation, amortisation and impairment of fixed and intangible assets[1]		**42.8**	33.5
Provisions for liabilities provided in the year	28	**16.3**	11.9
IT costs		**120.8**	100.7
Mortgage platform outsourcing services		**80.2**	92.3
Facility costs		**15.8**	12.0
Operating leases		**0.8**	10.1
Other expenses		**38.4**	31.1
Total operating expenses		**477.7**	480.7

1. Mainly comprises amortisation of intangible assets (2019: £27.3m, 2018: 26.7m).

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

10. STAFF COSTS

	Group and Bank	
	2019	2018
Wages and salaries	**114.7**	113.7
Social security costs	**11.0**	12.0
Pension costs:		
Defined benefit GMP equalisation – past service cost	**-**	12.4
Defined contribution plans	**7.4**	7.4
Other staff costs	**29.5**	43.6
Total staff costs	**162.6**	189.1

Other staff costs primarily include costs paid to contractors and severance costs.

Average number of employees

The average headcount of people employed during the year is as follows:

	No of employees	
	2019	2018
Full time	**2,592**	2,746
Part time	**765**	801
	3,357	3,547

11. INCOME TAX

	Group and Bank	
	2019	2018
Current tax		
Current year	-	-
Prior year	**(0.9)**	(1.1)
Total current tax credit	**(0.9)**	(1.1)
Deferred tax		
Current year	**3.3**	(76.6)
Prior year	**(1.5)**	-
Impact of corporation tax rate changes	-	5.7
Total deferred tax charge/(credit)	**1.8**	(70.9)
Total tax charge/(credit)	**0.9**	(72.0)

In addition to the above, included within other comprehensive income is a deferred tax charge of £5.9m (2018: £110.9m).

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

Further information on deferred tax is presented in note 29 to the consolidated financial statements.

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

	Group and Bank	
	2019	2018
Loss before taxation	**(152.1)**	(140.7)
Tax credit calculated at a rate of 19% (2018: 19%)	**(28.9)**	(26.7)
Effects of:		
Movement in unrecognised deferred tax	**24.9**	(37.4)
Expenses not deductible for tax purposes	**10.2**	11.8
Non-taxable income	**(6.0)**	(1.3)
Derecognition of deferred tax asset	**3.5**	-
Adjustment in respect of prior periods	**(2.4)**	(1.1)
Other differences	**(0.4)**	0.1
Impact of surcharge on deferred tax	-	(23.1)
Impact of corporation tax rate change	-	5.7
Total tax charge/(credit)	**0.9**	(72.0)

Expenses not deductible for tax purposes include provisions for compensation payments (net customer redress charge), for which tax relief has been restricted.

12. CASH AND BALANCES AT CENTRAL BANKS

	Group and Bank	
	2019	2018
Cash in hand	**14.6**	14.2
Items in transit	**(21.9)**	(27.3)
Balances with the Bank of England other than mandatory reserve deposits	**2,101.9**	1,802.7
Included in cash and cash equivalents	**2,094.6**	1,789.6
Mandatory reserve deposits with the Bank of England	**58.9**	54.2
Total cash and balances at central banks	**2,153.5**	1,843.8

Mandatory reserve deposits are not available for use in the day-to-day operations, are non-interest bearing and are not included in cash and cash equivalents. Items in transit represent unpresented cheques awaiting clearance.

13. LOANS AND ADVANCES TO BANKS

	Group and Bank	
	2019	2018
Items in course of collection from other banks	**1.2**	2.4
Placements with other banks[1]	**340.8**	401.9
Included in cash and cash equivalents	**342.0**	404.3
Other loans and advances to banks	**132.3**	81.5
Total loans and advances to banks	**474.3**	485.8

1. Obligatory netting arrangements are in place for repos and reverse repos transactions. As a result, the amount reduced by netting is £150.0m (2018: £100.0m), with the opposing impact in Deposits by banks in note 23 to the consolidated financial statements.

An expected credit loss of £nil was recorded as at 31 December 2019 (2018: £nil) in relation to loans and advances to banks.

14. LOANS AND ADVANCES TO CUSTOMERS

a) Analysis of the balance sheet

	Group and Bank	
	2019	2018
Gross loans and advances	**17,945.1**	17,786.6
Less: allowance for losses	**(26.7)**	(52.7)
Total loans and advances to customers net of allowances for losses	**17,918.4**	17,733.9

Loans and advances to customers include £143.2m (2018: £148.5m) of financial assets designated at fair value through profit or loss to eliminate or significantly reduce a measurement or recognition inconsistency; of these, £60.7m (2018: £63.5m) are secured by real estate collateral.

For further details on transferred assets, refer to note 31 of the Group and Bank consolidated financial statements.

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

b) Concentration of exposure

Exposure is only within the UK. Further information on the concentration of exposure is included within section 3.2 of the risk management disclosures.

c) Analysis of allowance for impairment losses

	Group and Bank			
	Retail	SME	Legacy & unallocated	Total
At 1 January 2019	20.8	20.8	11.1	**52.7**
Changes arising from stage transfers:				
To lifetime ECL (stage 1 to 2 or 3)	2.1	-	0.3	**2.4**
To credit impaired (stage 1 or 2 to 3)	4.1	0.1	0.7	**4.9**
To 12 month ECL (stage 2 or 3 to 1)	(0.7)	-	(0.3)	**(1.0)**
From credit impaired (stage 3 to 2)	(0.7)	-	(0.1)	**(0.8)**
Net changes arising from stage transfers	**4.8**	**0.1**	**0.6**	**5.5**
Other charges/(releases):				
New assets originated or purchased	2.0	-	-	**2.0**
Other changes to risk parameters[1]	(4.4)	(2.2)	(0.6)	**(7.2)**
Changes to model used for ECL calculation	(1.0)	-	(0.4)	**(1.4)**
Others[2]	1.3	-	-	**1.3**
Net other charges/(releases)	**2.7**	**(2.1)**	**(0.4)**	**0.2**
Assets written off	(6.2)	(13.4)	(3.9)	**(23.5)**
Warwick 4 provision release on sale	-	-	(2.7)	**(2.7)**
At 31 December 2019	**17.3**	**5.3**	**4.1**	**26.7**

1. Includes repayments and changes due to other model inputs.
2. The £1.3m increase in retail unsecured ECL relates to refinement of data inputs.

14. LOANS AND ADVANCES TO CUSTOMERS (continued)

	Group and Bank			
	Retail	SME	Legacy & unallocated	Total
At 1 January 2018	19.1	31.6	30.2	80.9
Changes arising from stage transfers:				
To lifetime ECL (stage 1 to 2 or 3)	1.1	-	0.2	1.3
To credit impaired (stage 1 or 2 to 3)	4.0	0.1	0.8	4.9
To 12 month ECL (stage 2 or 3 to 1)	(0.3)	(0.2)	(0.5)	(1.0)
From credit impaired (stage 3 to 2)	(1.5)	(0.3)	(0.6)	(2.4)
Net changes arising from stage transfers	3.3	(0.4)	(0.1)	2.8
Other charges/(releases):				
New assets originated or purchased	2.7	-	-	2.7
Other changes to risk parameters	2.4	(7.6)	(2.0)	(7.2)
Net other charges/(releases)	8.4	(8.0)	(2.1)	(1.7)
Assets written off	(6.7)	(2.8)	(17.0)	(26.5)
At 31 December 2018	20.8	20.8	11.1	52.7

d) Analysis of income statement

	Group and Bank	
	2019	2018
Net other (charges)/releases	**(0.2)**	1.7
Amounts recovered against amounts previously written off	**1.5**	1.9
Adjustment to recognise interest on stage 3 assets based on their net carrying value	**1.2**	1.8
Provision against fair value adjustments for hedged risk	**-**	0.1
Net impairment gain for the year	**2.5**	5.5

Provisions are analysed by segment in the risk management disclosures.

e) Finance lease receivables

	Group and Bank	
	2019	2018
Gross investment in finance leases may be analysed as follows:		
No later than one year	**3.3**	3.9
Later than one year and no later than five years	**9.6**	11.2
Later than five years	**8.1**	9.8
Gross investment in finance leases	**21.0**	24.9
Unearned future finance income on finance leases	**(5.3)**	(6.4)
Net investment in finance leases	**15.7**	18.5
The net future finance leases may be analysed as follows:		
No later than one year	**2.4**	2.7
Later than one year and no later than five years	**7.3**	8.5
Later than five years	**6.0**	7.3
	15.7	18.5

The unguaranteed residual value of the finance leases is £nil (2018: £nil). Finance lease arrangements are with customers in a wide range of sectors including transport, retail and utilities.

15. INVESTMENT SECURITIES

Analysis of investment securities

	Group and Bank							
	2019				2018			
	Amortised cost	FVOCI	FVTPL	Total	Amortised cost	FVOCI	FVTPL	Total
Investment securities[1] (listed)	**95.0**	**1,506.4**	**4.2**	**1,605.6**	89.1	1,842.4	3.5	1,935.0

1. Investment securities are shown net of impairment (nil for the current and previous year).

Movement in investment securities

	Group and Bank							
	2019				2018			
	Amortised cost	FVOCI	FVTPL	Total	Amortised cost	FVOCI	FVTPL	Total
At 1 January	**89.1**	**1,842.4**	**3.5**	**1,935.0**	100.0	2,283.2	4.5	2,387.7
Acquisitions	**15.2**	**1,032.7**	**0.2**	**1,048.1**	-	462.6	-	462.6
Disposals and maturities	**(9.4)**	**(1,351.7)**	**-**	**(1,361.1)**	(10.7)	(862.0)	-	(872.7)
FVOCI	**-**	**(12.3)**	**-**	**(12.3)**	-	(5.0)	-	(5.0)
Fair value through profit or loss	**-**	**(2.9)**	**0.5**	**(2.4)**	-	(35.0)	(1.0)	(36.0)
Amortisation	**-**	**1.9**	**-**	**1.9**	-	1.1	-	1.1
Movement in interest accrual	**0.1**	**(3.7)**	**-**	**(3.6)**	(0.2)	(2.5)	-	(2.7)
At 31 December	**95.0**	**1,506.4**	**4.2**	**1,605.6**	89.1	1,842.4	3.5	1,935.0

Included in investment securities are repurchase receivables of £nil (2018: £329.4m). Certain investment securities have been pledged by the Group, see note 31 for further details on encumbered and pledged assets.

Analysis of investment securities by issuer

	Group and Bank	
	2019	2018
Investment securities issued by public bodies:		
Government securities	**925.8**	926.6
Other public sector securities	**242.4**	309.1
	1,168.2	1,235.7
Other debt securities:		
Other floating rate notes	**268.3**	207.3
Mortgage backed securities	**169.1**	492.0
	437.4	699.3
Total investment securities by issuer	**1,605.6**	1,935.0

Other floating-rate notes (FRNs) are sterling denominated, with contractual maturities ranging from over one year to seven years from the balance sheet date.

16. DERIVATIVE FINANCIAL INSTRUMENTS

Various derivatives have been entered into to manage interest rate risk, some of which are held in a qualifying hedge accounting relationship (see the risk management section for more details on interest rate risk management strategies). Positive and negative fair values have not been netted off as there is not a legal right of offset.

Non-trading derivatives

Non-trading transactions comprise derivatives held for hedging purposes to manage the asset and liability positions of the Group. Derivatives used to manage interest rate related positions include swaps, caps and floors and forward rate agreements. The foreign exchange rate positions are managed using forward currency transactions and swaps.

16. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

	Group and Bank			
	Fair value			
	2019		2018	
	Assets	Liabilities	Assets	Liabilities
Derivatives held for non-trading purposes				
Derivatives designated as cash flow hedges:				
Interest rate swaps	**23.1**	**(2.9)**	32.7	(9.8)
Derivatives designated as fair value hedges:				
Interest rate swaps	**27.3**	**(106.4)**	28.6	(106.5)
Derivatives held for non-trading purposes for which hedge accounting has not been applied:				
Interest rate swaps	**162.6**	**(178.7)**	130.9	(144.0)
Forward currency transactions	**0.3**	**-**	-	(0.3)
Total derivative assets/(liabilities) held for non-trading purposes	**213.3**	**(288.0)**	192.2	(260.6)
Total recognised derivative assets/(liabilities)	**213.3**	**(288.0)**	192.2	(260.6)

The derivatives designated as cash flow hedges are interest rate swaps used to hedge interest rate risk in retail operations. Cash flows are hedged by quarterly time periods for durations up to six years. During the year, there were no forecast transactions for which hedge accounting had previously been used but are no longer expected to occur.

In line with industry standards, credit valuation adjustments (CVAs) and debit valuation adjustments (DVAs) are applied to non-collateralised swaps representing the fair value measurement of counterparty risk. The net credit adjustment across the portfolio at the end of 2019 was (£0.4m) (2018: £0.6m). CVAs and DVAs are not applied to derivatives that are fully cash collateralised.

17. EQUITY SHARES

	Group and Bank	
	2019	2018
Listed	**0.4**	0.4
Unlisted[1]	**44.1**	26.0
	44.5	26.4

1. The unlisted trade investments relate to Visa International 38,847 Series B Preference Shares (2018: 38,847).

18. OTHER ASSETS

	Group and Bank					
	2019			2018		
	Amortised cost	Mandatorily measured at FVTPL	Total	Amortised cost	Mandatorily measured at FVTPL	Total
Amounts recoverable within one year						
Other assets	**4.8**	**-**	**4.8**	17.3	-	17.3
Surrendered Loss Debtor	**-**	**0.1**	**0.1**	-	1.4	1.4
Deferred consideration receivable	**-**	**-**	**-**	4.5	-	4.5
	4.8	**0.1**	**4.9**	21.8	1.4	23.2
Amounts recoverable after more than one year						
Surrendered Loss Debtor	**-**	**47.7**	**47.7**	-	31.5	31.5
	-	**47.7**	**47.7**	-	31.5	31.5
	4.8	**47.8**	**52.6**	21.8	32.9	54.7

19. PREPAYMENTS

	Group and Bank	
	2019	2018
Amounts recoverable within one year	**20.3**	30.9
Amounts recoverable after more than one year	**1.4**	0.9
	21.7	31.8

20. PROPERTY, PLANT AND EQUIPMENT

	Group and Bank				
2019	Land and buildings	Leasehold improvements	Computers and other equipment	Assets in the course of construction	Total
Cost					
At 1 January 2019	5.4	19.9	46.2	0.3	**71.8**
Additions	-	-	0.8	3.5	**4.3**
Impairment	-	(0.5)	-	-	**(0.5)**
Reclassified as held-for-sale	(0.7)	(0.9)	-	-	**(1.6)**
Transfer between categories	-	0.7	2.7	(3.4)	**-**
At 31 December 2019	**4.7**	**19.2**	**49.7**	**0.4**	**74.0**
Accumulated depreciation					
At 1 January 2019	0.9	2.8	27.3	-	**31.0**
Charge for the year	0.1	1.5	4.2	-	**5.8**
Impairment	-	(0.1)	-	-	**(0.1)**
Reclassified as held-for-sale	(0.6)	(0.7)	-	-	**(1.3)**
At 31 December 2019	**0.4**	**3.5**	**31.5**	**-**	**35.4**
Net book value					
At 31 December 2019	**4.3**	**15.7**	**18.2**	**0.4**	**38.6**
At 1 January 2019	4.5	17.1	18.9	0.3	**40.8**

	Group and Bank				
2018	Land and buildings	Leasehold improvements	Computers and other equipment	Assets in the course of construction	Total
Cost					
At 1 January 2018	16.1	14.6	40.7	4.8	76.2
Additions	-	-	0.1	5.9	6.0
Disposals	(3.9)	-	-	-	(3.9)
Impairment	-	(0.6)	(1.9)	(0.1)	(2.6)
Reclassified as held-for-sale	(3.9)	-	-	-	(3.9)
Transfer between categories	(2.9)	5.9	7.3	(10.3)	-
At 31 December 2018	5.4	19.9	46.2	0.3	71.8
Accumulated depreciation					
At 1 January 2018	6.2	-	25.6	-	31.8
Charge for the year	0.3	1.3	3.0	-	4.6
Disposals	(3.9)	-	-	-	(3.9)
Impairment	-	(0.5)	(0.7)	-	(1.2)
Reclassified as held-for-sale	(0.3)	-	-	-	(0.3)
Transfer between categories	(1.4)	2.0	(0.6)	-	-
At 31 December 2018	0.9	2.8	27.3	-	31.0
Net book value					
At 31 December 2018	4.5	17.1	18.9	0.3	40.8
At 1 January 2018	9.9	14.6	15.1	4.8	44.4

The net book value of land and buildings comprises freehold properties of £4.3m (2018: £4.5m).

21. INTANGIBLE ASSETS

	Group and Bank					
	2019			2018		
	Internally generated intangible assets	Other intangible assets	Total	Internally generated intangible assets	Other intangible assets	Total
Cost						
At 1 January 2019	**180.9**	**15.6**	**196.5**	162.6	15.3	177.9
Additions	**29.8**	**0.4**	**30.2**	18.4	-	18.4
Impairment	**-**	**-**	**-**	(0.8)	-	(0.8)
Write-off of fully amortised assets	**-**	**-**	**-**	1.0	-	1.0
Transfer between categories	**(1.3)**	**1.3**	**-**	(0.3)	0.3	-
At 31 December 2019	**209.4**	**17.3**	**226.7**	180.9	15.6	196.5
Accumulated amortisation and impairment						
At 1 January 2019	**114.5**	**9.6**	**124.1**	89.7	6.7	96.4
Charge for the year	**24.6**	**2.7**	**27.3**	23.8	2.9	26.7
Write-off of fully amortised assets	**-**	**-**	**-**	1.0	-	1.0
At 31 December 2019	**139.1**	**12.3**	**151.4**	114.5	9.6	124.1
Net book value						
At the end of the year	**70.3**	**5.0**	**75.3**	66.4	6.0	72.4
At the beginning of the year	**66.4**	**6.0**	**72.4**	72.9	8.6	81.5

Internally generated assets include £14.6m (2018: £11.0m) of assets in the course of construction relating to IT and technology project-related spend. Other intangible assets wholly consist of purchased software licences.

22. RIGHT–OF–USE ASSETS AND LEASE LIABILITIES

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

Transition

IFRS 16 was adopted by the Group on 1 January 2019 and the modified retrospective approach was applied to transition. Under the modified retrospective approach, a lessee does not restate comparative figures; instead the cumulative effect of initially applying IFRS 16 is recognised as an opening adjustment to retained earnings. Further, the permissible election was applied to all classes of leases to measure the right-of-use asset on transition at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments. Other transitional reliefs applied were the use of hindsight (such as in determining the lease term if the contract contains options to extend or terminate the lease), relying on existing onerous lease assessments as an alternative to performing an impairment review, applying a single discount rate to a portfolio of leases with reasonably similar characteristics, and the exclusion of initial direct costs from the measurement of the right-of-use asset at the date of initial application. On adoption on 1 January 2019, IFRS 16 increased total assets by £78.2m, increased total liabilities by £78.2m and had no impact on shareholders' equity. The weighted average incremental borrowing rate applied to lease liabilities at initial application was 3.4%. The £78.2m lease liability recognised on transition is lower than the £89.9m minimum operating lease commitments disclosed in the Group's 2018 ARA for the following reasons:

- The IFRS 16 lease liability is discounted whereas the total IAS 17 commitment was undiscounted; and
- The IFRS 16 lease liability excludes commitments related to low value leases and leases with a remaining life of less than 12 months.

Initial measurement

At the commencement date, the right-of-use asset is measured at cost which comprises:

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

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

22. RIGHT–OF–USE ASSETS AND LEASE LIABILITIES (continued)

The following accounting policy choices have been applied:

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

Subsequent measurement

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

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

The tables below present the assets and liabilities recognised on the balance sheet in relation to assets leased by the Group. Comparative information has not been provided for the reasons set out above.

Right-of-use assets

	Group and Bank		
Land and buildings	Cost	Accumulated depreciation	Total
At 1 January 2019	80.3	-	**80.3**[1]
Additions	1.6	-	**1.6**
Disposals	(0.3)	-	**(0.3)**
Depreciation	-	(9.3)	**(9.3)**
At 31 December 2019	**81.6**	**(9.3)**	**72.3**

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

Lease liabilities

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

	Group and Bank	
	2019	2018
Amounts falling due:		
Within one year	**10.5**	-
One to two years	**9.9**	-
Two to five years	**26.3**	-
Over five years	**43.3**	-
	90.0	-

The discounted lease liability as at 31 December 2019 was £71.2m and the interest expense on lease liabilities for the year was £2.6m. The weighted average incremental borrowing rate applied to lease liabilities during the year was 3.4% . There are no committed leases which have not yet commenced.

Cash outflow

The total cash outflow in respect of leases for the year was £10.8m.

Other lease related income and expenses

The expense related to short-term leases (less than 12 months) and low-value assets for the year was £0.5m and £0.3m, respectively. The expense for the year relating to variable lease payments not included in the lease liability was £nil. £0.6m was received during the year from sub-leasing right-of-use assets.

23. DEPOSITS BY BANKS

	Group and Bank	
	2019	2018
Deposits from other banks[1]	**1,143.7**	1,433.5

1. Obligatory netting arrangements are in place for repos and reverse repos transactions. As a result, the amount reduced by netting is £150.0m (2018: £100.0m), with the opposing impact in Loans and advances to banks in note 13 to the consolidated financial statements.

Included within deposits from other banks are liabilities of £179.1m (2018: £468.8m) secured on investment securities with a carrying value of £187.8m (2018: £504.4m) which have been sold under sale and repurchase agreements. See note 31 for further details on encumbered and pledged assets.

The Group undertook a £960.0m drawing of the Bank of England's Term Funding Scheme in February 2018, which is due to be repaid by February 2022.

24. DEBT SECURITIES IN ISSUE

Debt securities in issue comprise:

- A secured covered bond of £600.0m at a coupon of 4.75%, having a maturity date in November 2021 and requires the Group to pay interest annually and repay contractual amounts due on the specified maturity date;
- £250m of AAA securities issued in 2019 through Silk Road Finance Number Six at a margin of 0.85% above compounded daily SONIA and a maturity date of September 2023.

Certain debt securities in issue have been pledged by the Group, see note 31 for further details on encumbered and pledged assets.

25. OTHER BORROWED FUNDS AND AMOUNTS OWED TO FINANCE COMPANY

Other borrowed funds

	Group and Bank	
	2019	2018
Fixed rate subordinated notes 2029	**200.0**	-
Issue costs, discounts and accrued interest	**1.2**	-
Fair value adjustment for hedged risk	**3.0**	-
	204.2	-

On 25 April 2019, the Group issued £200.0m Fixed Rate Reset Callable Subordinated Minimum Requirement for own funds and Eligible Liabilities (MREL) qualifying Tier 2 Notes (Tier 2 notes), which:

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

Amounts owed to Finance Company

Amounts owed to Finance Company comprises the internal MREL debt related to the external MREL qualifying Tier 2 debt. The terms of the internal MREL are equivalent to those of the external MREL qualifying Tier 2 debt.

26. OTHER LIABILITIES

	Group and Bank	
	2019	2018
Amounts falling due within one year		
Amounts due to beneficiary banks	**29.9**	57.8
Other creditors	**23.6**	31.5
	53.5	89.3
Amounts falling due after one year		
Other creditors	-	2.8
	-	2.8
	53.5	92.1

27. ACCRUALS AND DEFERRED INCOME

	Group and Bank	
	2019	2018
Amounts falling due within one year		
Accruals	**41.5**	41.4
Deferred income	**9.6**	6.7
	51.1	48.1
Amounts falling due after one year		
Accruals	**1.1**	6.9
Deferred income	**6.8**	8.0
	7.9	14.9
	59.0	63.0

The above includes the £15.0m government grant received during 2019, of which £0.2m was utilised by the end of the year.

28. PROVISIONS

		Group and Bank				
2019	Note	Property	PPI	Conduct/ legal	Other	Total
At 1 January 2019		15.7	67.8	8.7	11.4	**103.6**
Provided in the year:						
Operating expenses	9	(0.8)	-	1.1	16.0	**16.3**
Net customer redress charge		-	62.5	1.0	-	**63.5**
Utilised during the year		(3.9)	(72.8)	(6.2)	(13.1)	**(96.0)**
At 31 December 2019		**11.0**	**57.5**	**4.6**	**14.3**	**87.4**
Amounts falling due within one year		5.6	57.5	3.8	13.5	**80.4**
Amounts falling due after one year		5.4	-	0.8	0.8	**7.0**
		11.0	**57.5**	**4.6**	**14.3**	**87.4**

		Group and Bank					
2018	Note	Property	FSCS Levy	PPI	Conduct/ legal	Other	Total
At 1 January 2018		21.5	2.4	88.9	32.9	12.5	158.2
Provided in the year:							
Operating expenses	9	-	(1.6)	-	(0.4)	13.9	11.9
Net customer redress charge		-	-	39.5	(5.3)	-	34.2
Transfer between provision categories		-	-	-	(1.3)	1.3	-
Utilised during the year		(5.8)	(0.8)	(60.6)	(17.2)	(16.3)	(100.7)
At 31 December 2018		15.7	-	67.8	8.7	11.4	103.6
Amounts falling due within one year		9.4	-	66.5	7.1	11.4	94.4
Amounts falling due after one year		6.3	-	1.3	1.6	-	9.2
		15.7	-	67.8	8.7	11.4	103.6

Property
The Group has a number of leasehold properties available for rent. The provision is based on the expected outflows during the remaining periods of the leases. In addition, dilapidation provisions are recorded to the extent that the Group has incurred dilapidations and/or the dilapidation clause within the contract has been invoked.

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.

28. PROVISIONS (continued)

An additional provision of £62.5m was recognised in the year to 31 December 2019 (31 December 2018: £39.5m), in respect of the total expected cost of carrying out work and paying compensation related to historical selling of PPI. As a result, the total provision recognised to date is £600.3m.

Conduct/legal provisions
The Group provided £1.0m in the year (2018: £(5.3)m release) in respect of ongoing customer remediation work and £1.1m (2018: £(0.4)m release) in respect of various litigation claims.

Other
Other provisions net charge of £16.0m (31 December 2018: £13.9m) mainly comprise movements in the provisions for employee pay, severance costs and remuneration.

29. DEFERRED TAX

Deferred taxes are calculated on all temporary differences under the liability method using the most appropriate tax rate in respect of each temporary difference.

The UK corporation tax rate is currently legislated to reduce from 19% to 17% effective from 1 April 2020. A banking surcharge tax of 8% also applies to the Bank Company. Deferred tax has been calculated by reference to the most appropriate rate based on forecasts.

The movements in deferred tax are as follows:

	Group and Bank					
	2019			2018		
	Deferred tax asset	Deferred tax liability	Total	Deferred tax asset	Deferred tax liability	Total
Deferred tax at the beginning of the year	**2.9**	**(38.9)**	**(36.0)**	4.2	(0.2)	4.0
Credited/(charged) to the income statement:						
Current year	**(3.3)**	**-**	**(3.3)**	76.6	-	76.6
Prior year	**1.5**	**-**	**1.5**	-	-	-
Impact of corporation tax rate charge	**-**	**-**	**-**	(5.7)	-	(5.7)
	(1.8)	**-**	**(1.8)**	70.9	-	70.9
Credited/(charged) to other comprehensive income:						
Cash flow hedges	**1.2**	**-**	**1.2**	3.3	-	3.3
FVOCI	**2.6**	**-**	**2.6**	0.5	-	0.5
Retirement benefits	**(4.9)**	**(4.8)**	**(9.7)**	(76.0)	(38.7)	(114.7)
	(1.1)	**(4.8)**	**(5.9)**	(72.2)	(38.7)	(110.9)
Deferred tax at the end of the year	**-**	**(43.7)**	**(43.7)**	2.9	(38.9)	(36.0)

The deferred tax asset above includes an offset for those deferred tax liabilities that are permissible to be offset.

	Group and Bank			
	2019		2018	
	Deferred tax asset	Deferred tax liability	Deferred tax asset	Deferred tax liability
Deferred tax comprises:				
Capital allowances on fixed assets and assets leased to customers	**103.6**	**(0.2)**	94.6	-
Tax losses carried forward	**43.3**	**-**	42.2	-
Retirement benefits	**(129.3)**	**(43.3)**	(117.1)	(38.7)
Unrealised appreciation on investments	**(11.1)**	**-**	(6.7)	-
Cash flow hedges	**(5.7)**	**-**	(6.7)	-
FVOCI	**(0.8)**	**-**	(3.4)	-
Fair value adjustment - The Co-operative Bank subsidiaries	**-**	**(0.2)**	-	(0.2)
	-	**(43.7)**	2.9	(38.9)

29. DEFERRED TAX (continued)

The deferred tax charge/(credit) in the income statement comprises:

	Group and Bank	
	2019	**2018**
Capital allowances on fixed assets and assets leased to customers	**(8.8)**	(35.1)
Retirement benefits	**7.1**	1.7
Unrealised appreciation on investments	**4.4**	0.5
Tax losses carried forward	**(1.1)**	(38.0)
Cash flow hedges	**0.2**	-
	1.8	(70.9)

Deferred tax assets totalling £407.7m (2018: £364.8) have not been recognised where doubt exists over the availability of sufficient future taxable profits. Deferred tax of £401.3m (2018: £358.4m) and £6.4m (2018: £6.4m) have not been recognised in respect of trading losses of £2,191.0m (2018: £2,015.0m) and other temporary differences of £25.5m (2018: £25.6m) respectively.

30. RETIREMENT BENEFITS

The Group is the Principal Employer of the Bank section of The Co-operative Pension Scheme (Pace), a hybrid scheme, consisting of a closed defined benefit element (Pace DB) and a defined contribution element (Pace DC). In addition, the Group is the Principal Employer of the Britannia Pension Scheme (BPS, via a subsidiary of the Bank) which is a defined benefit scheme, closed to new entrants and to future accrual. The Group operates two unfunded defined benefit pension schemes, the Britannia Supplementary Pension and Life Assurance Plan (BSPLAP) and the Pension Promise. The relevant disclosures have been aggregated with the disclosures of the main schemes unless otherwise stated.

Pensions charge

The amounts credited/(charged) to the income statement are as follows:

		Group and Bank	
	Note	**2019**	**2018**
Interest expense on defined benefit obligation		**(54.0)**	(33.0)
Interest income on plan assets		**71.6**	43.9
Total net interest income on net defined benefit pension asset	6	**17.6**	10.9
Net interest expense on unfunded schemes	6	**(0.2)**	(0.2)
Administrative expenses included in operating expenses		**(3.5)**	(2.7)
GMP equalisation – past service cost[1]	10	**-**	(12.4)
Net credit/(charge) to the income statement – DB		**13.9**	(4.4)
Net charge to the income statement – DC	10	**(7.4)**	(7.4)
Total pension credit/(charge) included in the income statement		**6.5**	(11.8)

1. In the prior year, an estimate of the cost of Guaranteed Minimum Pension (GMP) equalisation was recognised in the income statement. Actuarial gains and losses relating to this estimated cost of GMP equalisation in 2019 have been recognised in the pension reserve.

The amounts recognised in other comprehensive income are as follows:

	Group and Bank	
	2019	**2018**
Return on scheme assets	**273.4**	60.2
Loss arising from changes in financial assumptions	**(280.5)**	(46.6)
Gain arising from changes in demographic assumptions	**45.9**	24.6
Experience gain	**-**	32.0
Actuarial loss on unfunded schemes	**(1.2)**	(0.7)
Credit recorded in other comprehensive income	**37.6**	69.5

30. RETIREMENT BENEFITS (continued)

The amounts recognised in the balance sheet are as follows:

	Group and Bank	
	2019	2018
Retirement benefit net surplus	**690.2**	623.5
Retirement benefit liabilities	**(8.6)**	(7.6)
Total amounts recognised in the balance sheet	**681.6**	615.9
Represented by:		
Funded DB schemes (Pace DB and BPS)	**690.2**	623.5
Unfunded DB schemes	**(8.6)**	(7.6)
Total amounts recognised in the balance sheet	**681.6**	615.9

Defined benefit schemes

a) Characteristics of the defined benefit plans and risks associated with them

Both the Pace DB and the BPS defined benefit schemes are based in the UK. Pace DB closed to new entrants and to future accrual in October 2015. The benefits that had accrued until that point were on a career average revalued earnings basis, meaning that benefits earned by a member were dependent on the length of service and the average earnings over the length of service. BPS closed to new entrants in 2001 and to future accrual on 6 October 2012. Annual increases on pensions in payment for both Pace DB and BPS are applied in line with their respective scheme rules.

Given both schemes are closed to new entrants and accrual, the certainty over pension liabilities increases over time and this increased certainty is reflected in the investment strategies (noted below). Pension obligations are valued separately for accounting and funding purposes. The accounting valuation of liabilities is prepared biannually for the Group's reporting purposes by a qualified actuary. This accounting position of pension obligations is combined with the fair value of plan assets to give the net asset or liability in respect of DB pensions at the balance sheet date for the Group's financial reporting purposes. The funding valuation is conducted by the trustee, in consultation with the Group, and is conducted by a qualified actuary at least once every three years (and is updated for monitoring purposes to the scheme's financial year end on an annual basis). The latest concluded actuarial funding valuations were conducted in respect of Pace DB as at April 2016 and for BPS as at April 2017. The funding valuation for Pace DB as at April 2019 remains in progress and the Trustee is due to submit this to the Pensions Regulator by July 2020. A valuation exercise was also undertaken for Pace DB as at December 2017 as part of the project to sectionalise the scheme.

The purpose of the funding valuation is to judge the amount of cash an employer needs to contribute to the scheme. The funding valuation will generally be different to the accounting valuation, not only because of the different measurement dates, but also because accounting standards require that companies employ best estimate assumptions, and therefore the accounting surplus will generally be higher than that reported in the more prudent funding valuation. The Group has recognised a net pension asset of £538.8m in respect of Pace DB for the year ended 31 December 2019 (2018: £477.4m) and a net pension asset of £151.3m in respect of BPS (2018: £146.1m).

Funding position of Pace DB

At the last concluded funding valuation, Pace DB was not sectionalised and the surplus for the whole scheme at April 2016 was £251.0m. As part of the project to sectionalise Pace, it was agreed that a more prudent funding target would be applied to the Bank section post-sectionalisation than to other employers. As a result, it was agreed with the Pace Trustee and Co-op that the Group would contribute £100m into the Bank section of Pace over a ten-year period from 1 January 2018. In addition, the Group would provide security to Pace in the form of £276.9m AAA rated retained RMBS notes, with a 22% haircut, decreasing over time in line with contributions paid into the Bank section. This security becomes enforceable in the event that deficit recovery payments are not met, as agreed with the Trustee, insolvency or the failure to adhere to the terms of the security deed. At 31 December 2019, the Group was obliged to provide security of £228.8m in the form of AAA rated retained RMBS notes (£178.5m after application of a 22% haircut) and £12.5m in cash. Post haircut, this amounted to £191.0m, reflecting the £25.0m paid into Pace DB by the Bank since 1 January 2018.

Contributions are also paid in respect of employed members of the defined contribution section of Pace. Members can choose to pay up to a maximum core contribution of 8% of salary 'double-matched' up to a maximum member contribution of 5%. So, for members paying 5% or more, an employer contribution of 10% of salary is paid into the scheme.

30. RETIREMENT BENEFITS (continued)

Funding position of BPS

The actuarial valuation of BPS as at 5 April 2017, completed by the scheme actuary in accordance with the scheme specific funding requirements of the Pensions Act 2004, showed BPS had a surplus of £1.7m. As a result, it was agreed with the Trustee that no further deficit recovery contributions would be required at this time; however, the provision of security to the scheme was agreed to be maintained. This security is in the form of £175.6m AAA rated retained RMBS notes, with a 22% haircut. This security becomes enforceable in the event that deficit recovery payments are not met, as agreed with the Trustee, insolvency or the failure to adhere to terms of the security deed.

Governance

The responsibility for the governance of the schemes lies with their respective trustees. Pace Trustees Limited is the corporate body that acts as trustee of the Pace scheme, including Pace DB and Pace DC. Britannia Pension Trustees Limited is the corporate body that acts as trustee of the Britannia scheme. The main risks impacting the pension obligations are inflation risk, interest rate risk and mortality (or longevity) risk. In respect of both schemes, the majority of inflation risk and interest rate risk is hedged through the investment strategy to invest in Liability-Driven Investments (LDI), which include derivatives. If the value of liabilities were to increase as a result of changes in interest rates or inflation, the value of these LDI assets would also be expected to increase. The actual mortality rates experienced by the scheme compared to those assumed by the actuary is a key source of estimation uncertainty.

The actuary considers two aspects in respect of mortality rates; firstly the level of mortality actually experienced by each scheme, and secondly, the future improvement expected in mortality rates. Both aspects may differ between males and females. The assumptions used by the actuary are set out in section b) below.

Investment Strategy

The performance of plan assets is also a risk managed by the trustees (described as investment risk) and, as noted within the investment strategy, the performance is managed and monitored by comparison to scheme benchmarks advised by the scheme's investment advisor. The benchmarks take account of actual performance by comparing performance to that of a relevant comparable yardstick. For LDI assets, the performance benchmark comparison is the value of liabilities. For return-seeking investments the benchmark is comprised of comparable investment indices. The trustees also monitor whether performance is being delivered by taking on greater risk than appetite; this is monitored by comparing the actual asset allocation to the target allocation agreed by the trustees. The weighted average duration of the defined benefit obligation of BPS is 19 years and 20 years for Pace DB.

b) Summary of scheme assets and liabilities, key assumptions and sensitivities

The pension assets and liabilities for DB schemes in the balance sheet comprise:

	Group and Bank					
	2019			2018		
Schemes	Asset	Liability	Net	Asset	Liability	Net
Pace DB	**2,030.5**	**1,491.6**	**538.9**	1,862.5	1,385.1	477.4
Britannia Pension Scheme	**825.1**	**673.8**	**151.3**	740.6	594.5	146.1
Total schemes	**2,855.6**	**2,165.4**	**690.2**	2,603.1	1,979.6	623.5

Changes in the present value of the defined benefit obligation are as follows:

	Group and Bank	
	2019	2018
Defined benefit obligation at the start of the year	**1,979.6**	634.9
Past service cost	**-**	12.4
Interest expense	**54.0**	33.0
Benefit payments from plan assets	**(102.8)**	(107.0)
Remeasurements:		
Effect of changes in demographic assumptions	**(45.9)**	24.6
Effect of changes in financial assumptions	**280.5**	(46.6)
Effect of experience assumptions	**-**	32.0
Liabilities recognised on recognition of Pace DB	**-**	1,396.3
Defined benefit obligation at the end of the year	**2,165.4**	1,979.6

30. RETIREMENT BENEFITS (continued)

The key assumptions used to determine the funded and unfunded pension obligations for accounting purposes are set out in the following tables:

	Group and Bank	
	2019	2018
Discount rate	**2.00%**	2.80 %
Revaluation in deferment (CPI)	**2.00%**	2.10 %
Future pension increases where capped at 5.0 % per annum (CPI)	**2.10%**	2.10 %
Future pension increases where capped at 5.0 % per annum, minimum 3.0 % (CPI)	**3.20%**	3.20 %
Future pension increases where capped at 6.0 % per annum (RPI)	**2.90%**	3.20 %
Future pension increases where capped at 5.0 % per annum (RPI)	**2.90%**	3.10 %
Future pension increases where capped at 3.0 % per annum (CPI)	**1.80%**	1.90 %
Future pension increases where capped at 2.5 % per annum (RPI)	**2.10%**	2.20 %

The average life expectancy (in years) for mortality tables used to determine defined benefit schemes liabilities at the 2019 year end is:

	Group and Bank	
	Male	Female
Life expectancy (BPS):		
Member retiring today (member age 60)	**86.2**	**88.2**
Member retiring in 20 years (member age 40 today)	**87.4**	**89.5**
Life expectancy (Pace):		
Member retiring today (member age 60)	**85.7**	**88.0**
Member retiring in 20 years (member age 40 today)	**86.5**	**89.1**

The measurement of the Group's defined benefit liability is particularly sensitive to changes in certain key assumptions, which are described below. The methods used to carry out the sensitivity analyses presented below for the material assumptions are the same as those the Group has used previously. The calculations alter the relevant assumption by the amount specified, whilst assuming that all other variables remained the same. This approach is not necessarily realistic, since some assumptions are related; for example, if the scenario is to show the effect if inflation is higher than expected, it might be reasonable to expect that nominal yields on corporate bonds will increase also. However, it enables the reader to isolate one effect from another.

Discount rate	This has been selected following actuarial advice received by the Group, taking into account the duration of the liabilities. An increase in the discount rate of 0.1 % would result in a £39.1m decrease in the present value of the defined benefit obligation.
Inflation	Inflation is a significant assumption as it is used to determine salary-related benefits and pension increases before and after retirement. A decrease in the inflation rate of 0.1 % would result in a £28.0m decrease in the present value of the defined benefit obligation.
Mortality rates	The mortality assumptions adopted are based on those recommended by the actuaries that advise the scheme management and reflect the most recent information as appropriate. The impact on the liability if members were assumed to live for one year longer against the current mortality assumption would increase the present value of the defined benefit obligation by £83.0m.

Changes in the fair value of the defined benefit plan assets are as follows:

	Group and Bank	
	2019	2018
Fair value of plan assets at the start of the year	**2,603.1**	792.6
Interest income	**71.6**	43.9
Employer contributions	**13.8**	11.3
Benefit payments from plan assets	**(102.8)**	(107.0)
Administrative expenses paid from plan assets	**(3.5)**	(2.7)
Return on plan assets (excluding interest income)	**273.4**	(60.2)
Asset recognised on recognition of Pace DB	**-**	1,925.2
Fair value of plan assets at the end of the year	**2,855.6**	2,603.1

30. RETIREMENT BENEFITS (continued)

c) Investment strategy for the DB schemes

The investment strategy is controlled by the Trustee of each scheme in consultation with the participating employers. The investment objective is to invest each scheme's assets in the best interest of the members and beneficiaries, and in the case of a potential conflict of interest, in the sole interest of the members and beneficiaries. Within this framework, the trustees have agreed a number of objectives to help guide in the strategic management of the assets and control of the various risks to which each scheme is exposed. Primary objectives are as follows:

- Agree to implement an investment strategy that initially targets an expected return of around 1.2 % p.a. (net of fees) above the return on a portfolio of gilts for BPS and around 0.5 % p.a. (net of fees) above the return on a portfolio of gilts for Pace DB;
- The primary objective is that each scheme has sufficient and appropriate assets to meet the costs incurred by the Trustee in paying its benefits as they fall due on a technical provisions basis (technical provisions being the funding valuation basis reflecting a prudent valuation);
- If funding improves as a result of better than expected investment return, the expectation is to use the opportunity to reduce investment risk where appropriate.

The investment strategies of both Pace DB and BPS reflect the strong funding position and closed nature of the schemes and the strategic asset allocation targets low levels of return-seeking assets and high levels of assets which mitigate against funding volatility, in line with the trustees' stated desire of increasing the predictability of investment returns where possible. At any point in time, the implemented asset portfolio may not exactly match the target asset portfolio, in particular during a time of change to the target. This difference between the actual and target asset allocation is monitored regularly by the trustees.

The fair value of the DB schemes' assets is analysed as follows:

	Group and Bank			
	2019	% of total	2018	% of total
Fixed interest government bonds	**408.2**	**14%**	442.6	17 %
Index linked government bonds	**864.0**	**30%**	726.3	28 %
Corporate bonds	**36.9**	**1%**	35.7	1 %
Derivatives	**(35.6)**	**(1%)**	33.3	1 %
Cash and similar	**200.6**	**7%**	64.5	3 %
Other	**(8.0)**	**0%**	13.2	1 %
Total liability driven investment (LDI) portfolios	**1,466.1**	**51%**	1,315.6	51 %
Equity instruments	**-**	**-**	-	-
Debt instruments	**442.3**	**15%**	401.3	15 %
Investment funds	**41.7**	**1%**	40.3	1 %
Investment grade credit	**716.1**	**25%**	662.8	26 %
Asset backed securities	**65.3**	**3%**	64.0	2 %
Property funds (UK)	**70.1**	**3%**	67.8	3 %
Cash and other	**54.0**	**2%**	51.3	2 %
Total assets	**2,855.6**	**100%**	2,603.1	100 %

The table below shows the value of the assets in each category which have a quoted market price:

	Group and Bank	
	2019	2018
Quoted equities	**-**	-
Liability driven investments	**1,290.6**	1,254.8
Debt instruments	**352.8**	321.0
Other	**690.9**	678.8
Total	**2,334.3**	2,254.6
Total %	**82%**	87 %

The scheme assets do not directly include any of the Group's own assets, nor any property occupied, or other assets used by the Group. Where available, the fair values are quoted prices (e.g. listed equity, sovereign debt and corporate bonds). Unlisted investments are included at values provided by the fund manager in accordance with relevant guidance. Other significant assets are valued based on observable inputs such as yield curves.

31. CONTINGENT LIABILITIES, CONTRACTUAL COMMITMENTS AND GUARANTEES

The tables below provide the contractual amounts and risk-weighted amounts of contingent liabilities and commitments. The contractual amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The risk weighted amounts have been calculated in accordance with the CRD IV rules.

The contingent liabilities, as detailed below, arise in the normal course of banking business and it is not practical to quantify their future financial effect.

	Group and Bank			
	2019		2018	
	Audited	Unaudited	Audited	Unaudited
	Contractual amount	Risk weighted amount	Contractual amount	Risk weighted amount
Contingent liabilities arising from customer transactions:				
Guarantees and irrecoverable letters of credit	**9.2**	**5.1**	12.4	3.7
Other commitments arising from customer transactions:				
Undrawn formal standby facilities, credit lines and other commitments to lend (includes revocable and irrevocable commitments)[1]	**1,975.1**	**215.5**	2,123.0	236.2
	1,984.3	**220.6**	2,135.4	239.9

1. Undrawn loan commitments include revocable commitments which are unused credit card limits of £1,005.1m (2018: £1,097.1m).

Holding Company B shareholders

There is a contingent liability of £25.0m in aggregate due to B shareholders on exit, subject to achieving a minimum valuation threshold. See note 4 of the Holding Company financial statements.

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.

	Group and Bank	
	2019	2018
Investment securities sold under repurchase agreements		
Carrying amount of assets not de-recognised	**187.8**	504.4
Carrying amount of associated liabilities	**179.1**	468.8

b) Other assets transferred but not de-recognised

Included within loans and advances to customers are £3,198.4m (2018: £1,957.8m) pledged across all the Group's securitisation and covered bond activities. The Group retains exposure to substantially all of the risks and rewards of ownership of these assets and they remain on the Group's balance sheet. Secured on these mortgage assets are £849.0m (2018: £601.5m) of fixed and floating rate notes. The carrying value of these notes excludes retained securitisation notes totaling £1,675.9m (2018: £809.2m).

c) Other assets pledged under the Bank's securitisation and covered bond programmes

Included within loans and advances to banks is £120.3m (31 December 2018: £81.6m) held in ring fenced third party accounts which are attributable to the Group's securitisation and covered bond subsidiaries including balances associated with structured entities that are otherwise eliminated on consolidation.

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

Investment securities and mortgage assets with a carrying value of £1,112.7m (2018: £1,447m) have been collateralised against the Group's drawdowns on the BOE's TFS and Indexed Long-Term Repo facilities.

e) Assets pledged under the Group's pension arrangements

At 31 December 2019 the Group has pledged £164.2m of AAA rated Silk Road Four securitisation notes to the Britannia Pension Scheme and both £228.3m AAA rated Silk Road Four securitisation notes and £12.5m cash to the Pace Complete scheme, as additional security for the schemes. The value of the pledged notes reflects amortisation of the notes from the contractually agreed amount outlined in note 30, with the difference between the two being cash held in custody. The Group is able to substitute these cash balances with additional securitisation notes. 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.

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

f) Other collateralised assets

Cash and investment securities totalling £229.8m (2018: £222.2m) and £97.5m (2018: £83.3m) respectively were collateralised under interest rate swap arrangements. The Group also places cash and investment security collateral in support of transactions with banking payment system operators.

g) Bank of England Mandatory Reserve

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

Conduct risk matters

Given the high level of scrutiny regarding financial institutions' treatment of customers and business conduct from regulatory bodies, the media and politicians, there is a possibility that certain aspects of the current or historical business, including, amongst other things, mortgages and relationship banking, may be determined by the FCA and other regulatory bodies or the courts as, in their opinion, not being conducted in accordance with applicable laws or regulations, or fair and reasonable treatment.

There may be regulatory investigations and action in the future in relation to conduct and other issues that the Group is not presently aware of, including investigations and actions against it resulting from alleged mis-selling of financial products or the ongoing servicing of those financial products. The outcome of any ongoing disputes and legal, regulatory or other investigations or proceedings is currently uncertain.

Sale of the Group's share in Visa Europe Limited (VE)

The sale of the share in VE completed on 21 June 2016. In connection with the transaction, the Group and certain other members of VE have entered into a Loss Sharing Agreement (LSA), on a several and not joint basis, to indemnify Visa Inc. (VI) for certain losses which may be incurred as a result of existing and potential litigation relating to the setting and implementation of domestic Merchant Interchange Fee (MIF) rates in the UK. This indemnification is up to a maximum amount of the upfront cash consideration received, being approximately €50.0m. For any such losses, the arrangement under the LSA will replace the potential uncapped indemnity under the existing VE operating regulations, which will otherwise continue for claims outside the UK. The Preference Stock, the LSA, and the continuation of the existing indemnity for claims outside the UK work together to provide VI with protection against liabilities from MIF litigation in the VE territory. Overall losses would in the first instance be recovered by VI from the banks in the form of cancelling the preference shares issued as part of the consideration above and recorded in the balance sheet - see note 17.

The potential exists, therefore, for the value of the consideration in the form of preference shares (Preference Stock) to be eroded by liabilities incurred by VI in connection with MIF litigation in the VE territory. For further fair value disclosures see note 35 to the consolidated financial statements.

Legal proceedings

Various other legal proceedings exist involving claims by and against the Bank, which arise in the ordinary course of business, including debt collection, mortgage enforcement, consumer claims and contractual disputes. It is not expected that the ultimate resolution of any of these proceedings will have a material adverse effect on the operating results, cash flows or the financial position and contingent liabilities have not been disclosed for these claims. Provisions have been recognised for those cases where there is an ability to reliably estimate the probable loss where the probable loss is not de minimis.

Mortgage securitisation representations and warranties (including Warwick Finance One, Two, Three and Four)

In connection with the mortgage securitisations (including Warwick Finance One, Two, Three and Four) and covered bond transactions, various representations and warranties relating to the mortgage loans are made, including in relation to ownership, compliance with legislation and origination procedures. If the representations and warranties are breached subject to any applicable materiality determination, repurchase of the affected mortgage loans or in some circumstances compensation to the securitisation vehicle may be required.

There is a risk that a number of the underlying matters giving rise to the conduct and legal provisions could have given rise to breaches of such representations and warranties. Accordingly, there is a risk that compensation or repurchasing affected mortgage loans may be required in amounts that may reduce liquidity.

The extent cannot be estimated to which the matters described above, will be impacted, or how future developments may have a material adverse impact on the Group's net assets, operating results or cash flows in any particular period.

32. RELATED PARTY TRANSACTIONS

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

Certain funds managed by SP Coop Investments Ltd and Anchorage Illiquid Opportunities Offshore Master V L.P., collectively hold 35% of the Tier 2 debt issued by The Co-operative Bank Finance p.l.c. during 2019. The contractual features of the Tier 2 debt are set out in note 25.

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

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

Transactions with other related parties
Key management personnel are defined as the Board of Directors and Executive Committee members.

The related party transactions with key management are disclosed below:

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

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

Key management personnel

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

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

33. SHARE CAPITAL

	Group			
	2019		2018	
	No. of shares (millions)	Value	No. of shares (millions)	Value
Share capital allotted, called up and fully paid				
At the beginning and end of the year	**9,029.1**	**0.9**	9,029.1	0.9
Share premium account				
At the beginning and end of the year		**313.8**		313.8

The issued share capital of The Co-operative Bank Holdings Limited comprises 9,029,130,200 A shares (2018: 9,029,130,200) and 83 B shares (2018: 82). 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.

33. SHARE CAPITAL (continued)

	Bank			
	2019		2018	
	No. of shares (millions)	Value	No. of shares (millions)	Value
Share capital allotted, called up and fully paid				
At the beginning and end of the year	**511.5**	**25.6**	511.5	25.6
Share premium account				
At the beginning and end of the year		**2,416.9**		2,416.9

The number of ordinary shares in issue in the Bank Company at 31 December 2019 was 511,456,510 (2018: 511,456,510). The ordinary shareholders have one vote for every share held.

On 21 January 2019, The Co-operative Bank Finance p.l.c. (formerly Balloon Street Issuerco Limited) issued 9,029,130,200 shares of nominal value of £0.0001 each to the Holding Company in exchange for 100% of The Co-operative Bank p.l.c. issued share capital of 511,456,510 shares of £0.05 each, the consideration being equal to the carrying value of The Co-operative Bank p.l.c. in Holding Company's balance sheet. On 7 February 2019, Balloon Street Issuerco Limited changed its name to The Co-operative Bank Finance Limited. The Finance Company became the immediate parent of The Co-operative Bank p.l.c. from 11 February 2019, with the Holding Company remaining the ultimate parent of The Co-operative Bank p.l.c. No profit or loss was recorded on the common control transaction which was outside the scope of IFRS 3 - Business Combinations.

34. OTHER RESERVES

	Group	
	2019	2018
Fair value through other comprehensive income reserve	**4.1**	13.9
Cash flow hedging reserve	**16.7**	20.0
Capital redemption reserve	**410.0**	410.0
Capital re-organisation reserve	**1,737.5**	1,737.5
Defined benefit pension reserve	**443.4**	415.5
	2,611.7	2,596.9

	Bank	
	2019	2018
Fair value through other comprehensive income reserve	**4.1**	13.9
Cash flow hedging reserve	**16.7**	20.0
Capital redemption reserve	**410.0**	410.0
Defined benefit pension reserve	**443.4**	415.5
	874.2	859.4

35. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The fair values in this note are stated at the balance sheet date and may be significantly different from the amounts which will actually be paid on the maturity or settlement dates of the instruments. The tables below analyse the balance sheet carrying values of financial assets and liabilities by classification.

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

Fair value disclosures throughout this note have been calculated in accordance with IFRS 13, which values assets individually rather than as a portfolio or as part of a business combination.

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

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

	Bank					
		Measured at fair value				
2019	Amortised cost	FVOCI	FVTPL – designated	FVTPL – mandatorily measured	Derivatives in a hedging relationship	Total
Financial assets						
Cash and balances at central banks	2,153.5	-	-	-	-	**2,153.5**
Loans and advances to banks	474.3	-	-	-	-	**474.3**
Loans and advances to customers	17,775.2	-	141.5	1.7	-	**17,918.4**
Investment securities	95.0	1,506.4	-	4.2	-	**1,605.6**
Derivative financial instruments	-	-	-	162.8	50.5	**213.3**
Equity shares	-	-	-	44.5	-	**44.5**
Other assets	4.8	-	-	47.8	-	**52.6**
Total financial assets	**20,502.8**	**1,506.4**	**141.5**	**261.0**	**50.5**	**22,462.2**
Financial liabilities						
Deposits by banks	1,143.7	-	-	-	-	**1,143.7**
Customer accounts	18,996.9	-	-	-	-	**18,996.9**
Debt securities in issue	867.5	-	-	-	-	**867.5**
Derivative financial instruments	-	-	-	178.7	109.3	**288.0**
Amounts owed to Finance Company	204.2	-	-	-	-	**204.2**
Other liabilities	53.5	-	-	-	-	**53.5**
Total financial liabilities	**21,265.8**	**-**	**-**	**178.7**	**109.3**	**21,553.8**

	Bank					
		Measured at fair value				
2018	Amortised cost	FVOCI	FVTPL – designated	FVTPL – mandatorily measured	Derivatives in a hedging relationship	Total
Financial assets						
Cash and balances at central banks	1,843.8	-	-	-	-	1,843.8
Loans and advances to banks	485.8	-	-	-	-	485.8
Loans and advances to customers	17,583.1	-	148.5	2.3	-	17,733.9
Investment securities	89.1	1,842.4	-	3.5	-	1,935.0
Derivative financial instruments	-	-	-	130.9	61.3	192.2
Equity shares	-	-	-	26.4	-	26.4
Other assets	21.8	-	-	32.9	-	54.7
Total financial assets	20,023.6	1,842.4	148.5	196.0	61.3	22,271.8
Financial liabilities						
Deposits by banks	1,433.5	-	-	-	-	1,433.5
Customer accounts	18,735.9	-	-	-	-	18,735.9
Debt securities in issue	617.6	-	-	-	-	617.6
Derivative financial instruments	-	-	-	144.3	116.3	260.6
Other liabilities	92.1	-	-	-	-	92.1
Total financial liabilities	20,879.1	-	-	144.3	116.3	21,139.7

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

a) Use of financial assets and liabilities
The use of financial instruments is essential to the Group's and Bank's business activities, and financial instruments constitute a significant proportion of the balance sheet. The main financial instruments used and the purposes for which they are held, are outlined below:

- **Loans and advances to customers and customer accounts**
  The provision of banking facilities to customers is the primary activity of the Group and Bank, and loans and advances to customers and customer accounts are major constituents of the balance sheet. Loans and advances to customers include retail mortgages, corporate loans, credit cards, unsecured retail lending and overdrafts. Customer accounts include retail and corporate current and savings accounts.

- **Loans and advances to banks and investment securities**
  Loans and advances to banks and investment securities underpin liquidity requirements and generate incremental net interest income.

- **Deposits by banks**
  Deposits include the drawdown of Bank of England's Term Funding Scheme.

- **Debt securities in issue**
  Notes secured by mortgage assets have been issued through the Covered Bond programme.

- **Derivatives**
  A derivative is a financial instrument that derives its value from an underlying rate or price such as interest rates, exchange rates and other market prices. Derivatives are an efficient means of managing market risk and limiting counterparty exposure, and are used mainly for hedging purposes and to meet the needs of customers.

  The most frequently used derivative contracts are interest rate swaps, options, caps, floors, currency swaps and forward currency transactions. Terms and conditions are determined by using standard industry documentation. Derivatives are subject to the same market and credit risk control procedures as are applied to other wholesale market instruments and are aggregated with other exposures to monitor total counterparty exposure, which is managed within approved limits for each counterparty.

- **Other borrowed funds and amounts owed to Finance Company**
  Other borrowed funds comprise MREL qualifying Tier 2 debt. Amounts owed to Finance Company comprise the related internal MREL debt. The features of both instruments are explained in note 25. The external and internal debt was issued to meet MREL requirements.

  The amount owed to Finance Company comprises the internal MREL debt achieving structural subordination of the Tier 2 debt.

- **Foreign exchange**
  Foreign exchange dealings are undertaken to facilitate customer requirements and to economically hedge balance sheet exposure to foreign currencies. The risk is managed formally within position limits which are set by the Assets and Liabilities Committee (ALCo), to which authority is delegated by the Board.

b) Valuation of financial assets and liabilities measured at fair value
The carrying values of financial assets and liabilities measured at fair value are determined in compliance with the accounting policies set out in the Explanatory Information and analysed in the following tables by the three level fair value hierarchy defined as follows:
- Level 1 – Quoted market prices in active markets;
- Level 2 – Valuation techniques using observable inputs;
- Level 3 – Valuation techniques using unobservable inputs.

There were no transfers between levels during the year.

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

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

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

Key considerations in the calculation of fair values for financial assets and liabilities measured at fair value are as follows:

Level 1 – Quoted market prices in active markets
Financial instruments with quoted prices for identical instruments in active markets. The best evidence of fair value is a quoted market price in an actively traded market.

Level 2 – Valuation techniques using observable inputs
Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

The valuation techniques used to value these instruments employ only observable market data and relate to the following assets and liabilities:

- **Loans and advances to customers**
  Loans and advances to customers primarily comprise of corporate loans of £127.7m as at 31 December 2019 (2018: £131.7m) which are fair valued through profit or loss using observable inputs. Loans held at fair value are valued at the sum of all future expected cash flows, discounted using a yield curve based on observable market inputs.

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

- **Derivative financial instruments**
  Over-the-counter (i.e. non-exchange traded) derivatives are valued using valuation models which are based on observable market data. Valuation models calculate the present value of expected future cash flows, based upon 'no arbitrage' principles. The Group and Bank enter into vanilla foreign exchange and interest rate swap derivatives, for which modelling techniques are standard across the industry. Examples of inputs that are generally observable include foreign exchange spot and forward rates, and benchmark interest rate curves.

Level 3 – Valuation techniques using unobservable inputs
This is used for financial instruments valued using models where one or more significant inputs are not observable.

The proportion of financial assets valued based on significant unobservable inputs are analysed as follows:

- **Investment securities**
  Investment securities comprise of RMBS of £69.9m (FVOCI) and £4.2m (FVTPL – mandatorily measured) as at 31 December 2019 (2018: FVOCI: £399.3m and FVTPL £3.5m). An independent third party valuation agent is used to provide prices for the rated RMBS obtained from large financial institutions. These prices are indicative values only and do not represent an offer to purchase the securities. These RMBS represent the Group's and Bank's interests in unconsolidated structured entities.

  A 1% increase or decrease in the price of the notes will result in the value increasing or decreasing by approximately £0.7m respectively.

- **Equity shares**
  Equity shares comprise of US Dollar-denominated convertible preference shares in Visa International, which are classified as FVTPL – designated, with any movements in fair value being recognised through profit or loss. The fair value of the Visa International shares has been calculated by taking the period end NYSE share price and discounting for illiquidity and clawback.

  If the illiquidity premium to the discount rate was increased by an absolute 10%, it would result in a reduction in the overall fair value of the equity shares of £6.3m (14%) as at 31 December 2019.

- **Other assets**
  Other assets comprise of the Surrendered Loss Debtor of £47.8m as at 31 December 2019 (2018: £32.9m). 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 the 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 consolidated financial statements. The premium is calculated applying risk parameter estimation theory using observable inputs from related (but not identical) financial instruments or indices.

- **Investment properties**
  Investment properties within level 3 are valued by using recent valuations of individual assets within the portfolio, index linked to the balance sheet date using the relevant house price index.

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

	Group and Bank					
2019	Fair value at the beginning of the year	Purchases and transfers in	Sales, transfers out and repayments	Other comprehensive income	Income statement	Fair value at the end of the year
Loans and advances to customers	5.1	-	(1.2)	-	(0.2)	**3.7**
Investment securities	402.8	-	(328.2)	(1.9)	1.4	**74.1**
Equity shares	26.0	-	-	-	18.1	**44.1**
Investment properties	2.3	-	(0.5)	-	-	**1.8**
Other assets	32.9	-	0.3	-	14.6	**47.8**
	469.1	**-**	**(329.6)**	**(1.9)**	**33.9**	**171.5**

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

	Group and Bank					
2018	Fair value at the beginning of the year	Purchases and transfers in	Sales, transfers out and repayments	Other comprehensive income	Income statement	Fair value at the end of the year
Loans and advances to customers	6.4	-	(1.3)	-	-	5.1
Investment securities	823.5	-	(410.1)	(11.6)	1.0	402.8
Equity shares	24.0	-	-	-	2.0	26.0
Investment properties	2.3	-	(0.1)	-	0.1	2.3
Other assets	55.7	-	5.3	-	(28.1)	32.9
	911.9	-	(406.2)	(11.6)	(25.0)	469.1

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

The carrying values of financial assets and liabilities measured at amortised cost are determined in compliance with the accounting policies in the Explanatory Information to the consolidated financial statements and their fair values are analysed in the following tables by the three level fair value hierarchy set out above. There were no transfers between level 1 and 2 during the year.

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

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

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

	Bank					
		Fair value				
2019	Total carrying value	Level 1	Level 2	Level 3	Items where fair value approximates carrying value	Total
Financial assets						
Cash and balances at central banks	**2,153.5**	-	-	-	2,153.5	**2,153.5**
Loans and advances to banks	**474.3**	-	-	-	474.3	**474.3**
Loans and advances to customers	**17,775.2**	-	-	16,613.6	1,070.3	**17,683.9**
Investment securities	**95.0**	-	-	95.4	-	**95.4**
Other assets	**4.8**	-	-	-	4.8	**4.8**
Financial liabilities						
Deposits by banks	**1,143.7**	-	1,145.0	-	2.4	**1,147.4**
Customer accounts	**18,996.9**	-	-	3,612.4	15,401.7	**19,014.1**
Debt securities in issue	**867.5**	633.2	-	-	-	**633.2**
Amounts owed to Finance Company	**204.2**	-	203.9	-	-	**203.9**
Other liabilities	**53.5**	-	-	-	53.5	**53.5**

	Bank					
		Fair value				
2018	Total carrying value	Level 1	Level 2	Level 3	Items where fair value approximates carrying value	Total
Financial assets						
Cash and balances at central banks	1,843.8	-	-	-	1,843.8	1,843.8
Loans and advances to banks	485.8	-	-	-	485.8	485.8
Loans and advances to customers	17,583.1	-	-	16,112.3	1,291.2	17,403.5
Investment securities	89.1	-	-	87.3	-	87.3
Other assets	21.8	-	-	-	21.8	21.8
Financial liabilities						
Deposits by banks	1,433.5	-	1,436.4	-	2.5	1,438.9
Customer accounts	18,735.9	-	-	4,163.0	14,582.2	18,745.2
Debt securities in issue	617.6	640.8	-	-	-	640.8
Other liabilities	92.1	-	-	-	92.1	92.1

Key considerations in the calculation of fair values of financial instruments measured at amortised cost are as follows:

Level 1 – Quoted market prices in active markets
Financial instruments with quoted prices for identical instruments in active markets. The best evidence of fair value is a quoted market price in an actively traded market.

Level 2 – Valuation techniques using observable inputs
Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

The valuation techniques used to value these instruments employ only observable market data and relate to the following assets and liabilities:

- **Loans and advances to banks/deposits by banks**
  Loans and advances to banks comprise of interbank placements and items in the course of collection.

  The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and remaining maturity. The amortised cost value of all other loans and advances to banks and deposits by banks are deemed to be a close approximation of their fair value due to their short maturity.

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

- **Other Borrowed funds and amounts owed to the Finance Company**
  In 2019, the Group issued Tier 2 notes which are recognised in other borrowed funds as detailed in note 25 of the consolidated financial statements. The internal MREL is recognised by Bank Company as amounts owed to the Finance Company (parent). The fair value of the notes is based on quoted market prices.

Level 3 – Valuation techniques using unobservable inputs
This is used for financial instruments valued using models where one or more significant inputs are not observable.

The proportion of financial assets valued based on significant unobservable inputs are analysed as follows:

- **Loans and advances to customers**
  The fair value of loans and advances to customers in total is 99.5 % of the carrying value as at 31 December 2019 (2018: 99.0 %). The increase in 2019 is due to a combination of the growth of higher-valued retail mortgages and reduction of the lower-valued Optimum mortgages and corporate loans.

The overall fair value is less than par primarily due to two main factors:
  - Customer interest rates are below the market rate for the period until expected maturity or the repricing date, if earlier; and
  - Credit risk adjustments due to incurred and expected future credit losses.

  Fixed rate loans and advances to customers are revalued to fair value based on future interest cash flows (at funding rates) and principal cash flows discounted using an appropriate market rate. The market rate applied in the calculation is the average market rate for new originations of loans with similar characteristics to the book of loans being valued, and reflects the current low interest rate environment. This rate is assumed to encompass the time value of money, plus a risk premium to account for the inherent uncertainty in the timing and amount of future cash flows arising from a book of loan assets.

  Forecast principal repayments are based on redemption at the earlier of maturity or re-pricing date with some overlay for historical behavioural experience where relevant. The eventual timing of future cash flows may be different from the forecast due to unpredictable customer behaviour. It is assumed that there would be no other factors which market participants would take into account when assessing the fair value of the loan assets. It is assumed that there is no fair value adjustment required in respect of interest rate movement on standard variable rate loan assets, as the interest rate being charged is assumed to be equal to the market rate for those loan assets.

  Other reporting entities may use different valuation methodologies and assumptions in determining fair values for which no observable market prices are available.

- **Investment securities**
  Investment securities comprise of:
  - RMBS measured at amortised cost of £84.7m as at 31 December 2019 (2018: £77.1m), being a 5 % regulatory holding of the rated notes of the Warwick Finance Three and Four unconsolidated structured entities. The remaining 95 % is privately held therefore there are no available market prices. An in-house model is used that sources independent market data for disclosure purposes only.
  - Securities measured at amortised cost of £10.3m as at 31 December 2019 (2018: £12.0m) as the quoted price is in an inactive market.

- **Customer accounts**
  The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits and other borrowings without quoted market prices is based on future interest cash flows (at funding rates) and principal cash flows, discounted using an appropriate market rate.

d) Fair value of transferred assets and associated liabilities

Securitisation vehicles
When the sale of the loans and advances to customers to certain securitisation vehicles fails to meet the derecognition criteria, then these loans remain on the balance sheet. Therefore a deemed loan financial liability is recognised on the balance sheet and an equivalent deemed loan asset is held on each securitisation company's balance sheet. The deemed loans are repaid as and when principal repayments are made by customers against these transferred loans and advances, and when the securitisations unwind.

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

The securitisation vehicles have issued floating rate notes which are secured on the loans and advances to customers. Prior to the call dates, the notes are redeemable in part, such redemptions being limited to the net capital received from mortgagors in respect of the underlying assets.

Substantially all of the risks and rewards of ownership are retained. The Group benefits to the extent to which surplus income generated by the transferred mortgage portfolios exceeds the administration costs of those mortgages, whilst continuing to bear the credit risk of these mortgage assets, on account of holding subordinated notes issued by the securitisation vehicles.

In 2017 and 2019, £1.4bn and £598m of mortgages were sold beneficially to Silk Road Finance Number Four plc and Silk Road Finance Number Five plc respectively. The issued notes from the securitisation were all retained and therefore are not shown in the consolidated balance sheet.

In 2019 a further £759m of mortgages were beneficially sold to Silk Road Finance Number Six plc, of which £509m notes value was retained and £250m notes value was externally sold.

Covered bond Limited Liability Partnerships
Moorland Covered Bonds LLP was established as a result of a £1.4bn covered bond retained issuance. Loans and advances to customers of £1.9bn were transferred to Moorland Covered Bonds LLP. The transfer was funded by a loan of £1.4bn and capital contribution of £0.5bn. During October 2011 the £1.4bn loan was repaid. Following additional capital contribution repayment and on achieving Regulated Covered Bond status there was a public issuance of notes in November 2011 totalling £0.6bn. At year end the Group held a loan of £0.6bn (2018: £0.6bn) and a capital contribution of £0.8bn (2018: £0.6bn) with Moorland Covered Bonds LLP.

Moorland Covered Bonds LLP does not have ordinary share capital. The Group's interest in Moorland Covered Bonds LLP is in substance no different from a wholly owned subsidiary and consequently it is fully consolidated. The table below shows the carrying values and fair values of the assets transferred to the covered bond and their associated liabilities:

	Group and Bank				
Moorland Covered Bonds LLP	Carrying amount of transferred loans and advances to customers	Carrying amount of fixed and floating rate notes	Fair value of transferred loans and advances to customers	Fair value of fixed and floating rate notes	Net fair value position
2019	**1,326.0**	**599.0**	**1,324.4**	**629.6**	**694.8**
2018	1,173.6	598.5	1,176.0	655.6	520.4

Assets pledged
Assets are pledged as collateral under repurchase agreements with other banks. These assets are not available to finance the Group's day-to-day operations.

	Group and Bank				
Investments securities sold under repurchase agreements	Carrying amount of assets not derecognised	Carrying amount of associated liabilities	Fair value of assets not derecognised	Fair value of associated liabilities	Net fair value position
2019	**187.8**	**179.1**	**187.8**	**179.1**	**8.7**
2018	504.4	468.8	504.4	468.8	35.6

Associated liabilities are included within deposits by banks.

Assets sold under repurchase agreements include mortgage backed securities (£187.8m of assets and associated liabilities of £150.7m) and UK government gilts and a European Investment Bank (EIB) bond (£nil assets and associated liabilities of £28.5m).

36. INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES

On 23 August 2019 a further £304m Optimum retail secured mortgages were sold to Warwick Finance Four. As a result of this sale, the Group was no longer exposed to substantially all of the risks and rewards associated with the mortgages and accordingly the mortgages were derecognised from the Group's balance sheet. Warwick Finance Four has not been included within the consolidated results or position of the Group as it does not have the ability to affect variable returns through power over Warwick Finance Four.

The tables below represent the continuing involvement in securitisations where assets are transferred to an unconsolidated SPE, but some of the notes issued by the SPE are retained. These are notes issued by Warwick Finance One, Two, Three and Four and a residual interest in Warwick Finance Three and Four. These notes are reported as investment securities. Warwick Finance One and Two are classified as Fair Value through Other Comprehensive Income, Warwick Finance Three and Four have been classified as amortised cost, and the residual interest in Warwick Finance Three and Four have been classified as fair value through profit or loss. The maximum exposure to loss is the carrying value of these instruments.

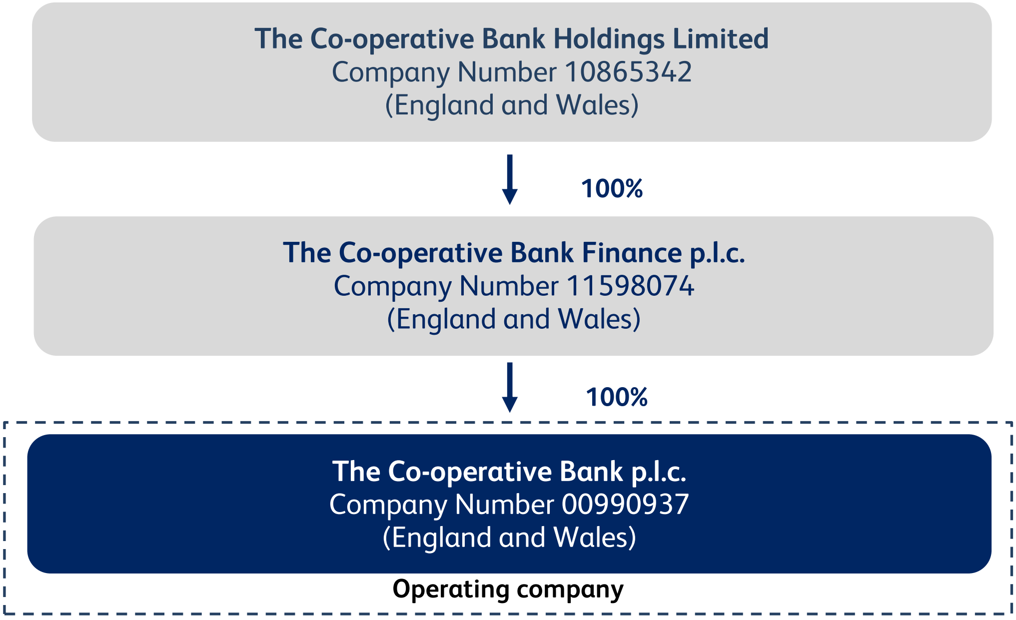
	Group and Bank				
	Carrying amount of continuing involvement in statement of financial position		Fair value of continuing involvement		Maximum exposure to loss
	Assets	Liabilities	Assets	Liabilities	
2019	**158.8**	**-**	**158.8**	**-**	**158.8**
2018	480.0	-	478.8	-	480.0

	Group and Bank				
	Gain or loss recognised at transfer date	Gain or loss recognised on sale	Interest income/(expense) recognised in the year	Fair value movement recognised in OCI	Income/(expense) recognised cumulatively
2019	**-**	**2.0**	**7.3**	**(1.9)**	**9.3**
2018	-	2.6	14.4	(11.6)	17.0

37. EVENTS AFTER THE BALANCE SHEET DATE

There are no post balance sheet events to report.

Financial Statements of The Co-operative Bank p.l.c. (Bank Company)



The co-operative bank
for people with purpose

BALANCE SHEET

At 31 December 2019

£million

	Note	2019	2018
Assets			
Cash and balances at central banks	3	**2,153.5**	1,843.8
Loans and advances to banks	4	**345.6**	380.4
Loans and advances to customers	5	**17,811.1**	17,614.3
Fair value adjustments for hedged risk		**72.6**	53.4
Investment securities	6	**3,282.4**	2,744.5
Derivative financial instruments	7	**188.1**	165.4
Property, plant and equipment classified as held-for-sale		**0.8**	3.9
Equity shares	8	**44.5**	26.4
Investments in subsidiaries/group undertakings	23	**43.0**	49.4
Investment properties		**1.8**	2.3
Other assets	9	**43.0**	39.9
Prepayments	10	**21.6**	31.8
Property, plant and equipment	11	**38.6**	40.8
Intangible assets	12	**75.3**	72.4
Right-of-use assets	13	**72.3**	-
Amounts owed by Co-operative Bank undertakings	25	**1,469.0**	1,306.4
Deferred tax assets	19	**-**	-
Net retirement benefit asset	20	**690.2**	623.5
Total assets		**26,353.4**	24,998.6

	Note	2019	2018
Liabilities			
Deposits by banks	14	**1,143.7**	1,433.5
Customer accounts		**18,997.2**	18,736.4
Debt securities in issue	15	**602.4**	601.5
Derivative financial instruments	7	**278.9**	256.7
Amounts owed to Co-operative Bank undertakings	25	**3,225.5**	1,979.1
Lease liabilities	13	**71.2**	-
Other liabilities	16	**52.7**	85.3
Accruals and deferred income	17	**58.4**	49.8
Provisions	18	**86.8**	103.0
Amounts due to Finance Company	25	**204.2**	-
Deferred tax liabilities	19	**43.3**	38.7
Net retirement benefit liability	20	**8.6**	7.6
Total liabilities		**24,772.9**	23,291.6

	Note	2019	2018
Capital and reserves attributable to the Bank Company's equity holders			
Ordinary share capital	21	**25.6**	25.6
Share premium account	21	**2,416.9**	2,416.9
Retained earnings		**(1,736.2)**	(1,594.9)
Other reserves	22	**874.2**	859.4
Total equity		**1,580.5**	1,707.0
Total liabilities and equity		**26,353.4**	24,998.6

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

Net loss attributable to equity shareholders was £141.3m (2018: loss £73.8m).

The notes on pages 203 to 221 form part of the Bank Company financial statements.

Approved by the Board of The Co-operative Bank p.l.c. on 26 February 2020:

Robert Dench
Chair of the Board

Andrew Bester
Chief Executive Officer

THE CO-OPERATIVE BANK PLC FINANCIAL STATEMENTS (BANK COMPANY-ONLY)
STATEMENT OF CASHFLOWS
For year ended 31 December 2019

£million

	Note	2019	2018
Cash flows used in operating activities:			
Loss before taxation		**(143.6)**	(142.8)
Adjustments for non-cash movements:			
Non-cash movements on pension		**(13.9)**	4.4
Net credit impairment gains		**(1.8)**	(5.4)
Depreciation, amortisation and impairment of property, equipment, right-of-use assets and intangibles		**42.8**	33.5
Other non-cash movements including exchange rate movements		**89.4**	105.6
Net impairment of investment in subsidiaries		**1.4**	2.2
Changes in operating assets and liabilities:			
(Decrease)/increase in deposits by banks		**(289.8)**	310.8
Decrease/(increase) in prepayments and accrued income		**8.1**	(7.2)
Increase/(decrease) in accruals and deferred income		**8.6**	(10.1)
Increase/(decrease) in customer accounts		**259.3**	(1,899.3)
Increase in debt securities in issue		**0.9**	0.8
Increase in loans and advances to banks		**(17.2)**	(16.6)
Increase in loans and advances to customers		**(223.2)**	(1,015.5)
(Increase)/decrease in amounts owed by Co-operative Bank undertakings		**(138.3)**	15.8
Increase/(decrease) in amounts owed to Co-operative Bank undertakings		**173.4**	(526.6)
Net movement of other assets and other liabilities		**(182.5)**	(70.3)
Income tax received		**-**	-
Net cash flows used in operating activities		**(426.4)**	(3,220.7)
Cash flows from investing activities:			
Purchase of tangible and intangible assets		**(34.5)**	(24.4)
Purchase of investment securities		**(1,081.8)**	(462.6)
Proceeds from sale of property and equipment		**5.9**	0.5
Proceeds from sale of shares and other interests		**13.2**	-
Proceeds from sale and maturity of investment securities		**1,603.1**	1,415.9
Proceeds from sale of joint venture		**-**	0.7
Proceeds from sale of investment properties		**0.5**	-
Dividends received		**0.7**	5.9
Net cash flows from investing activities		**507.1**	936.0
Cash flows from financing activities:			
Proceeds from issuance of Tier 2 notes		**197.3**	-
Interest paid on Tier 2 notes		**(9.5)**	-
Lease liability principal payments		**(10.8)**	-
Net cash flows from financing activities		**177.0**	-
Net increase/(decrease) in cash and cash equivalents		**257.7**	(2,284.7)
Cash and cash equivalents at the beginning of the year		**2,170.0**	4,454.7
Cash and cash equivalents at the end of the year		**2,427.7**	2,170.0
Comprising of:			
Cash and balances at central banks	3	**2,094.6**	1,789.6
Loans and advances to banks	4	**333.1**	380.4
		2,427.7	2,170.0

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

RECONCILIATION OF MOVEMENTS OF LIABILITIES TO CASHFLOWS ARISING FROM FINANCING ACTIVITIES

For year ended 31 December 2019

£million

	2019			2018
	Lease liabilities	Amounts owed to Finance Company	Total	Total
Balance at the beginning of the year	-	-	-	-
Changes from financing cash flows:				
Proceeds from issuance of Tier 2 notes	-	197.3	**197.3**	-
Interest paid on Tier 2 notes	-	(9.5)	**(9.5)**	-
Lease liability principal payments	(10.8)	-	**(10.8)**	-
	(10.8)	**187.8**	**177.0**	-
Other changes:				
Interest payable on lease liabilities and Tier 2 notes	2.5	13.0	**15.5**	
Other non-cash movements	-	3.4	**3.4**	-
Recognition of lease liabilities	79.5	-	**79.5**	-
Balance at the end of the year	**71.2**	**204.2**	**275.4**	-

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

Lease liabilities arise from the adoption of IFRS 16 which came into force in 2019. In 2018, the Bank Company did not have any liabilities associated with financing activities.

STATEMENT OF CHANGES IN EQUITY

For year ended 31 December 2019

£million

	Attributable to equity holders of the Bank Company							
2019	**Share capital**	**Share premium**	**FVOCI reserve**	**Cash flow hedging reserve**	**Capital redemption reserve**	**Defined benefit pension reserve**	**Retained earnings**	**Total equity**
At 1 January 2019	25.6	2,416.9	13.9	20.0	410.0	415.5	(1,594.9)	**1,707.0**
Total comprehensive (expense)/income for the year	-	-	(9.8)	(3.3)	-	27.9	(141.3)	**(126.5)**
At 31 December 2019	**25.6**	**2,416.9**	**4.1**	**16.7**	**410.0**	**443.4**	**(1,736.2)**	**1,580.5**

	Attributable to equity holders of the Bank Company								
2018	**Share capital**	**Share premium**	**Available for sale reserve**	**FVOCI reserve**	**Cash flow hedging reserve**	**Capital redemption reserve**	**Defined benefit pension reserve**	**Retained earnings**	**Total equity**
As reported 31 December 2017	25.6	2,416.9	24.8	-	29.9	410.0	70.8	(1,514.4)	1,463.6
IFRS 9 transition adjustments	-	-	(24.8)	18.4	-	-	-	(6.7)	(13.1)
At 1 January 2018 adjusted for IFRS 9	25.6	2,416.9	-	18.4	29.9	410.0	70.8	(1,521.1)	1,450.5
Total comprehensive (expense)/income for the year	-	-	-	(4.5)	(9.9)	-	344.7	(73.8)	256.5
At 31 December 2018	25.6	2,416.9	-	13.9	20.0	410.0	415.5	(1,594.9)	1,707.0

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

The notes on pages 203 to 221 form part of the Bank Company financial statements.

All amounts are stated in £m unless otherwise indicated.

1. BASIS OF PREPARATION

The Co-operative Bank p.l.c. (Bank Company) was incorporated in the UK and is a limited company, registered in England and Wales.

The Bank Company financial statements have been prepared under the historic cost convention and approved by the Directors in accordance with IFRS as issued by the International Accounting Standards Board, and as adopted by the European Union.

On including its financial statements within the Group's Annual Report and Accounts, the Bank Company is taking advantage of the exemption in Section 408 of the Companies Act 2006 not to present its individual income statement and related notes.

Accounting policies outlined in note 1 to the Group and Bank consolidated financial statements and the Explanatory Information on pages 242 to 251 also apply to the Bank Company. The preparation of financial information requires management to make judgements and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The critical judgements and estimates for the Bank Company are the same as those set out in note 2 to the Group and Bank consolidated financial statements.

2. NET LOSS ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE BANK COMPANY

By including the Bank Company financial statements here together with the consolidated Bank financial statements, the Bank Company is taking advantage of the exemption in Section 408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these financial statements.

	2019	2018
Net loss attributable to equity shareholders of the Bank Company	**(141.3)**	(73.8)

3. CASH AND BALANCES AT CENTRAL BANKS

	2019	2018
Cash in hand	**14.6**	14.2
Items in transit	**(21.9)**	(27.3)
Balances with the Bank of England other than mandatory reserve deposits	**2,101.9**	1,802.7
Included in cash and cash equivalents	**2,094.6**	1,789.6
Mandatory reserve deposits with the Bank of England	**58.9**	54.2
Total cash and balances at central banks	**2,153.5**	1,843.8

Mandatory reserve deposits are not available for use in the day-to-day operations, are non-interest bearing and are not included in cash and cash equivalents. Items in transit represent unpresented cheques awaiting clearance.

4. LOANS AND ADVANCES TO BANKS

	2019	2018
Items in course of collection from other banks	**1.2**	2.4
Placements with other banks[1]	**331.9**	378.0
Included in cash and cash equivalents	**333.1**	380.4
Other loans and advances to banks	**12.5**	-
Total loans and advances to banks	**345.6**	380.4

1. Obligatory netting arrangements are in place for repos and reverse repos transactions. As a result, the amount reduced by netting is £150.0m (2018: £100.0m), with the opposing impact in Deposits by banks.

An expected credit loss of £nil was recorded as at 31 December 2019 (2018: £nil) in relation to loans and advances to banks.

5. LOANS AND ADVANCES TO CUSTOMERS

a) Analysis of the balance sheet

	2019	2018
Gross loans and advances	**17,837.5**	17,666.0
Less: allowance for losses	**(26.4)**	(51.7)
Total loans and advances to customers net of allowances for losses	**17,811.1**	17,614.3

Loans and advances to customers include £140.0m (2018: £144.7m) of financial assets at fair value through profit or loss to eliminate or significantly reduce a measurement or recognition inconsistency. Of these, £60.7m (2018: £63.5m) are secured by real estate collateral.

For further details on transferred assets, refer to note 24 of the Bank Company financial statements.

Further details are set out in note 27, Analysis of credit risk exposure.

b) Concentration of exposure

Exposure is only within the UK. Further information on the concentration of exposure is included within section 3.2 of the risk management disclosures.

c) Analysis of allowance for impairment losses

	Retail	SME	Legacy & unallocated	Total
At 1 January 2019	20.8	20.8	10.1	**51.7**
Changes arising from stage transfers:				
To lifetime ECL (stage 1 to 2 or 3)	2.1	-	0.3	**2.4**
To credit impaired (stage 1 or 2 to 3)	4.1	0.1	0.7	**4.9**
To 12 month ECL (stage 2 or 3 to 1)	(0.7)	-	(0.3)	**(1.0)**
From credit impaired (stage 3 to 2)	(0.7)	-	(0.1)	**(0.8)**
Net changes arising from stage transfers	**4.8**	**0.1**	**0.6**	**5.5**
Other charges/(releases):				
New assets originated or purchased	2.0	-	-	**2.0**
Other changes to risk parameters[1]	(4.4)	(2.2)	-	**(6.6)**
Changes to model used for ECL calculation	(1.0)	-	(0.4)	**(1.4)**
Others[2]	1.3	-	-	**1.3**
Net other charges/(releases)	**2.7**	**(2.1)**	**0.2**	**0.8**
Assets written off	(6.2)	(13.4)	(3.8)	**(23.4)**
Warwick 4 loss on sale release	-	-	(2.7)	**(2.7)**
At 31 December 2019	**17.3**	**5.3**	**3.8**	**26.4**

1. Includes repayments and changes due to other model inputs.
2. The £1.3m increase in retail unsecured ECL relates to refinement of data inputs.

	Retail	SME	Legacy & unallocated	Total
At 1 January 2018	19.1	31.6	29.1	79.8
Changes arising from stage transfers:				
To lifetime ECL (stage 1 to 2 or 3)	1.1	-	0.2	1.3
To credit impaired (stage 1 or 2 to 3)	4.0	0.1	0.8	4.9
To 12 month ECL (stage 2 or 3 to 1)	(0.3)	(0.2)	(0.5)	(1.0)
From credit impaired (stage 3 to 2)	(1.5)	(0.3)	(0.6)	(2.4)
Net changes arising from stage transfers	3.3	(0.4)	(0.1)	2.8
Other charges/(releases):				
New assets originated or purchased	2.7	-	-	2.7
Other changes to risk parameters	2.4	(7.6)	(1.9)	(7.1)
Net other charges/(releases)	8.4	(8.0)	(2.0)	(1.6)
Assets written off	(6.7)	(2.8)	(17.0)	(26.5)
At 31 December 2018	20.8	20.8	10.1	51.7

5. LOANS AND ADVANCES TO CUSTOMERS (continued)

d) Analysis of income statement

	2019	2018
Net other (charges)/releases	**(0.8)**	1.6
Amounts recovered against amounts previously written off	**1.5**	1.9
Adjustment to recognise interest on stage 3 assets based on their net carrying value	**1.1**	1.8
Provision against fair value adjustments for hedged risk	**-**	0.1
Net impairment gain for the year	**1.8**	5.4

Provisions are analysed by segment in the risk management disclosures.

e) Finance lease receivables

	2019	2018
Gross investment in finance leases may be analysed as follows:		
No later than one year	**1.7**	1.7
Later than one year and no later than five years	**6.7**	6.7
Later than five years	**8.1**	9.8
Gross investment in finance leases	**16.5**	18.2
Unearned future finance income on finance leases	**(4.8)**	(5.5)
Net investment in finance leases	**11.7**	12.7
The net future finance leases may be analysed as follows:		
No later than one year	**1.1**	1.0
Later than one year and no later than five years	**4.6**	4.5
Later than five years	**6.0**	7.2
	11.7	12.7

The unguaranteed residual value of the finance leases is £nil (2018: £nil). Finance lease arrangements are with customers in a wide range of sectors including transport, retail and utilities.

6. INVESTMENT SECURITIES

Analysis of investment securities

	31 December 2019				31 December 2018			
	Amortised cost	FVOCI	FVTPL	Total	Amortised cost	FVOCI	FVTPL	Total
Listed	**1,456.0**	**1,506.4**	**4.2**	**2,966.6**	774.8	1,842.4	3.5	2,620.7
Unlisted	**315.8**	**-**	**-**	**315.8**	123.8	-	-	123.8
Gross and net investment securities	**1,771.8**	**1,506.4**	**4.2**	**3,282.4**	898.6	1,842.4	3.5	2,744.5

Movement in investment securities

	2019				2018			
	Amortised cost	FVOCI	FVTPL	Total	Amortised cost	FVOCI	FVTPL	Total
At the beginning of the year	**898.6**	**1,842.4**	**3.5**	**2,744.5**	1,450.0	2,283.2	4.5	3,737.7
Acquisitions	**1,121.9**	**1,032.7**	**0.2**	**2,154.8**	-	462.6	-	462.6
Disposals and maturities	**(249.3)**	**(1,351.7)**	**-**	**(1,601.0)**	(551.1)	(862.0)	-	(1,413.1)
Fair value movements through equity	**-**	**(12.3)**	**-**	**(12.3)**	-	(5.0)	-	(5.0)
Fair value through profit or loss	**-**	**(2.9)**	**0.5**	**(2.4)**	-	(35.0)	(1.0)	(36.0)
Amortisation	**-**	**1.9**	**-**	**1.9**	-	1.1	-	1.1
Movement in interest accrual	**0.6**	**(3.7)**	**-**	**(3.1)**	(0.3)	(2.5)	-	(2.8)
At the end of the year	**1,771.8**	**1,506.4**	**4.2**	**3,282.4**	898.6	1,842.4	3.5	2,744.5

Included in investment securities are repurchase receivables of £nil (2018: £329.4m). These receivables are gilts subject to repurchase transactions where the transferee has the ability to re-pledge or sell the assets. See note 31 to the Group and Bank consolidated financial statements for details of encumbered and pledged assets.

6. INVESTMENT SECURITIES (continued)

Analysis of investment securities by issuer

	2019	2018
Investment securities issued by public bodies:		
Government securities	**925.9**	926.6
Other public sector securities	**242.3**	309.1
	1,168.2	1,235.7
Other debt securities:		
Other floating rate notes	**268.3**	207.3
Mortgage backed securities	**1,845.9**	1,301.5
	2,114.2	1,508.8
Total investment securities by issuer	**3,282.4**	2,744.5

Other floating-rate notes (FRNs) are sterling denominated, with contractual maturities ranging from over one year to seven years from the balance sheet date.

7. DERIVATIVE FINANCIAL INSTRUMENTS

Various derivatives have been entered into to manage interest rate risk, some of which are held in a qualifying hedge accounting relationship (see the risk management section for more details on interest rate risk management strategies). Positive and negative fair values have not been netted off as there is not a legal right of offset.

Non-trading derivatives
Non-trading transactions comprise derivatives held for hedging purposes to manage the asset and liability positions of the Bank Company. Derivatives used to manage interest rate related positions include swaps, caps and floors and forward rate agreements. The foreign exchange rate positions are managed using forward currency transactions and swaps.

	Fair value			
	2019		2018	
	Assets	Liabilities	Assets	Liabilities
Derivatives held for non-trading purposes				
Derivatives designated as cash flow hedges:				
Interest rate swaps	**23.1**	**(2.9)**	32.7	(9.8)
Derivatives designated as fair value hedges:				
Interest rate swaps	**9.2**	**(106.4)**	10.3	(106.5)
Derivatives held for non-trading purposes for which hedge accounting has not been applied:				
Interest rate swaps	**155.6**	**(169.6)**	122.4	(140.1)
Forward currency transactions	**0.2**	**-**	-	(0.3)
Total derivative assets/(liabilities) held for non-trading purposes	**188.1**	**(278.9)**	165.4	(256.7)
Total recognised derivative assets/(liabilities)	**188.1**	**(278.9)**	165.4	(256.7)

The derivatives designated as cash flow hedges are interest rate swaps used to hedge interest rate risk in retail operations. Cash flows are hedged by quarterly time periods for durations up to six years. During the year, there were no forecast transactions for which hedge accounting had previously been used but are no longer expected to occur.

In line with industry standards, credit valuation adjustments (CVAs) and debit valuation adjustments (DVAs) are applied to non-collateralised swaps representing the fair value measurement of counterparty risk. The net credit adjustment across the portfolio at the end of 2019 was (£0.4m) (2018: £0.6m). CVAs and DVAs are not applied to derivatives that are fully cash collateralised.

8. EQUITY SHARES

The Directors have considered the information disclosed in the consolidated financial statements of the Bank and consider the same information to be relevant for the Bank Company. Accordingly, since there is no difference in relation to the Bank and Bank Company, we refer to the disclosures in note 17 to the Group and Bank consolidated financial statements.

9. OTHER ASSETS

	2019			2018		
	Amortised cost	Mandatorily measured at FVTPL	Total	Amortised cost	Mandatorily measured at FVTPL	Total
Amounts recoverable within one year						
Other assets	**5.1**	**-**	**5.1**	9.2	-	9.2
Surrendered Loss Debtor	**-**	**0.1**	**0.1**	-	1.1	1.1
Deferred consideration receivable	**-**	**-**	**-**	4.5	-	4.5
	5.1	**0.1**	**5.2**	13.7	1.1	14.8
Amounts recoverable after more than one year						
Surrendered Loss Debtor	**-**	**37.8**	**37.8**	-	25.1	25.1
	-	**37.8**	**37.8**	-	25.1	25.1
	5.1	**37.9**	**43.0**	13.7	26.2	39.9

10. PREPAYMENTS

	2019	2018
Amounts recoverable within one year	**20.2**	30.9
Amounts recoverable after more than one year	**1.4**	0.9
	21.6	31.8

11. PROPERTY, PLANT AND EQUIPMENT

The Directors have considered the information disclosed in the consolidated financial statements of the Bank and consider the same information to be relevant for the Bank Company. Accordingly, since there is no difference in relation to the Bank and Bank Company, we refer to the disclosures in note 20 to the Group and Bank consolidated financial statements.

12. INTANGIBLE ASSETS

The Directors have considered the information disclosed in the consolidated financial statements of the Bank and consider the same information to be relevant for the Bank Company. Accordingly, since there is no difference in relation to the Bank and Bank Company, we refer to the disclosures in note 21 to the Group and Bank consolidated financial statements.

13. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The Directors have considered the information disclosed in the consolidated financial statements of the Bank and consider the same information to be relevant for the Bank Company. Accordingly, since there is no difference in relation to the Bank and Bank Company, we refer to the disclosures in note 22 to the Group and Bank consolidated financial statements.

14. DEPOSITS BY BANKS

The Directors have considered the information disclosed in the consolidated financial statements of the Bank and consider the same information to be relevant for the Bank Company. Accordingly, since there is no difference in relation to the Bank and Bank Company, we refer to the disclosures in note 23 to the Group and Bank consolidated financial statements.

15. DEBT SECURITIES IN ISSUE

Debt securities in issue comprise a secured covered bond of £600.0m at a coupon of 4.75 %, having a maturity date in November 2021 and requires the Group to pay interest annually and repay contractual amounts due on the specified maturity date.

16. OTHER LIABILITIES

	2019	2018
Amounts falling due within one year		
Amounts due to beneficiary banks	**29.9**	57.8
Other creditors	**22.8**	24.7
	52.7	82.5
Amounts falling due after one year		
Other creditors	**-**	2.8
	-	2.8
	52.7	85.3

17. ACCRUALS AND DEFERRED INCOME

	2019	2018
Amounts falling due within one year		
Accruals	**41.0**	41.1
Deferred income	**9.5**	0.3
	50.5	41.4
Amounts falling due after one year		
Accruals	**1.1**	6.9
Deferred income	**6.8**	1.5
	7.9	8.4
	58.4	49.8

18. PROVISIONS

2019	Property	PPI	Conduct/ legal	Other	Total
At 1 January 2019	15.2	67.8	8.7	11.3	**103.0**
Provided in the year:					
Operating expenses	(0.8)	-	1.1	16.0	**16.3**
Net customer redress charge	-	62.5	1.0	-	**63.5**
Utilised during the year	(3.8)	(72.8)	(6.2)	(13.2)	**(96.0)**
At 31 December 2019	**10.6**	**57.5**	**4.6**	**14.1**	**86.8**
Amounts falling due within one year	5.5	57.5	3.8	13.3	**80.1**
Amounts falling due after one year	5.1	-	0.8	0.8	**6.7**
	10.6	**57.5**	**4.6**	**14.1**	**86.8**

2018	Property	FSCS Levy	PPI	Conduct/ legal	Other	Total
At 1 January 2018	20.9	2.4	88.9	32.9	12.3	157.4
Provided in the year:						
Operating expenses	-	(1.6)	-	(0.4)	13.9	11.9
Net customer redress charge	-	-	39.5	(5.3)	-	34.2
Transfer between provision categories	-	-	-	(1.3)	1.3	-
Utilised during the year	(5.7)	(0.8)	(60.6)	(17.2)	(16.2)	(100.5)
At 31 December 2018	15.2	-	67.8	8.7	11.3	103.0
Amounts falling due within one year	9.3	-	66.5	7.1	11.3	94.2
Amounts falling due after one year	5.9	-	1.3	1.6	-	8.8
	15.2	-	67.8	8.7	11.3	103.0

The Directors have considered the information disclosed in the consolidated financial statements of the Bank and consider the same information to be relevant for the Bank Company. Accordingly, since there is no difference in relation to the Bank and Bank Company, we refer to the disclosures in note 28 to the Group and Bank consolidated financial statements.

19. DEFERRED TAX

Deferred taxes are calculated on all temporary differences under the liability method using the most appropriate tax rate in respect of each temporary difference.

The UK corporation tax rate is currently legislated to reduce from 19% to 17% effective from 1 April 2020. A banking surcharge tax of 8% also applies to the Bank Company. Deferred tax has been calculated by reference to the most appropriate rate based on forecasts.

The movements in the deferred tax are as follows:

	2019	2018
Deferred tax at the beginning of the year	**(38.7)**	0.6
Credited/(charged) to the income statement:		
Current year	**0.2**	77.2
Prior year	**1.1**	0.1
Impact of corporation tax rate charge	**-**	(5.7)
	1.3	71.6
Credited/(charged) to other comprehensive income:		
Cash flow hedges	**1.2**	3.3
FVOCI	**2.6**	0.5
Retirement benefits	**(9.7)**	(114.7)
	(5.9)	(110.9)
Deferred tax at the end of the year	**(43.3)**	(38.7)

Components of net deferred tax:		
Deferred tax asset	**146.9**	133.9
Deferred tax liability	**(190.2)**	(172.6)
	(43.3)	(38.7)

The deferred tax asset above includes an offset for those deferred tax liabilities that are permissible to be offset.

	2019	2018
Deferred tax comprises:		
Capital allowances on fixed assets and assets leased to customers	**103.6**	95.2
Tax losses carried forward	**43.3**	38.7
Retirement benefits	**(172.6)**	(155.8)
Unrealised appreciation on investments	**(11.1)**	(6.7)
Cash flow hedges	**(5.7)**	(6.7)
FVOCI	**(0.8)**	(3.4)
	(43.3)	(38.7)

The deferred tax charge/(credit) in the income statement comprises:

	2019	2018
Capital allowances on fixed assets and assets leased to customers	**(8.4)**	(35.1)
Tax losses carried forward	**(4.6)**	(38.7)
Retirement benefits	**7.1**	1.7
Unrealised appreciation on investments	**4.4**	0.5
Cash flow hedges	**0.2**	-
	(1.3)	(71.6)

Deferred tax assets totalling £404.2m (2018: £363.6m) have not been recognised where doubt exists over the availability of sufficient future taxable profits. Deferred tax of £397.8m (2018: £357.2m) and £6.4m (2018: £6.4m) has not been recognised in respect of trading losses of £2,170.6m (2018: £2,008.0m) and other temporary differences of £25.5m (2018: £25.6m) respectively.

20. RETIREMENT BENEFITS

The Directors have considered the information disclosed in the consolidated financial statements of the Bank and consider the same information to be relevant for the Bank Company. Accordingly, since there is no difference in relation to the Bank and Bank Company, we refer to the disclosures in note 30 to the Group and Bank consolidated financial statements.

21. SHARE CAPITAL

The Directors have considered the information disclosed in the consolidated financial statements of the Bank and consider the same information to be relevant for the Bank Company. Accordingly, since there is no difference in relation to the Bank and Bank Company, we refer to the disclosures in note 33 to the Group and Bank consolidated financial statements.

22. OTHER RESERVES

	2019	2018
Fair value through other comprehensive income reserve	**4.1**	13.9
Cash flow hedging reserve	**16.7**	20.0
Capital redemption reserve	**410.0**	410.0
Defined benefit pension reserve	**443.4**	415.5
	874.2	859.4

23. INVESTMENTS IN SUBSIDIARIES/GROUP UNDERTAKINGS

	2019	2018
At the beginning of the year	**49.4**	51.6
Additions	**-**	-
Share cancellation[1]	**(5.0)**	-
Impairment charge	**(1.4)**	(2.2)
At the end of the year	**43.0**	49.4

1. In 2019, the Bank Company repurchased and cancelled 5m ordinary shares of £1 each in Britannia International Limited.

Subsidiary undertakings

Subsidiary undertakings which are registered in England and operating in the UK:

	Address reference		Shareholding 2019	Shareholding 2018
Co-operative Commercial Limited	1	Former investment company	**100%**	100 %
Second Roodhill Leasing Limited	1	Leasing	**100%**	100 %
Third Roodhill Leasing Limited	1	Leasing	**100%**	100 %
Fourth Roodhill Leasing Limited	1	Leasing	**100%**	100 %
Britannia Treasury Services Limited	1	Former Holding company	**100%**	100 %
Moorland Covered Bonds LLP	1	Mortgage acquisition and guarantor of covered bonds	**100%**	100 %
Co-operative Bank Financial Advisers Limited	1	Inactive	**100%**	100 %
Mortgage Agency Services Number One Limited	1	Former mortgage and syndicated lending	**100%**	100 %
Mortgage Agency Services Number Two Limited	1	Former mortgage lending	**100%**	100 %
Mortgage Agency Services Number Four Limited	1	Mortgage lending	**100%**	100 %
Mortgage Agency Services Number Five Limited	1	Mortgage lending	**100%**	100 %
Mortgage Agency Services Number Six Limited	1	Former mortgage lending	**100%**	100 %
Platform Funding Limited	1	Mortgage lending	**100%**	100 %

Registered in the Isle of Man and operating overseas:

	Address reference		Shareholding 2019	Shareholding 2018
Britannia International Limited	2	Former deposit taking	**100%**	100 %

Britannia International Limited surrendered its Class 1 Deposit-Taking License to the Isle of Man Financial Supervision Commission during 2015. Any remaining customer accounts were closed and placed into a scheme to manage these funds.

23. INVESTMENTS IN SUBSIDIARIES/GROUP UNDERTAKINGS (continued)

Securitisation vehicles

The results of the following securitisation vehicles are consolidated into the results of the Bank Company as they are controlled by Bank Company. The Bank Company held no shares in the securitisation vehicles listed below at 31 December 2019 (2018: same).

	Address reference		% consolidated	
			2019	2018
Silk Road Finance Number Four plc	3	Securitisation company	**100%**	100 %
Silk Road Finance Number Five plc	3	Securitisation company	**100%**	100 %
Silk Road Finance Number Six plc	3	Securitisation company	**100%**	100 %
Calico Finance Number One DAC	4	Securitisation company	**100%**	100 %

Securitisation vehicles are registered in England and operate in the UK, with the exception of Calico Finance Number One DAC, which is registered and operates in the Republic of Ireland. Note that following the call of Calico notes in 2016, the company was placed into liquidation in 2018.

All of the above companies are related parties to the Bank Company. See note 25 to the Bank Company financial statements for the related party disclosures.

Joint ventures

The Bank Company has investments in the following joint ventures:

	Ownership	
	2019	2018
Britannia New Homes (Scotland) Limited (Dormant)	**50%**	50 %

Britannia New Homes (Scotland) Limited has its registered office at 140 West George Street, Glasgow, G2 2HG.

Dormant companies

The Bank Company has investments in the following dormant subsidiaries all of which are registered in England:

	Address reference		Shareholding	
			2019	2018
Britannia Pension Trustees Limited	1	Pension scheme participant	**100%**	100 %
BPS Principal Employer Limited	1	Holding company	**100%**	100 %
The Co-operative Bank Pension Trust Limited	1	Pension scheme Participant	**100%**	100 %

Address reference	Registered office at:
1	PO Box 101, 1 Balloon Street, Manchester, M60 4EP
2	Estera Trust (Isle of Man) Limited, 33-37 Athol Street, Douglas, Isle of Man, IM1 1LB
3	35 Great St. Helen's, London, EC3A 6AP
4	Fourth Floor, 3 George's Dock, IFSC, Dublin 1, Ireland

The following subsidiaries will benefit from an audit exemption according to section 479C of the Companies Act 2006:

- Second Roodhill Leasing Limited;
- Third Roodhill Leasing Limited;
- Fourth Roodhill Leasing Limited;
- Britannia Treasury Services Limited;
- Co-operative Commercial Limited;
- Co-operative Bank Financial Advisers Limited.

24. CONTINGENT LIABILITIES, CONTRACTUAL COMMITMENTS AND GUARANTEES

The tables below provide the contractual amounts and risk weighted amounts of contingent liabilities and commitments.

The contractual amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The risk weighted amounts have been calculated in accordance with the CRD IV rules.

The contingent liabilities, as detailed below, arise in the normal course of banking business and it is not practical to quantify their future financial effect.

	Audited Contractual amount 2019	Unaudited Risk weighted amount 2019	Audited Contractual amount 2018	Unaudited Risk weighted amount 2018
Contingent liabilities arising from customer transactions:				
Guarantees and irrecoverable letters of credit	**9.2**	**5.1**	12.4	3.7
Other commitments arising from customer transactions:				
Undrawn formal standby facilities, credit lines and other commitments to lend (includes revocable and irrevocable commitments)[1]	**1,975.1**	**215.5**	2,123.0	236.2
	1,984.3	**220.6**	2,135.4	239.9

1. Undrawn loan commitments include revocable commitments which are unused credit card limits of £1,005.1m (2018: £1,097.1m).

Assets pledged

Assets are pledged as collateral under repurchase agreements with other banks. These deposits are not available to finance the Bank Company's day-to-day operations. Mandatory reserve deposits are also held with the Bank of England in accordance with statutory requirement.

Other assets transferred but not derecognised

Included within loans and advances to customers are £3,198.4m (2018: £1,957.8m) pledged under the Group's securitisation and covered bond activities. The Bank Company retains exposure to substantially all of the risks and rewards of ownership of these assets and they remain on the Bank Company's balance sheet, but intercompany liabilities are recognised reflecting the sale of the beneficial interest to securitisation and covered bond vehicles. Secured on these mortgage assets are £599.0m (2018: £601.5m) of fixed and floating rate notes issued by the Bank Company (this does not included notes issued by securitisation vehicles).

Commitments to financially support subsidiary undertakings

Bank Company has committed to financially support the subsidiary undertakings including the subsidiaries benefiting from an audit exemption according to paragraph 479C of the Companies Act 1992 listed in note 23.

Other contingent liabilities

In addition to the above, there are other contingent liabilities applicable to the Bank Company as listed below (for details, please refer to note 31 of the Group and Bank consolidated financial statements):

- Conduct issues;
- Sale of the Bank's share in Visa Europe Limited (VE);
- Legal proceedings; and
- Mortgage securitisation representations and warranties (including Warwick Finance One, Two, Three and Four).

25. RELATED PARTY TRANSACTIONS

The ultimate parent undertaking of the Bank Company as at 31 December 2018 was The Co-operative Bank Holdings Limited. On 11 February 2019, The Co-operative Bank Finance p.l.c. became the immediate parent of the Bank Company with Holding Company remaining the ultimate parent company of the Bank Company.

At 31 December 2019, the Group had two significant shareholders, SP Coop Investments Ltd and Anchorage Illiquid Opportunities Offshore Master V L.P., each holding over 20% of the B shares of the Holding Company. See note 32 to the Group and Bank consolidated financial statements for details of related party transactions with these two significant shareholders.

25. RELATED PARTY TRANSACTIONS (continued)

The B Shareholders Agreement grants certain rights to shareholders, where the B shareholders are entitled to appoint up to two Directors to the Board of the Holding Company, and the Holding Company is entitled to appoint up to two Directors to the Board of the Bank Company, who are designated as B Directors of the Holding Company and Bank Company. Further information of the rights of the A and B shareholders and the B Shareholders Agreement are detailed in the ownership section of the corporate governance report.

Balances with Finance Company and Co-operative Bank undertakings

The following tables show the closing balance with The Co-operative Bank p.l.c.:

Amounts owed by Co-operative Bank undertakings	2019	2018
Amounts owed by Co-operative Bank subsidiaries (excluding special purpose entities)	**67.6**	1,275.7
Amounts owed by Co-operative Bank subsidiaries - special purpose entities	**1,401.4**	30.7
	1,469.0	1,306.4
Investment securities held by Co-operative Bank in subsidiaries – special purpose entities	**1,676.8**	809.5
	3,145.8	2,115.9

Amounts owed to Holding Company, Finance Company and Co-operative Bank undertakings	2019	2018
Amounts owed to Co-operative Bank subsidiaries (excluding special purpose entities)	**27.7**	1,194.7
Amounts owed to Co-operative Bank subsidiaries - special purpose entities	**3,197.8**	784.4
Amount owed to Finance Company (parent company)	**204.2**	-
	3,429.7	1,979.1
Cash balances deposited with the Bank Company by Co-operative Bank subsidiaries (excluding special purpose entities)	**0.5**	0.5
Cash balances deposited with the Bank Company by the Holding Company	**0.2**	0.2
	3,430.4	1,979.8

Details of the amount owed to Finance Company are given in note 25 to the Group and Bank consolidated financial statements.

During the year a number of subsidiaries were dissolved, which previously would have been related parties of the Bank Company.

The following tables show the value of transactions with The Co-operative Bank p.l.c. undertakings and Finance Company during the year:

2019	Interest and fees paid to Bank Company	Interest and fees paid by Bank Company
Transactions with Co-operative Bank subsidiaries (excluding special purpose entities)	**2.0**	**0.5**
Transactions with Co-operative Bank subsidiaries - special purpose entities	**53.4**	**50.2**
Transactions with Finance Company (parent company)	**-**	**13.0**
	55.4	**63.7**

2018	Interest and fees paid to Bank Company	Interest and fees paid by Bank Company
Transactions with Co-operative Bank subsidiaries (excluding special purpose entities)	31.1	23.4
Transactions with Co-operative Bank subsidiaries - special purpose entities	26.0	25.5
	57.1	48.9

Transactions with Directors, key management personnel and close family

Details of the Bank Company's transactions with Directors, key management personnel and close family are as set out in note 32 to the Group and Bank consolidated financial statements.

26. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The fair values in this note are stated at a specific date and may be significantly different from the amounts which will actually be paid on the maturity or settlement dates of the instruments. The tables below analyse the balance sheet carrying values of financial assets and liabilities by classification.

		Measured at fair value				
2019	Amortised cost	FVOCI	FVTPL – designated	FVTPL – mandatorily measured	Derivatives in a hedging relationship	Total
Financial assets						
Cash and balances at central banks	2,153.5	-	-	-	-	**2,153.5**
Loans and advances to banks	345.6	-	-	-	-	**345.6**
Loans and advances to customers	17,671.1	-	138.3	1.7	-	**17,811.1**
Investment securities	1,771.8	1,506.4	-	4.2	-	**3,282.4**
Derivative financial instruments	-	-	-	155.8	32.3	**188.1**
Equity shares	-	-	-	44.5	-	**44.5**
Amounts owed by Co-operative Bank undertakings	1,469.0	-	-	-	-	**1,469.0**
Other assets	5.1	-	-	37.9	-	**43.0**
Total financial assets	**23,416.1**	**1,506.4**	**138.3**	**244.1**	**32.3**	**25,337.2**
Financial liabilities						
Deposits by banks	1,143.7	-	-	-	-	**1,143.7**
Customer accounts	18,997.2	-	-	-	-	**18,997.2**
Debt securities in issue	602.4	-	-	-	-	**602.4**
Derivative financial instruments	-	-	-	169.6	109.3	**278.9**
Amounts owed to Co-operative Bank undertakings	3,225.5	-	-	-	-	**3,225.5**
Other liabilities	52.7	-	-	-	-	**52.7**
Amounts due to Finance Company	204.2	-	-	-	-	**204.2**
Total financial liabilities	**24,225.7**	**-**	**-**	**169.6**	**109.3**	**24,504.6**

		Measured at fair value				
2018	Amortised cost	FVOCI	FVTPL – designated	FVTPL – mandatorily measured	Derivatives in a hedging relationship	Total
Financial assets						
Cash and balances at central banks	1,843.8	-	-	-	-	1,843.8
Loans and advances to banks	380.4	-	-	-	-	380.4
Loans and advances to customers	17,467.3	-	144.7	2.3	-	17,614.3
Investment securities	898.6	1,842.4	-	3.5	-	2,744.5
Derivative financial instruments	-	-	-	122.4	43.0	165.4
Equity shares	-	-	-	26.4	-	26.4
Amounts owed to Co-operative Bank undertakings	1,306.4	-	-	-	-	1,306.4
Other assets	13.7	-	-	26.2	-	39.9
Total financial assets	21,910.2	1,842.4	144.7	180.8	43.0	24,121.1
Financial liabilities						
Deposits by banks	1,433.5	-	-	-	-	1,433.5
Customer accounts	18,736.4	-	-	-	-	18,736.4
Debt securities in issue	601.5	-	-	-	-	601.5
Derivative financial instruments	-	-	-	140.4	116.3	256.7
Amounts owed to Co-operative Bank undertakings	1,979.1	-	-	-	-	1,979.1
Other liabilities	85.3	-	-	-	-	85.3
Total financial liabilities	22,835.8	-	-	140.4	116.3	23,092.5

Fair value disclosures throughout this note have been calculated in accordance with IFRS 13, which values assets individually rather than as a portfolio or as part of a business combination.

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

a) Use of financial assets and liabilities
Refer to note 35 to the Group and Bank consolidated financial statements for details of the use of financial instruments.

b) Valuation of financial assets and liabilities measured at fair value
The carrying values of financial assets and liabilities measured at fair value are determined in compliance with the accounting policies in note 1 to the Group and Bank consolidated financial statements and analysed in the following tables by the three level fair value hierarchy defined as follows:
- Level 1 – Quoted market prices in active markets
- Level 2 – Valuation techniques using observable inputs
- Level 3 – Valuation techniques using unobservable inputs

There were no transfers between level 1 and 2 during the year.

		Fair value at end of the reporting period using:			
2019	Category	Level 1	Level 2	Level 3	Total
Non-derivative financial assets					
Loans and advances to customers	FVTPL – designated	-	136.3	2.0	**138.3**
Loans and advances to customers	FVTPL – mandatorily measured	-	-	1.7	**1.7**
Investment securities	FVOCI	1,436.5	-	69.9	**1,506.4**
Investment securities	FVTPL – mandatorily measured	-	-	4.2	**4.2**
Equity shares	FVTPL – mandatorily measured	0.4	-	44.1	**44.5**
Other assets	FVTPL – mandatorily measured	-	-	37.9	**37.9**
Derivative financial assets		-	188.1	-	**188.1**
Non-financial assets:					
Investment properties		-	-	1.8	**1.8**
Total assets carried at fair value		**1,436.9**	**324.4**	**161.6**	**1,922.9**
Derivative financial liabilities		-	278.9	-	**278.9**
Total liabilities carried at fair value		**-**	**278.9**	**-**	**278.9**

		Fair value at end of the reporting period using:			
2018	Category	Level 1	Level 2	Level 3	Total
Non-derivative financial assets					
Loans and advances to customers	FVTPL – designated	-	141.9	2.8	144.7
Loans and advances to customers	FVTPL – mandatorily measured	-	-	2.3	2.3
Investment securities	FVOCI	1,443.1	-	399.3	1,842.4
Investment securities	FVTPL – mandatorily measured	-	-	3.5	3.5
Equity shares	FVTPL – mandatorily measured	0.4	-	26.0	26.4
Other assets	FVTPL – mandatorily measured	-	-	26.2	26.2
Derivative financial assets		-	165.4	-	165.4
Non-financial assets:					
Investment properties		-	-	2.3	2.3
Total assets carried at fair value		1,443.5	307.3	462.4	2,213.2
Derivative financial liabilities		-	256.7	-	256.7
Total liabilities carried at fair value		-	256.7	-	256.7

Key considerations in the calculation of fair values for financial assets and liabilities measured at fair value are as follows:

Level 1 – Quoted market prices in active markets
Financial instruments with quoted prices for identical instruments in active markets. The best evidence of fair value is a quoted market price in an actively traded market.

Level 2 – Valuation techniques using observable inputs
Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

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

The valuation techniques used to value these instruments employ only observable market data and relate to the following assets and liabilities:

- **Loans and advances to customers**
  Loans and advances to customers primarily comprise of corporate loans of £127.7m as at 31 December 2019 (2018: £131.7m) which are fair valued through profit or loss using observable inputs. Loans held at fair value are valued at the sum of all future expected cash flows, discounted using a yield curve based on observable market inputs.

- **Derivative financial instruments**
  Over-the-counter (i.e. non-exchange traded) derivatives are valued using valuation models which are based on observable market data. Valuation models calculate the present value of expected future cash flows, based upon 'no arbitrage' principles. The Bank Company enters into vanilla foreign exchange and interest rate swap derivatives, for which modelling techniques are standard across the industry. Examples of inputs that are generally observable include foreign exchange spot and forward rates, and benchmark interest rate curves.

Level 3 – Valuation techniques using unobservable inputs
This is used for financial instruments valued using models where one or more significant inputs are not observable.
The proportion of financial assets valued based on significant unobservable inputs are analysed as follows:

- **Investment securities**
  Investment securities comprise of RMBS of £69.9m (FVOCI) as at 31 December 2019 (2018: £399.3m). An independent third party valuation agent is used to provide prices for the rated RMBS obtained from large financial institutions. These prices are indicative values only and do not represent an offer to purchase the securities. These RMBS represent the Bank Company's interest in unconsolidated structured entities.

  A 1% increase or decrease in the price of the notes would result in the value increasing or decreasing by approximately £0.7m respectively.

- **Equity shares**
  Equity shares comprise of US Dollar denominated convertible preference shares in Visa International, which are classified as FVTPL – designated, with any movements in fair value being recognised through profit or loss. The fair value of the Visa International shares has been calculated by taking the period end NYSE share price and discounting for illiquidity and clawback.

  If the illiquidity premium to the discount rate was increased by an absolute 10%, it would result in a reduction in the overall fair value of the equity shares of £6.3m (14%) as at 31 December 2019.

- **Other assets**
  Other assets comprise of the Surrendered Loss Debtor of £37.9m as at 31 December 2019. 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 the 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 consolidated financial statements. The premium is calculated applying risk parameter estimation theory using observable inputs from related (but not identical) financial instruments or indices.

- **Investment properties**
  Investment properties within level 3 are valued by using recent valuations of individual assets within the portfolio, index linked to the balance sheet date using the relevant house price index.

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

2019	Fair value at the beginning of the year	Purchases and transfers in	Sales, transfers out and repayments	Other comprehensive income	Income statement	Fair value at the end of the year
Loans and advances to customers	5.1	-	(1.2)	-	(0.2)	**3.7**
Investment securities	402.8	-	(328.2)	(1.9)	1.4	**74.1**
Equity shares	26.0	-	-	-	18.1	**44.1**
Investment properties	2.3	-	(0.5)	-	-	**1.8**
Other assets	26.2	-	0.3	-	11.4	**37.9**
	462.4	**-**	**(329.6)**	**(1.9)**	**30.7**	**161.6**

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

2018	Fair value at the beginning of the year	Purchases and transfers in	Sales, transfers out and repayments	Other comprehensive income	Income statement	Fair value at the end of the year
Loans and advances to customers	6.4	-	(1.3)	-	-	5.1
Investment securities	823.5	-	(410.1)	(11.6)	1.0	402.8
Equity shares	24.0	-	-	-	2.0	26.0
Investment properties	2.3	-	(0.1)	-	0.1	2.3
Other assets	42.8	-	5.3	-	(21.9)	26.2
	899.0	-	(406.2)	(11.6)	(18.8)	462.4

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

The carrying values of financial assets and liabilities measured at amortised cost are determined in compliance with the accounting policies in note 1 to the Group and Bank consolidated financial statements and their fair values are analysed in the following tables by the three level fair value hierarchy set out above. There were no transfers between levels during the year.

		Fair value				
2019	Total carrying value	Level 1	Level 2	Level 3	Items where fair value approximates carrying value	Total
Financial assets						
Cash and balances at central banks	**2,153.5**	-	-	-	2,153.5	**2,153.5**
Loans and advances to banks	**345.6**	-	-	-	345.6	**345.6**
Loans and advances to customers	**17,671.1**	-	-	16,516.0	1,070.6	**17,586.6**
Investment securities	**1,771.8**	-	-	1,740.5	-	**1,740.5**
Amounts owed by Co-operative Bank undertakings	**1,469.0**	-	631.1	-	866.1	**1,497.2**
Other assets	**5.1**	-	-	-	5.1	**5.1**
Financial liabilities						
Deposits by banks	**1,143.7**	-	1,145.0	-	2.4	**1,147.4**
Customer accounts	**18,997.2**	-	-	3,612.4	15,402.2	**19,014.6**
Debt securities in issue	**602.4**	633.2	-	-	-	**633.2**
Amounts owed to Co-operative Bank undertakings	**3,225.5**	-	-	1,324.4	1,899.4	**3,223.8**
Other liabilities	**52.7**	-	-	-	52.7	**52.7**
Amounts due to Finance Company	**204.2**	-	204.2	-	-	**204.2**

		Fair value				
2018	Total carrying value	Level 1	Level 2	Level 3	Items where fair value approximates carrying value	Total
Financial assets						
Cash and balances at central banks	1,843.8	-	-	-	1,843.8	1,843.8
Loans and advances to banks	380.4	-	-	-	380.4	380.4
Loans and advances to customers	17,467.3	-	-	16,004.2	1,289.8	17,294.0
Investment securities	898.6	-	-	891.8	-	891.8
Amounts owed by Co-operative Bank undertakings	1,306.4	-	659.5	-	704.0	1,363.5
Other assets	13.7	-	-	-	13.7	13.7
Financial liabilities						
Deposits by banks	1,433.5	-	1,436.4	-	2.5	1,438.9
Customer accounts	18,736.4	-	-	4,163.0	14,582.7	18,745.7
Debt securities in issue	601.5	640.8	-	-	-	640.8
Amounts owed to Co-operative Bank undertakings	1,979.1	-	-	1,176.2	805.5	1,981.7
Other liabilities	85.3	-	-	-	85.3	85.3

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

Key considerations in the calculation of fair values of financial instruments measured at amortised cost are as follows:

Level 1 – Quoted market prices in active markets
Financial instruments with quoted prices for identical instruments in active markets. The best evidence of fair value is a quoted market price in an actively traded market.

Level 2 – Valuation techniques using observable inputs
Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

The valuation techniques used to value these instruments employ only observable market data and relate to the following assets and liabilities:

- **Loans and advances to banks/deposits by banks**
  Loans and advances to banks comprise of interbank placements and items in the course of collection.

  The amortised cost value of all loans and advances to banks are deemed to be a close approximation of their fair value due to their short maturity. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and remaining maturity.

- **Amounts owed by Co-operative Bank undertakings**
  Amounts owed by Co-operative Bank undertakings comprise of debt securities and subordinated debt held in the Bank Company's own securitisation vehicles. Fair value is based on available market prices; where these are not available quoted market prices for similar debt securities, with adjustments to take into account the subordination of the particular loan note, have been used to estimate fair value.

- **Amounts owed to Finance Company**
  Amounts owed to Finance Company comprise the internal MREL debt related to the external MREL qualifying Tier 2 debt. The fair value of the notes is based on quoted market prices.

Level 3 – Valuation techniques using unobservable inputs
This is used for financial instruments valued using models where one or more significant inputs are not observable.

The proportion of financial assets valued based on significant unobservable inputs are analysed as follows:

- **Loans and advances to customers**
  The fair value of loans and advances to customers in total is 99.7% of the carrying value as at 31 December 2019 (2018: 99.0%). The increase in 2019 is due to a combination of the growth of higher-valued retail mortgages and reduction of the lower-valued Optimum mortgages and corporate loans.

  The overall fair value is less than par primarily due to two main factors:
  - customer interest rates are below the market rate for the period until expected maturity or the repricing date, if earlier;
  - credit risk adjustments due to incurred and expected future credit losses.

  Fixed rate loans and advances to customers are revalued to fair value based on future interest cash flows (at funding rates) and principal cash flows discounted using an appropriate market rate. The market rate applied in the calculation is the average market rate for new originations of loans with similar characteristics to the book of loans being valued, and reflects the current low interest rate environment. This rate is assumed to encompass the time value of money, plus a risk premium to account for the inherent uncertainty in the timing and amount of future cash flows arising from a book of loans assets.

  Forecast principal repayments are based on redemption at the earlier of maturity or re-pricing date with some overlay for historical behavioural experience where relevant. The eventual timing of future cash flows may be different from the forecast due to unpredictable customer behaviour. It is assumed that there would be no other factors which market participants would take into account when assessing the fair value of the loan assets. It is assumed that there is no fair value adjustment required in respect of interest rate movement on standard variable rate loan assets, as the interest rate being charged is assumed to be equal to the market rate for those loan assets.

  Other reporting entities may use different valuation methodologies and assumptions in determining fair values for which no observable market prices are available.

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

- **Investment securities**
  Investment securities comprise:
  - RMBS measured at amortised cost of £84.7m as at 31 December 2019 (2018: £77.1m), being a 5% regulatory holding of the rated notes of the Warwick Finance Three and Four unconsolidated structured entity. The remaining 95% is privately held therefore there are no available market prices. An in-house model is used that sources independent market data for disclosure purposes only.
  - Securities measured at amortised cost of £10.3m as at 31 December 2019 (2018: £12.0m) as the quoted price is in an inactive market.
  - Investment securities measured at amortised cost of £1,676.8m as at 31 December 2019 (2018: £809.5m), being a 100% holding of the Silk Road Four buyback. As 100% is held, there are no available market prices. An in-house model is used that sources independent market data for disclosure purposes only.

- **Customer accounts**
  The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits and other borrowings without quoted market prices is based on future interest cash flows (at funding rates) and principal cash flows, discounted using an appropriate market rate.

- **Amounts owed to Co-operative Bank undertakings**
  Amounts owed to Co-operative Bank undertakings comprise of deemed loans owed to the Bank Company's own securitisation vehicles; these have been modelled using expected cash flows, based on redemption profiles, discounted at a market rate.

d) Fair value of transferred assets and associated liabilities

Assets pledged

Assets are pledged as collateral under repurchase agreements with other banks. These deposits are not available to finance the Group's day-to-day operations.

Investments securities sold under repurchase agreements	Carrying amount of assets not derecognised	Carrying amount of associated liabilities	Fair value of assets not derecognised	Fair value of associated liabilities	Net fair value position
2019	**360.9**	**329.1**	**360.9**	**329.1**	**31.8**
2018	626.7	568.8	626.7	568.8	57.9

Assets sold under repurchase agreements include mortgage backed securities (£360.9m of assets and associated liabilities of £300.7m) and UK government gilts and a European Investment Bank (EIB) bond (£nil assets and associated liabilities of £28.5m).

27.ANALYSIS OF CREDIT RISK EXPOSURE

2019	L&A to Banks	L&A to Customers	Investment securities	Derivative financial instruments	Other Assets	Total
Analysis of credit risk exposure						
Gross customer balance	345.6	17,739.0	3,282.4	188.1	43.0	**21,598.1**
Credit commitments	-	2,105.0	-	-	-	**2,105.0**
Gross customer exposure	**345.6**	**19,844.0**	**3,282.4**	**188.1**	**43.0**	**23,703.1**
Less: allowance for losses	-	(26.4)	-	-	-	**(26.4)**
Net customer exposure	**345.6**	**19,817.6**	**3,282.4**	**188.1**	**43.0**	**23,676.7**
Gross exposure for ECL calculation						
Gross customer exposure	345.6	19,844.0	3,282.4	188.1	43.0	**23,703.1**
Less: FVTPL[1]	-	(113.9)	(4.0)	(188.1)	(37.9)	**(343.9)**
Net customer exposure for ECL calculation	**345.6**	**19,730.1**	**3,278.4**	**-**	**5.1**	**23,359.2**
Reconciliation of customer to accounting balances						
Net customer exposure	345.6	19,817.6	3,282.4	188.1	43.0	**23,676.7**
Less: credit commitments	-	(2,105.0)	-	-	-	**(2,105.0)**
Plus accounting adjustments	-	98.5	-	-	-	**98.5**
Gross loans and advances – notes 13, 14, 15, 16, 18	**345.6**	**17,811.1**	**3,282.4**	**188.1**	**43.0**	**21,670.2**

27. ANALYSIS OF CREDIT RISK EXPOSURE (continued)

2018	L&A to Banks	L&A to Customers	Investment securities	Derivative financial instruments	Other Assets	Total
Analysis of credit risk exposure						
Gross customer balance	380.4	17,538.2	2,744.5	165.4	39.9	20,868.4
Credit commitments	-	2,247.4	-	-	-	2,247.4
Gross customer exposure	380.4	19,785.6	2,744.5	165.4	39.9	23,115.8
Less: allowance for losses	-	(51.7)	-	-	-	(51.7)
Net customer exposure	380.4	19,733.9	2,744.5	165.4	39.9	23,064.1
Gross exposure for ECL calculation						
Gross customer exposure	380.4	19,785.6	2,744.5	165.4	39.9	23,115.8
Less: FVTPL[1]	-	(120.1)	(3.5)	(165.4)	(32.9)	(321.9)
Net customer exposure for ECL calculation	380.4	19,665.5	2,741.0	-	7.0	22,793.9
Reconciliation of customer to accounting balances						
Net customer exposure	380.4	19,733.9	2,744.5	165.4	39.9	23,064.1
Less: credit commitments	-	(2,247.4)	-	-	-	(2,247.4)
Plus accounting adjustments	-	127.8	-	-	-	127.8
Gross loans and advances – notes 13, 14, 15, 16, 18	380.4	17,614.3	2,744.5	165.4	39.9	20,944.5

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

All balances except L&A to customers are stage 1 (2018: stage 1) and did not transfer during the year. Loans and advances to customers is further analysed in the tables below:

Gross customer exposure	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2019	18,664.1	570.6	134.7	296.1	**19,665.5**
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	(262.8)	262.8	-	-	**-**
To credit impaired (stage 1 or 2 or 3)	(13.8)	(17.2)	31.0	-	**-**
To 12 month ECL (stage 2 or 3 to 1)	140.3	(140.3)	-	-	**-**
From credit impaired (stage 3 to 2)	4.1	1.3	(5.4)	-	**-**
Net changes arising from stage transfers	**(132.2)**	**106.6**	**25.6**	-	**-**
Other charges/(releases):					
New assets originated or purchased	3,941.4	-	-	-	**3,941.4**
Other changes to risk parameters[1]	(3,429.4)	(173.0)	(55.6)	(174.2)	**(3,832.2)**
Changes to model used for ECL calculation	(286.4)	277.7	8.7	-	**-**
Net other charges/(releases)	**93.4**	**211.3**	**(21.3)**	**(174.2)**	**109.2**
Assets written off	(4.4)	(2.4)	(35.2)	(2.6)	**(44.6)**
At 31 December 2019	**18,753.1**	**779.5**	**78.2**	**119.3**	**19,730.1**

Gross customer exposure	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2018	17,629.6	661.9	214.4	362.4	18,868.3
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	(197.1)	179.1	-	-	(18.0)
To credit impaired (stage 1 or 2 or 3)	(16.6)	(17.9)	31.2	-	(3.3)
To 12 month ECL (stage 2 or 3 to 1)	148.6	(157.8)	-	-	(9.2)
From credit impaired (stage 3 to 2)	7.3	8.5	(18.6)	-	(2.8)
Net changes arising from stage transfers	(57.8)	11.9	12.6	-	(33.3)
Other charges/(releases):					
New assets originated or purchased	5,211.6	-	-	-	5,211.6
Other changes to risk parameters[1]	(4,115.8)	(98.1)	(55.2)	(62.7)	(4,331.8)
Net other charges/(releases)	1,038.0	(86.2)	(42.6)	(62.7)	846.5
Assets written off	(3.5)	(5.1)	(37.1)	(3.6)	(49.3)
At 31 December 2018	18,664.1	570.6	134.7	296.1	19,665.5

1. Includes repayments and charges due to other model inputs.

27. ANALYSIS OF CREDIT RISK EXPOSURE (continued)

Allowance for losses	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2019	11.5	5.1	30.8	4.3	**51.7**
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	(0.3)	2.7	-	-	**2.4**
To credit impaired (stage 1 or 2 or 3)	(0.1)	(0.1)	5.1	-	**4.9**
To 12 month ECL (stage 2 or 3 to 1)	0.1	(1.1)	-	-	**(1.0)**
From credit impaired (stage 3 to 2)	-	-	(0.8)	-	**(0.8)**
Net changes arising from stage transfers	**(0.3)**	**1.5**	**4.3**	**-**	**5.5**
Other charges/(releases):					
New assets originated or purchased	2.0	-	-	-	**2.0**
Other changes to risk parameters[1]	(1.2)	(0.5)	(5.9)	(1.7)	**(9.3)**
Changes to model used for ECL calculation	1.0	(0.5)	(1.4)	(0.5)	**(1.4)**
Others[2]	0.4	0.6	0.4	(0.1)	**1.3**
Net other charges/(releases)	**1.9**	**1.1**	**(2.6)**	**(2.3)**	**(1.9)**
Assets written off	(2.9)	(2.0)	(16.8)	(1.7)	**(23.4)**
At 31 December 2019	**10.5**	**4.2**	**11.4**	**0.3**	**26.4**

Allowance for losses	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2018	8.9	5.2	59.4	6.3	79.8
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	(0.1)	1.4	-	-	1.3
To credit impaired (stage 1 or 2 or 3)	-	(0.3)	5.2	-	4.9
To 12 month ECL (stage 2 or 3 to 1)	0.3	(1.3)	-	-	(1.0)
From credit impaired (stage 3 to 2)	-	0.3	(2.7)	-	(2.4)
Net changes arising from stage transfers	0.2	0.1	2.5	-	2.8
Other charges/(releases):					
New assets originated or purchased	2.7	-	-	-	2.7
Other changes to risk parameters[1]	1.9	2.1	(10.1)	(1.0)	(7.1)
Net other charges/(releases)	4.8	2.2	(7.6)	(1.0)	(1.6)
Assets written off	(2.2)	(2.3)	(21.0)	(1.0)	(26.5)
At 31 December 2018	11.5	5.1	30.8	4.3	51.7

1. Includes repayments and changes due to other model inputs.
2. The £1.3m increase in retail unsecured ECL relates to refinement of data inputs.

The credit risk section within risk management applies to the Bank Company where relevant and therefore no additional disclosures are included in this note.

28. EVENTS AFTER THE BALANCE SHEET DATE

There are no post balance sheet events to report.

Financial Statements of The Co-operative Bank Holdings Limited (Holding Company)

Ultimate parent company

The Co-operative Bank Holdings Limited
Company Number 10865342
(England and Wales)

↓ 100%

The Co-operative Bank Finance p.l.c.
Company Number 11598074
(England and Wales)

↓ 100%

The Co-operative Bank p.l.c.
Company Number 00990937
(England and Wales)

BALANCE SHEET

At 31 December 2019

£million

	Note	2019	2018
Assets			
Loans and advances to banks	2	**0.2**	0.2
Investments in subsidiaries/Group undertakings	3	**333.0**	333.0
Total assets		**333.2**	333.2
Total liabilities		**-**	-
Capital and reserves attributable to the Holding Company's equity holders			
Ordinary share capital	4	**0.9**	0.9
Share premium account	4	**313.8**	313.8
Merger relief reserve		**18.5**	18.5
Total equity		**333.2**	333.2
Total liabilities and equity		**333.2**	333.2

Net profit attributable to equity holders of the Holding Company for the year is £nil (2018: £nil).

The notes on pages 226 to 227 form part of the Holding Company financial statements.

Approved by the Board on 26 February 2020:

Robert Dench
Chair of the Board

Andrew Bester
Chief Executive Officer

THE CO-OPERATIVE BANK HOLDINGS LIMITED FINANCIAL STATEMENTS (HOLDING COMPANY-ONLY)
STATEMENT OF CASHFLOWS

For year ended 31 December 2019

£million	2019	2018
Cash flows used in operating activities:		
Profit before taxation	-	-
Net cash flows used in operating activities	-	-
Net cash flows used in investing activities	-	-
Net cash flows from financing activities	-	-
Net increase in cash and cash equivalents	-	-
Cash and cash equivalents at the beginning of the year	-	-
Cash and cash equivalents at the end of the year	-	-

The notes on pages 226 to 227 form part of the Holding Company financial statements.

STATEMENT OF CHANGES IN EQUITY

For year ended 31 December 2019

£million

2019	Attributable to equity holders of the Holding Company Share capital	Share premium	Merger relief reserve	Total equity
At 1 January 2019	0.9	313.8	18.5	**333.2**
Total comprehensive income for the year	-	-	-	-
At 31 December 2019	**0.9**	**313.8**	**18.5**	**333.2**

2018	Attributable to equity holders of the Holding Company Share capital	Share premium	Merger relief reserve	Total equity
At 1 January 2018	0.9	313.8	18.5	333.2
Total comprehensive income for the year	-	-	-	-
At 31 December 2018	0.9	313.8	18.5	333.2

The notes on pages 226 to 227 form part of the Holding Company financial statements.

All amounts are stated in £m unless otherwise indicated.

1. BASIS OF PREPARATION

The Co-operative Bank Holdings Limited (Holding Company) was incorporated in the UK and is a limited company, registered in England and Wales.

The Bank Company financial statements have been prepared under the historic cost convention and approved by the Directors in accordance with IFRS as issued by the International Accounting Standards Board, and as adopted by the European Union.

On including its financial statements within the Group's Annual Report and Accounts, the Holding Company is taking advantage of the exemption in Section 408 of the Companies Act 2006 not to present its individual income statement and related notes.

Accounting policies outlined in note 1 to the Group and Bank consolidated financial statements and the Explanatory Information on pages 242 to 251 also apply to the Holding Company.

The preparation of financial information requires management to make judgements and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The critical judgements and estimates for the Holding Company are the same as those set out in note 2 to the Group and Bank consolidated financial statements, with the addition of the critical judgement set out below.

Management have performed an assessment of indicators of impairment including a review of the 2019 performance and forecast performance of the Finance Group. The conclusion of this review was that the Holding Company's investment in Finance Company is not impaired.

2. LOANS AND ADVANCES TO BANKS

	2019	2018
Loans and advances to Banks	**0.2**	0.2

This balance is held with The Co-operative Bank p.l.c.

3. INVESTMENTS IN SUBSIDIARIES/GROUP UNDERTAKINGS

	2019	2018
Investments in subsidiaries/Group undertakings	**333.0**	333.0

At 31 December 2019, the Holding Company owned 100% of the share capital of The Co-operative Bank Finance p.l.c. The principal activity of The Co-operative Bank Finance p.l.c. is that of a holding company and issuer of subordinated debt.

Impairment of investment in subsidiaries

At 31 December 2018, the Holding Company owned 100% of the issued share capital of the Bank Company (511,456,510 shares of £0.05 each). On 7 February 2019, the Holding Company sold 100% of the issued share capital of the Bank Company to the Finance Company, in exchange for 9,029,130,200 Finance Company shares of nominal value of £0.0001 each for consideration being equal to the carrying value of the Bank Company in Holding Company's balance sheet. Accordingly, the cost of Holding Company's investment in Finance Company is £333.0m.

The Co-operative Bank p.l.c. has a number of subsidiary companies of its own, details of which are in outlined in note 23 to the Bank Company financial statements.

4. SHARE CAPITAL

2019	No. of A shares (millions)	A shares value	No. of B shares	B shares value	Total share capital
Share capital allotted, called up and fully paid					
At the beginning of the year	9,029.1	0.9	82	-	0.9
Issued during the year	-	-	1	-	-
At the end of the year	**9,029.1**	**0.9**	**83**	**-**	**0.9**

2018	No. of A shares (millions)	A shares value	No. of B shares	B shares value	Total share capital
Share capital allotted, called up and fully paid					
At the beginning of the year	9,029.1	0.9	66	-	0.9
Issued during the year	-	-	20	-	-
Cancelled during the year	-	-	(4)	-	-
At the end of the year	9,029.1	0.9	82	-	0.9

Share premium account

	2019	2018
At the beginning and at the end of the year	**313.8**	313.8

The holders of the ordinary A shares hold limited 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 Group but will have no rights to distributions, other than on exit in an amount of £25m in aggregate, subject to achieving a minimum valuation threshold.

5. RELATED PARTY TRANSACTIONS

Parent, subsidiary and ultimate controlling party
The ultimate parent undertaking of the Group is The Co-operative Bank Holdings Limited. See note 1 for details of the 2019 group restructure.

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

Balances with related parties

The following table shows the value of balances with related parties during the year:

	2019	2018
Amounts owed by The Co-operative Bank p.l.c.	**0.2**	0.2

The subsidiaries of The Co-operative Bank p.l.c. as detailed in note 23 to the Bank Company financial statements, all Directors and key management personnel of the Group, are all considered to be related parties of the Holding Company (further details are available in note 32 to the consolidated Group and Bank financial statements).

6. EVENTS AFTER THE BALANCE SHEET DATE

There are no post balance sheet events to report.

Consolidated Financial Statements of The Co-operative Bank Finance p.l.c. (Finance Group and Finance Company)

The Co-operative Bank Holdings Limited
Company Number 10865342
(England and Wales)

↓ **100%**

Issuer of MREL eligible debt

The Co-operative Bank Finance p.l.c.
Company Number 11598074
(England and Wales)

↓ **100%**

The Co-operative Bank p.l.c.
Company Number 00990937
(England and Wales)

The co-operative bank
for people with purpose

CONSOLIDATED INCOME STATEMENT

For year ended 31 December 2019

£million

	Note[1]	Finance Group 2019	Finance Group 2018
Interest income calculated using the effective interest rate method		**466.4**	503.4
Other interest and similar income		**18.1**	2.6
Interest income and similar income	6	**484.5**	506.0
Interest expense and similar charges	6	**(174.5)**	(146.6)
Net interest income		**310.0**	359.4
Fee and commission income	7	**66.3**	63.5
Fee and commission expense	7	**(45.6)**	(43.3)
Net fee and commission income		**20.7**	20.2
Income from investments		**0.7**	0.1
Other operating income/(expense) (net)	8	**55.2**	(11.0)
Operating income		**386.6**	368.7
Operating expenses	9	**(477.7)**	(480.7)
Net customer redress charge	28	**(63.5)**	(34.2)
Total operating expenses		**(541.2)**	(514.9)
Operating loss before net credit impairment gains		**(154.6)**	(146.2)
Net credit impairment gains	14	**2.5**	5.5
Loss before taxation		**(152.1)**	(140.7)
Income tax	11	**(0.9)**	72.0
Loss for the financial year		**(153.0)**	(68.7)

1. These notes references relate to Group and Bank financial statements.

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

The results above wholly relate to continuing activities.

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

The notes on pages 236 to 241 form part of these consolidated Finance Group financial statements.

THE CO-OPERATIVE BANK FINANCE PLC CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (FINANCE GROUP AND FINANCE COMPANY-ONLY)
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For year ended 31 December 2019

£million

	Finance Group	
	2019	**2018**
Loss for the year	**(153.0)**	(68.7)
Items that may be recycled to profit or loss:		
Changes in cash flow hedges:		
Net changes in fair value recognised directly in equity	**(7.4)**	(16.0)
Transfers from equity to income or expense	**2.9**	2.8
Income tax	**1.2**	3.3
Changes in fair value through other comprehensive income:		
Net changes in fair value recognised directly in equity	**(51.6)**	9.1
Transfers from equity to income or expense	**39.2**	(14.1)
Income tax	**2.6**	0.5
Items that may not subsequently be recycled to profit or loss:		
Changes in net retirement benefit asset:		
Recognition of defined benefit asset	**-**	528.9
Defined benefit plans credit for the year	**37.6**	(69.5)
Income tax	**(9.7)**	(114.7)
Other comprehensive income for the year net of income tax	**14.8**	330.3
Total comprehensive (expense)/income for the year	**(138.2)**	261.6

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

The notes on pages 236 to 241 form part of these consolidated Finance Group financial statements.

THE CO-OPERATIVE BANK FINANCE PLC CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (FINANCE GROUP AND FINANCE COMPANY-ONLY)
BALANCE SHEET

At 31 December 2019

£million

	Note	Finance Group 2019	Finance Group 2018	Finance Company 2019	Finance Company 2018
Assets					
Cash and balances at central banks	3	**2,153.5**	1,843.8	**-**	-
Loans and advances to banks	4	**474.3**	485.8	**-**	-
Loans and advances to customers	5	**17,918.4**	17,733.9	**-**	-
Fair value adjustments for hedged risk		**72.6**	53.4	**-**	-
Investment securities	6	**1,605.6**	1,935.0	**-**	-
Derivative financial instruments	7	**213.3**	192.2	**-**	-
Property, plant and equipment classified as held-for-sale		**0.8**	3.9	**-**	-
Equity shares	8	**44.5**	26.4	**-**	-
Investments in subsidiaries/group undertakings	9	**-**	-	**333.0**	-
Investment properties		**1.8**	2.3	**-**	-
Other assets	10	**52.6**	54.7	**-**	-
Prepayments	11	**21.7**	31.8	**-**	-
Property, plant and equipment	12	**38.6**	40.8	**-**	-
Intangible assets	13	**75.3**	72.4	**-**	-
Right-of-use assets	14	**72.3**	-	**-**	-
Amounts owed by Bank Company	27	**-**	-	**201.1**	-
Deferred tax assets	21	**-**	2.9	**-**	-
Net retirement benefit asset	22	**690.2**	623.5	**-**	-
Total assets		**23,435.5**	23,102.8	**534.1**	-
Liabilities					
Deposits by banks	15	**1,143.7**	1,433.5	**-**	-
Customer accounts		**18,996.9**	18,735.9	**-**	-
Debt securities in issue	16	**867.5**	617.6	**-**	-
Derivative financial instruments	7	**288.0**	260.6	**-**	-
Lease liabilities	14	**71.2**	-	**-**	-
Other liabilities	18	**53.5**	92.1	**-**	-
Accruals and deferred income	19	**59.0**	63.0	**-**	-
Provisions	20	**87.4**	103.6	**-**	-
Other borrowed funds	17, 27	**204.2**	-	**203.5**	-
Deferred tax liabilities	21	**43.7**	38.9	**-**	-
Net retirement benefit liability	22	**8.6**	7.6	**-**	-
Total liabilities		**21,823.7**	21,352.8	**203.5**	-
Capital and reserves attributable to the Finance Group/Finance Company's equity holders					
Ordinary share capital	24	**0.9**	25.6	**0.9**	-
Share premium account	24	**332.1**	2,416.9	**332.1**	-
Retained earnings		**(1,704.9)**	(1,551.9)	**(2.4)**	-
Other reserves	25	**2,983.7**	859.4	**-**	-
Total equity		**1,611.8**	1,750.0	**330.6**	-
Total liabilities and equity		**23,435.5**	23,102.8	**534.1**	-

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

Net loss attributable to equity shareholders of Finance Company was £2.4m (period from incorporation on 1 October 2018 to 31 December 2018: £nil).

The notes on pages 236 to 241 form part of these consolidated Finance Group and Finance Company individual financial statements.

Approved by the Board on 26 February 2020:

Robert Dench	Andrew Bester
Chair of the Board	Chief Executive Officer

CONSOLIDATED STATEMENT OF CASHFLOWS

For year ended 31 December 2019

£million

		Finance Group	
	Note	2019	2018
Cash flows used in operating activities:			
Loss before taxation		**(152.1)**	(140.7)
Adjustments for non-cash movements:			
Non-cash movements on pension		**(13.9)**	4.4
Net credit impairment gains		**(2.5)**	(5.5)
Depreciation, amortisation and impairment of property, equipment, right-of-use assets and intangibles		**42.8**	33.5
Other non-cash movements including exchange rate movements		**86.7**	112.1
Changes in operating assets and liabilities:			
(Decrease)/increase in deposits by banks		**(289.8)**	310.8
Decrease/(increase) in prepayments and accrued income		**8.0**	(7.1)
Decrease in accruals and deferred income		**(4.0)**	(17.0)
Increase/(decrease) in customer accounts		**259.5**	(1,899.2)
Increase/(decrease) in debt securities in issue		**249.9**	(9.8)
(Increase)/decrease in loans and advances to banks		**(55.5)**	1.8
Increase in loans and advances to customers		**(210.3)**	(998.7)
Net movement of other assets and other liabilities		**(154.0)**	(58.9)
Income tax received		**-**	1.0
Net cash flows used in operating activities		**(235.2)**	(2,673.3)
Cash flows from investing activities:			
Purchase of tangible and intangible assets		**(34.5)**	(24.4)
Purchase of investment securities		**(1,048.1)**	(462.6)
Proceeds from sale of property and equipment		**5.9**	0.5
Proceeds from sale of shares and other interests		**13.2**	2.3
Proceeds from sale and maturity of investment securities		**1,363.2**	875.5
Proceeds from sale of joint venture		**-**	0.7
Proceeds from sale of investment properties		**0.5**	-
Dividends received		**0.7**	5.8
Net cash flows from investing activities		**300.9**	397.8
Cash flows from financing activities:			
Proceeds from issuance of Tier 2 notes		**197.3**	-
Interest paid on Tier 2 notes		**(9.5)**	-
Lease liability principal payments		**(10.8)**	-
Net cash flows from financing activities		**177.0**	-
Net increase/(decrease) in cash and cash equivalents		**242.7**	(2,275.5)
Cash and cash equivalents at the beginning of the year		**2,193.9**	4,469.4
Cash and cash equivalents at the end of the year		**2,436.6**	2,193.9
Comprising of:			
Cash and balances at central banks	3	**2,094.6**	1,789.6
Loans and advances to banks	4	**342.0**	404.3
		2,436.6	2,193.9

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

The Finance Company's cash and cash equivalents as at 31 December 2019 was £nil (31 December 2018: £nil). There were no changes in cash and cash equivalents for the Finance Company for the year ended 31 December 2019 or the period from 1 October 2018 to 31 December 2018.

CONSOLIDATED RECONCILIATION OF MOVEMENTS OF LIABILITIES TO CASHFLOWS ARISING FROM FINANCING ACTIVITIES

For year ended 31 December 2019

£million

	Finance Group			
	2019			2018
	Lease liabilities	Other borrowed funds	Total	Total
Balance at the beginning of the year	-	-	**-**	-
Changes from financing cash flows:				
Proceeds from issuance of Tier 2 notes	-	197.3	**197.3**	-
Interest paid on Tier 2 notes	-	(9.5)	**(9.5)**	-
Lease liability principal payments	(10.8)	-	**(10.8)**	-
	(10.8)	**187.8**	**177.0**	-
Other changes:				
Interest payable on lease liabilities and Tier 2 notes	2.5	13.0	**15.5**	-
Other non-cash movements	-	3.4	**3.4**	-
Recognition of lease liabilities	79.5	-	**79.5**	-
Balance at the end of the year	**71.2**	**204.2**	**275.4**	-

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

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

STATEMENT OF CHANGES IN EQUITY

For year ended 31 December 2019

£million

2019	Attributable to equity holders of the Finance Group Share capital	Share premium	FVOCI reserve	Cash flow hedging reserve	Capital redemption reserve	Capital re-organisation reserve	Defined benefit pension reserve	Retained earnings	Total equity
At 1 January 2019	25.6	2,416.9	13.9	20.0	410.0	-	415.5	(1,551.9)	**1,750.0**
Total comprehensive (expense)/income for the year	-	-	(9.8)	(3.3)	-	-	27.9	(153.0)	**(138.2)**
Issuance of share capital	(24.7)	(2,084.8)	-	-	-	2,109.5	-	-	**-**
At 31 December 2019	**0.9**	**332.1**	**4.1**	**16.7**	**410.0**	**2,109.5**	**443.4**	**(1,704.9)**	**1,611.8**

2019	Attributable to equity holders of the Finance Company Share capital	Share premium	FVOCI reserve	Cash flow hedging reserve	Capital redemption reserve	Capital re-organisation reserve	Defined benefit pension reserve	Retained earnings	Total equity
At 1 January 2019	-	-	-	-	-	-	-	-	**-**
Total comprehensive (expense)/income for the year	-	-	-	-	-	-	-	(2.4)	**(2.4)**
Issuance of new share capital	0.9	332.1	-	-	-	-	-	-	**333.0**
At 31 December 2019	**0.9**	**332.1**	**-**	**-**	**-**	**-**	**-**	**(2.4)**	**330.6**

2018	Attributable to equity holders of the Finance Group Share capital	Share premium	Available for sale reserve	FVOCI reserve	Cash flow hedging reserve	Capital redemption reserve	Defined benefit pension reserve	Retained earnings	Total equity
As reported 31 December 2017	25.6	2,416.9	25.1	-	29.9	410.0	70.8	(1,472.8)	1,505.5
IFRS 9 transition adjustments	-	-	(25.1)	18.4	-	-	-	(10.4)	(17.1)
At 1 January 2018 adjusted for IFRS 9	25.6	2,416.9	-	18.4	29.9	410.0	70.8	(1,483.2)	1,488.4
Total comprehensive (expense)/income for the year	-	-	-	(4.5)	(9.9)	-	344.7	(68.7)	261.6
At 31 December 2018	25.6	2,416.9	-	13.9	20.0	410.0	415.5	(1,551.9)	1,750.0

2018	Attributable to equity holders of the Finance Company Share capital	Share premium	Available for sale reserve	FVOCI reserve	Cash flow hedging reserve	Capital redemption reserve	Defined benefit pension reserve	Retained earnings	Total equity
On incorporation on 1 October 2018	-	-	-	-	-	-	-	-	-
At 31 December 2018	-	-	-	-	-	-	-	-	-

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

The notes on pages 236 to 241 form part of these consolidated Finance Group financial statements.

All amounts are stated in £m unless otherwise indicated.

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

General information

On 11 February 2019 a group reconstruction was completed to facilitate the issue of MREL qualifying debt in 2019 and beyond. The objective of the group reconstruction was to achieve structural subordination in order that any debt issued from a new intermediary holding company of the Bank will meet MREL criteria. The group reconstruction was transacted as follows:

- The Co-operative Bank Finance p.l.c. (Finance Company) was incorporated in the UK and registered in England and Wales under the name of Balloon Street Issuerco Limited on 1 October 2018;
- On 21 January 2019 Balloon Street Issuerco Limited issued 9,029,130,200 shares of nominal value of £0.0001 each to the Holding Company in exchange for 100% of The Co-operative Bank p.l.c. issued share capital of 511,456,510 shares of £0.05 each, the consideration being equal to the carrying value of Bank Company in Holding Company's balance sheet;
- On 7 February 2019 Balloon Street Issuerco Limited changed its name to The Co-operative Bank Finance Limited;
- The Co-operative Bank Finance Limited became the immediate parent of the Bank Company from 11 February 2019, with the Holding Company remaining the ultimate parent of the Bank Company; and
- On 18 March 2019 The Co-operative Bank Finance Limited became a public limited company, thus having its name changed to The Co-operative Bank Finance p.l.c.

Basis of preparation and significant accounting policies

The consolidated and individual financial statements of The Co-operative Bank Finance p.l.c. and its subsidiaries (together, the "Finance Group") have been prepared under the historic cost convention as modified by the revaluation of fair value through other comprehensive income, derivative contracts, investment properties and certain other fair value instruments held at fair value through profit or loss and approved by the Directors in accordance with IFRS as issued by the International Accounting Standards Board, and as adopted by the European Union.

Accounting policies outlined in note 1 to the Group and Bank consolidated financial statements and the Explanatory Information on pages 242 to 251 also apply to the Finance Group and Finance Company.

On the basis that the 2019 group reconstruction transaction was a common control transaction outside the scope of IFRS 3 (Business Combinations), it was accounted for using the pooling of interest method as a continuation of the existing group. The comparative results for the Finance Group comprise the results of the Bank from 1 January 2018 to 1 October 2018 and of the Finance Company and its subsidiaries from 1 October 2018 to 31 December 2018.

Critical judgements and key estimation uncertainty

The preparation of financial information requires management to make judgements and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The critical judgements and estimates for the Finance Group and Finance Company are the same as those set out in note 2 to the Group and Bank consolidated financial statements, with the addition of the critical judgements set out below which are relevant to the Finance Company only.

Impairment of investment in subsidiaries

The carrying value of Finance Company's investment in Bank Company at 31 December 2019 was £333.0m.

Management have performed an assessment of indicators of impairment including a review of the 2019 performance and forecast performance of the Finance Group. The conclusion of this review was that the Holding Company's investment in Finance Company was not impaired.

Impairment of amounts due from Bank Company

The amounts due from Bank Company have been assessed for impairment under IFRS 9. The ECL reflected within the carrying value of £201.1m is £2.4m. The parameter to which the ECL is most sensitive is PD. A 10% relative increase in PD would increase the ECL by £0.2m.

2. NET LOSS ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE BANK COMPANY

On including the Finance Company financial statements here together with the consolidated Finance Group financial statements, the Finance Company is taking advantage of the exemption in Section 408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these financial statements.

3. CASH AND BALANCES AT CENTRAL BANKS

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 12 to the Group and Bank consolidated financial statements.

4. LOANS AND ADVANCES TO BANKS

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 13 to the Group and Bank consolidated financial statements.

5. LOANS AND ADVANCES TO CUSTOMERS

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 14 to the Group and Bank consolidated financial statements.

6. INVESTMENT SECURITIES

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 15 to the Group and Bank consolidated financial statements.

7. DERIVATIVE FINANCIAL INSTRUMENTS

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 16 to the Group and Bank consolidated financial statements.

8. EQUITY SHARES

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 17 to the Group and Bank consolidated financial statements.

9. INVESTMENTS IN SUBSIDIARIES/GROUP UNDERTAKINGS

	Finance Company	
	2019	2018
At the beginning of the year	-	-
Additions in the year	333.0	-
At the end of the year	**333.0**	**-**

For further details of the additions in the year see note 1 of these Finance Group consolidated financial statements.

10. OTHER ASSETS

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 18 to the Group and Bank consolidated financial statements.

11. PREPAYMENTS

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 19 to the Group and Bank consolidated financial statements.

12. PROPERTY, PLANT AND EQUIPMENT

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 20 to the Group and Bank consolidated financial statements.

13. INTANGIBLE ASSETS

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 21 to the Group and Bank consolidated financial statements.

14. RIGHT-OF-USE ASSETS AND FINANCE LEASE LIABILITIES

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 22 to the Group and Bank consolidated financial statements.

15. DEPOSITS BY BANKS

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 23 to the Group and Bank consolidated financial statements.

16. DEBT SECURITIES IN ISSUE

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 24 to the Group and Bank consolidated financial statements.

17. OTHER BORROWED FUNDS AND AMOUNTS OWED BY BANK COMPANY

Other borrowed funds

	Finance Group		Finance Company	
	2019	2018	2019	2018
Fixed rate subordinated notes 2029	**200.0**	-	**200.0**	-
Issue costs	**(2.3)**	-	**-**	-
Accrued interest	**3.5**	-	**3.5**	
Fair value hedge accounting adjustment	**3.0**	-	**-**	-
	204.2	-	**203.5**	-

On 25 April 2019, £200.0m of Fixed Rate Reset Callable Subordinated Tier 2 notes were issued which:

- Are unsecured, subordinated, obligations of the Finance Company, 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.

17. OTHER BORROWED FUNDS AND AMOUNTS OWED BY BANK COMPANY (continued)

Issue costs are borne by Bank Company as the regulated entity subject to MREL requirements and therefore are not included in the Finance Company carrying value of other borrowed funds. The fair value hedge accounting adjustment is not included in the carrying value of other borrowed funds in the Finance Company as it is Bank Company that has entered into the related interest rate swap.

Amounts owed by Bank Company
Amounts owed by Bank Company comprise the internal MREL debt related to the external MREL qualifying Tier 2 debt. The terms of the internal MREL are equivalent to those of the external MREL qualifying Tier 2 debt. The carrying value of the amount owed by Bank Company of £201.1m comprises the par value of £200.0m, plus accrued interest of £3.5m, less ECL impairment of £2.4m (see note 27 for further details of the ECL impairment).

18. OTHER LIABILITIES

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 26 to the Group and Bank consolidated financial statements.

19. ACCRUALS AND DEFERRED INCOME

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 27 to the Group and Bank consolidated financial statements.

20. PROVISIONS

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 28 to the Group and Bank consolidated financial statements.

21. DEFERRED TAX

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 29 to the Group and Bank consolidated financial statements.

22. RETIREMENT BENEFITS

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 30 to the Group and Bank consolidated financial statements.

23. CONTINGENT LIABILITIES, CONTRACTUAL COMMITMENTS AND GUARANTEES

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 31 to the Group and Bank consolidated financial statements.

24. SHARE CAPITAL

	Finance Group	
2019	No. of shares (millions)	Value
Share capital allotted, called up and fully paid		
At the beginning and end of the year	9,029.1	0.9
Share premium account		
At the beginning and end of the year		332.1

	Finance Company			
	2019		2018	
	No. of shares (millions)	Value	No. of shares (millions)	Value
Share capital allotted, called up and fully paid				
At the beginning of the year	-	-	-	-
Issued during the year	9,029.1	0.9	-	-
At the end of the year	**9,029.1**	**0.9**	-	-
Share premium account				
At the beginning of the year		-		-
Premium on shares issued during the year		332.1		-
At the end of the year		**332.1**		**-**

The share capital issued on 1 October 2018 comprised one fully paid up £0.0001 share issued at par plus a premium.

On 21 January 2019 the Finance Company issued 9,029,130,200 shares of nominal value of £0.0001 each to the Holding Company in exchange for 100% of The Co-operative Bank p.l.c. issued share capital of 511,456,510 shares of £0.05 each, the consideration being equal to the carrying value of The Co-operative Bank p.l.c. in Holding Company's balance sheet. The Finance Company became the immediate parent of The Co-operative Bank p.l.c. from 11 February 2019, with the Holding Company remaining the ultimate parent of The Co-operative Bank p.l.c.

25. OTHER RESERVES

	Finance Group	
	2019	2018
Fair value through other comprehensive income reserve	**4.1**	13.9
Cash flow hedging reserve	**16.7**	20.0
Capital redemption reserve	**410.0**	410.0
Capital re-organisation reserve	**2,109.5**	-
Defined benefit pension reserve	**443.4**	415.5
	2,983.7	859.4

26. RELATED PARTY TRANSACTIONS

Parent, subsidiary and ultimate controlling party
The ultimate parent undertaking of the Finance Group is The Co-operative Bank Holdings Limited. On 11 February 2019, The Co-operative Bank Finance p.l.c. became the immediate parent of the Bank Company with Holding Company remaining the ultimate parent company of the Bank Company.

The subsidiaries of The Co-operative Bank p.l.c. as detailed in note 23 to the Bank Company financial statements, and all Directors and key management personnel of the Group, are also considered to be related parties of the Holding Company (further details are available in note 32 to the consolidated Group and Bank financial statements and note 25 to the Bank Company financial statements).

Balances with related parties
The following table shows the value of transactions with related parties during the year:

	2019	2018
The Co-operative Bank p.l.c.	**0.5**	0.5

The amount due from Bank Company represents other borrowed funds.

27. ANALYSIS OF CREDIT RISK EXPOSURE

Finance Group
The Directors have considered the information disclosed in the consolidated financial statements of the Bank Company and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Bank Company and the Finance Group, we refer to the disclosures in note 27 to the Bank Company consolidated financial statements.

Finance Company
Amounts due from Bank Company comprise the internal MREL debt related to the external MREL qualifying Tier 2 debt.

	2019	2018
Analysis of the balance sheet:		
Gross amount due from Bank Company	**203.5**	-
Less: allowance for losses	**(2.4)**	-
Amount due from Bank Company net of allowance for losses	**201.1**	-

The amount due from Bank Company was a stage 1 asset at 31 December 2019, and the asset did not transfer stages during the year.

	2019	2018
Allowance for losses:		
At 1 January	**-**	-
New asset recognised	**2.4**	-
At 31 December	**2.4**	-

The ECL charge recognised within the income statement for the year was £2.4m (period from 1 October to 31 December 2018: £nil).

28. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Finance Group
The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 35 to the Group and Bank consolidated financial statements.

Finance Company
The amount due from Bank Company carried at amortised cost had a fair value at 31 December 2019 of £203.9m (2018: £nil). The use of and valuation technique for this financial asset is as described in note 35 to the Group and Bank consolidated financial statements. This instrument is level 2 under the fair value hierarchy and did not transfer to another level during the year. The fair value disclosures for the other borrowed funds are identical to those set out in note 35 to the Group and Bank consolidated financial statements.

29. EVENTS AFTER THE BALANCE SHEET DATE

There are no post balance sheet events to report.

Explanatory Information

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The Explanatory Information set out below, which forms part of the financial statements, explains the accounting policies applied by the Group together with an overview of new standards in issue but not yet effective

1. Significant accounting policies

The accounting policies referred to as applicable to the Group are equally applicable to the Bank, the Bank Company, the Holding Company, the Finance Group and the Finance Company.

1.1 Basis of consolidation

a) Subsidiaries

Subsidiaries are all entities (including structured entities) controlled by the Holding Company, Bank Company or Finance Company. Control exists whenever the Holding Company, Bank Company or Finance Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity, in accordance with the requirements of IFRS 10 (Consolidated Financial Statements). In assessing control, potential voting rights that presently are exercisable are taken into account. The financial information of subsidiaries is included in the consolidated financial information from the date that control commences until the date that control ceases.

The financial information has been prepared using consistent accounting policies and applied at the reporting date of the Group, Bank and Finance Group. Intra-group balances and transactions, and any unrealised gains and losses arising from intra-group transactions, are eliminated in preparing the consolidated financial information.

b) Interests in joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Interests in joint ventures are accounted for using the equity method. The consolidated financial information includes the proportionate share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies.

c) Interests in unconsolidated structured entities

Unconsolidated structured entities are unconsolidated entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Structured entities are not consolidated where it is determined with due regard to the variable returns from the structured entity and the ability to affect those returns, that the structured entity is not controlled under IFRS 10 considerations. The Group acts as a sponsor for certain unconsolidated securitisation vehicle holding companies which it neither owns nor controls. The Group has determined itself a sponsor of unconsolidated securitisation vehicle companies if it does not have a material ongoing interest in the entity, but it may act to protect its reputation in relation to the structured entity.

1.2 Revenue recognition

a) Interest income and expense

Interest income and expense on financial instruments measured at amortised cost or fair value through other comprehensive income (FVOCI) is recorded within net interest income and recognised on an EIR basis except for:

- Purchased or originated credit impaired assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset; and
- Financial assets which are not purchased or originated credit impaired assets but have become credit-impaired (reside within stage 3), for which interest income is calculated by applying the EIR to their amortised cost (i.e. net of the expected credit loss provision).

The EIR basis is inclusive of directly attributable origination and incremental transaction costs and fees including arrangement and broker fees, valuation and solicitor costs, discounts and premiums where appropriate. Commitment fees received are deferred and included in the EIR calculation upon completion or taken in full at the date the commitment period expires and completion does not occur. Early redemption charges are recognised on a cash basis as received, as it is not possible to reliably estimate the receipt of such fees.

Interest income and expense on financial instruments managed on a fair value basis or mandatorily measured at FVTPL is recorded within other interest and similar income.

b) Fees and commissions

Fee and commission income is predominantly made up of arrangement fees for loans and advances (not included in the EIR), account servicing and card fees. All fee and commission income is recognised on a point-in-time basis as the performance obligation is satisfied at the time the fees are charged. There are no future performance obligations or variable considerations involved per the contracts.

The Group acts as principal in the majority of contracts with customers, with the exception of the following contracts where the Group acts as agent:

- Funeral care and insurance services – Income is recognised net of fees payable to other parties in the arrangement;
- Certain personal lending transactions where the Group acts as agent – Income is received and recognised on a net basis.

The Group offers cash back incentives on certain credit card arrangements and treats them as an expense. These arrangements do not provide customers with a separate performance obligation or a material/significant right in advance, or constitute part of a contract.

c) Dividend income
Dividend income is recognised when the right to receive the payment is established, which is generally when the Directors approve the dividend as final. Interim dividends are recognised in the income statement when the dividend is paid.

1.3 Financial instruments

a) Recognition
Financial assets and financial liabilities are initially recognised in the balance sheet at fair value when the Group becomes party to the contractual provisions of the instrument:

- Loans and advances are initially recognised when they are advanced to customers;
- Deposits, debt securities issued and other borrowed funds are recognised on the date at which they are originated; and
- Regular way purchases and sales of financial assets are recognised on the trade date at which the commitment to purchase or sell the asset is made.

Subsequently, financial instruments are classified as follows: amortised cost, fair value through profit or loss, or fair value through other comprehensive income.

b) Financial instruments measured at amortised cost
Financial assets measured at amortised cost are those for which the business model objective is to hold to collect the contractual cash flows, and the contractual cash flows are solely payments of principal and interest. Such financial assets are initially measured at fair value plus transaction costs that are directly attributable to the financial asset. Unless designated at FVTPL, the classification and subsequent measurement of the financial asset is based on the business model and contractual cash flows of the asset.

The IFRS 9 business models reflect how financial assets are managed in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. Factors considered in determining the business model for a group of assets include both past experience and future plans for these assets.

Payments of principal and interest are solely (SPPI) those consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risk (including liquidity risk), costs (including administrative costs) and a profit margin that is consistent with a basic lending arrangement. If the SPPI contractual cash flow test is not passed, then the related financial asset is measured at fair value through profit or loss. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

Amortised cost is the default category for financial liabilities.

Amortised cost financial instruments are subsequently measured at the amount at which the financial instrument was measured at initial recognition, less principal repayments, plus or minus the cumulative amortisation using the effective interest method of the difference between that initial amount and the maturity amount and adjusted for any loss allowance.

c) Financial instruments designated at FVTPL
Financial instruments may be designated at FVTPL, however this irrevocable decision must be applied at inception. Financial instruments are classified in this category if they meet one or more of the criteria set out below:

- Designation removes or significantly reduces an accounting mismatch;
- The financial instrument is part of a group of financial assets and liabilities or a group of financial liabilities managed and performance evaluated on a fair value basis; or
- The financial liability contains one or more non-closely related embedded derivatives.

The Group has designated a small portion of loans and advances to customers at FVTPL as by doing so significantly reduces an accounting mismatch.

Financial assets at fair value through profit or loss are subsequently measured at fair value. The fair value gains and losses for those debt instruments which have not been designated with a hedge accounting relationship are recognised within the income statement for the year and recorded within other operating income/(expense) (net).

d) Financial instruments measured at FVTPL
FVTPL is the default category for financial assets. This category includes:
- The Surrendered Loss Debtor and investment securities which fail the contractual cash flow test; and
- Equity instruments not designated as FVOCI.

Subsequent measurement is identical to that disclosed above for financial instruments designated at FVTPL.

e) Financial assets measured at FVOCI
Debt instrument financial assets measured at FVOCI are those for which the business model objective is hold to collect the contractual cash flows and sell, and the contractual cash flows of the financial asset are solely payments of principal and interest. FVOCI financial assets are subsequently measured at fair value, with movements in fair value being recognised in other comprehensive income, except for the recognition of impairment gains and losses, interest income and foreign exchange gains and losses on the debt instrument's amortised cost, which are recognised in the income statement.

When the debt instrument is derecognised, cumulative gains and losses previously recorded in other comprehensive income are reclassified from equity to the income statement and recognised in other operating income/(expense) (net).

An equity instrument may be designated irrevocably at fair value through other comprehensive income at inception. When this election is applied, cumulative gains and losses are recognised in other comprehensive income but are not transferred to profit or loss on de-recognition of the equity instrument. The Group has made no such elections in respect of equity instruments.

f) Reclassifications
Debt instruments are only reclassified when the business model for managing such assets is changed. Such changes as a result of external or internal changes must be significant, demonstrable to external parties, and are expected to be rare in occurrence. Financial liabilities cannot be reclassified.

g) Sale and repurchase agreements
Securities sold subject to repurchase agreements (repos) are reclassified on the balance sheet as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the assets. The liability to the transferee is also included on the balance sheet, in deposits by banks. The difference between sale and repurchase price is accrued over the life of the agreements.

Securities purchased under agreements to re-sell reverse repos are classified as loans and advances to banks on the balance sheet, as appropriate.

h) Derivative financial instruments and hedge accounting
Derivatives are used to hedge interest and exchange rate exposures related to non-trading positions. Instruments used for hedging purposes include swaps, forward rate agreements, options and combinations of these instruments.

Derivative financial instruments are stated at fair value using valuation techniques such as discounted cash flow models. All derivatives are carried as assets when the fair value is positive and liabilities when the fair value is negative. The gain or loss on re-measurement to fair value is recognised immediately in the income statement except where derivatives qualify for cash flow hedge accounting.

The IAS 39 Financial Instruments criteria for documentation and hedge effectiveness are required to be met where the Group applies hedge accounting. The Group applies IAS 39 hedge accounting.

i. Cash flow hedges
Where derivatives are designated as hedges of the exposure to variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the portion of the fair value gain or loss on the derivative that is determined to be an effective hedge is recognised directly in equity. The ineffective part of any gain or loss is recognised in the income statement immediately.

The accumulated gains and losses recognised in equity are reclassified to the income statement in the periods in which the hedged item will affect profit or loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss recognised at that time remains in equity until the forecast transaction is eventually recognised in the income statement.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in equity is immediately reclassified to the income statement.

ii. Fair value hedges

Where a derivative is designated as the hedging instrument to hedge the change in fair value of a recognised asset or liability or a firm commitment that could affect profit or loss, changes in the value of the derivative are recognised immediately in the income statement together with changes in the fair value of the hedged item that are attributable to the hedged risk. Fair values are based on quoted market prices in active markets or, where these are not available, using valuation techniques such as discounted cash flow models. If the derivative expires or is sold, terminated, or exercised, or no longer meets the criteria for fair value hedge accounting, or the designation is revoked, then hedge accounting is prospectively discontinued. Any adjustment up to that point, to a hedged item for which the EIR method is used, is amortised to profit or loss as part of the recalculated EIR of the item over its remaining life.

iii. Fair value hedge accounting for a portfolio hedge of interest rate risk

As part of the risk management process, portfolios are identified where interest rate risk is to be hedged. The portfolios may comprise only assets, only liabilities or both assets and liabilities. Each portfolio is analysed into repricing time periods based on expected repricing dates, by scheduling cash flows into the periods in which they are expected to occur.

Using this analysis, the percentage to hedge is decided and designated as the hedged item is an amount of assets or liabilities from each portfolio equal to this.

The change in fair value of the portfolio relating to the risk that is being hedged is measured monthly. Provided that the hedge has been highly effective, the change in fair value for the hedged risk of each hedged item is recognised in the income statement with the cumulative movement in its value being shown on the balance sheet as a separate item, fair value adjustment for hedged risk, either within assets or liabilities as appropriate. If the hedge no longer meets the criteria for hedge accounting, this amount is amortised to the income statement over the remaining useful life of the hedged item on an appropriate basis.

The fair value of each hedging instrument is measured and this is included in derivative financial instruments in either assets or liabilities as appropriate, with the change in value recorded in the income statement. Any hedge ineffectiveness is recognised in the income statement as the difference between the change in fair value of the hedged item for the hedged risk and the change in fair value of the hedging instrument.

i) Embedded derivatives

A derivative may be embedded in another liability, known as the host contract. Where the economic characteristics and risks of an embedded derivative are not closely related to those of the host contract (and the host contract is not carried at fair value through profit or loss), the embedded derivative is separated from the host and held on-balance sheet at fair value. Movements in fair value are recognised in the income statement, whilst the host contract is accounted for according to the relevant accounting policy for that particular liability.

Embedded derivatives are not considered in the context of financial assets, with the classification and measurement of the entire instrument is instead based on the contractual terms of the financial asset and the related business model.

j) Impairment of financial assets

Under IFRS 9, the ECL is assessed on a forward-looking basis for debt instruments carried at amortised cost and FVOCI, for exposures related to loan commitments, and for financial guarantee contracts. Credit risk is measured using probability of default (PD), the exposure at default (EAD) and loss given default (LGD) (please refer to the glossary for definitions).

Financial instruments are classified within stage 1 on initial recognition. If a significant increase in credit risk (SICR) since recognition is identified but the financial instrument is not credit impaired, then the financial instrument transitions to stage 2. A financial instrument transitions to stage 3 when it becomes credit impaired. Financial instruments within stage 1 have a loss allowance reflecting a 12 month ECL whereas financial instruments within stage 2 and 3 have a loss allowance reflecting a lifetime ECL. Financial instruments which are purchased or originated credit impaired attract a lifetime ECL until de-recognition irrespective of staging criteria. For stage 3 assets, interest is recorded on a net basis.

The expected life is estimated based on the shorter of the contractual and behavioural life. For retail credit cards and corporate charge cards, expected life is based on the behavioural life with the contractual life applied to other portfolios.

i. Constitution of the expected credit loss provision
The ECL provision is calculated based on collective and individual assessments. Post model adjustments (expert overlays) are applied to reflect risk characteristics for assets subject to collective provisioning but for which a specific risk characteristic is not captured within the collective models.

ii. Significant increase in credit risk
A financial instrument is considered to have experienced a significant increase in credit risk since initial recognition when one or more quantitative or qualitative or backstop criteria have been met. The quantitative criterion is a PD based measure, with a backstop of 30 days past due. Qualitative drivers of a significant increase in credit risk include exposures determined to be higher risk and subject to closer credit risk monitoring.

The 'low credit risk exemption' available within IFRS 9 applies to certain highly rated treasury assets. Accordingly, at each balance sheet date, it is assumed that credit risk on all such financial assets has not increased significantly since initial recognition. The 'low credit risk exemption' has not been applied to any other type of financial asset.

iii. Definition of default and credit impaired financial instruments
Qualitative criteria applied in the definition of default included:
- Bankruptcy/insolvency for all portfolios;
- Certain types of forbearance and unlikeliness to pay factors for all portfolios except for Treasury; and
- Fraud, litigation/possession and term expiry for retail secured portfolios.

The 90 days past due backstop for the definition of default has been applied to all portfolios as at 31 December 2019. As at 31 December 2018 the 90 days past due backstop was rebutted with 180 days past due applied within the default definition for retail secured portfolios only. The retail secured definition of default definition was changed to 90 days past due during the year, this change had an insignificant impact on ECL.

If an instrument does not meet the default criteria for a defined period of months (after a probationary period of 6-12 months) then an instrument is no longer considered in default. This period has been set with regard to the probability of an instrument returning to default status after cure.

iv. Calculation of the ECL
The ECL is calculated as the discounted multiple of PD, EAD and LGD, which are all based on historical analysis, adjusted for the future view of forward-looking macroeconomic information.

v. Incorporation of forward-looking information
Both the assessment for SICR and the calculation of ECL incorporate forward-looking information. Forecasts of key economic variables reflecting the economic scenarios are provided by an internal economics team on a regular basis. In order to capture non-linearities and asymmetries within the ECL calculation, a number of possible scenarios, together with their weightings, are obtained from the internal economics team. The number of scenarios and their weightings are assessed on an annual basis (subject to any interim salient economic events). By considering statistical analysis and applying expert credit judgement, it has been determined that two upside and two downside scenarios in addition to the base scenario are required.

The assessment of SICR is performed using the remaining lifetime PD under each scenario, multiplied by the scenario weighting, along with the qualitative and backstop indicators set out in ii) above. This assessment determines whether the whole financial instrument should be in stage 1, 2 or 3 and hence whether a 12 month or a lifetime expected credit loss should be recognised. Following this assessment the ECL is measured as either a probability weighted 12 month ECL (stage 1) or a probability weighted lifetime ECL (stage 2 or 3). The probability weighted ECLs are calculated by applying each scenario to the ECL models and multiplying the result by the respective scenario weighting.

vi. Segmentation of portfolios
Financial assets are grouped together where ECL calculations are performed on a collective basis. Regression analysis has been performed to determine how financial assets should be grouped such that risk characteristics of assets within a group are homogeneous and the risk characteristics of each group are statistically significant to another.

vii. Write-off and recoveries
A write-off is made when all or part of a claim is deemed uncollectable or forgiven after all the possible collection procedures have been completed and the amount of loss has been determined. Write offs are charged against previously established provisions for impairment. Any additional recoveries from borrowers, counterparties or other third parties made in future periods are offset against the write off charge in the income statement once they are received.

viii. Modification

When renegotiating or otherwise modifying the contractual cash flows of loans to customers, e.g. by applying forbearance, the Group considers whether or not the new terms are substantially different to the original terms.

If the new terms are not substantially different to the original terms, the modification in contractual cash flows does not result in de-recognition. The gain or loss on modification of the contractual cash flow associated with the recognition of the revised gross carrying amount is recognised in the income statement.

When the contractual cash flows of financial assets are renegotiated or otherwise modified and the new terms are substantially different to the original terms, the original asset is derecognised, and a new asset is recognised at fair value with a new EIR. At the date of recognition of the new asset, an assessment is made as to whether the asset was credit impaired on recognition. The difference between the carrying amount derecognised and that re-recognised is included in the income statement as a gain or loss on de-recognition.

k) De-recognition of financial instruments

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial assets expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay.

Collateral provided under standard repurchase agreements, securities lending and borrowing transactions is not derecognised because substantially all of the risks and rewards are retained on the basis of the predetermined repurchase price, and the criteria for de-recognition are therefore not met.

Financial assets associated with certain internal securitisation transactions are not derecognised because the Bank Company retains substantially the risks and rewards on the transferred financial assets.

When a financial asset is derecognised in its entirety, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) is recognised in the income statement.

A financial liability is derecognised when the obligation is discharged, cancelled or expires. Any difference between the carrying amount of a financial liability derecognised and the consideration paid is recognised in the income statement.

1.4 Property, plant and equipment

Assets are recognised where there is substantial exposure to all the risks and rewards of those assets. Items of property, plant and equipment are stated at cost less any accumulated depreciation and impairment losses. Depreciation is recognised on a straight line basis at the following maximum default rates, which are estimated to reduce the assets to their realisable values at the end of their useful lives which is 40 years for long leasehold land and buildings, 10 years for freehold and leasehold improvements, 5 years for computers and other equipment, 10 years for furniture and equipment and the life of lease for short leasehold buildings.

All items of property, plant and equipment are reviewed for indications of impairment on a regular basis and at each balance sheet date. If impairment is indicated, the asset's recoverable amount (being the greater of fair value less cost to sell and value in use) is estimated. Value in use is calculated by discounting the future cash flows generated from the continuing use of the asset. If the carrying value of the asset is greater than the recoverable amount, the shortfall is recognised in the income statement.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal, less costs to sell, with the carrying amount and are recognised net within operating expenses in the income statement.

1.5 Intangible assets

Intangible assets (including those which are internally generated) are initially recognised when they are separable or arise from contractual or other legal rights, where it is probable that future economic benefits attributable to the assets will flow from their use and the cost can be measured reliably.

The cost of internally generated assets only include employee costs to the extent that they are directly attributable to the development of the identified asset (indirect and general overhead costs are excluded). Internally generated assets are amortised from the date which they become available for use.

Intangible assets are stated at cost less accumulated amortisation and provisions for impairment, if any, and are amortised over their useful lives, which is 3 to 9 years for computer software and 3 to 5 years for licences.

Intangible assets are reviewed for impairment when there are indications that impairment may have occurred.

1.6 Leases

IFRS 16 accounting policy – Applied from 1 January 2019

Bank as a Lessee

At the commencement date, the right-of-use asset is measured at cost which comprises the amount of the initial measurement of the lease liability and an estimate of dismantling/restoration of the underlying asset. The right-of-use asset is subsequently measured at cost less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability arising from a reassessment of lease term, revision to lease break assumptions or in-substance fixed lease repayments. The depreciation and impairment accounting policies applied to the right-of-use assets are consistent with those applied to the respective tangible asset categories.

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

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

The following accounting policy choices have been applied:

- The requirements of IFRS 16 have not been applied to leases of less than 12 months and those of low value (such costs are recognised on a straight line or other systematic basis);
- IAS 17 lease assessments have been grandfathered (lease definition conclusions applied under IAS 17 have been carried forward on transition to IFRS 16);
- Lease liabilities are discounted at the Group's incremental borrowing rate;
- Non-lease components are not separated from lease components within the lease liability; and
- Hindsight used in determining the lease term where the contract contained options to extend.

Bank as Lessor

IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases.

IAS 17 accounting policy – Applied to 31 December 2018

i. Finance leases

The amount to be recognised as a finance lease is calculated on inception of the lease. Finance lease assets are capitalised at commencement of the lease (being the date at which the right to use the asset is exercised) at the lower of fair value of the leased asset and the present value of the minimum future lease payments, and subsequently in accordance with the relevant policy for the underlying asset. An equal liability is recorded in other liabilities. The interest element of the finance charge is allocated to the lease payments so as to record a constant periodic rate of charge on the outstanding liability.

ii. Operating leases

Operating lease payments are charged to the income statement on a straight line basis over the term of the lease and the asset is not recognised on the balance sheet.

1.7 Cash and cash equivalents

Cash and cash equivalents comprises cash balances and balances with a maturity of three months or less from the origination date, which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

1.8 Income tax

a) Overview

Tax for the year comprises current and deferred tax, which is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in the statement of comprehensive income. In 2017, estimated impacts of changes in the timing of amounts receivable from the Co-op Group for tax losses surrendered were recorded as an adjustment to the tax expense. This receivable is referred to as the Surrendered Loss Debtor, for further detail see note 2.2.5 Fair value of the Surrendered Loss Debtor.

b) Current tax
Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

c) Deferred tax
Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided for is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised and is supported by the plan.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

1.9 Retirement benefits
Defined contribution
A defined contribution (DC) scheme is a plan into which the Group and employees pay fixed contributions which are invested on their behalf by the trustee of the scheme. The Group has no legal or constructive obligation to pay any further contributions. The Group participates in the DC element of The Co-operative Pension Scheme (Pace DC), which is ring-fenced from the defined benefit section of the Pace scheme noted below. The cost of the employer contributions to the Group's DC plan is recognised as an expense in the income statement in the period in which they fall due.

Defined benefit
A defined benefit (DB) scheme is a pension plan that defines the amount of guaranteed pension benefit that an employee will receive on retirement based on a number of factors including the salary and years of service.

The assets of a DB scheme are included at their fair value and scheme liabilities are measured on an actuarial basis using the projected unit credit method in accordance with IAS 19 Employee Benefits (IAS 19). The liabilities are discounted to present value using rates equivalent to market yields on high-quality corporate bonds at the balance sheet date with terms to maturity approximating to the terms of the related pension liability. A high quality corporate bond is usually taken to mean a bond that has been rated at the level of AA or equivalent status.

The Group's income statement includes the past service costs, net interest income or expense and scheme administration expenses. Past service costs represent the change in the present value of the defined benefit obligation arising from plan amendments or curtailment and are recognised when the plan amendment or curtailment occurs. Net interest income or expense is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset.

Remeasurements, comprising actuarial gains and losses, and the return on plan assets (excluding amounts included in net interest income or expense) are reflected immediately in the balance sheet with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurements relate to the effects of differences between previous actuarial assumptions and what has actually occurred, and changes in forward-looking actuarial assumptions. They will not subsequently be reclassified to profit and loss.

The Group's balance sheet includes the net scheme surplus or deficit, being the difference between the fair value of the schemes' assets and the present value of scheme liabilities at the balance sheet date. Surpluses are recognised as an asset to the extent the Group has an unconditional right under the scheme rules to reduced contributions in future or obtain refunds from the schemes in accordance with IFRIC 14 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.

1.10 Government Grants
Government Grants are recognised in the balance sheet initially as deferred income when there is reasonable assurance that the grant will be received and the bank will comply with the conditions attached to it.

Government Grants related to costs are deducted from the relevant costs to be compensated in the same period. Government Grants to compensate for the cost of the assets are released to profit and loss within depreciation and amortisation expense over the expected useful life of the asset.

1.11 Foreign currency
The functional and presentational currency is pounds sterling. Transactions in foreign currencies are translated at the foreign exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to sterling at the foreign exchange rate prevailing at that date. Foreign currency differences arising on translation are recognised in the income statement, except for foreign currency differences arising on translation of FVOCI equity instruments or a qualifying cash flow hedge, which are recognised directly in the statement of other comprehensive income. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to sterling at the exchange rates prevailing at the dates the values were determined.

1.12 Investments in subsidiaries and Group undertakings
Investments in subsidiaries are initially measured at cost and subsequently measured at cost less impairment.

1.13 Provisions
A provision is recognised in the balance sheet if there is a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at an appropriate pre-tax rate, if the expected future cash flows can be reliably estimated.

In the case of restructuring provisions, a constructive obligation arises when a plan is sufficiently detailed and is formalised and when the plan is deemed to have been communicated to relevant stakeholders impacted by the restructure. Restructuring provisions include only direct expenditure arising from the restructuring plan which is both necessary for restructuring and not associated with ongoing activities.

1.14 Share premium
Share premium is the amount by which the fair value of the consideration received exceeds the nominal value of shares issued. Expenses and commissions paid on the issue of shares are written off against the share premium of the same issue.

1.15 Netting arrangements
Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to do so and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2. Standards and interpretations issued but not yet effective

Minor amendments to IFRSs: The IASB has published a number of minor amendments to IFRSs that are effective from 1 January 2020, some of which have been endorsed for use in the EU. The Group expects they will have an insignificant effect on the financial statements when adopted.

Major new IFRSs: The IASB has published a new standard, IFRS 17 (Insurance Contracts). The new standard requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. The standard is effective for reporting periods beginning on or after 1 January 2021 but has been tentatively deferred to annual periods beginning on or after 1 January 2022, and is not yet endorsed by the EU. The impact of the new standard has not yet been quantified.

Caution about forward-looking statements

This document contains forward-looking statements with respect to the business, strategy, plans and/or results of the Group (including its 2020-2024 financial plan or the plan) and its current targets, goals and expectations relating to its future financial condition, performance, developments and/or prospects. Forward-looking statements sometimes use words such as ‘may’, ‘will’, ‘seek’, ‘continue’, ‘aim’, ‘anticipate’, ‘target’, ‘projected’, ‘expect’, ‘estimate’, ‘intend’, ‘plan’, ‘goal’, ‘believe’, ‘achieve’, ‘predict’, ‘should’ or, in each case, their negative or other variations or comparable terminology, or by discussion of strategy, plans, objectives, goals, future events or intentions. Examples of such forward-looking statements include, without limitation, statements regarding the Group’s future financial position and commitments in connection with the plan and other statements that are not historical facts, including statements about the Group’s or its Directors’ and/or management’s beliefs and expectations.

Limitations inherent to forward-looking statements

The Group cautions readers that these forward-looking statements are not historical facts or guarantees of future performance and that actual results or other financial condition or performance measures could differ materially from those contained in the forward-looking statement. By their nature, forward-looking statements involve known and unknown risks and uncertainty because they are based on current plans, estimates, targets, projections, views and assumptions and are subject to significant inherent risks, uncertainties and other factors both external and internal relating to the Group’s plan, strategy or operations that are beyond the Group’s control, which may result in the Group being unable to achieve the current targets, predictions, expectations and other anticipated outcomes expressed or implied by these forward-looking statements. In addition, certain of these disclosures are dependent on choices relying on key model characteristics and assumptions and are subject to various limitations, including assumptions and estimates made by management. Accordingly, undue reliance should not be placed on forward-looking statements.

Forward-looking statements speak only as at today

Any forward-looking statements made or contained in this Annual Report and Accounts speak only as of the date of this Annual Report and Accounts and it should not be assumed that they have been revised or updated in the light of new information of future events or circumstances arising after the date of these documents. Except as required by the Prudential Regulation Authority, the Financial Conduct Authority, the London Stock Exchange or applicable law, the Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained in these documents as a result of new information or to reflect any change in the Group’s expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. The reader should, however, consider any additional disclosures that the Group has made or may make in documents it has published or may publish via the Regulatory News Service of the London Stock Exchange.

No offer of securities

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